מזרחי טפחות
MIZRAHI TEFAHOT

3 CONDENSED CONSOLIDATED FINANCIAL REPORTS

AS AT 30.09.2018

The Israeli Securities Authority's MAGNA website includes the following reports: Detailed risk management report and additional supervisory information regarding supervisory capital instruments issued by the Bank (hereinafter: "the reports"). In conformity with directives of the Supervisor of Banks, these condensed financial statements for interim periods and the aforementioned reports are also provided on the Bank's website: www.mizrahi-tefahot.co.il/en ▶ financial reports

Condensed Financial Statements as of September 30, 2018

Main Table of Contents

This translation of the financial statement is for convenience purposes only.
The only binding version of the financial statement is the Hebrew version.

Condensed Report of the Board of Directors and Management on the Financials Statements as of September 30, 2018

Table of Contents

MIZRAHI TEFAHOT

List of tables (charts) included in the Condensed Report of the Board of Directors and Management

Condensed Report of the Board of Directors and Management on Financial Statements as of September 30, 2018

Introduction

The Board of Directors of Mizrahi Tefahot Bank Ltd., at its meeting held on November 12, 2018, resolved to approve and publish the Report of the Board of Directors and Management, the Risks Report and Other Supervisory Disclosures and the condensed consolidated financial statements of Mizrahi Tefahot Bank Ltd. and its subsidiaries as of September 30, 2018.

The Report of the Board of Directors and Management, the Risks Report and Other Supervisory Disclosures of the Bank are prepared in conformity with directives of the Supervisor of Banks.

The condensed financial statements are prepared in conformity with generally accepted accounting policies in Israel (Israeli GAAP) and in accordance with Public Reporting Directives of the Supervisor of Banks.

For most topics, the Supervisor of Banks' directives are based on generally acceptable accounting principles for US banks (see also Note 1 to these financial statements as of December 31, 2017 and Note 1 to these condensed financial statements).

In conformity with the reporting structure stipulated by the Supervisor of Banks, additional information to these financial statements is provided on the Bank website:

www.mizrahi-tefahot.co.il >> about the bank >> investor relations >> financial statements.

This additional information includes a detailed Risks Report in conformity with disclosure requirements of Basel Pillar 3 and in conformity with additional recommendations by the Financial Stability Board (FSB), as well as information on capital instruments issued by the Bank.

Forward-Looking Information

Some of the information in the Report of the Board of Directors and Management, which does not relate to historical facts, constitutes “forward-looking information”, as defined in the Securities Law, 1968 (hereinafter: “the Law”).

Actual Bank results may materially differ from those provided in the forward-looking information due to multiple factors including, inter alia, changes in local and global capital markets, macro-economic changes, geo-political changes, changes in legislation and regulation and other changes outside the Bank's control, which may result in non-materialization of estimates and/or in changes to business plans.

Forward-looking information is characterized by the use of certain words or phrases, such as: "we believe", "expected", "forecasted", "estimating", "intending", "planning", "readying", "could change" and similar expressions, in addition to nouns, such as: "plan", "goals", "desire", "need", "could", "will be". These forward-looking information and expressions involve risks and lack of certainty, because they are based on current assessments by the Bank of future events which includes, inter alia: Forecasts of economic developments in Israel and worldwide, especially the state of the economy, including the effect of macroeconomic and geopolitical conditions; changes and developments in the inter-currency markets and the capital markets, and other factors affecting the exposure to financial risks, changes in the financial strength of borrowers, the public’s preferences, legislation, supervisory regulations, the behavior of competitors, aspects related to the Bank’s image, technological developments and human resources issues.

The information presented here relies, inter alia, on publications of the Central Bureau of Statistics and the Ministry of Finance, on data from the Bank of Israel data, the Ministry of Housing and others who issue data and assessments with regard to the capital market in Israel and overseas as well as forecasts and future assessments on various topics, so that there is a possibility that events or developments predicted to be anticipated would not materialize, in whole or in part.

Overview, targets and strategy

This chapter describes major developments in the Bank Group, its operating segments for the first nine months of 2018, performance, risk to which the Bank is exposed as well as targets and strategy. This chapter should be read, as needed, in conjunction with the chapter "Overview, targets and strategy" in the 2017 audited annual financial statements.

Condensed financial information and key performance indicators for the Bank Group

	For the quarter ended						
	September 30, 2018	June 30,2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
							NIS in millions
Statement of profit and loss – highlights							
Interest revenues, net	1,236	1,345	1,081	1,136	1,011	1,173	1,027
Non-interest financing revenues (expenses)	105	129	90	55	61	21	(1)
Commissions and other revenues	378	375	373	409	374	365	369
Total revenues	1,719	1,849	1,544	1,600	1,446	1,559	1,395
Expenses with respect to credit losses	61	90	82	60	41	42	49
Operating and other expenses(1)	936	(2)1,325	912	939	972	877	823
Of which: Payroll and associated expenses(1)	598	557	569	593	635	556	487
Pre-tax profit	722	434	550	601	433	640	523
Provision for taxes on profit	250	212	192	222	161	231	192
Net profit(3)	454	(2)207	343	365	261	400	321

	For the nine months ended September 30		For the year ended December 31,
	2018	2017	2017
			NIS in millions
Statement of profit and loss – highlights			
Interest revenues, net	3,662	3,211	4,347
Non-interest financing revenues	324	81	136
Commissions and other revenues	1,126	1,108	1,517
Total revenues	5,112	4,400	6,000
Expenses with respect to credit losses	233	132	192
Operating and other expenses(1)	(2)3,173	2,672	3,611
Of which: Payroll and associated expenses(1)	1,724	1,678	2,271
Pre-tax profit	1,706	1,596	2,197
Provision for taxes on profit	654	584	806
Net profit(3)	(2)1,004	982	1,347

(1) Comparative figures for previous periods were reclassified. For more information with regard to the Supervisor of Banks' circular regarding improved presentation of expenses with respect to pension and other post-employment benefits, see Note 1.D.4 to the financial statements.

(2) Operating and other expenses in the second quarter of 2018 include an additional provision amounting to NIS 425 million (USD 116.5 million) with respect to the US DOJ investigation. For more information see Note 10.B.4 to the financial statements.
Net profit from the Bank's current operations, excluding the aforementioned provision and taking into account the provisions for bonus payments in line with operating profitability in that quarter and related tax Quarter expenses, is as follows:
In the second quarter of 2018 - NIS 472 million.
As derived from this, In the first nine months of 2018 - NIS 1,269 million.

(3) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and equity attributable to shareholders of the Bank.

Group net profit in the third quarter of 2018 amounted to NIS 454 million, compared to NIS 261 million in the corresponding period last year – an increase by 73.9%. This reflects annualized return on equity of 13.4%, compared to 8.0% in the corresponding period last year.

Results of the third quarter of 2017 include extraordinary payroll expenses amounting to NIS 160 million (NIS 104 million in terms of net profit) with respect to the new payroll agreement at the Bank for 2016-2021.

Net profit for the Group in the first nine months of 2018 amounted to NIS 1,004 million.
This profit reflects annualized return on equity at 9.7%.
Net profit in the first nine months of 2018 includes the additional provision recorded in the second quarter of this year, amounting to NIS 425 million, with respect to the investigation by the US Department of Justice.
In the corresponding period last year, net profit amounted to NIS 982 million (reflecting a return on equity of 10.1%). The corresponding period last year included, as noted above, the extraordinary increase in payroll expenses with respect to the new payroll agreement at the Bank. In total, net profit in the first nine months of this year increased by 2.2%.

Return on equity for all of 2017 was 10.2%.

The following major factors affected Group operating income in the third quarter and in the first nine months of 2018 compared to the corresponding periods last year:

- Total financing revenues increased in the third quarter of 2018 by 25.1% compared to the corresponding period last year (increased by 21.1% in the first nine months compared to the corresponding period last year). In addition to increase in business volume, lending margins also increased.

  Revenues were also impacted by the (known) CPI, which rose by 1.1% in the first nine months of 2018, compared to 0.2% in the corresponding period last year. See also under "Analysis of Development in financing revenues from current operations" below.

- Total commissions increased in the third quarter of 2018 by 5.8% compared to the corresponding period last year (increased by 3.3% in the first nine months compared to the corresponding period last year).

- Total expenses with respect to credit losses in the third quarter of 2018 increased by NIS 20 million over the corresponding period last year (in the first nine months an increase by NIS 101 million over the corresponding period last year). Total expenses with respect to credit losses were impacted by some maximization of collection of previously written-off debts up to the present. For more information about development of expenses with respect to credit losses, see below.

- Changes to operating and other expenses:

  Operating and other expenses decreased in the third quarter of 2018 by 3.7% compared to the corresponding period last year. The corresponding period included extraordinary payroll expenses amounting to NIS 160 million with respect to the payroll agreement with the Employees' Union for 2016-2021.

  Operating and other expenses in the first nine months of 2018 include the provision made in the second quarter of this year with respect to the investigation by the US Department of Justice.

  See below for explanation of each component of operating expenses.

	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	As of March 31, 2017
							NIS in millions
Balance sheet – key items							
Balance sheet total	248,831	246,593	242,805	239,572	239,578	235,056	234,071
Loans to the public, net	189,796	187,055	183,628	181,118	178,621	177,133	173,068
Cash and deposits with banks	42,423	42,380	43,156	41,130	42,578	39,146	41,683
Securities	10,093	9,926	9,057	10,133	10,938	10,560	11,791
Buildings and equipment	1,360	1,364	1,378	1,403	1,359	1,391	1,550
Deposits from the public	192,943	189,900	187,066	183,573	184,221	180,680	180,722
Debentures and subordinated notes	29,769	30,034	29,864	29,923	29,129	27,851	26,924
Deposits from banks	655	875	885	1,125	1,462	1,454	1,474
Shareholders' equity(1)	14,441	13,986	13,890	13,685	13,399	13,276	13,015

Development of balance sheet items shows consistent growth in Bank business:

- Total assets as of September 30, 2018 amounted to NIS 248.8 billion, an increase by NIS 9.3 billion (or 3.9%) compared to September 30, 2017 (compared to end of 2017: annualized growth rate of 5.2%).
- Loans to the public, net as of September 30, 2018 amounted to NIS 189.8 billion, an increase by NIS 11.2 billion (or 6.3%) compared to September 30, 2017 (compared to end of 2017: annualized growth rate of 6.4%).
- Deposits from the public as of September 30, 2018 amounted to NIS 192.9 billion, an increase by NIS 8.7 billion (or 4.7%) compared to September 30, 2017 (compared to end of 2017: annualized growth rate of 6.9%).
- Shareholder equity as of September 30, 2018 amounted to NIS 14.4 billion – an increase by NIS 1.0 billion(or 7.8%) compared to September 30, 2017.
  See below under "Capital adequacy and dividend distribution policy at the bank".

(1) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and equity attributable to shareholders of the Bank.

Key financial ratios (in percent)

	For the quarter ended						
	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30,2017	March 31, 2017
Key performance benchmarks							
Net profit return on equity(1)(2)	13.4	(9)6.1	10.3	11.2	(11)8.0	12.7	10.4
Net profit return on risk assets(1)(2)(3)	1.24	0.60	0.97	1.05	0.76	1.19	0.97
Return on average assets(2)	0.74	0.34	0.57	0.61	0.44	0.68	0.55
Deposits from the public to loans to the public, net	101.7	101.5	101.9	101.4	103.1	102.0	104.4
Ratio of Tier I capital to risk components	10.11	9.95	10.16	10.20	10.16	10.15	10.12
Leverage ratio(4)	5.47	5.38	5.43	5.48	5.36	5.42	5.27
(Quarterly) liquidity coverage ratio(5)	121	120	(10)125	118	117	122	118
Ratio of revenues to average assets	2.80	3.06	2.57	2.70	2.46	2.69	2.42
Cost income ratio– operating expenses to total revenues(6)	54.5	(9)71.7	59.1	58.7	(11)67.2	56.3	59.0
Basic earnings per share (in NIS)	1.95	0.89	1.47	1.58	1.12	1.72	1.38
Key credit quality benchmarks							
Ratio of balance of provision for credit losses to total loans to the public	0.81	0.81	0.81	0.81	0.81	0.82	0.84
Ratio of impaired debts or debts in arrears 90 days or longer to loans to the public	1.17	1.12	1.09	1.02	0.97	0.89	0.95
Expenses with respect to credit losses to loans to the public, net for the period(2)	0.13	0.19	0.18	0.13	0.09	0.09	0.12
Ratio of net accounting write-offs to average loans to the public(2)	0.09	0.11	0.13	0.11	0.09	0.09	0.11
Additional information							
Share price (in NIS) at end of the quarter	62.26	67.17	67.03	64.19	63.33	63.50	61.44
Dividends per share (in Agorot)(7)	(8) –	59	47	34	52	41	17
Ratio of net interest revenues to average assets(2)	2.01	2.22	1.79	1.91	1.71	2.02	1.78
Ratio of commissions to average assets(2)	0.61	0.61	0.62	0.68	0.63	0.62	0.64

	For the nine months ended September 30		For the year ended December 31,
	2018	2017	2017
Key performance benchmarks			
Net profit return on equity(1)(2)	(9)9.7	10.1	10.2
Net profit return on risk assets(1)(2)(3)	0.93	0.97	0.99
Return on average assets(2)	0.55	0.56	0.57
Ratio of revenues to average assets	2.80	2.51	2.55
Cost income ratio(6) – operating expenses to total revenues	(9)62.1	60.7	60.2
Basic earnings per share (in NIS)	4.31	4.23	5.80
Key credit quality benchmarks			
Expenses with respect to credit losses to loans to the public, net for the period(2)	0.16	0.10	0.11
Ratio of net accounting write-offs to average loans to the public(2)	0.11	0.09	0.09
Additional information			
Dividends per share (in Agorot)(7)	(8)106	110	144
Ratio of net interest revenues to average assets(2)	2.00	1.83	1.84
Ratio of commissions to average assets(2)	0.61	0.63	0.64

Financial ratios indicate:

- Given the significant increase in revenues, with the cost-income ratio for this quarter at 54.5%, we present a net profit return on equity at 13.4%.
- The Bank's capital adequacy increased over the last quarter by more than 10 percentage points, increasing the safety margins above the required minimum of 9.84%.
- The ratio of expenses with respect to credit losses to total loans to the public, net in the first nine months of 2018 was affected by some maximization of collection of previously written-off debts up to now, reaching a ratio of 0.16%.

Items of profit and loss, balance sheet items and various financial ratios are analyzed in detail in the Report of the Board of Directors and Management, as applicable, in the chapter "Explanation and analysis of results and business standing" and in the chapter "Risks overview".

(1) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and equity attributable to shareholders of the Bank.

(2) Calculated on annualized basis.

(3) Net profit to average risk assets.

(4) Leverage Ratio – ratio of Tier I capital (according to Basel rules) to total exposure. This ratio is calculated in conformity with Proper Banking Conduct Directive 218

(5) Liquidity Coverage Ratio – ratio of total High-Quality Liquid Assets to net cash outflow. This ratio is calculated in conformity with Proper Banking Conduct Directive 221, in terms of simple averages of daily observations during the reported quarter.

(6) Total operating and other expenses to total operating and financing revenues and expenses with respect to credit losses.

(7) The rate of dividends is calculated based on the actual amount of dividends actually distributed in the reported period.

(8) In the second quarter of 2018, no dividends were declared with respect to earnings in that quarter. For more information see chapter "Dividends" below.

(9) In the second quarter of 2018, net profit return on equity and the cost-income ratio were impacted by an additional provision amounting to NIS 425 million (USD 116.5 million) with respect to the US DOJ investigation. Net profit return and the cost-income ratio from the Bank's current operations, excluding the aforementioned provision and taking into account the provisions for bonus payments in line with operating profitability in that quarter and related tax Quarter expenses, were as follows:

Return on equity the second quarter of 2018 - 14.1%.

Cost-income ratio in the second quarter of 2018 - 53.2%.

Consequently:

Return on equity for the first nine months of 2018 12.3%.

Cost-income ratio for the first nine months of 2018 55.5%.

(10) Includes the effect of implementation of Bank of Israel guidelines to apply a reduced withdrawal rate with respect to operational deposits, as from the first quarter of 2018.

(11) Expenses with respect to signing the MOU with the Employees' Union and with respect to the negative known CPI in the third quarter of 2017, resulted in a decrease in return by 4.6 percentage points and an increase in the cost-income ratio by 13.4 percentage points.

Major risks

The Bank's risks mapping produced a listing of the following major risks: Credit risk (and credit concentration), market risk, interest risk (and, in particular, interest risk in the bank portfolio), liquidity risk, operational risk, including information security and cyber risk, IT risk and legal risk, compliance and regulatory risk, cross-border and AML risk, reputational risk and strategic-business risk. The Bank regularly reviews the risk mapping, so as to ensure that it covers all of its business operations, market conditions and regulatory requirements.

For further details see chapter "Major risks" of the 2017 Report of the Board of Directors and Management.

For more information about developments in risks, see chapter "Risks overview" below and the detailed Risks Management Report on the Bank website.

For more information about developments in the investigation by the US Department of Justice, see Note 10.B.4 to the financial statements.

See below updates to estimates of various risk factors in chapter "Risk overview".

Business goals and strategy

Forward-Looking Information – Strategic plan

For more information about the Bank's business goals and strategy for 2017-2021, see chapter "Business goals and strategy" of the 2017 Report of the Board of Directors and Management.

Developments as presented on financial statements for the second quarter of 2018

On August 7, 2018, the Bank received notice given by the US DOJ to the Bank's legal counsel, including a proposed settlement of the investigation into the Bank Group's business with its US clients. The financial statements as of June 30, 2018 include an additional provision amounting to NIS 425 million (USD 116.5 million) with respect to the investigation. The cumulative provision with respect to this investigation as of June 30, 2018 amounted to NIS 593.5 million (USD 162.6 million). For more information see Note 10.B.4 to the financial statements as of June 30, 2018.

In the financial statements as of June 30, 2018, the capital adequacy presented was: Tier I capital ratio – 9.95% and total capital ratio – 13.29% (see Note 9 to the financial statements as of June 30, 2018). The Bank reported that it was acting to increase the safety margins for these capital ratios and at that time estimated that the Tier I capital ratio should exceed 10% in the third quarter of 2018.

The Bank further estimated that it was capable of achieving the outline for the five-year strategic plan for 2017-2021, by using diverse tools, as needed, in the course of its current business operations (tools regularly used in the past).

The Bank's dividends policy is to distribute dividends, as from 2018, with respect to quarterly earnings, at 40% of net profit attributable to shareholders of the Bank. The dividends policy is subject to the Bank achieving a ratio of Tier I capital to risk components as required by the Supervisor of Banks and maintaining appropriate safety margins.

Considering the foregoing, the Bank’s Board of Directors at that time had not declared any dividends with respect to earnings in the second quarter of 2018.

The Bank estimated, at that time, that it would be able to resume its dividends distribution policy in 2019, subject to provisions and conditions specified in the strategic plan, including statutory provisions and restrictions stipulated by the Supervisor of Banks.

Developments in the third quarter of 2018

- On these financial statements, the capital adequacy presented is: Tier I capital ratio – 10.11% and total capital ratio – 13.41% (see Note 9 to these financial statements).
- The Bank’s Board of Directors has not declared any dividends with respect to earnings in the third quarter of 2018.

The Bank's aforementioned estimates remain unchanged with regard to the capacity to achieve the the outline for the strategic plan for 2017-2021 and to return to the dividends policy in 2019.

For more information see Note 10.B.4 to the financial statements.

This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") underlying the strategic plan and elaborated there, which may not materialize due to factors not entirely under the Bank's control and may cause the strategic plan, including with regard to the dividend distribution policy, not to materialize.

For more information about negotiations to renew the agreement with Bank Igud shareholders, see chapter "Significant Events in the Bank Group's Business" below.

Developments in capital structure

Investments in Bank Capital and Transactions in Bank Shares

- On February 1, 2018, the Bank applied to the Supervisor of Banks for approval of a buy-back of 5 million Bank shares. The share purchase is to be conducted against shares allotted or to be alloted pursuant to the stock option plans for 2014-2016 and the stock option plans for 2017-2019. On July 23, 2018, the Supervisor of Banks approved the buy-back plan subject to conditions specified.
  Buy-back of Bank shares is tantamount to a distribution of dividends. See also "Forward-Looking Information – Strategic plan" and chapter "Dividends" above.
- For more information about share issuance in conjunction with an employee' stock option plan, see statement of changes in shareholders equity in the financial statements.

Raising of capital sources

In conjunction with the Bank's work plan, which is set by the Board of Directors and includes growth objectives for different lines of business, an assessment is made of the impact of achieving these objectives on total risk assets for the Bank, and accordingly on its capital adequacy ratio. Accordingly, along with business and profitability objectives, a plan is set to raise capital sources in order to maintain capital adequacy, in accordance with instructions of the Board of Directors concerning capital adequacy.
The plan includes issue of contingent subordinated notes (Contingent Convertibles – CoCo) as needed and should ensure that the overall capital ratio as from 2018 would be at least 13.34%.
This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought before the Bank's Board of Directors. These assumptions may not materialize due to factors not all of which are under the Bank's control.
For more information on issuance of CoCo contingent subordinated notes amounting to NIS 710.6 million in October 2018, see "Developments in financing sources" below.
For more information about Tier II capital raised by Bank Yahav, amounting to NIS 180 million, see "Developments in financing sources" below.

Developments in financing sources

Group financing sources include deposits from the public and from other banks, issuance of types of debentures as well as shareholder equity. The Group selects the mix of financing sources based on its business objectives, including objectives for profitability, return on equity, liquidity, capital adequacy and leverage – subject to statutory limitations applicable to banking corporations and in accordance with the state of the capital market and management forecasts regarding development therein.

Deposits
The Bank distinguishes between different source types by term and by client type. The Bank reviews depositor concentration; management and the Board of Directors have specified restrictions and guidelines with regard to concentration risk which apply to individual depositors, liquid means with regard to major / institutional depositors and resource composition. Quantitative and qualitative indicators to be regularly monitored, which estimate change in concentration risk –have been specified as part of liquidity risk management.
Total deposits from the public for the Group as of September 30, 2018 amounted to NIS 192.9 billion, compared to NIS 183.6 billion at end of 2017: an increase by 5.1%. Deposits from the public in the NIS-denominated, non-CPI linked segment increased in the first nine months of 2018 by 7.7%; deposits in the CPI-linked segment decreased by 11.6%; and deposits denominated in or linked to foreign currency increased by 2.7%. For more information see chapter "Analysis of development of assets, liabilities, capital and capital adequacy" below.
For details of Amendment 28 of the Mutual Investment Act which applies to ETFs restrictions as to the investment rate and holdings of various assets, see chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" (Legislation and Supervision of Bank Group Operations) of these financial statements.

Obligatory notes and debentures issued to the public
The Bank is acting to raise long-term sources via issuances, inter alia via Mizrahi Tefahot Issuance Company Ltd. ("Tefahot Issue"), a wholly-owned subsidiary of the Bank. Over the years, Tefahot Issue Company issued subordinated notes to the public under published prospectuses.
As of the balance sheet date, all obligatory notes, including subordinated notes, issued to the public by Tefahot Issue, amounted to NIS 25.3 billion in total par value (as of December 31, 2017: NIS 25.7 billion), of which NIS 0.7 billion in CoCo (Contingent Convertible) (similar to December 31, 2017).subordinated notes with loss-absorption provisions through principal write-off (compliant with Basel III provisions and recognized by the Supervisor of Banks as Tier II capital), as well as NIS 0.5 billion in subordinated notes (included in Tier II capital for maintaining minimum capital ratio and gradually written down, subject to transitional provisions), (similar to December 31, 2017).
On June 13, 2018, ISA resolved to extend the deadline for offering securities pursuant to the existing shelf prospectus of Tefahot Issuance by a further 12 months, to July 4, 2019. For more information see Immediate Report by Tefahot Issuance dated June 13, 2018 (reference: 2018-01-051207).

On September 20, 2018, ISA resolved to extend the deadline for offering securities pursuant to the existing shelf prospectus of the Bank by a further 12 months, to September 24, 2019. For more information see Immediate Report by the Bank dated September 20, 2018 (reference: 2018-01-085252).

In August 2018, Bank Yahav raised Tier II capital by issue of contingent subordinated notes amounting to NIS 180 million.

On October 21, 2018, after the balance sheet date, Tefahot Issuance issued to the public contingent subordinated notes (Contingent Convertibles – CoCo) (Series 48) with loss-absorption provisions through principal write-off (compliant with Basel III provisions and recognized by the supervisor of Banks as Tier II capital), with par value of NIS 710.6 million for consideration of NIS 710.6 million.

Complex capital instruments

The revalued balance of the complex capital instruments as of September 30, 2018 was NIS 3.8 billion (as of December 31, 2017: NIS 3.7 billion), of which NIS 1.8 billion in CoCo contingent subordinated notes (as of December 31, 2017: NIS 1.7 billion), of which NIS 0.7 billion issued by Tefahot Issuance as set forth above (similar to December 31, 2017), as well as NIS 2.0 billion in a capital note which does not qualify as supervisory capital pursuant to Basel III directives and is gradually written down (similar to end of 2017).

The Bank also has subordinated notes (not considered to be complex capital instruments) included in Tier II capital but which do not qualify as supervisory capital pursuant to Basel III directives – and are therefore gradually reduced in conformity with transitional provisions.

For more information about Tier II capital raised by Bank Yahav, see "Obligatory notes and debentures issued to the public" above.

Significant developments in management of business operations

Negotiations to renew the agreement with Bank Igud shareholders

For more information see chapter "Significant Events in the Bank Group's Business" below.

Sale of assets and liabilities in mortgage portfolio

In the first nine months of 2018, the Bank and institutional investors signed agreements for sale of an 80% interest in housing loan portfolios amounting in total to NIS 2.7 billion (of which NIS 0.7 billion in the third quarter of this year). The loan portfolios sold include loans with LTV ratios not exceeding 60%.

In the aforementioned transactions, the remainder of this loan portfolio is retained by the Bank, so that rights of the buyer and those of the Bank l have equal priority (*pari passu*).

In conformity with management agreements signed by the parties, the Bank will manage and operate, on behalf of the buyer, the portion of the loan portfolios acquired – in the same manner and based on the same rules used by the Bank to manage and operate its own housing loans, including the portion of the loan portfolio retained by the Bank.

Guarantee insurance policy

On December 28, 2016, the Bank acquired an insurance policy for credit exposure due to guarantees provided by the Bank pursuant to the Sale Act (Apartments) (Securing Investments of Home Buyers), 1974 and obligations to issue such guarantees.

The aforementioned transaction was made through an insurance company which is a wholly-owned subsidiary of the Bank which, concurrently, has contracted with international reinsurers with a high international rating.

The insurance policy provides the Bank with coverage should the Bank be required to pay due to forfeiture of the guarantees; it is primarily intended to reduce risk assets with respect to credit exposure due to these guarantees.

In the second quarter of 2018, the Bank increased the coverage ratio of the insurance policy from 80% to 90% for guarantee amounting to NIS 15.5 billion.

In the third quarter, the Bank purchased a rider to the existing insurance policy, so that it would also apply to other types of guarantees associated with projects, amounting to NIS 1.8 billion.

Significant developments in human resources and administration

Developments in labor relations

For more information about an economic arbitration between the Bank and the Mizrahi Tefahot Employees' Union, see Note 22.A.6. to the 2017 financial statements. Management believes, based on the opinion of legal counsel, that exposure with respect to this arbitration cannot be estimated.

Payroll agreements for employees represented by the Council of Managers and Authorized Signatories

The labor agreement with the Council of Managers is effective through 2017. Negotiations are underway in order to sign a new labor agreement for the coming years.

Labor and payroll agreements at the Technology Division

Employment terms of employees of Mizrahi Tefahot Technology Division Ltd. (hereinafter: "the Technology Division") are arranged in the labor constitution that was signed in 1989 and in a series of agreements signed by the Technology Division Employee Council, the Labor Union and the Technology Division over the years.

Employees of the Technology Division have their pay linked to the pay for Bank employees.

On August 15, 2018, a collective bargaining agreement was signed by the Technology Division and the division's employee representation and the MAOF trade union. This agreement has no material impact on the financial statements.

Other matters

Corporate social responsibility

In July 2018, the Bank issued its 2017 Corporate Social Responsibility Report.

The Bank's Corporate Social Responsibility Report is available on its website:

www.mizrahi-tefahot.co.il >> about the bank >> investor relations

Legal Proceedings

For material changes in legal proceedings to which the Bank is party, see Note 10.B.(2-4) to the financial statements.

For more information about an ISA demand for payment of a monetary sanction amounting to NIS 220 thousand, see chapter "Compliance and regulatory risk" below.

Explanation and analysis of results and business standing

This chapter includes a description of trends, phenomena, developments and material changes with regard to results and business standing, including analysis of revenues, expenses and profit. It also describes the results of the Bank's supervisory operating segments and operating results for holdings in major investees.

Trends, phenomena and material changes

Significant Events in the Bank Group's Business

Developments in investigation by the US Department of Justice

Developments as presented on financial statements for the second quarter of 2018

On August 7, 2018, the Bank received notice given by the US DOJ to the Bank's legal counsel, whereby the DOJ is willing to propose a settlement with the Bank, based upon payment amounting to USD 342 million, to conclude the investigation.

The financial statements for the second quarter of 2018 include an additional provision amounting to NIS 425 million. (USD 116.5 million) with respect to the investigation by the US DOJ. For more information see Note 10.B.4 to the financial statements as of June 30, 2018.

For more information about developments in the third quarter of 2018, see Note 10.B.4 to these financial statements.

Addendum to the agreement with Bank Igud shareholders

In conformity with the resolution by the Bank’s Board of Directors dated November 27, 2017, the Bank signed an agreement with controlling shareholders of Bank Igud Le-Israel Ltd. (hereinafter: "Igud"), who jointly hold 47.63% of Igud's issued and paid-up share capital, to acquire the shares of Bank Igud and to merge it with the Bank by way of exchange of shares (hereinafter: "the agreement"). Moreover, prior to signing this agreement, notice was received from another Igud shareholder who holds (through Trustees) 27.12% of Igud's issued and paid-in share capital (hereinafter: "the **other shareholder**"). In conformity with the agreement, as noted in the Report of the Board of Directors and Management for 2017, subject to preconditions highlighted in the agreement, the Bank will issue a full exchange tender offer (hereinafter: "the **tender offer**") to purchase Bank Igud shares and, conversely, the controlling shareholders and the other shareholder have committed to accept the tender offer, which would close subject to preconditions stipulated by the agreement.

On May 30, 2018, the Acting Director General of the Antitrust Authority decided to object to the merger (hereinafter: "the Decision"). Pursuant to provisions of the Agreement, should any of the conditions precedent not be fulfilled, including the aforementioned condition precedent, by the dates specified in the Agreement, then the Agreement shall be null and void. On June 25, 2018, the Bank announced that since the conditions precedent for publication of the Tender Offer have not been fulfilled, so that in conformity with the Agreement, the Agreement is deemed null and void as of June 27, 2018, and none of the parties has any obligations pursuant to the Agreement nor any claim against the other parties to the Agreement. On August 5, 2018, the Bank and the Shareholders signed an addendum to the Agreement (hereinafter: "the Addendum"), whereby the parties and Igud would appeal the Decision. Such appeal was filed on September 6, 2018. It was further agreed that the extended effective date would be 12 months after the signing date of the Addendum (hereinafter: "the Extended Effective Date") and if, by the Extended Effective Date, a verdict would be issued denying the appeal, or should no verdict be given with regard to the appeal, then the Agreement would be null and void.

It was further agreed that if, by the Extended Effective Date, the parties would receive a verdict accepting the appeal, the Bank would issue the Tender Offer within 60 days of the appeal being accepted, based on the annual or quarterly financial statements for the period ended on the final day of the quarter preceding the date of appeal acceptance (hereinafter: "the Effective Financial Statements"), provided that should the Effective Financial Statements be the annual financial statements and should they not be issued within the aforementioned 60-day period, then the deadline for issuing the Tender Offer would be delayed to the 14th business day after publication of the Effective Financial Statements.

The Addendum stipulates that through the closing date of the Tender Offer, Igud would not conduct any further distribution other than the Allowed Distribution – amounting up to NIS 100 million, and clarifies that any distribution by Igud over and above the Allowed Distribution would constitute material breach of the Agreement by the Sellers.

Furthermore, the formula to calculate the number of Bank shares to constitute the consideration shares was amended, whereby the number of consideration shares would reflect the ratio of the amount equal to 60% of total Igud capital, based on Igud's Effective Financial Statements, net of the Allowed Distribution amount, if any, and excluding other amounts to be agreed by the parties, to the average adjusted closing price on the Tel Aviv Stock Exchange Ltd. of one NIS 0.1 par value share of the Bank, over 60 trading days starting 60 trading days prior to the date of the Effective

Financial Statements and ending on the date of the Effective Financial Statements, after adjustments stipulated in the Agreement and in the Addendum, including certain adjustments due to distribution of dividends by the Bank, for which the effective date is later than the Bank's Effective Financial Statements.

The Addendum stipulates a mutual termination right by the parties. The Bank may terminate the Agreement if, by the Extended Effective Date, the Bank’s Board of Directors would resolve that an event, change or development of material adverse impact on the standing of Igud has taken place, or that Igud has undertaken a liability with material adverse impact on the standing of Igud after the closing date, in which case the Bank may inform the Sellers in writing of the Bank's intention to terminate the Agreement, unless the event causing such change or development or such liability is remedied within 90 days from receiving such notice. Should such event be remedied before the aforementioned 90-day period has elapsed, then should the date of such remedial action be less than 60 days prior to the appeal acceptance date, the deadline for issuing the Tender Offer would be postponed to 60 days after the date of such remedial action. Should such event fail to be remedied, the Bank may terminate the Agreement by written notice to the Sellers. Furthermore, after the issue date of the Bank's Effective Financial Statements, the Bank may terminate the Agreement by written notice to the Sellers, should the ratio of the adjusted price per Bank share, multiplied by the number of shares in the issued share capital of the Bank listed for trading upon the date of the Effective Financial Statements, to the Bank's effective shareholders equity (i.e. total equity attributable to Bank shareholders, in conformity with the Bank's Effective Financial Statements, net of the distribution amount declared by the Bank after the date of the Effective Financial Statements, if any, through the closing date, to which Igud shareholders would not be entitled), be lower than 106%.

Should any event, change or development having material adverse impact on the Bank’s standing occur by the Extended Effective Date, the Shareholders may, jointly, inform the Bank in writing, through their legal counsel, of their intention to terminate the Agreement unless the event causing such change or development is remedied within 90 days of receiving the notice. Should the event causing such change or development be remedied before the aforementioned 90-day period has elapsed, then should the date of such remedial action be less than 60 days prior to the appeal acceptance date, the deadline for issuing the Tender Offer would be postponed to 60 days after the date of such remedial action. Should the event fail to be remedied, the Shareholders may, jointly, terminate the Agreement by joint written notice to the Bank. Furthermore, the Shareholders may, after publication of the Bank's Effective Financial Statements, terminate the agreement by joint written notice given by their legal counsel to the Bank, should the ratio of the adjusted price per Bank share, multiplied by the number of shares in the issued share capital of the Bank listed for trading upon the date of the Effective Financial Statements, to the Bank's effective shareholders equity, exceed 124%.

Pursuant to the Addendum, the restrictions imposed on the Sellers pursuant to the original Agreement, with regard to their conduct in the interim period, including a restriction whereby the Sellers undertook to exercise their means of control over Igud, during the interim period, to preclude Igud from taking any extraordinary action which may have material adverse effect on the financial results of Igud and/or on the transaction feasibility and/or the valuation thereof, without derogating in any way from the Bank's right to claim that any action in contravention of such eliminated section has resulted in any event, change, development or undertaking which constitutes ground for the Bank to terminate the Agreement, as statedabove

The Bank received notice from the Trustee holding shares on behalf of the other shareholder, holding a 27.12% holding stake, whereby the joining notice shall expire on the earliest of the dates specified there or on December 31, 2019, and no further changes would be made to other provisions of the joining notice, other than changes due to the Addendum.

This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought before the Bank’s Board of Directors. These assumptions may not materialize due to factors not all of which are under the Bank's control.

For more information about the agreement and Addendum with Bank Igud shareholders, see chapter "Significant developments in management of business operations" in the Report of the Board of Directors and Management for 2017, Immediate Report dated May 30, 2018, reference 2018-01-053347, Immediate Report dated June 25, 2018, reference 2018-01-060643 and Immediate Report dated August 5, 2018, reference 2018-01-072859.

The General Environment and Effect of External Factors on the Bank Group

Major developments in the banking industry in Israel and overseas

For more information about trends in recent years in the banking sector in Israel and overseas, see chapter "Explanation and analysis of results and business standing" of the Report of the Board of Directors and Management for 2017.

Other developments in 2018:

On February 25, 2018, the Bank of Israel issued the final outline designed to reduce the cross commission in deferred charge transactions, in multiple stages in 2019-2023, from 0.7% of transaction amount today, down to 0.5%. Furthermore, an outline was specified to reduce the cross commission for immediate charge transactions, from 0.3% of transaction amount today, down to 0.25%.
For more information about the outline to reduce the cross commission, see chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" (Legislation and Supervision of Bank Group Operations) of these financial statements.

Developments in the Israeli economy and in the global economy in the third quarter and in the first nine months of 2018

Israeli economy

Real Developments

In the first half of 2018, GDP grew at 4.2%, similar to 4.3% in the corresponding period of 2017 and 3.5% in all of 2017. Growth was positively affected by higher private consumption of durable goods, after a decline in this item in 2017, as well as by investment in economic sectors and public consumption, which were significantly higher. Conversely, investment in residential construction continued to decline and current private consumption grew at a relatively moderate pace. Bank of Israel estimates that economic indicators for the third quarter of 2018 indicate growth, in line with the growth rate typical of the economy in recent years.

The labor market continued to indicate strong activity at near-full employment. In the first nine months of 2018, Rate average unemployment rate declined to 3.9%, compared to an average 4.2% for all of 2017. The average participation rate in the labor force decreased slightly in the first nine months of this year, to 63.9% compared to 64.0% for all of 2017.
On August 3, 2018, S&P announced it was raising the credit rating of the State of Israel, from A+ to AA-, in view of "improvement in the fiscal policy of the Israeli Government, along with strong growth and high tax revenues, which have resulted in significant decrease in the ratio of net Government debt to GDP in recent years", as quoted in the announcement.

Inflation and exchange rates

In the first nine months of 2018, the Consumer Price Index increased by 1.1%, compared to an increase by 0.3% in the corresponding period last year. The higher CPI was impacted primarily by higher prices of housing, fruit and vegetable, transportation and communication and food prices, partially offset by lower prices of clothing and footwear. In the twelve months ended September 2018, the CPI increased by 1.2%..

Below is information about official exchange rates and changes there to:

	September 30, 2018	December 31, 2017	Change in %
Exchange rate of:			
USD (in NIS)	3.627	3.467	4.6
EUR (in NIS)	4.216	4.153	1.5

On November 07, 2018, the USD/NIS exchange rate was 3.668 – a 1.1% devaluation since September 30, 2018. The EUR/NIS exchange rate on this date was 4.217 – a revaluation by 0.04% since September 30, 2018.

Monetary policy

In the third quarter of 2018, the Bank of Israel interest rate was unchanged at 0.1%. The Bank of Israel's monetary policy year-to-date was impacted, *inter alia*, by the following: Evolution of the NIS vs. the currency basket, inflationary expectations gradually higher compared to the price stability target range and continued expansive monetary policy in key global economies, along with higher risk due to concern about development of a trade war and higher geo-political tensions.

On October 9, 2018, the Prime Minister and the Minister of Finance announced the appointment of Professor Amir Yaron to the position of Governor of the Bank of Israel, replacing Professor Karnit Flug.

Fiscal policy

The Government deficit rate in relation to the GDP for the 12 months ended October 2018 was 3.6%, compared to 1.7% in the corresponding period last year. Note that the deficit target for 2018 is 2.9%. In the first ten months of this year, expenditure by Government ministries increased by 6.2% compared to the corresponding period last year. Total tax collection in the first ten months of 2018 decreased by a nominal 2.9% compared to the corresponding period last year.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, in the first eight months of 2018 demand for new apartments (apartments sold and apartments constructed not for sale) was 25.0 thousand apartments, a decrease by 10% over the corresponding period last year and an increase by 25% over the corresponding period in 2016. The decrease was due, *inter alia*, to housing buyers (who do not currently own housing) waiting to win an apartment in the " price per occupant" program and to lower demand for apartments by investors.

In the first nine months of 2018, housing loans given to the public amounted to NIS 44.1 billion, an increase by 10% compared to the corresponding period last year, and a decrease by 6% compared to the corresponding period in 2016.
According to data from the Central Bureau of Statistics, owned housing prices, in terms of trailing twelve months, decreased by 1.1% in August 2018, compared to an increase by 2.3% in 2017 and by 6.7% in 2016.

Capital market

Trading on global equity markets in the third quarter of 2018 was positive, led by stock exchanges in the USA and by major equity benchmarks in the Israeli market.

The following are changes in key equity indices in Israel (in %):

	2018			2017			
CPI	Third Quarter	Second quarter of	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Tel-Aviv 35	8.3	5.6	(4.9)	6.2	(0.9)	2.6	(5.0)
Tel-Aviv 125	9.0	4.0	(4.0)	5.6	0.3	3.0	(2.4)
Tel-Aviv 90	9.9	(1.3)	(1.7)	4.6	2.6	4.1	8.4

Average daily trading volume in equities and convertible securities in the third quarter of 2018 was NIS 1.4 billion, compared to NIS 1.3 billion in the corresponding period last year.

The following are changes in key debenture indices in Israel (in %):

	2018			2017			
CPI	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
General debentures	0.8	(0.5)	(0.1)	1.3	1.5	1.1	0.6
CPI-indexed Government debentures	0.4	(0.5)	0.3	1.5	1.7	0.8	(0.6)
Non-linked Government debentures	0.2	(1.1)	0.2	0.8	1.5	0.7	0.6
Tel Bond 20	1.1	0.6	(0.4)	1.8	1.9	1.7	1.6
Tel Bond 40	1.1	0.7	(0.4)	1.3	0.9	1.5	0.7

Global economy

The US economy grew in the third quarter of 2018 at an annualized 3.5%, compared to 4.2% in the previous quarter and compared to 2.2% for all of 2017. In the first nine months of 2018, industrial output and retail commerce benchmarks were higher and the purchasing manager index continued to indicate economic expansion. The labor market showed positive trends: The number of new jobs created in the US economy was higher than expected, and inflation dropped below 4%. Core inflation growth increased to 2.2% for the twelve months ended September 2018. Due to positive economic indicators, the FED raised interest rates three times in the first nine months of this year, to 2.0%-2.25%. In recent months, tensions between the USA, China and the EU around trade issues have grown. However, in late September, the USA, Mexico and Canada announced they had reached a new free trade zone agreement (USMCA), to replace the current NAFTA agreement.

The annualized GDP growth rate in the Euro Zone in the third quarter of 2018 was 1.7%, compared to 2.2% in the second quarter of 2018 and to 2.4% for all of 2017. In the first eight months of 2018, the growth rate of the industrial output and retail trade benchmarks was more moderate. The purchasing manager index and the expectation benchmarks were lower year to date, but remain high compared to their level in recent years. Unemployment continued to decline, to 8.1% in August 2018. Core inflation remained at 1% for the twelve months ended September 2018. According to ECB Chairman Mario Draghi, the quantitative expansion in Europe will end by December 2018 if inflation will not be lower, but interest rates in the Euro Zone are not expected to increase before the third quarter of 2019.

In the third quarter of 2018, GDP in China grew at an annualized 6.5%, lower than in the previous two quarters at 6.7% and compared to 6.9% for all of 2017. Growth in industrial output and retail trade benchmarks was more moderate in the first nine months of 2018 and the purchasing manager index was lower.

The following are changes in key equity indices world-wide (in %):

	2018			2017			
CPI	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second quarter of	First Quarter
Dow Jones	9.0	0.7	(2.5)	10.3	5.0	3.3	4.5
S&P 500	7.2	2.9	(1.2)	6.1	4.0	2.6	5.5
NASDAQ 100	8.3	7.0	2.9	7.0	5.9	3.9	11.8
DAX	(0.5)	1.7	(6.4)	0.7	4.1	1.0	7.2
FTSE 100	(1.7)	8.2	(8.2)	7.3	0.8	(0.1)	2.5
CAC	3.2	3.0	(2.7)	(0.3)	4.1	–	5.4
Nikkei	8.1	5.4	(5.8)	11.8	1.6	5.9	(1.1)

Key and emerging risks

In its operations, the Bank is exposed to a succession of risks which may potentially impact its financial results and its image. As part of the risks mapping, the Bank reviews the top risks, existing (or new) risks which may materialize over the coming 12 months which potentially may materially impact the Bank's financial results and stability, such as: credit, interest and liquidity risks. The Bank also identifies emerging risks, which may materialize over the longer term and subject to uncertainty with regard to their nature and impact on the Bank. Of these risks, one may note the following: information security and cyber risks, IT risk, legal risk, reputational risk as well as strategic – business risk. As noted, the risks mapping is regularly reviewed to ensure that it encompasses all business operations at the Bank, market conditions and regulatory requirements.

For more information about developments in the investigation by the US Department of Justice, see Note 10.B.4 to the financial statements. See also below for assessment of various risk factors in chapter "Risks overview".

For more information, including analysis of major risks to which the Bank is exposed and an overview of their management and evolution in the reported period, see chapter "Risks Overview" as well as the Detailed Risks Report on the Bank website.

Independent Auditors' review report

The Independent Auditors have drawn attention in their review report to Note 8, section 3 and to Note 10.B.3 to the financial statements, with regard to contingent liabilities at the Bank and at its subsidiary, including claims filed against the Bank and motions for class action status, as well as to Note 10.B.4 with regard to the US DOJ investigation with regard to Bank Group business with its US clients.

Events after the balance sheet date

On October 21, 2018, after the balance sheet date, Tefahot Issuance issued to the public contingent subordinated notes (Contingent Convertibles – CoCo) (Series 48) with loss-absorption provisions through principal write-off (compliant with Basel III provisions and recognized by the Supervisor of Banks as Tier II capital), with par value of NIS 710.6 million for consideration of NIS 710.6 million.

Changes to critical accounting policies and to critical accounting estimates

As stated in Note 1.C to these financial statements, the group-based provision for credit losses is based, *inter alia*, on historical loss rates in various economic sectors, divided into problematic and non-problematic debt, for the 8 years ended on the report date.
For more information about application of the Supervisor of Banks' directives concerning sector liability limit, see Note 1.D.3.

For more information about revised estimated exposure on the financial statements for the second quarter of 2018 with respect to the US DOJ investigation, see chapter "Policies and critical accounting estimates" below.

Material developments in revenues, expenses and other comprehensive income

Group net profit in the third quarter of 2018 amounted to NIS 454 million, compared to NIS 261 million in the corresponding period last year – an increase by 73.9%. This reflects annualized return on equity of 13.4%, compared to 8.0% in the corresponding period last year.

Results of the third quarter of 2017 include extraordinary payroll expenses amounting to NIS 160 million (NIS 104 million in terms of net profit) with respect to the new payroll agreement at the Bank for 2016-2021.

Net profit for the Group in the first nine months of 2018 amounted to NIS 1,004 million.

This profit reflects annualized return on equity at 9.7%.

Net profit in the first nine months of 2018 includes the additional provision recorded in the second quarter of this year, amounting to NIS 425 million, with respect to the investigation by the US Department of Justice.

In the corresponding period last year, net profit amounted to NIS 982 million (reflecting a return on equity of 10.1%). The corresponding period last year included, as noted above, the extraordinary increase in payroll expenses with respect to the new payroll agreement at the Bank. In total, net profit in the first nine months of this year increased by 2.2%. Return on equity for all of 2017 was 10.2%.

Analysis of developments in revenues, expenses and other comprehensive income

Net interest revenues and non-interest financing revenues(1) in the third quarter of 2018 amounted to NIS 1,341 million, as described on these financial statements, compared to NIS 1,072 million in the corresponding period last year, an increase by 25.1%.

Net interest revenues and non-interest financing revenues in the third quarter of 2018 amounted to NIS 3,986 million, as described on these financial statements, compared to NIS 3,292 million in the corresponding period last year, an increase by 21.1%.

Net interest revenues and non-interest financing revenues(1) from current operations in the third quarter of 2018 amounted to NIS 1,253 million, as described below, compared to NIS 1,095 million in the corresponding period last year, an increase by 14.4%.

Net interest revenues and non-interest financing revenues from current operations in the first nine months of 2018 amounted to NIS 3,615 million, as described below, compared to NIS 3,209 million in the corresponding period last year, an increase by 12.7%.

Growth rates for current operations are higher than growth rates for total business, due to improved financing margins.

Below is analysis of development in financing revenues from current operations (NIS in millions):

	2018			2017				Change in %
	Third Quarter	Second quarter of	First Quarter	Fourth Quarter	Third Quarter	Second quarter of	First Quarter	Third quarter of 2018 to third quarter of 2017
Interest revenues, net	1,236	1,345	1,081	1,136	1,011	1,173	1,027	
Non-interest financing revenues (expenses) [(1)]	105	129	90	55	61	21	(1)	
Total financing revenues	1,341	1,474	1,171	1,191	1,072	1,194	1,026	25.1
Less:								
Effect of CPI	32	172	(39)	10	(62)	105	(21)	
Revenues from collection of interest on problematic debts	9	8	12	10	11	9	13	
Gains from realized debentures and available-for-sale securities and gains from debentures held for trading, net	11	–	2	2	16	18	7	
Effect of accounting treatment of derivatives at fair value and others[(2)]	36	73	55	45	12	(5)	(20)	
Total effects from other than current operations	88	253	30	67	(23)	127	(21)	
Total financing revenues from current operations	1,253	1,221	1,141	1,124	1,095	1,067	1,047	14.4

	First nine months		
	2018	2017	Change in %
Total financing revenues	3,986	3,292	21.1
Total effects from other than current operations	371	83	
Total financing revenues from current operations	3,615	3,209	12.7

(1) Non-interest financing revenues include effect of fair value and others and expense with respect to linkage differentials on CPI derivatives, where the corresponding revenue is recognized as interest revenues, in conformity with accounting rules.

(2) The effect of accounting treatment of derivatives at fair value is due to the difference between accounting treatment of balance sheet instruments, charged to the profit and loss statement on an accrual basis (interest, linkage differentials and exchange rate differentials only), vs. derivatives measured at their fair value.
Other effects include:
– Other impacts include the effect of Bank coverage against tax exposure with respect to overseas investments, by allocating excess financing sources against such investments.

Below are total financing revenues by supervisory operating segment (NIS in millions):

	Third Quarter			
Operating segment	2018	2017	Change amount	Change rate (In %)
Individuals:				
Households – housing loans	389	332	57	17.2
Households – other	322	291	31	10.7
Private banking	18	14	4	28.6
Total – individuals	729	637	92	14.4
Business operations:				
Small and micro businesses	261	231	30	13.0
Medium businesses	61	52	9	17.3
Large businesses	134	109	25	22.9
Institutional investors	30	30	–	–
Total – business operations	486	422	64	15.2
Financial management	71	(30)	101	–
Total activity in Israel	1,286	1,029	257	25.0
Overseas operations	55	43	12	27.9
Total	1,341	1,072	269	25.1

	First nine months			
Operating segment	2018	2017	Change amount	Change rate (In %)
Individuals:				
Households – housing loans	1,118	956	162	16.9
Households – other	943	844	99	11.7
Private banking	54	43	11	25.6
Total – individuals	2,115	1,843	272	14.8
Business operations:				
Small and micro businesses	738	654	84	12.8
Medium businesses	178	153	25	16.3
Large businesses	393	344	49	14.2
Institutional investors	90	84	6	7.1
Total – business operations	1,399	1,235	164	13.3
Financial management	315	92	223	–
Total activity in Israel	3,829	3,170	659	20.8
Overseas operations	157	122	35	28.7
Total	3,986	3,292	694	21.1

For definition of supervisory operating segments and differences between supervisory operating segments and operating segments based on the management approach – see chapter "Supervisory operating segments" below.

Below are average balances of interest-bearing assets attributable to operations in Israel in the various linkage segments (NIS in millions):

	Third Quarter			First nine months		
Linkage segment	2018	2017	Change in %	2018	2017	Change in %
Israeli currency – non-linked	161,296	152,657	5.7	160,884	152,728	5.3
Israeli currency – linked to the CPI	52,852	51,722	2.2	52,222	50,849	2.7
Foreign currency (including Israeli currency linked to foreign currency)	15,164	13,517	12.2	13,641	12,481	9.3
Total	229,312	217,896	5.2	226,747	216,058	4.9

Change in average balances of interest-bearing assets in the various segments is primarily due to growth in loans to the public across all segments.

Below are interest spreads (difference between interest income on assets and interest expenses on liabilities)(1) based on average balances(2), attributable to operations in Israel in the various linkage segments, in percent:

	Third Quarter		First nine months	
Linkage segments	2018	2017	2018	2017
Israeli currency – non-linked	1.95	1.96	1.93	1.95
Israeli currency – linked to the CPI	1.25	0.89	1.12	0.83
Foreign currency	1.06	1.22	1.19	1.49
Total	1.73	1.62	1.70	1.64

(1) Revenue and expense rates were calculated relative to interest-bearing assets and liabilities.
(2) Average balances before deduction of provision with respect to credit losses.

In the CPI-linked NIS-denominated segment – the higher interest spread is due to the continued improvement in interest margins.

In the foreign currency segment – higher FED interest rates impacted the cost of sources. On the other hand, revenues from net derivative assets are not included in the interest spreads presented above (the same as for the other segments).

For composition of interest spreads by different criteria (activity type, linkage segment and quantity and price analysis), more information about non-interest bearing assets and liabilities and information about overseas activities, see appendix "Interest Revenue and Expense Rates" to the quarterly financial statements.

Expenses with respect to credit losses for the Group amounted to NIS 61 million in the third quarter of 2018, or an annualized rate of 0.13% of total loans to the public, net, compared with NIS 41 million in the corresponding period last year – an annualized rate of 0.09% of total loans to the public, net in the corresponding period last year – a decrease by NIS 20 million in total.

Expenses with respect to credit losses for the Group amounted to NIS 233 million in the first nine months of 2018, or an annualized rate of 0.16% of total loans to the public, net, compared with NIS 132 million in the corresponding period last year – an annualized rate of 0.10% of total loans to the public, net in the corresponding period last year – a decrease by NIS 101 million in total.

Development of expenses with respect to credit losses (NIS in millions) is as follows:

	Third Quarter		First nine months	
	2018	2017	2018	2017
Provision for credit losses on individual basis (including accounting write-offs)				
Increased expenses	88	90	264	260
Reduced expenses	(53)	(55)	(120)	(184)
Total individual provision	35	35	144	76
Provision for credit losses on Group basis:				
By extent of arrears	11	1	15	(1)
Other	15	5	74	57
Total expenses with respect to credit losses	61	41	233	132
Rate of the expenses with respect to credit losses as percentage of total loans to the public, net (annualized)	0.13%	0.09%	0.16%	0.10%
Of which: With respect to commercial loans other than housing loans	0.27%	0.24%	0.40%	0.26%
Of which: With respect to housing loans	0.05%	0.02%	0.04%	0.02%

The individual provision for credit losses was impacted by some maximization of collection of previously written-off debts up to the present.

The group-based provision was impacted by higher growth in commercial lending compared to the corresponding period last year.

Below are details of expenses with respect to credit losses by supervisory operating segments of the Group (NIS in millions):

	Third Quarter		First nine months	
Operating segment	2018	2017	2018	2017
Individuals:				
Households – housing loans	17	6	34	18
Households – other	32	32	81	86
Private banking	–	–	1	1
Total – individuals	49	38	116	105
Business operations:				
Small and micro businesses	32	37	103	107
Medium businesses	(11)	(2)	(1)	(16)
Large businesses	(6)	(23)	13	(47)
Institutional investors	(1)	(9)	–	(19)
Total – business operations	14	3	115	25
Financial management	(1)	–	1	–
Total activity in Israel	62	41	232	130
Overseas operations	(1)	–	1	2
Total	61	41	233	132

For definition of supervisory operating segments and differences between supervisory operating segments and operating segments based on the management approach – see chapter "Supervisory operating segments" below.

For more information about analysis of development of loans to the public, see chapter "Analysis of composition of assets, liabilities, capital and capital adequacy" below.

For more information about analysis of credit risk, see chapter "Credit risk" below and the detailed Risks Management Report on the Bank website.

Non-interest revenues amounted to NIS 483 million in the third quarter of 2018, compared with NIS 435 million in the corresponding period last the third – an increase by NIS 48 million.

Non-interest revenues in the first nine months of 2018 amounted to NIS 1,450 million, compared to NIS 1,189 million in the corresponding period last year, an increase by NIS 261 million. See explanation below. Non-interest financing expenses in the third quarter of 2018 amounted to NIS 105 million, compared to NIS 61 million in the corresponding period last year.

Non-interest financing revenues in the fourth nine months of 2018 amounted to NIS 324 million, compared to NIS 81 million in the corresponding period last year.

This item includes, *inter alia*, the effect of fair value, gains (losses) from transactions in debentures and securities and expenses (revenues) with respect to linkage differentials on CPI derivatives, where the corresponding revenues (expenses) are recognized as interest revenues, in conformity with accounting rules. The upward trend in non-interest financing revenues is also due to higher interest rates. The effect of interest accrual (time value) inherent in derivative assets is charged, in conformity with accounting practices, to Non-interest Financing Revenues. See analysis of financing revenues from current operations above.

Commission revenues in the third quarter of 2018 amounted to NIS 366 million, compared to NIS 346 million in the corresponding period last year – an increase by 5.8%.

Commission revenues amounted to NIS 1,091 million in the first nine months of 2018, compared with NIS 1,056 million in the corresponding period last year – an increase by 3.3%, due to further growth of operations and despite the negative impact of various regulatory directives.

Other revenues in the third quarter of 2018, amounted to NIS 12 million compared with NIS 28 million in the corresponding period last year – a decrease by NIS 16 million.

Other revenues in the first nine months of 2018, amounted to NIS 35 million compared with NIS 52 million in the corresponding period last year – a decrease by NIS 17 million.

For the third half of 2017, this includes capital gains amounting to NIS 17 million before tax, from realization of assets in conjunction with asset reorganization and improvements to the Bank's branch network.

Operating and other expenses amounted to NIS 936 million in the third quarter of 2018, compared with NIS 972 million in the corresponding period last year – a decrease by 3.7%.

Operating and other expenses in the first nine months of 2018 amounted to NIS 3,173 million, compared to NIS 2,672 million in the corresponding period last year. an increase by 18.8%.

For the first nine months of 2018, operating and other expenses include an additional provision (made in the second quarter of this year), amounting to NIS 425 million. (USD 116.5 million) with respect to the investigation by the US DOJ. See details by operating expense component below.

Payroll and associated expenses amounted to NIS 598 million in the third quarter of 2018, compared with NIS 635 million in the corresponding period last year – a decrease by 5.8%.

Results of the corresponding period last year include extraordinary payroll expenses amounting to NIS 160 million with respect to the payroll agreement with the Employees' Union for 2016-2021.

Note that there are temporary differences in recording bonuses, in conformity with financial results in the reported periods. Moreover, the effect of implementation of the retirement plan following the aforementioned payroll agreement as noted above (for more information see Note 22.A.6 to the 2017 financial statements).

The above factors also impacted reported results for the first nine months of this year, such that payroll and associated expenses amounted to NIS 1,724 million in the first nine months of 2018, compared with NIS 1,678 million in the corresponding period last year – an increase by 2.7%.

Maintenance and depreciation expenses for buildings and equipment for the Group remained stable and amounted to NIS 186 million in the third quarter of 2018, compared with NIS 187 million in the corresponding period last year

Maintenance and depreciation expenses for buildings and equipment amounted to NIS 561 million in the first nine months of 2018, compared with NIS 554 million in the corresponding period last year – an increase by 1.3%.

Other expenses amounted to NIS 152 million in the third quarter of 2018, compared with NIS 150 million in the corresponding period last year – an increase by NIS 2 million, which includes an increase in expenses with respect to actuarial components charged, accordance to GAAP, to Other Expenses. See Note 1.D.4 to the financial statements.

Other expenses in the first nine months of 2018, amounted to NIS 888 million compared with NIS 440 million in the corresponding period last year – an increase by NIS 448 million.

The increase in other expenses is due to an additional provision amounting to NIS 425 million (USD 116.5 million) with respect to the US DOJ investigation recorded in the second quarter of 2018.

Cost-Income ratio information is as follows[1] (in percent):

	2018			2017			
	Third Quarter	Second quarter of	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Cost-income ratio	54.5	(2) 71.7	59.1	58.7	(3) 67.2	56.3	59.0

	First nine months		All of
	2018	2017	2017
Cost-income ratio	(2) 62.1	60.7	60.2

(1) Total operating and other expenses to total operating and financing revenues and expenses with respect to credit losses.
(2) The efficiency ratio in the second quarter of 2018 was impacted by an additional provision amounting to NIS 425 million. (USD 116.5 million), with respect to the investigation by the US DOJ. The efficiency ratio for the Bank's current operations, excluding the aforementioned provision and taking into account the provisions for bonus payments in line with operating profitability in that quarter and related tax expenses, is as follows:
In the second quarter of 2018 - 53.2%.
In the first nine months of 2018 - 55.5%.
(3) Expenses with respect to the memorandum of understanding with the Employees' Union and with respect to the negative known CPI resulted in an increase in the cost-income ratio in the third quarter of 2017, by 13.4 percentage points.

Pre-tax profit for the Group in the third quarter of 2018 amounted to NIS 722 million, compared to NIS 433 million in the corresponding period last year – an increase by NIS 289 million
Pre-tax profit for the Group in the first nine months of 2018 amounted to NIS 1,706 million, compared to NIS 1,596 million in the corresponding period last year, an increase by NIS 110 million. See detailed explanation above. The rate of provision for taxes on profit in the third quarter of 2018 was 34.6% – compared to 37.2% in the corresponding period last year
Differences in the rate of provision for taxes on profit between the periods are due to a decrease in the statutory tax rate applicable to the Bank and to non-deductible expenses with respect to an employee stock option plan in the third quarter of 2017.
The rate of provision for taxes on income in the first nine months of 2018 was 38.3%, compared to 36.6% in the corresponding period last year; this difference is primarily due to an increase in expenses in the second quarter of this year, by NIS 55 million, due to current disallowance of part of the tax with respect to the additional provision for the investigation by the US Department of Justice.
Bank`s share of after-tax profit of associated companies – in the third quarter of 2018 there was no profit with respect to associated companies, similar to the corresponding period last year.

The Bank's share of after-tax profit of associated companies in the first nine months of 2018 amounted to gain with respect to associated companies of NIS 1 million, compared to no profit with respect to associated companies in the corresponding period last year.

The share of the non-controlling interests in net results of subsidiaries attributable to Bank Yahav in the third quarter of 2018 amounted to NIS 18 million, compared to NIS 11 million in the corresponding period last year.

The share of the non-controlling interests in net results of subsidiaries attributable to Bank Yahav in the first nine months of 2018 amounted to NIS 49 million, compared to NIS 30 million in the corresponding period last year. The increase in Bank Yahav earnings is due to an increase in business, improved financing margins and stable expenses.

Net profit attributable to shareholders of the Bank in the third quarter of 2018 amounted to NIS 454 million, compared to NIS 261 million in the corresponding period last year. Net profit attributable to shareholders of the Bank in the first nine months of 2018 amounted to NIS 1,004 million, compared to NIS 982 million in the corresponding period last year.

Other comprehensive income attributable to shareholders of the Bank increased in the third quarter and in the first nine months by NIS 26 million and by NIS 46 million compared to the corresponding periods last year. The change is primarily due to adjustments with respect to employees' benefits and to adjustments with respect to presentation of securities available for sale at fair value. See Note 4 to the financial statements for details.

Below is the development of Group return[1] on equity[2] and ratio of Tier I capital to risk components liquidity coverage ratio[3] and leverage ratio[4] at the end of the quarter (in %):

	2018			2017			
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net return on equity	13.4	(5) 6.1	10.3	11.2	(7) 8.0	12.7	10.4
Ratio of Tier I capital to risk components at end of quarter	10.11	9.95	10.16	10.20	10.16	10.15	10.12
(Quarterly) liquidity coverage ratio	121	120	(6) 125	118	117	122	118
Leverage ratio at end of quarter	5.47	5.38	5.43	5.48	5.36	5.42	5.27

	First nine months		All of
	2018	2017	2017
Net return on equity	(5) 9.7	10.1	10.2

(1) Annualized return.
(2) Return on average shareholders' equity, including "total capital resources", as presented in reporting of revenue and expense rates, less average balance of minority interests and less/plus the average balance of unrealized gains/losses from adjustment to fair value of debentures held for trading as well as gains/losses from debentures available for sale.
(3) Liquidity Coverage Ratio – ratio of total High-Quality Liquid Assets to net cash outflow. This ratio is calculated in conformity with Proper Banking Conduct Directive 221, in terms of simple averages of daily observations during the reported quarter.
(4) Leverage Ratio – ratio of Tier I capital, according to Basel rules, to total exposure. This ratio is calculated in conformity with Proper Banking Conduct Directive 218
(5) Group net profit return on equity in the second quarter of 2018 was impacted by an additional provision amounting to NIS 425 million. (USD 116.5 million), with respect to the investigation by the US DOJ. Net profit return from the Bank's current operations, excluding the aforementioned provision and taking into account the provisions for bonus payments in line with operating profitability in that quarter and related tax Quarter expenses, is as follows:
In the second quarter of 2018 - 14.1%.
In the first nine months of 2018 - 12.3%.
(6) Includes the effect of implementation of Bank of Israel guidelines to apply a reduced withdrawal rate with respect to operational deposits, as from the first quarter of 2018.
(7) Expenses with respect to the memorandum of understanding with the Employees' Union and with respect to the negative known CPI resulted in a decrease in the rate of return in the third quarter of 2017, by 4.6 percentage points.

Earnings and dividends per ordinary, NIS 0.1 par value share are as follows (in NIS):

	Third Quarter		First nine months		All of
	2018	2017	2018	2017	2017
Basic earnings per share	1.95	1.12	4.31	4.23	5.80
Diluted earnings per share	1.94	1.11	4.28	4.20	5.76
Dividends per share	(1) –	51.63	(1) 105.89	110.24	143.91

(1) In the second quarter of 2018, no dividends were declared with respect to earnings in that quarter. For more information see chapter "Dividends" below.

Analysis of developments in assets, liabilities, equity and capital adequacy

Assets and liabilities

Development of key balance sheet items for the Bank Group (NIS in millions) is as follows:

				Change in % over	
	September 30,		December 31,	September 30,	December 31,
	2018	2017	2017	2017	2017
Balance sheet total	248,831	239,578	239,572	3.9	3.9
Cash and deposits with banks	42,423	42,578	41,130	(0.4)	3.1
Loans to the public, net	189,796	178,621	181,118	6.3	4.8
Securities	10,093	10,938	10,133	(7.7)	(0.4)
Buildings and equipment	1,360	1,359	1,403	0.1	(3.1)
Deposits from the public	192,943	184,221	183,573	4.7	5.1
Deposits from banks	655	1,462	1,125	–	–
Debentures and subordinated notes	29,769	29,129	29,923	2.2	(0.5)
Shareholders' equity	14,441	13,399	13,685	7.8	5.5

Cash and deposits with banks – the balance of cash and deposits with banks increased in the first nine months of 2018 by NIS 1.3 billion. The increase in the cash balance is part of on-going management of Bank liquidity.

Loans to the public, net – The ratio of loans to the public, net to total assets on the consolidated balance sheet as of September 30, 2018 was 76%, similar to the end of 2017. Loans to the public, net for the Group in the first nine months of 2018 increased by NIS 8.7 billion, or 4.8%.

For more information about on-balance sheet and off-balance sheet credit risk, development of problematic debts and various risk benchmarks with regard to housing loans, see chapter "Risks" below and the Detailed Risks Report on the Bank website.

Loans to the public, net by linkage basis (NIS in millions) are as follows:

				Change in % over	
	September 30,		December 31,	September 30,	December 31,
	2018	2017	2017	2017	2017
Israeli currency					
Non-linked	126,471	118,592	120,730	6.6	4.8
CPI-linked	52,212	49,950	50,293	4.5	3.8
Foreign currency and foreign currency linked	11,113	10,079	10,095	10.3	10.1
Total	189,796	178,621	181,118	6.3	4.8

Loans to the public, net by supervisory operating segments (NIS in millions) are as follows:

				Change in % over	
	September 30,		December 31,	September 30,	December 31,
	2018	2017	2017	2017	2017
Individuals:					
Households – housing loans	123,848	118,685	119,559	4.4	3.6
Households – other	20,406	19,415	19,824	5.1	2.9
Private banking	85	96	117	(11.5)	(27.4)
Total – individuals	144,339	138,196	139,500	4.4	3.5
Business operations:					
Small and micro businesses	18,428	16,114	16,717	14.4	10.2
Medium businesses	6,055	5,642	5,779	7.3	4.8
Large businesses	15,950	14,383	14,833	10.9	7.5
Institutional investors	1,247	1,065	1,166	17.1	6.9
Total – business operations	41,680	37,204	38,495	12.0	8.3
Overseas operations	3,777	3,221	3,123	17.3	20.9
Total	189,796	178,621	181,118	6.3	4.8

For definition of supervisory operating segments and differences between supervisory operating segments and operating segments based on the management approach – see chapter "Supervisory operating segments" below.

Below are details of problematic credit risk and non-performing assets before provision for credit losses, in accordance with provisions for measurement and disclosure of impaired debts, credit risk and provision for credit losses:

Reported amounts	As of September 30, 2018			As of September 30, 2017			As of December 31, 2017		
(NIS in millions)	Credit risk[1]			Credit risk[1]			Credit risk[1]		
	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total
1. Problematic credit risk									
Impaired credit risk	876	162	1,038	639	194	833	723	165	888
Inferior credit risk	311	–	311	298	–	298	315	–	315
Credit risk under special supervision[2]	1,759	35	1,794	1,680	48	1,728	1,499	30	1,529
Total problematic credit risk	2,946	197	3,143	2,617	242	2,859	2,537	195	2,732
Of which: Non-impaired debts in arrears 90 days or longer[2]	1,359			1,114			1,136		
2. Non-performing assets[3]	843			614			697		

(1) On- and off-balance sheet credit is stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.

(2) Including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer, amounting to NIS 1,293 million (as of September 30, 2017 – NIS 1,024 million; as of December 31, 2017 – NIS 1,072 million).

(3) Assets not accruing interest.

For more information about credit risk with respect to individuals (excluding housing loans), credit risk in the construction and real estate economic sector in Israel and housing loan risk, see chapter "Credit risk".

See Notes 6 and 13 to the financial statements for further information.

Credit risk is composed of on-balance-sheet risk and off-balance-sheet credit risk, which are weighted by nature of the borrower and credit type, as per Bank of Israel directives. On-balance-sheet risk includes balances of loans to the public, derivative instruments purchased by the public and Group investment in public debentures. Off-balance-sheet credit risk includes guarantees and transactions in off-balance-sheet instruments, obligations to provide credit and unutilized credit facilities. Total credit risk as of September 30, 2018 amounted to NIS 257 billion, compared to NIS 235 billion as of December 31, 2017, an increase by 9.4%.

Development of key off balance sheet items for the Bank Group (NIS in millions) is as follows:

				Change in % over	
	September 30,		December 31,	September 30,	December 31,
	2018	2017	2017	2017	2017
	Off balance sheet financial instruments other than derivatives[1]:				
Unutilized debitory account and other credit facilities in accounts available on demand	17,714	17,952	15,045	(1.3)	17.7
Guarantees to home buyers	10,865	11,393	10,795	(4.6)	0.6
Irrevocable commitments for loans approved but not yet granted	14,493	11,593	12,044	25.0	20.3
Unutilized revolving credit card facilities	7,542	6,745	6,801	11.8	10.9
Commitments to issue guarantees	7,535	6,435	5,981	17.1	26.0
Guarantees and other liabilities	7,208	5,367	5,677	34.3	27.0
Loan guarantees	2,294	2,243	2,283	2.3	0.5
Documentary credit	315	199	201	58.3	56.7
Financial derivatives[2]:					
Total par value of derivative financial instruments	233,196	227,453	220,633	2.5	5.7
(On-balance sheet) assets with respect to derivative instruments	2,604	3,808	3,421	(31.6)	(23.9)
(On-balance sheet) liabilities with respect to derivative instruments	2,836	3,293	3,082	(13.9)	(8.0)

(1) Contractual balances or their stated amounts at the end of the period, before effect of provision for credit losses. See Note 11 to the financial statements for additional information.

(2) Includes forward transactions, swaps, options and credit derivatives.

For more information about on-balance sheet and off-balance sheet credit risk, see chapter "Risks" below and the Detailed Risks Report on the Bank website.

Securities – the balance of investment in securities decreased in the first nine months of 2018 by NIS 40 million, and by NIS 845 million compared to the corresponding period last year. The decrease in total investment in securities is within asset and liability management of the Bank.

Composition of Group securities by portfolio (NIS in millions) is as follows:

	September 30, 2018				
	Carrying amount	Amortized cost (for shares – cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[1]
Securities held to maturity	3,436	3,436	41	(2)	3,475
Securities available for sale	6,484	6,589	[2]12	[2][4](117)	6,484
Securities held for trading	173	174	–	[3](1)	173
Total securities	10,093	10,199	53	(120)	10,132
					September 30, 2017
Securities held to maturity	3,255	3,255	82	–	3,337
Securities available for sale	7,503	7,498	[2]39	[2](34)	7,503
Securities held for trading	180	180	–	–	180
Total securities	10,938	10,933	121	(34)	11,020
					December 31, 2017
Securities held to maturity	3,267	3,267	75	–	3,342
Securities available for sale	6,657	6,678	24[2]	[2](45)	6,657
Securities held for trading	209	209	–	–	209
Total securities	10,133	10,154	99	(45)	10,208

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.

(2) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".

(3) Charged to statement of profit and loss but not yet realized.

Distribution of Group security portfolio by linkage segment (NIS in millions) is as follows:

				Change in % compared to	
		September 30,	December 31,	September 30,	December 31,
	2018	2017	2017	2017	2017
Israeli currency					
Non-linked	4,162	4,051	3,859	2.7	7.9
CPI-linked	374	692	753	–	–
Foreign currency and foreign currency linked	5,465	6,103	5,422	(10.5)	0.8
Non-monetary items	92	92	99	–	(7.1)
Total	10,093	10,938	10,133	(7.7)	(0.4)

Distribution of Group security portfolio by issuer type (NIS in millions) is as follows:

	Carrying amount as of		
	September 30, 2018	September 30, 2017	December 31, 2017
Government debentures:			
Government of Israel	7,869	7,850	7,612
Government of USA	1,654	2,961	2,233
Total government debentures	9,523	10,811	9,845
Debentures of banks in developed nations:			
Germany	176	–	173
USA	71	18	–
Other	214	–	–
Total debentures of banks in developed nations	(1)461	18	(1)173
Corporate debentures (composition by sector):			
Public and community services	10	10	10
Financial services	7	7	6
Total corporate debentures	17	17	16
Shares	(2)92	(2)92	(2)99
Total securities	10,093	10,938	10,133

(1) Includes exposure to Multiparty Development Banks (MDB).
(2) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value other than temporary, amounting to NIS 91, 89 and 98 million as of September 30, 2018, September 30, 2017 and December 31, 2017, respectively..

For more information about investments in securities and impairment of a temporary nature of securities available for sale, listing the duration of impairment and its rate out of the amortized cost, see Note 5 to the financial statements.

Buildings and equipment – The balance of buildings and equipment increased in the first nine months of 2018 by NIS 43 million. The decrease in buildings and equipment is due to current change with respect to depreciation and to new investments, primarily in technology.

Deposits from the public – these account for 78% of total consolidated balance sheet as of September 30, 2018, compared to 77% as of December 31, 2017. In the first nine months of 2018, deposits from the public with the Bank Group increased by NIS 9.4 billion, or 5.1% (increase by 4.7% over the corresponding period last year).

Composition of deposits from the public by linkage segments (NIS in millions) is as follows:

	September 30,		December 31,	Change in % over September 30,	Change in % over December 31,
	2018	2017	2017	2017	2017
Israeli currency					
Non-linked	143,425	133,345	133,194	1.1	7.7
CPI-linked	13,866	15,770	15,681	(12.1)	(11.6)
Foreign currency and foreign currency linked	35,652	35,106	34,698	1.6	2.7
Total	192,943	184,221	183,573	4.7	5.1

Composition of deposits from the public by supervisory operating segments (NIS in millions) is as follows:

				Change in % over	
	September 30,		December 31,	September 30,	December 31,
	2018	2017	2017	2017	2017
Individuals:					
Households – other	79,523	74,786	75,008	6.3	6.0
Private banking	13,036	12,032	12,448	8.3	4.7
Total – individuals	92,559	86,818	87,456	6.6	5.8
Business operations:					
Small and micro businesses	20,481	19,007	18,942	7.8	8.1
Medium businesses	8,151	6,609	7,138	23.3	14.2
Large businesses	25,773	27,253	26,284	(5.4)	(1.9)
Institutional investors	40,714	39,404	38,881	3.3	4.7
Total – business operations	95,119	92,273	91,245	3.1	4.2
Overseas operations	5,265	5,130	4,872	2.6	8.1
Total	192,943	184,221	183,573	4.7	5.1

For definition of supervisory operating segments and differences between supervisory operating segments and operating segments based on the management approach – see chapter "Supervisory operating segments" below.

Evolution of deposits from the public for the Group by depositor size (NIS in millions) is as follows:

	September 30,		December 31,
	2018	2017	2017
Maximum deposit			
Up to 1	66,856	62,846	63,493
Over 1 to 10	44,670	40,670	41,125
Over 10 to 100	27,714	26,761	26,906
Over 100 to 500	23,218	22,589	23,911
Above 500	30,485	31,355	28,138
Total	192,943	184,221	183,573

For more information about composition of deposits from the public, see Note 7 to the financial statements.

Deposits from banks – The balance of deposits from banks as of September 30, 2018 amounted to NIS 0.7 billion, a decrease by NIS 0.5 billion compared to December 31, 2017. The decrease is primarily due to a current change in deposits of collateral with respect to transactions in derivatives.

Debentures and subordinated notes – The balance of debentures and subordinated notes as of September 30, 2018 amounted to NIS 29.8 billion, a decrease by NIS 0.2 billion compared to the balance as of December 31, 2017.

Capital, capital adequacy and leverage

Shareholders' equity attributable to shareholders of the Bank – Shareholders' equity attributable to equity holders of the Bank as of September 30, 2018 amounted to NIS 14.4 billion, compared to NIS 13.4 billion as of December 31, 2017 and as of September 30, 2017, an increase by 5.5% and 7.8%, respectively.

Below is the composition of shareholders' equity (NIS in millions):

		September 30,	December 31,
	2018	2017	2017
Share capital and premium[1]	2,196	2,176	2,180
Capital reserve from benefit from share-based payment transactions	49	51	65
Total cumulative other loss[2][3]	(384)	(364)	(383)
Retained earnings [4]	12,580	11,536	11,823
Total	14,441	13,399	13,685

(1) For more information about share issuance, see condensed statement of changes to shareholders' equity.

(2) For more information about other comprehensive income (loss), see Note 4 to the financial statements.

(3) Other comprehensive income (loss) as of September 30, 2018, as of September 30, 2017 and as of December 31, 2017 includes adjustments with respect to employees' benefits. For more information about the effect of the streamlining plan approved by the Bank's Board of Directors on December 27, 2016, see Notes 22 and 25 to the 2017 financial statements.

(4) For more information about developments in revenues and expenses accumulated to retained earnings in the reported period, see chapter "Material developments in revenues, expenses and other comprehensive income".

The ratio of shareholders' equity to total assets for the Group as of September 30, 2018 is 5.80% compared to 5.71% as of December 31, 2017 and 5.59% as of September 30, 2017.

Capital adequacy

Supervisory capital

The Bank assesses its capital adequacy in accordance with Basel rules, as prescribed by Proper Banking Conduct Directives 201-211. The Bank applies the standard approach in assessing exposure to credit risk, operational risk and market risk.

Capital is composed of two tiers: Tier I capital (including Tier I capital and Tier I additional capital) and Tier II capital.

Tier I capital primarily consists of equity attributable to shareholders of the Bank (accounting equity on the books) and non-controlling interests, which is the primary component for loss absorption.

Additional Tier I capital consists of equity instruments which fulfill the requirements specified in the directives. As of September 30, 2018, the Bank had no equity instruments included in additional Tier I capital.

Tier II capital consists of the group-based provision for credit losses and CoCo (Contingent Convertible) capital instruments, which include a provision for absorbing loss of principal when the Tier I Capital ratio drops below the specified quantitative trigger level, or upon receiving notice from the Supervisor of Banks, whereby activating the provision for absorbing loss of principal is required to ensure stability of the banking corporation (a Bank "non existence" event).

Subordinated notes, recognized as Tier II capital instruments under the previous directives, no longer qualify as supervisory capital under the current directives (primarily due to lacking loss absorption provisions) and are amortized over the term of the transitional provisions.

Capital planning at the Bank

Capital planning in the normal course of business – The Bank prepares a detailed, multi-annual capital planning forecast, taking the following into consideration: Expected growth rates of risk assets and profitability, the strategic plan, dividends distribution policy, capital targets and leverage, appropriate safety margins and other factors.

The Bank regularly monitors the actual results vs. the forecast, revises the forecast as required and reviews any necessary actions in order to achieve the specified capital targets.

The sensitivity of the Bank's capital adequacy ratio to changes in Tier I capital and risk assets is:

Change in Tier I capital by NIS 100 million would result in a change in Tier I capital adequacy ratio of 0.07%. Change in risk assets by NIS 1 billion would result in a change in Tier I capital adequacy ratio of 0.07%.

Internal capital adequacy assessment process – The Bank uses this process to verify the existence of a sufficient capital absorption buffer to address various risks associated with Bank operations, including stress scenarios.

The planning horizon is three years, in which the Bank challenges the strategic plan by a range of stress tests involving significant impact to Bank profitability and erosion of Bank capital.

For more information see the Detailed Risks Report on the Bank website.

Below is information about supervisory capital and risk assets on the consolidated report (NIS in millions):

	September 30, 2018	September 30, 2017	December 31, 2017
Capital for purpose of calculating the capital ratio			
Tier I shareholders' equity	14,951	14,055	14,333
Tier I capital	14,951	14,055	14,333
Tier II capital	4,874	4,603	5,251
Total capital	19,825	18,658	19,584
Weighted risk asset balances			
Credit risk	137,095	128,818	130,525
Market risks	1,462	1,213	1,605
Operational risk	9,315	8,332	8,394
Total weighted risk asset balances	147,872	138,363	140,524

Ratio of capital to risk components

As from January 1, 2014, the Bank applies provisions for capital measurement and adequacy, based on Basel III provisions, as published by the Supervisor of Banks and as incorporated in Proper Banking Conduct Directives 201-211. As per instructions of the Supervisor of Banks, as from January 1, 2015 the Bank is required to maintain a minimum Tier I capital ratio of no less than 9% and a minimum total equity ratio of no less than 12.5% of weighted total of risk components of its balance sheet assets and off-balance-sheet items. The Supervisor of Banks' instructions specifies the manner of calculation of total capital and total risk components

An additional capital requirement was added to these ratios at 1% of the housing loan balance as of the report date.

This requirement was gradually implemented through January 1, 2017. Accordingly, the minimum Tier I capital ratio and the minimum total equity ratio required by the Supervisor of Banks, on a consolidated basis, in conformity with data as of the reporting date, are 9.84% and 13.34%, respectively.

For more information about the Board of Directors resolutions with regard to capital to risk components ratio and to dividend distribution policy, see Note 24 to the 2017 financial statements and the chapter "Analysis of composition of assets, liabilities, capital and capital adequacy" (Dividend distribution policy) below.

Development of Group ratio of capital to risk components is as follows (in %):

	September 30, 2018	September 30, 2017	December 31, 2017
Ratio of Tier I capital to risk components	10.11	10.16	10.20
Ratio of total capital to risk components	13.41	13.48	13.94
Minimum Tier I capital ratio required by Supervisor of Banks	9.84	9.86	9.86
Total minimum capital ratio required by the directives of the Supervisor of Banks	13.34	13.36	13.36

Composition of risk assets and capital requirements with respect to credit risk by exposure group are as follows (NIS in millions):

Exposure group	September 30, 2018 Weighted risk asset balances	Capital requirement[1]	September 30, 2017 Weighted risk asset balances	Capital requirement[2]	December 31, 2017 Weighted risk asset balances	Capital requirement[3]
Sovereign debts	876	117	749	100	688	92
Public sector entity debts	494	66	821	110	766	102
Banking corporation debts	794	106	909	121	927	124
Corporate debts	41,066	5,478	37,253	4,977	37,362	4,992
Debts secured by commercial real estate	2,418	323	2,185	292	2,459	328
Retail exposure to individuals	14,861	1,982	13,604	1,817	14,217	1,899
Loans to small businesses	7,022	937	6,769	904	6,858	916
Residential mortgages	64,616	8,620	61,396	8,203	62,265	8,319
Other assets	4,595	613	4,543	607	4,454	595
Total	136,742	18,242	128,229	17,131	129,996	17,367

Risk assets and capital requirements with respect to market risk, CVA risk and operational risk are as follows (NIS in millions):

	September 30, 2018 Weighted risk asset balances	Capital requirement[1]	September 30, 2017 Weighted risk asset balances	Capital requirement[2]	December 31, 2017 Weighted risk asset balances	Capital requirement[3]
Credit risk	136,742	18,242	128,229	17,131	129,996	17,367
Market risk	1,462	195	1,213	162	1,605	214
CVA risk with respect to derivatives[4]	353	47	589	79	529	71
Operational Risk[5]	9,315	1,243	8,332	1,113	8,394	1,121
Total risk assets	147,872	19,727	138,363	18,485	140,524	18,773

(1) The capital requirement was calculated at 13.34% of risk asset balances.

(2) The capital requirement was calculated at 13.36% of risk asset balances.

(3) The capital requirement was calculated at 13.36% of risk asset balances.

(4) Credit Value Adjustments – mark to market with respect to credit risk of counter-party, in conformity with Basel III provisions.

(5) Capital allocation with respect to operational risk was calculated using the standard approach.

Leverage ratio

On April 28, 2015, the Supervisor of Banks issued a new Proper Banking Conduct Directive 218 concerning "Leverage ratio". This directive adopts the Basel Committee recommendations with regard to leverage ratio, stipulated in January 2014.

The leverage ratio is reflected in percent, defined as the ratio of Tier I capital to total exposure. Total exposure for the Bank is the sum of balance sheet exposures, exposures to derivatives and to securities financing transactions and off-balance sheet items.

According to the directive, banking corporations must maintain a leverage ratio of 5% or higher on a consolidated basis, as from January 1, 2018.

Below is the Bank's leverage ratio (in %):

	2018 Third Quarter	Second Quarter	First Quarter	2017 Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Leverage ratio	5.47	5.38	5.43	5.48	5.36	5.42	5.27

Dividends

Dividends distribution policies

The Bank's dividends policy is to distribute dividends, as from 2018, with respect to quarterly earnings, at 40% of net profit attributable to shareholders of the Bank. The dividends policy is subject to the Bank achieving a ratio of Tier I capital to risk components as required by the Supervisor of Banks and maintaining appropriate safety margins.

Given the developments in the US DOJ investigation, including an additional provision amounting to NIS 425 million (USD 116.5 million) included on the financial statements for the second quarter of 2018, the Bank Board of Directors has not declared any dividends with respect to earnings in the second and third quarters of 2018. For more information about developments in the investigation, see also Note 10.B.4 to the financial statements.

For more information and for a summary of previous decisions by the Board of Directors with regard to dividends distribution policy, see Note 24 to the 2017 financial statements.

Dividends distribution

Below are details of dividends distributed by the Bank since 2017 (in reported amounts):

Declaration date	Payment date	Dividends per share	Dividends as percent of profit	Total dividends paid
		(Agorot)		(NIS in millions)
March 20, 2017	April 26, 2017	17.12	0.15	39.8
May 15, 2017	June 20, 2017	41.45	0.30	96.3
August 28, 2017	September 26, 2017	51.63	0.30	120.0
November 13, 2017	December 10, 2017	33.67	0.30	78.3
Total dividends distributed in 2017(1)				334.4
February 26, 2018	March 26, 2018	47.03	0.30	109.5
May 07, 2018	June 05, 2018	58.91	0.40	137.2
Total dividends distributed in 2018(2)				246.7

(1) Total dividends distributed with respect to 2017 earnings – NIS 404.1 million.
(2) Total dividends distributed with respect to 2018 earnings – NIS 137.2 million.

Other Off Balance Sheet Activity

Below is the development of off balance sheet monetary assets held on behalf of Bank Group clients, for which the Bank Group provides management, operating and/or custodial services (NIS in millions):

		September 30,	December 31,	September 30,	Change in % over December 31,
	2018	2017	2017	2017	2017
Securities(1)	247,076	217,521	222,623	13.6	11.0
Assets of provident funds for which the Group provides operating services	82,113	76,192	76,893	7.8	6.8
Assets held in trust by the Bank Group	75,926	77,275	80,258	(1.7)	(5.4)
Assets of mutual funds for which the Bank provides operating services	17,204	16,240	16,246	5.9	5.9
Other assets under management(2)	14,364	11,640	12,571	23.4	14.3

(1) Value of securities portfolios in Bank custody, held by clients, including balance of securities of provident funds and mutual funds to which the Bank provides operating services. Note that the balance of client operations presented includes, in addition to the balance of securities for mutual funds as noted above, also the value of participation units in such funds held by Bank clients.

(2) Including:
– Loan balances secured by deposits whose repayment to the depositor is contingent upon collection of the loan balance. With respect to these balances, the Bank receives margin or commissions Revenues.
– Other loans managed by the Bank, including housing loans managed and operated by the Bank on behalf of others.

Financial Information by Operating Segments

On November 3, 2014, the Supervisor of Banks issued an update to the Public Reporting Directives concerning supervisory operating segments. According to the directive, the Bank is required to provide, on its financial statements, disclosure with regard to supervisory operating segments in conformity with a uniform, comparable layout specified by the Supervisor of Banks; attribution to supervisory operating segments is typically determined by the client's turnover (annual sales or annual revenues).

Supervisory operating segments include operating segments for individuals and operating segments for business clients other than individuals (including institutional investors and financial management of the Bank).

Individuals are defined as persons with no indebtedness to the Bank or whose indebtedness is classified as indebtedness of "individuals – housing loans and others", in conformity with definitions of credit risk classification by economic sector.

The Bank's operating segments by the "management approach" are based on client attribution to the organizational structure responsible in the past period.

However, client attribution to supervisory operating segments is based on uniform definitions specified by the Supervisor of Banks, as noted above.

There is a strong correlation between attributes specified by management for client attribution to the responsible division and the supervisory definitions.

However, according to "the management approach", in some cases the final client attribution may be based on other parameters, such as: specialization of a certain unit in activity types of clients or past experience working with the client, which result in business and service-related advantages to client attribution to the specific division.

Given the Supervisor of Banks' requirement to discuss and analyze the supervisory operating segments in the Report of the Board of Directors and Management and given the correlation between supervisory operating segments and the "management approach", the segment information (both quantitative and qualitative) is briefly presented below for each segment, as follows:

- Supervisory definition of the segment
- Explanation of differences between the "supervisory" definition and how business is actually managed (using the "management approach")
- Financial results of the segment (using the "supervisory approach")

For more information about principles for attribution of balances, revenues and expenses to clients in the system, see Note 12 to the financial statements.

For more information and detailed description of the segments, see chapter "Other Information about the Bank and Management thereof" on the 2017 financial statements.

Financial Information by Supervisory Operating Segments:

Below is a summary of financial results by supervisory operating segment (NIS in millions):

	Net profit		Share of total net profit (in %)	
	First nine months		First nine months	
	2018	2017	2018	2017
Individuals:				
Households – housing loans	501	385	40.6	39.1
Households – other	42	1	3.4	0.1
Private banking	13	7	1.1	0.7
Total – individuals	556	393	45.1	39.9
Business operations:				
Small and micro businesses	261	193	21.1	19.6
Medium businesses	96	91	7.8	9.2
Large businesses	222	226	18.0	22.9
Institutional investors	21	26	1.7	2.6
Total – business operations	600	536	48.6	54.3
Financial management	(231)	(3)	–	–
Total activity in Israel	925	926	93.7	94.2
Overseas operations	79	56	6.3	5.8
Total	1,004	982	100.0	100.0

For more information about the effect of attribution of expenses related to the US DOJ investigation, see Note 12.C. to the financial statements.

For more information about operating results in conformity with the management approach, see Note 12 to the financial statements.

Household segment

The supervisory definition

In conformity with the supervisory definition, the household segment includes individuals, other than those clients included in the private banking segment. Thus, this segment excludes individuals with financial assets in excess of NIS 3 million. Individuals are defined as persons with no indebtedness to the Bank or whose indebtedness is classified as indebtedness of "individuals – housing loans and others", in conformity with definitions of credit risk classification by economic sector.

Differences between the management approach and the supervisory definition

- Some individual clients attributed to the private banking segment using the "management approach" are classified to the household segment using supervisory segments. The difference is primarily due to clients' financial assets used for client classification – the Bank threshold for client classification according to the "management approach" is NIS 2.5 million, lower than the supervisory definition.
- As a rule, individual clients are attributed to the household segment. According to the supervisory approach, individual clients with high indebtedness or with business attributes are classified to the business operating segments, rather than to the household segment.

Operating results in the household segment

	For the nine months ended September 30,					
	2018			2017		
	NIS in millions					
	Other	Housing loans	Total	Other	Housing loans	Total
Profit and profitability						
Total interest revenues, net	943	1,118	2,061	844	956	1,800
Non-interest financing revenues	–	–	–	–	–	–
Commissions and other revenues	385	119	504	376	111	487
Total revenues	1,328	1,237	2,565	1,220	1,067	2,287
Expenses with respect to credit losses	81	34	115	86	18	104
Operating and other expenses	1,148	432	1,580	1,111	442	1,553
Profit before provision for taxes	99	771	870	23	607	630
Provision for taxes	32	270	302	9	222	231
After-tax profit	67	501	568	14	385	399
Net profit:						
Attributable to non-controlling interests	(25)	–	(25)	(13)	–	(13)
Attributable to shareholders of the banking corporation	42	501	543	1	385	386
Balance sheet – key items:						
Loans to the public (end balance)	20,653	124,507	145,160	19,644	119,310	138,954
Loans to the public, net (end balance)	20,406	123,848	144,254	19,415	118,685	138,100
Deposits from the public (end balance)	79,523	–	79,523	74,786	–	74,786
Average balance of loans to the public	20,254	122,704	142,958	18,658	117,317	135,975
Average balance of deposits from the public	77,267	–	77,267	73,039	–	73,039
Average balance of risk assets	17,782	68,176	85,958	16,583	64,626	81,209
Credit margins and deposit margins:						
Margin from credit granting operations	608	1,067	1,675	553	924	1,477
Margin from activities of receiving deposits	332	–	332	289	–	289
Other	3	51	54	2	32	34
Total interest revenues, net	943	1,118	2,061	844	956	1,800

Contribution of the household segment (in conformity with supervisory definitions) to Group profit in the first nine months of 2018 amounted to NIS 543 million, compared to NIS 386 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Contribution of housing loans (including general-purpose loans secured by a lien on a residential apartment) in the first nine months of 2018 amounted to NIS 501 million, compared to NIS 385 million in the corresponding period last year. Total interest revenues, net amounted to NIS 1,118 million, compared to NIS 956 million in the corresponding period last year, an increase by 16.9% – primarily due to an increase of NIS 5.4 billion in the average loan balance and to increase in credit spread.

In the first nine months of 2018, expenses with respect to credit losses amounted to NIS 34 million, primarily due to an increase in the group-based provision for housing loans, due to increase in housing loan balances, compared to the corresponding period last year, in which expenses with respect to credit losses amounted to NIS 18 million.

Operating expenses amounted to NIS 432 million, compared to NIS 442 million in the corresponding period last year. Data for the first nine months of 2017 include extraordinary payroll expenses with respect to the payroll agreement with the Employees' Union for 2016-2021, charged to profit and loss in the third quarter of 2017. For more information see chapter "Explanation and analysis of results and business standing".

Commissions and other revenues increased by NIS 8 million.

Contribution of other household operations (other than housing loans) in the first nine months of 2018 amounted to a profit of NIS 42 million, compared to a profit of NIS 1 million in the corresponding period last year. Interest revenues, net increased by NIS 99 million. The increase is due to increase in lending margins, to increase in margin from deposit operations, and to higher volumes of both lending and deposits. Commissions and other revenues amounted to NIS 385 million compared with NIS 376 million in the corresponding period last year – an increase by NIS 9 million, due to further growth of operations and despite the negative impact of various regulatory directives.

Expenses with respect to credit losses amounted to NIS 81 million, compared to NIS 86 million in the corresponding period last year.

Operating expenses amounted to NIS 1,148 million, compared to NIS 1,111 million in the corresponding period last year. In the third quarter of 2017, expenses with respect to the payroll agreement signed with the Employees' Union for 2016-2021 were charged to the Statement of Profit and Loss.

For more details and extensive information about results of this segment and operating results in conformity with management's approach - see Note 12 to the financial statements.

	For the three months ended September 30,					
	2018			2017		
	NIS in millions					
	Other	Housing loans	Total	Other	Housing loans	Total
Profit and profitability						
Total interest revenues, net	322	389	711	291	332	623
Non-interest financing revenues	–	–	–	–	–	–
Commissions and other revenues	130	39	169	127	36	163
Total revenues	452	428	880	418	368	786
Expenses with respect to credit losses	32	17	49	32	6	38
Operating and other expenses	388	136	524	399	156	555
Profit (loss) before provision for taxes	32	275	307	(13)	206	193
Provision for taxes	11	95	106	(5)	77	72
After-tax profit (loss)	21	180	201	(8)	129	121
Net profit (loss):						
Attributable to non-controlling interests	(9)	–	(9)	(6)	–	(6)
Attributable to shareholders of the banking corporation	12	180	192	(14)	129	115
Balance sheet – key items:						
Loans to the public (end balance)	20,653	124,507	145,160	19,644	119,310	138,954
Loans to the public, net (end balance)	20,406	123,848	144,254	19,415	118,685	138,100
Deposits from the public (end balance)	79,523	–	79,523	74,786	–	74,786
Average balance of loans to the public	20,250	124,642	144,892	19,058	118,763	137,821
Average balance of deposits from the public	78,925	–	78,925	74,221	–	74,221
Average balance of risk assets	18,140	69,026	87,166	16,712	65,569	82,281
Credit margins and deposit margins:						
Margin from credit granting operations	204	369	573	188	322	510
Margin from activities of receiving deposits	118	–	118	103	–	103
Other	–	20	20	–	10	10
Total interest revenues, net	322	389	711	291	332	623

Private Banking Segment

The supervisory definition

According to the supervisory definition, the private banking segment consists of individuals whose financial assets with the bank (including deposits, securities portfolios and other financial assets) exceed NIS 3 million.

Differences between the management approach and the supervisory definition

- Some individual clients attributed to the private banking segment using the "management approach" are classified to the household segment using supervisory segments. The difference is primarily due to clients' financial assets used for client classification – the Bank threshold for client classification according to the "management approach" is NIS 2.5 million, lower than the supervisory definition.
- The private banking segment according to the management approach also includes businesses with liquid assets in excess of NIS 8 million. These clients are classified to the business operating segments under the supervisory approach.

Operating results of private banking segment

	For the nine months ended September 30,		For the three months ended September 30,	
	2018	2017	2018	2017
	NIS in millions			
Profit and profitability				
Total interest revenues, net	54	43	18	14
Non-interest financing revenues	–	–	–	–
Commissions and other revenues	7	7	2	3
Total revenues	61	50	20	17
Expenses with respect to credit losses	1	1	–	–
Operating and other expenses	40	38	13	13
Profit before provision for taxes	20	11	7	4
Provision for taxes	7	4	2	1
Net profit	13	7	5	3
Balance sheet – key items:				
Loans to the public (end balance)	86	97	86	97
Loans to the public, net (end balance)	85	96	85	96
Deposits from the public (end balance)	13,036	12,032	13,036	12,032
Average balance of loans to the public	95	77	89	89
Average balance of deposits from the public	12,335	11,371	12,717	11,809
Average balance of risk assets	30	27	23	20
Credit margins and deposit margins:				
Margin from credit granting operations	1	1	–	1
Margin from activities of receiving deposits	53	42	18	13
Other	–	–	–	–
Total interest revenues, net	54	43	18	14

Contribution of the private banking segment (in conformity with supervisory definitions) to Group profit in the first nine months of 2018 amounted to NIS 13 million, compared to NIS 7 million in the corresponding period last year.

Total interest revenues, net increased by NIS 11 million, due to increase in deposits from the public and to improved lending spreads.

Commissions and other revenues, as well as other items, were essentially unchanged..

For more details and extensive information about results of this segment and operating results in conformity with management's approach - see Note 12 to the financial statements.

For more information about the effect of attribution of expenses related to the US DOJ investigation on this segment, see Note 12C to the financial statements.

Micro and Small Business Segment

The supervisory definition

The micro and small business segment includes businesses with annual turnover below NIS 50 million.

Differences between the management approach and the supervisory definition

- Business clients with liquid assets in excess of NIS 8 million are attributed to the private banking segment according to the management approach. According to the supervisory segment approach, these clients are classified to the micro and small business segment, based on their annual turnover.
- Business clients currently attributed to commercial banking using the management approach and whose annual turnover is lower than NIS 50 million, are classified to the micro and small business segment using the supervisory approach.

Operating results of micro and small business segment

	For the nine months ended September 30,		For the three months ended September 30,	
	2018	2017	2018	2017
				NIS in millions
Profit and profitability				
Total interest revenues, net	738	654	261	231
Non-interest financing revenues	–	–	–	–
Commissions and other revenues	272	246	91	82
Total revenues	1,010	900	352	313
Expenses with respect to credit losses	103	107	32	37
Operating and other expenses	509	487	177	178
Profit before provision for taxes	398	306	143	98
Provision for taxes	136	112	50	36
After-tax profit	262	194	93	62
Net profit attributed to non-controlling interests	(1)	(1)	(1)	–
Net profit attributable to shareholders of the banking corporation	261	193	92	62
Balance sheet – key items:				
Loans to the public (end balance)	18,765	16,428	18,765	16,428
Loans to the public, net (end balance)	18,428	16,114	18,428	16,114
Deposits from the public (end balance)	20,481	19,007	20,481	19,007
Average balance of loans to the public	17,860	15,943	18,508	16,579
Average balance of deposits from the public	19,941	18,169	20,593	19,195
Average balance of risk assets	17,205	15,231	17,767	15,780
Credit margins and deposit margins:				
Margin from credit granting operations	645	577	226	200
Margin from activities of receiving deposits	75	64	27	25
Other	18	13	8	6
Total interest revenues, net	738	654	261	231

Contribution of the small and micro business segment (in conformity with supervisory definitions) to Group profit in the first nine months of 2018 amounted to NIS 261 million, compared to NIS 193 million in the corresponding period last year, an increase by 35.2%.

Below are key factors affecting the change in segment contribution:

Interest revenues, net amounted to NIS 738 million, compared to NIS 654 million in the corresponding period last year – an increase by 12.8%, primarily due to increase in lending and deposit business.

Commissions and other revenues amounted to NIS 272 million, compared with NIS 246 million in the corresponding period last year – an increase by 10.6%, due to growth of operations and despite the negative impact of various regulatory directives.

Expenses with respect to credit losses amounted to NIS 103 million, compared to NIS 107 million in the corresponding period last year.

Operating expenses amounted to NIS 509 million, compared to NIS 487 million in the corresponding period last year – an increase by NIS 22 million. Data for the first nine months of 2017 include extraordinary payroll expenses with respect to the payroll agreement with the Employees' Union for 2016-2021, charged to profit and loss in the third quarter of 2017.

For more details and extensive information about results of this segment and operating results in conformity with management's approach - see Note 12 to the financial statements.

Medium business segment

The supervisory definition

The medium business segment includes businesses with annual turnover higher than NIS 50 million and lower than NIS 250 million.

Differences between the management approach and the supervisory definition

- The commercial banking segment, according to management approach, includes businesses with turnover between NIS 30 million and NIS 120 million. This means that some commercial banking clients (under the management approach) whose turnover is below NIS 50 million are classified to the micro and small business segment using the supervisory operating segments.
- On the other hand, business clients attributed to the business banking segment using the management approach and whose annual turnover is lower than NIS 250 million, are attributed to the medium business segment using the supervisory approach.

Operating results of medium business segment

	For the nine months ended September 30,		For the three months ended September 30,	
	2018	2017	2018	2017
				NIS in millions
Profit and profitability				
Total interest revenues, net	178	153	61	52
Non-interest financing revenues	–	–	–	–
Commissions and other revenues	57	54	20	18
Total revenues	235	207	81	70
Reduced expenses with respect to credit losses	(1)	(16)	(11)	(2)
Operating and other expenses	90	80	33	30
Profit before provision for taxes	146	143	59	42
Provision for taxes	50	52	20	16
Net profit	96	91	39	26
Balance sheet – key items:				
Loans to the public (end balance)	6,134	5,714	6,134	5,714
Loans to the public, net (end balance)	6,055	5,642	6,055	5,642
Deposits from the public (end balance)	8,151	6,609	8,151	6,609
Average balance of loans to the public	6,130	5,480	6,108	5,886
Average balance of deposits from the public	7,526	6,348	7,814	6,736
Average balance of risk assets	7,026	6,351	6,916	6,699
Credit margins and deposit margins:				
Margin from credit granting operations	144	129	48	47
Margin from activities of receiving deposits	30	19	11	7
Other	4	5	2	(2)
Total interest revenues, net	178	153	61	52

Contribution of the medium business segment (in conformity with the supervisory definitions) to Group profit in the first nine months of 2018 amounted to NIS 96 million, compared to NIS 91 million in the corresponding period last year.
Interest revenues, net increased by 16.3%, primarily due to increase in credit and deposit volumes in this segment.
Commission and other revenues increased by NIS 3 million compared to the corresponding period last year.
Expenses with respect to credit losses amounted to a decrease in provision by NIS 1 million, compared to a decrease in the provision of NIS 16 million in the corresponding period last year, due to some maximization of collection of previously written-off debts up to the present and to an increase in the group-based provision due to increase in loans to the public, compared to the corresponding period last year.
Operating expenses amounted to NIS 90 million, compared to NIS 80 million in the corresponding period last year – an increase by NIS 10 million, in line with growth of business.

For more details and extensive information about results of this segment and operating results in conformity with management's approach - see Note 12 to the financial statements.

Large business segment

The supervisory definition

The large business segment includes businesses with annual turnover higher than NIS 250 million.

Differences between the management approach and the supervisory definition

- The business banking segment, according to management approach, includes businesses with turnover in excess of NIS 120 million. This means that some business banking clients (under the management approach) whose turnover is below NIS 250 million are classified to the medium business segment using the supervisory approach.
- Institutional investors served, under the management approach, by business banking are presented as a separate segment under supervisory operating segments.

Operating results of large business segment

	For the nine months ended September 30,		For the three months ended September 30,	
	2018	2017	2018	2017
				NIS in millions
Profit and profitability				
Total interest revenues, net	393	344	134	109
Non-interest financing revenues	–	–	–	–
Commissions and other revenues	83	93	28	32
Total revenues	476	437	162	141
Expenses (reduced expenses) with respect to credit losses	13	(47)	(6)	(23)
Operating and other expenses	131	127	45	54
Profit before provision for taxes	332	357	123	110
Provision for taxes	110	131	43	41
Net profit	222	226	80	69
Balance sheet – key items:				
Loans to the public (end balance)	16,141	14,564	16,141	14,564
Loans to the public, net (end balance)	15,950	14,383	15,950	14,383
Deposits from the public (end balance)	25,773	27,253	25,773	27,253
Average balance of loans to the public	15,687	14,687	17,023	13,961
Average balance of deposits from the public	25,575	28,531	25,283	26,591
Average balance of risk assets	21,045	20,902	21,860	20,918
Credit margins and deposit margins:				
Margin from credit granting operations	330	294	113	97
Margin from activities of receiving deposits	52	42	16	12
Other	11	8	5	–
Total interest revenues, net	393	344	134	109

Contribution of the large business segment (in conformity with the supervisory definitions) to Group profit in the first nine months of 2018 amounted to NIS 222 million, compared to NIS 226 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Total interest revenues, net amounted to NIS 393 million, compared to NIS 344 million in the corresponding period last year, due to the higher lending spread and higher loans originated.

Commissions and other revenues decreased by NIS 10 million.

Expenses with respect to credit losses amounted to an expense of NIS 13 million, compared to a decrease in the provision of NIS 47 million in the corresponding period last year. The change is due to some maximization of collection of previously written-off debts up to the present and to an increase in the group-based provision due to an increase in loans to the public, compared to the corresponding period last year.

Operating expenses amounted to NIS 131 million, compared to NIS 127 million in the corresponding period last year – an increase by NIS 4 million.

For more details and extensive information about results of this segment and operating results in conformity with management's approach - see Note 12 to the financial statements.

Institutional investor segment

The supervisory definition

This segment includes provident funds, pension funds, study funds, mutual funds, ETFs, insurance companies and stock exchange members who manage client portfolios.

Differences between the management approach and the supervisory definition

Under the management approach, institutional investors are administered by the business banking and by the financial management segment, but are presented as a separate segment under supervisory operating segments.

Operating results of institutional investor segment

	For the nine months ended September 30,		For the three months ended September 30,	
	2018	2017	2018	2017
				NIS in millions
Profit and profitability				
Total interest revenues, net	90	84	30	30
Non-interest financing revenues	–	–	–	–
Commissions and other revenues	32	33	10	9
Total revenues	122	117	40	39
Expenses (reduced expenses) with respect to credit losses	–	(19)	(1)	(9)
Operating and other expenses	90	95	29	32
Profit before provision for taxes	32	41	12	16
Provision for taxes	11	15	4	6
Net profit	21	26	8	10
Balance sheet – key items:				
Loans to the public (end balance)	1,255	1,079	1,255	1,079
Loans to the public, net (end balance)	1,247	1,065	1,247	1,065
Deposits from the public (end balance)	40,714	39,404	40,714	39,404
Average balance of loans to the public	1,329	1,509	1,381	1,385
Average balance of deposits from the public	40,056	38,543	41,106	40,393
Average balance of risk assets	2,516	2,365	2,600	2,212
Credit margins and deposit margins:				
Margin from credit granting operations	25	25	9	8
Margin from activities of receiving deposits	62	57	19	21
Other	3	2	2	1
Total interest revenues, net	90	84	30	30

Contribution of the institutional investor segment (in conformity with the supervisory definitions) to Group profit in the first nine months of 2018 amounted to NIS 21 million, compared to NIS 26 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Interest revenues, net amounted to NIS 90 million, compared to NIS 84 million in the corresponding period last year – an increase by 7.1%, attributed to increase in deposit volume.

There were no expenses with respect to credit losses recognized in the current period, compared to a decrease in provision by NIS 19 million in the corresponding period last year. Other items were essentially unchanged.

For more details and extensive information about results of this segment and operating results in conformity with management's approach - see Note 12 to the financial statements.

Financial Management Segment

The supervisory definition

The financial management segment includes trading operations, asset and liability management and non-banking investments.
Trade operations – Investment in securities held for trading, market making operations for securities, operations involving derivative instruments not designated as hedges and which are not part of asset and liability management for the Bank, borrowing of securities for trading, short selling of securities, underwriting services for securities.
Asset and liability management – including investment in debentures available for sale and in debentures held to maturity, hedging using derivative instruments, ALM hedging, currency hedging of investments overseas.
Real investments – Investment in shares available for sale and in associated companies of businesses.
Other financial management operations – management, operation, trust and custody services for banks, sale and management of loan portfolios.

Differences between the management approach and the supervisory definition

Under the management approach, institutional investors are administered by the financial management segment, but are presented as a separate segment under supervisory operating segments.

Operating results of the financial management segment

	For the nine months ended September 30,		For the three months ended September 30,	
	2018	2017	2018	2017
				NIS in millions
Profit and profitability				
Total interest expenses, net	(1)	16	(34)	(90)
Non-interest financing revenues	316	76	105	60
Commissions and other revenues	151	165	51	60
Total revenues	466	257	122	30
Expenses (reduced expenses) with respect to credit losses	1	–	(1)	–
Operating and other expenses	678	238	98	91
Profit (loss) before provision for taxes	(213)	19	25	(61)
Provision for taxes	(4)	6	9	(23)
After-tax profit (loss)	(209)	13	16	(38)
Share of banking corporation in earnings of associated companies	1	–	–	–
Net profit (loss) before attribution to non-controlling interests	(208)	13	16	(38)
Net profit attributed to non-controlling interests	(23)	(16)	(8)	(5)
Net profit (loss) attributable to shareholders of the banking corporation	(231)	(3)	8	(43)
Balance sheet – key items:				
Average balance of risk assets	6,418	5,716	6,411	6,308
Credit margins and deposit margins:				
Margin from credit granting operations	–	–	–	–
Margin from activities of receiving deposits	–	–	–	–
Other	(1)	16	(34)	(90)
Total interest expenses, net	(1)	16	(34)	(90)

Contribution of the financial management segment (in conformity with the supervisory definitions) to Group profit in the first nine months of 2018 amounted to a loss of NIS 231 million, compared to a loss of NIS 3 million in the corresponding period last year.
Below are key factors affecting the change in segment contribution:
Results of financing operations (net interest revenues and non-interest financing revenues) increased by NIS 223 million compared to the corresponding period last year, primarily due to impact of the Consumer Price Index and to impact of the accounting treatment of derivatives at fair value and other effects. See also analysis of evolution of financing revenues in chapter "Material developments in revenues, expenses and other comprehensive income".

Total commissions and other revenues amounted to NIS 151 million, compared to NIS 165 million in the first none months of 2017, which included capital gain amounting to NIS 17 million before tax from realized assets in conjunction with asset reorganization and improvements to the branch network.

Operating and other expenses include an additional provision amounting to NIS 425 million (USD 116.5 million) made in the second quarter of 2018 with respect to the US DOJ investigation. For more information see Note 10.B.4 to the financial statements.

For more details and extensive information about results of this segment and operating results in conformity with management’s approach - see Note 12 to the financial statements.

Overseas operations

The supervisory definition

The Bank's overseas operations are presented separately, divided into operations involving individuals and business operations.

Differences between the management approach and the supervisory definition

Business and individual clients at overseas branches classified into the various operating segments in conformity with the management approach, are classified into the overseas operations segment in the disclosure of supervisory operating segments.

Business and individual clients at overseas branches are presented as a separate segment under supervisory operating segments and under the management approach are managed by the various operating segments – mostly private and business banking.

Operating results of overseas operations

	For the nine months ended September 30,		For the three months ended September 30,	
	2018	2017	2018	2017
				NIS in millions
Profit and profitability				
Total interest revenues, net	149	117	55	42
Non-interest financing revenues	8	5	–	1
Commissions and other revenues	20	23	7	7
Total revenues	177	145	62	50
Expenses (reduced expenses) with respect to credit losses	1	2	(1)	–
Operating and other expenses	55	54	17	19
Profit before provision for taxes	121	89	46	31
Provision for taxes	42	33	16	12
Net profit	79	56	30	19
Balance sheet – key items:				
Loans to the public (end balance)	3,807	3,250	3,807	3,250
Loans to the public, net (end balance)	3,777	3,221	3,777	3,221
Deposits from the public (end balance)	5,265	5,130	5,265	5,130
Average balance of loans to the public	3,268	3,055	3,300	3,107
Average balance of deposits from the public	5,290	5,104	5,286	5,084
Average balance of risk assets	3,878	3,499	4,085	3,537
Credit margins and deposit margins:				
Margin from credit granting operations	77	68	27	22
Margin from activities of receiving deposits	11	10	4	4
Other	61	39	24	16
Total interest revenues, net	149	117	55	42

Contribution of overseas operations to Group profit in the first nine months of 2018 amounted to NIS 79 million, compared to NIS 56 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Interest revenues, net, amounted to NIS 149 million, compared to NIS 117 million in the corresponding period last year. The increase is due to a non-recurring early repayment fee and to increase in revenues from deposits with central banks overseas, due to higher interest rates.

Non-interest financing revenues increased by NIS 3 million, due to available-for-sale debentures realized in the first quarter of 2018.

Commission revenues decreased by NIS 3 million.

In the current period, expenses with respect to credit losses amounted to NIS 1 million, compared to NIS 2 million in the corresponding period last year.

For more details and extensive information about results of this segment and operating results in conformity with management's approach - see Note 12 to the financial statements.

Major Investee companies

The Bank's share of earnings of investee companies in the first nine months of 2018 amounted to NIS 149 million, compared with NIS 88 million in the corresponding period last year. These data include impact of changes in exchange rates on the balance of investment in overseas investee companies, covered by the Bank's own sources.

Excluding the aforementioned effect of exchange rates, contribution of investee companies amounted to NIS 135 million, compared to NIS 105 million in the corresponding period last year, with most of this increase due to increased earnings at Bank Yahav – see explanation under "Investee companies" below.

Bank Yahav for Government Employees Ltd. (hereinafter: "Bank Yahav").

Bank Yahav is a banking corporation operating in accordance with a "Bank" license as per provisions of the Banking Act (Licensing), 1981.

The Group's share of Bank Yahav's net profit in the first nine months of 2018 amounted to NIS 49 million, compared to NIS 30 million in the corresponding period last year. Bank Yahav's net profit return on equity in the first nine months of 2018 was 10.1% on annualized basis, compared to 6.6% in the corresponding period last year. The increase in Bank Yahav earnings is due to an increase in business, improved financing margins and stable expenses.

Bank Yahav's balance sheet total as of September 30, 2018 amounted to NIS 25,292 million, compared to NIS 24,782 million as of December 31, 2017 – an increase by NIS 510 million, or 2.1%. Net loans to the public as of September 30, 2018 amounted to NIS 9,911 million, compared to NIS 9,569 million as of December 31, 2017 – an increase by NIS 342 million, or 3.6%. Net deposits from the public as of September 30, 2018 amounted to NIS 21,752 million, compared to NIS 20,908 million as of December 31, 2017 – an increase by NIS 844 million, or 4.0%.

Tefahot Insurance Agency (1989) Ltd. ("Tefahot Insurance")

Tefahot Insurance is an insurance agency wholly owned by the Bank, which sells life insurance policies and property insurance policies of clients obtaining mortgages from the Bank. Net profit of Tefahot Insurance Agency in the first nine months of 2018 amounted to NIS 46 million, compared to NIS 39 million in the corresponding period last year.

Net profit return on equity in the first nine months of 2018 was 8.2%, compared to 7.7% in the corresponding period last year.

Other investee companies operating in Israel

Other investee companies operating in Israel, wholly controlled by the Bank and supported by Bank infrastructure, contributed to the Bank's net profit in the first nine months of 2018 NIS 24 million, net – compared to NIS 20 million in the corresponding period last year. Of this, NIS 10 million (similar to the corresponding period last year) from trustee operations of the subsidiary, Mizrahi Tefahot Trust Company Ltd.

United Mizrahi Bank (Switzerland) Ltd.

United Mizrahi Bank (Switzerland) Ltd. ("Mizrahi Bank Switzerland") is focused on international private banking services. The Swiss bank is held by a wholly-owned Bank subsidiary, UMOHC B.V. ("United Mizrahi Overseas Holding Company"), incorporated in Holland.

Net profit of Mizrahi Bank Switzerland in the first nine months of 2018 amounted to CHF 0.5 million, similar to the corresponding period last year. Mizrahi Bank Switzerland's balance sheet total as of September 30, 2018 amounted to CHF 144 million, compared to CHF 174 million as of December 31, 2017.

Interest revenues and net interest revenues in the first nine months of 2018 amounted to CHF 1.5 million, compared to CHF 1.4 million in the corresponding period last year. Pre-tax income amounted to CHF 0.7 million in the first nine months of 2018, similar to the corresponding period last year. Pre-tax income net of exchange rate effects in the first nine months of 2018 amounted to CHF 2.6 million, compared to CHF 2.5 million in the corresponding period last year.

The balance of loans to the public as of September 30, 2018 amounted to CHF 79 million, compared to CHF 72 million as of December 31, 2017. Deposits with banks as of September 30, 2018 amounted to CHF 61 million, compared to CHF 100 million as of December 31, 2017. Deposits from the public as of September 30, 2018 amounted to CHF 73 million, compared to CHF 111 million as of December 31, 2017.

These data exclude off-balance-sheet items, such as fiduciary deposits and client security portfolios which are major components of the Bank's business operations in Switzerland.

For more information about developments in the investigation by the US Department of Justice concerning Bank Group business with its US clients, including an additional provision amounting to NIS 425 million. (USD 116.5 million), included on the financial statements for the second quarter of 2018, see Note 10.B.4 to the financial statements.

Investment in non-banking corporations

The Bank manages nostro investments in non-banking corporations. Shares of non-banking corporations in which the Bank invested are presented at fair value in the available-for-sale security portfolio and under investment in associates, where the Bank has a material investment in such entity. 1% of these investments are negotiable and presented at their market value. The remainder of these investments are presented at cost or at their carrying amount. In case of impairment of a non-temporary nature, in accordance with management's assessment, a provision for impairment of the investment is recorded as a loss in the Bank's accounts.

Bank investments in non-banking corporations as of September 30, 2018 amounted to NIS 90 million, compared to NIS 89 million and NIS 97 million as of September 30, 2017 and as of December 31, 2017, respectively.

Net gain from investments in non-banking corporations, after provision for impairment, amounted in the first nine months of 2018 to NIS 15 million for the Bank, compared to NIS 10 million in the corresponding period last year.

In the second quarter of 2018, the Bank sold some of the TASE shares it had owned. The consideration for these shares amounted to NIS 8.7 million. For more information see chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" (Legislation and Supervision of Bank Group Operations) of these financial statements.

Risks overview

This chapter includes a concise overview and analysis of developments of major risks to which the Bank is exposed. If needed, this chapter should be read in conjunction with the chapter "Risks overview" in the 2017 audited annual financial statements. A detailed Risks Management Report which includes disclosure requirements of Basel Pillar 3 and additional information about risks, provided based on recommendations by the Financial Stability Board (FSB) is provided on the Bank website.

Developments in risks and risks management

Day-to-day activities in a variety of balance sheet and off-balance-sheet financial instruments expose the Group to different risks, mainly – market, interest in the Bank portfolio, liquidity, credit, operating and compliance risks. The risks management and control policies, in various aspects, are designated to support achievement of the Group's business goals while limiting exposure to such risks.

In the third quarter of 2018, most benchmarks were at a safe distance from the risk appetite specified by the Board of Directors and in conformity with business operations, based on the strategic plan outline and on current work plans. The Bank regularly reviews the risk benchmarks and adapts them to current business operations as necessary, subject to and in line with the Bank's overall risk appetite for various risks. In view of developments in the US DOJ investigation, the Bank updated its assessment of various risk factors in the second quarter, and this assessment remained unchanged in the third quarter of this year.

For more information about developments in the investigation by the US Department of Justice concerning Bank Group business with its US clients, including an additional provision amounting to NIS 425 million. (USD 116.5 million), included on the financial statements for the second quarter of 2018, see Note 10.B.4 to the financial statements.

Risks description

The Bank is engaged in commercial banking operations (business and retail) and in mortgage operations, where the Bank is a leader in the Israeli banking system.

Credit risk is the primary risk faced by banking corporations in the course of their business. At the Bank, credit risk is primarily due to retail credit operations, mainly housing loans, which are typically associated with relatively low risk. In conformity with principles of the five-year strategic plan, the Bank strives to maintain and establish its leadership position in the retail sector and to increase focus on and expand operations of the business segments. The Bank monitors and manages risk in the loan portfolio using various tools, including by development and deployment of advanced models. For more details see chapter "Credit risk" below.

The Supervisor of Banks' directive with regard to additional capital at 1% of the mortgage portfolio, which increased the capital targets, impacted the Bank to a more significant extent than was the case for other banks in the system.

In the business sector, the Bank operates while regularly assessing risk at client level, at sector level and for the economy as a whole (sector concentration). Operations in this area have been affected in recent years by expanded operations of institutional investors and insurance companies, which are focused on providing large-scale credit for long terms.

In conformity with the Supervisor of Banks' directives, the minimum regulatory required liquidity coverage ratio is 100%. The Bank maintains high liquidity ratios with appropriate safety margins and a stable source structure.

The Bank has low exposure to overseas operations, as are its operations in nostro investments, primarily designed for investment of excess liquidity in high-quality assets with minimal credit risk.

Developments in technology and ever increasing sophistication of those involved in cyber attacks result in higher risk, as well as more intense management and monitoring of operational risks, IT risks and information and cyber security risks.

The Bank Group is exposed to the effect of regulatory changes and macro-economic changes in Israel and world-wide on its business, in conformity with the strategic plan outline. The Bank reviews, monitors and prepares for these effects as part of its regular operations and estimates risk under stress scenarios, as well.

The Bank has in place an extensive framework for management and control of the risks to which the Bank is exposed, including an organizational structure to support management and control of such risks. Risks are managed at the Group in conformity with Bank of Israel's Proper Business Conduct Directive 310 "Risks management" and in conformity with the framework specified in Basel II, Pillar 2 – including required changes upon Basel III coming into effect.

The Bank’s Board of Directors and the Board’s Risks Management Committee are responsible for setting the required principles for management and control of the various risks to which the Bank is exposed in its operations, including setting the risk appetite and supervision of Bank compliance with the specified guidelines and risk appetite.

Bank management is committed to regular management of material risks to which the Bank is exposed and to implementation of principles stipulated by the Bank’s Board of Directors for addressing such risks.

The Bank has a structured process in place for mapping and identification of risks associated with Bank operations, based on a materiality threshold, expressed in terms of Bank capital. Guidelines for handling of material risks, as identified and mapped, including risk appetite, measurement, management and mitigation of each risk, are included in special policies documents.

Description of risk appetite and risks management

The Bank's risk appetite is specified for all material risks using quantitative and qualitative restrictions; the quantitative restrictions are mostly specified as percentage of Tier I shareholder equity at the Bank. The Bank specified restrictions, under normal market conditions and under stress conditions, for most risks – based on the outcome of various stress tests conducted by the Bank. Each year, the risk appetite is challenged by the Chief Risks Officer, management and the Board of Directors, in view of the business targets specified in work plans, in conformity with the strategic plan, the risk profile and outcome of the qualitative risk management assessment process conducted by Bank managers. This process is designed to review the level of various risks and their development over the coming year. Consequently, the Bank's business strategy is supported by an appropriate risk appetite framework with constant monitoring of the risk profile and with alerts issued if the risk profile reaches the specified limits for risk appetite.

For more information about developments in the investigation by the US Department of Justice concerning Bank Group business with its US clients, including an additional provision amounting to NIS 425 million. (USD 116.5 million), included on the financial statements for the second quarter of 2018, see Note 10.B.4 to the financial statements.

Stress scenarios

Stress tests are an important tool, in addition to models as part of risks management and control at the Bank and for risk assessment from current and future viewpoints. The Bank has a wide range of calculation methodologies for conducting stress scenarios. The primary uses of stress scenarios and guidelines for setting them are included on the risk management policy document. The Bank extensively uses the outcome of stress scenarios in the capital planning process, which is part of the ICAAP document. This process reviews whether the Bank has sufficient capital to fulfill the strategic plan, which is challenged by a range of stress scenarios at various severity levels. These stress scenarios impact Bank profitability by causing potential loss due to material risks for Bank operations: credit risk, credit concentration risk, market risk and interest risk in the bank portfolio, operational risk including information and cyber security etc. Stress scenarios strongly emphasize the Bank's mortgage portfolio, it's business lending operations, potential impact of information security and cyber events, operational failure events etc. Results of the Bank's most recent capital planning, submitted to the Bank of Israel in January 2018, based on data for the first half of 2017, based on the Bank's strategic plan and for a three-year planning horizon, indicates that the Bank has a sufficient capital absorption cushion to face the range of risks associated with Bank operations, even in case of stress events. Results of the Uniform Scenario, similar to results of the various stress scenarios conducted by the Bank, indicate that the potential impact on Bank performance under such scenario is low relative to the Bank's capital and annual profit.

The Bank's quarterly risks document, which is discussed by management, by the Board’s Risks Management Committee and by the Bank’s Board of Directors, provides an extensive view of the different risks at the Bank, with emphasis on the risk profile given the risk appetite specified in all policy documents. Thus, this document complements and reinforces the view of the risk profile provided in the Bank's annual ICAAP document, as noted above.

Risk factor assessment

Below is a mapping of risk factors, their potential impact on the Bank Group and executives appointed Risk Owners for each risk factor:

Risk factor[1]	Risk factor impact	Risk Owner
Overall effect of credit risks	Low-medium	Manager, Business Division
Risk from quality of borrowers and collateral	Low-medium	
Risk from industry concentration	Low-medium	
Risk from concentration of borrowers/ borrower groups	Low	
Risk with respect to mortgage portfolio	Low	
Overall effect of market risk	Low-medium	Manager, Financial Division
Interest risk	Medium	
Inflation risk	Low-medium	
Exchange rate risk	Low	
Share price risk	Low	
Liquidity risk	Low-medium	Manager, Financial Division
Overall effect of operational risk	Medium	Manager, Risks Control Division
Cyber and information security	Medium	Manager, Risks Control Division
Information technology risk	Medium	Manager, Mizrahi-Tefahot Technology Division Ltd.
Legal risk	Medium	Chief Legal Counsel
Compliance and regulatory risk	Low-medium	Manager, Risks Control Division
Cross-border and AML risk	Low-medium	Manager, Risks Control Division
Reputation risk[2]	Low-medium	Manager, Marketing, Promotion and Business Development Division
Strategic-business risk[3]	Medium	President & CEO

(1) Assessment of the effect of the aforementioned risk factors takes into account the risks associated with the US DOJ investigation as well as all action taken by the Bank to defend its position with regard to that investigation. For more information about developments in the US DOJ investigation and for more information about a motion for approval of a derivative claim on this matter, see Note 10.B. sections 3.A and 4 to the financial statements.
(2) The risk of impairment of the Bank's results due to negative reports about the Bank.
(3) The definition of strategic-business risk includes the capital planning and management process.

The impact of the various risks factors in the table above have been determined based on management assessment, as provided from time to time. These assessments are based on monitoring of various quantitative risk benchmarks specified by the Bank, includes the direction of their development and are based on qualitative assessment of risk management and the effectiveness of control circles, in line with the Bank's ICAAP process and its results , led by the Bank's Risk Owners.

For more information see the Detailed Risks Report on the Bank website.

Credit risk

Risk description and development

Credit risk is the risk that a borrower or counter-party of the Bank would not fulfill its obligations towards the Bank. This risk is affected by multiple factors: Business risk due to client activities, concentration risk due to over-exposure to a borrower / borrower group and to economic sectors, geographic concentration risk, risk due to exogenous changes, overseas credit risk and operational risk which, should they materialize, would have implications for credit risk. Moreover, such risk is interrelated to multiple other risks, such as market and interest risk, liquidity risk, compliance risks etc.

In the first nine months of 2018, the overall effect of credit risk remained Low-Medium, with risk in the housing loan portfolio categorized as Low.

In the first nine months of 2018, the Bank continued to deploy, implement and use advanced models under development for optimal analysis and management of retail credit, including an update and redefinition of some risk benchmarks. As from the third quarter of this year, actual current management at the Retail Division is primarily based on the MADHOM system (for client management, rating and pricing). As part of this effort, the Bank's Training Center developed a customized activity for deployment of diverse uses of the model outcomes at branches.

Analysis of developments in credit quality and problematic credit risk

Significant exposure to groups of borrowers

Disclosure of credit risk with respect to significant exposure to borrower groups is provided with regard to each group of borrowers whose net indebtedness, on a consolidated basis, after allowed deductions pursuant to Proper Banking Conduct Directive 313, exceeds 15% of the banking corporation's capital (as defined in Directive 313), NIS in millions.

As of September 30, 2018, the Bank had no borrower group which meets the aforementioned criteria.

For more information about significant exposures to borrower groups, see chapter "Credit Risk" in the 2017 Report of the Board of Directors and Management.

Major borrowers

Below is the sector composition of the top 6 borrowers for the Group as of September 30, 2018 (NIS in millions):

Borrower no.	Sector	On-balance sheet credit risk[(1)]	Off balance sheet credit risk[(1)]	Total credit risk[(1)]
1.	Institutional investors	28	1,397	1,425
2.	Construction	4	1,198	1,202
3.	Construction	211	897	1,108
4.	Other industrial	3	659	662
5.	Construction	7	571	578
6.	Construction	156	407	563

(1) On- and off-balance sheet credit risk is stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.

Leveraged financing

Leveraged financing is credit financing provided to customers which fulfills one of the following criteria:

1. **Credit for an equity transaction would be classified according to one of the following rules:**
   - Credit for an equity transaction (as defined below), provided that the balance of such credit exceeds 0.5% of Bank capital or NIS 35 million, whichever is higher.
   - For credit financing acquisition of equity interests in another banking corporation, or in a banking holding corporation, provided that the balance of such credit exceeds NIS 35 million.
   - Additional credit extended to the borrower after the financing for the equity transaction, with repayment primarily based on the cash flows derived from the equity interest whose purchase was financed by the banking corporation.

"Equity transaction": A transaction with one of the following goals:

- Buyout – purchase or buyback, by the borrower, of the borrower's issued capital (including an employees' stock purchase plan).
- Acquisition of another corporation – the purchase of any capital rights in another corporation, or the purchase of all, or a significant share, of the assets of another corporation.
- Capital distribution – the payment of dividends or another transaction whose goal is to increase shareholder value.

An equity transaction, with regard to leveraged financing, is one where the loan balance exceeds 0.5% of Bank capital and where the LTV ratio exceeds 50%.

2. **Financing for leveraged companies**, which is credit extended to companies with attributes which indicate that an adverse change in the global economic environment or in the specific environment of the sector in which they do business, may significantly impact their capacity to repay the bank. The Bank has specified criteria for defining credit included in this category, based on the business client's credit risk rating, as reflected by the Bank's rating model; it also specified benchmarks for leveraging (i.e. for significantly high deviation from typical norms for the sector), determined based on generally accepted financial ratios among Bank clients with material credit in major sectors in which the Bank operates. Leverage benchmarks and economic sectors are reviewed based on changes to the business environment and are modified as necessary. Borrowers flagged for one or more of the criteria specified are individually reviewed by a forum which includes representatives from the Business Division, the Risks Control Division and the Accounting and Financial Reporting Division, which reviews changes to financial parameters of the company and the economic environment in which it operates.

Details of Bank exposure to credit constituting leveraged financing are as follows:

Credit for equity transactions (NIS in millions):

	September 30, 2018				September 30, 2017				December 31, 2017			
Economic sector of borrower	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit losses	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit losses	Balance sheet credit risk	Off-balance-sheet credit risk	Total credit risk	Individual provision for credit losses
Business services and other services	54	27	81	–	–	–	–	–	–	–	–	–
Total	54	27	81	–	–	–	–	–	–	–	–	–

Credit to leveraged companies (NIS in millions):

	September 30, 2018				September 30, 2017				December 31, 2017			
Economic sector of borrower	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit losses	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit losses	Balance sheet credit risk	Off-balance-sheet credit risk	Total credit risk	Individual provision for credit losses
Industry and production	90	1	91	1	–	–	–	–	–	–	–	–
Mining and excavation	117	–	117	–	–	–	–	–	–	–	–	–
Construction and real estate(1)	459	–	459	–	–	–	–	–	–	–	–	–
Commerce	221	64	285	–	362	15	377	–	108	16	124	–
Information and communications	40	110	150	–	62	90	152	–	40	90	130	–
Financial services	155	–	155	–	182	–	182	–	183	–	183	
Public and community services	71	5	76	–	–	–	–	–	–	–	–	–
Total	1,153	180	1,333	1	606	105	711	–	331	106	437	–

(1) The increase in credit risk to leveraged companies in the first nine months of 2018 is primarily due to a single client, for which the credit risk was classified as leveraged credit risk in this period.

Developments in problematic credit risk

Below is a summary of overall problematic credit risk and non-performing assets before provision for credit losses, in accordance with provisions for measurement and disclosure of impaired debts, credit risk and provision for credit losses (NIS in millions):

	Total credit risk		
	September 30, 2018	September 30, 2017	December 31, 2017
Problematic credit risk:			
Impaired credit risk	1,038	833	888
Inferior credit risk	311	298	315
Credit risk under special supervision – housing	1,293	1,024	1,072
Credit risk under special supervision – other	501	704	457
Total problematic credit risk	3,143	2,859	2,732

Major risk benchmarks related to credit quality (in percent):

	September 30, 2018	September 30, 2017	December 31, 2017
Ratio of impaired loans to the public to total loans to the public	0.5	0.4	0.4
Ratio of impaired loans to the public to total non-housing loans	1.2	1.1	1.1
Ratio of problematic loans to the public to total non-housing loans	2.4	2.6	2.3
Ratio of housing loans in arrears 90 days or longer to total loans to the public [(1)(2)]	0.7	0.6	0.6
Ratio of problematic credit risk to total credit risk with respect to the public	1.2	1.2	1.2

(1) This non-housing rate is negligible.

(2) Balance of credit in arrears before provision by extent of arrears.

For more information see chapter "Explanation and analysis of results and business standing" above.

Analysis of provision for credit losses

Analysis of movement in balance of provision for credit losses (NIS in millions):

	For the three months ended September 30, 2018					
	Provision for credit losses					
	Loans to the public				Banks and govern-ments	
	Commercial	Housing	Indivi-dual – other	Total		Total
Balance of provision for credit losses at start of period	735	643	253	1,631	3	1,634
Expenses with respect to credit losses	15	17	30	62	(1)	61
Net accounting write-offs	(15)	(1)	(25)	(41)	–	(41)
Balance of provision for credit losses at end of period	735	659	258	1,652	2	1,654
	For the three months ended September 30, 2017					
Balance of provision for credit losses at start of period	695	621	237	1,553	2	1,555
Expenses with respect to credit losses	2	6	33	41	–	41
Net accounting write-offs	–	(2)	(31)	(33)	–	(33)
Balance of provision for credit losses at end of period	697	625	239	1,561	2	1,563
	For the nine months ended September 30, 2018					
Balance of provision for credit losses t start of period	699	630	245	1,574	1	1,575
Expenses with respect to credit losses	118	34	80	232	1	233
Net accounting write-offs	(82)	(5)	(67)	(154)	–	(154)
Balance of provision for credit losses at end of period	735	659	258	1,652	2	1,654
	For the nine months ended September 30, 2017					
Balance of provision for credit losses at start of period	724	615	208	1,547	2	1,549
Expenses with respect to credit losses	21	18	93	132	–	132
Net accounting write-offs	(48)	(8)	(62)	(118)	–	(118)
Balance of provision for credit losses at end of period	697	625	239	1,561	2	1,563

For more information about provision for credit losses see Notes 6 and 13 to the financial statements.

Major risk benchmarks related to provision for credit losses (in percent):

	September 30, 2018	September 30, 2017	December 31, 2017
Ratio of provision for credit losses to total loans to the public	0.9	0.9	0.9
Ratio of provision for credit losses to total credit risk with respect to the public	0.7	0.7	0.7

	First nine months		
	2018	2017	All of 2017
Ratio of expenses with respect to credit losses to average balance of loans to the public, gross	0.2	0.1	0.1
Ratio of net write-offs to average balance of loans to the public, gross	0.1	0.1	0.1
Ratio of expenses with respect to credit losses to average balance of loans to the public, net	0.2	0.1	0.1
Of which: With respect to commercial loans other than housing loans(1)	(2)0.4	0.3	0.3
Ratio of net write-offs to average balance of loans to the public, net	0.1	0.1	0.1

(1) The rate with respect to housing loans is negligible.

(2) Total expenses with respect to credit losses were impacted by maximization of collection of previously written-off debts up to the present.

Credit risk to individuals (excluding housing loans)[1]

The household segment is a key growth engine and a significant component of the Bank's strategic plan for 2017-2021.

The individual client segment is highly diversified – by number of clients and by geographic location. Most clients in this segment are salaried employees with an individual account or joint household account. A recession in non-banking operations is a major risk factor for household activity and higher unemployment may increase the number of clients who face difficulties.

Credit policies and work procedures with regard to extending credit, including to individual clients, include directives and guidelines with regard to credit underwriting and adapting credit to client needs and repayment capacity: Review of credit objective, requested LTV, loan term, analysis of client's repayment capacity and repayment sources, for all of their indebtedness. This includes review of various economic parameters of the client based, *inter alia*, on the client's regular income[2], pledged or unencumbered savings, knowledge of the client and past experience working with the client.

The Bank regularly monitors the risk level in the loan portfolio to individuals, including by using an internal model for credit rating of individual clients, monitoring and analysis of expenses with respect to credit losses and by conducting various stress tests, including stress tests in conformity with Bank of Israel directives, which include scenarios such as: economic recession, significant increase in unemployment and higher interest rates.

Below is information about credit risk to individuals – balances and various risk attributes (NIS in millions):

	As of September 30,		As of December 31,
	2018	2017	2017
Debts			
Checking balances	2,139	2,172	2,176
Utilized credit card balances	3,702	3,558	3,623
Auto loans[3] – adjustable interest	1,124	1,193	1,366
Auto loans[3] – fixed interest	762	579	738
Other loans and credit – variable interest	11,324	10,730	10,677
Other loans and credit – fixed interest	195	258	232
Total debt (on-balance sheet credit)	19,246	18,490	18,812
Unutilized facilities, guarantees and other commitments			
Checking accounts – unutilized facilities	3,985	3,746	3,780
Credit cards – unutilized facilities	6,190	5,618	5,661
Guarantees	224	202	187
Other liabilities	34	64	67
Total unutilized facilities, guarantees and other commitments (off-balance sheet credit)	10,433	9,630	9,695
Total credit risk to individuals	29,679	28,120	28,507
Of which:			
Part of loans maturing in over 5 years[4]	2,746	2,346	2,400
Bullet / balloon loans[5]	499	699	647
Financial asset portfolio and other collateral against credit risk[6]			
Financial assets portfolio:			
Deposits	2,508	2,484	2,457
Securities	353	377	362
Other monetary assets	400	457	463
Other collateral[7]	795	1,189	1,098
Total financial assets portfolio and other collateral against credit risk	4,056	4,507	4,380

(1) As defined in Proper Banking Conduct Directive 451.
(2) For measuring regular income in client accounts, the Bank uses "credit turnover" data for the account, including *inter alia* salaries and regular pensions.
(3) Further to the request by the Supervisor of Banks for a credit risk analysis for the "automobile trading" sector and for consumer credit for automobile purchase, under various stress scenarios. The Bank's Risks Control conducted a comprehensive review of this issue, which was discussed in depth by administrative forums, including by the Board of Directors. Findings and recommendations of this review were incorporated in the credit policy document for 2018. As a result of risk analysis, there was no material effect on the group-based provision for credit losses.
(4) Primarily loans to salaried Government employees, where loan repayment is directly deducted from the client's pay check and which bear significantly lower risk than similar loans for the same term.
(5) Loans with a grace period for principal longer than one year.
(6) Amounts presented are the financial assets portfolio and other collateral, only up to client debt amount.
(7) Collateral is after applying the safety factor, in conformity with Bank factors accounted for when extending credit. The decrease is primarily due to downward revision of safety factors for vehicles and the maximum vehicle age accounted for in calculating the collateral value.

Composition by increase in borrower indebtedness[1]

Loan ceiling and credit risk (NIS in thousands)		As of September 30, 2018 Number of Borrowers	Total credit risk	As of September 30, 2017 Number of Borrowers	Total credit risk	As of December 31, 2017 Number of Borrowers	Total credit risk
	Up to 10	281,525	550	274,120	569	271,929	609
Above 10	Up to 20	87,094	1,234	84,822	1,206	84,818	1,211
Above 20	Up to 40	117,158	3,358	115,273	3,317	115,167	3,343
Above 40	Up to 80	119,681	6,803	114,388	6,544	116,728	6,579
Above 80	Up to 150	77,358	8,319	71,053	7,677	73,393	7,928
Above 150	Up to 300	37,709	7,592	32,319	6,914	35,058	7,072
Above 300		2,967	1,823	3,305	1,893	3,520	1,765
Total		723,492	29,679	695,280	28,120	700,613	28,507

(1) Number of borrowers is for total on- and off-balance sheet credit risk.

Composition of on-balance sheet credit by fixed income[1] in account:

Income	As of September 30, 2018 NIS in millions	In %	As of December 31, 2017 NIS in millions	In %
Accounts with no fixed income for the account	639	3.3	636	3.4
Less than NIS 10 thousand.	5,559	28.9	6,187	32.9
Between NIS 10 thousand and NIS 20 thousand	6,957	36.1	6,548	34.8
Over NIS 20 thousand	6,091	31.7	5,441	28.9
Total	19,246	100	18,812	100

(1) For measuring regular income in client accounts, the Bank uses "credit turnover" data for the account, including *inter alia* salaries and regular pensions.

Below is information about problematic credit risk before provision for credit losses (NIS in millions):

	As of September 30, 2018			As of September 30, 2017			As of December 31, 2017		
	Credit risk[1]			Credit risk[1]			Credit risk[1]		
	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total
Balance of problematic credit risk	220	3	223	222	3	225	217	4	221
Problematic credit risk rate[2]	1.14%	0.03%	0.75%	1.20%	0.03%	0.80%	1.16%	0.03%	0.78%

(1) On- and off-balance sheet credit before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.

(2) The ratio of problematic credit risk to total credit risk before provision for credit losses.

Below is the expense rate with respect to credit losses to individuals (annualized)

	First nine months 2018	2017	All of 2017
Expenses with respect to credit losses as percentage of total loans to the public to individuals	0.57%	0.67%	0.65%

Data for credit risk to individuals show that:

- Total debts by individuals (on-balance sheet credit) increased by 4.1% compared to September 30, 2017 and by 2.3% compared to December 31, 2017, primarily due to increase in loans and other credit.
- There was no significant change to composition of debts by individuals in the third quarter of 2018.

As of September 30, 2018:	
Checking accounts	11%
Credit cards	19%
Auto loans	10%
Other loans and credit	60%

- Of all debts (on-balance sheet credit) as of September 30, 2018, 21% is secured by financial assets and other collateral in the client's account (compared to 24% as of September 30, 2017 and 23% as of December 31, 2017).

Given the risk attributes of this segment, the rate of group-based qualitative provision for individuals is higher than in other segments, in conformity with guidelines from the Supervisor of Banks.

Credit risk in construction and real estate economic sector in Israel

Credit operations in this sector account for a significant component of credit operations of the Business Division. In financing the construction and real estate industry, specific analysis and monitoring tools are used to assist the Bank in reaching decisions on the granting of financial support to the various projects. Construction financing in this industry is focused mainly on residential construction in areas with strong demand in central Israel at mid-level prices. In addition, the financing is allocated between geographic regions, based inter alia on relevant demand. In providing credit for construction, the Bank focuses on the financial support method (closed assistance). The application of this method is designed to reduce the exposure to risks in the granting of the loans, because it incorporates current and close monitoring of the progress of the financed project, both before the loans are provided, and as the project receives the financial support, while maintaining a distinction between the financed projects and the business risks inherent in the other activities of the developer-borrower. The Bank is assisted by outside construction supervisors, and also relies on liens on the land in the project, to secure the loans. Loans are issued for financed projects only by business centers and branches with professional knowledge of the subject, and under the supervision of the construction and real estate sector. The Bank also sets policies and rules for financing other real estate transactions, such as financing for rental properties, Construction, purchase groups, urban renewal, National Zoning Plan 38 etc.

For more information about the Bank acquiring an insurance policy for guarantees, see chapter "Significant developments in management of business operations" above.

Below is information about credit risk in the construction and real estate economic sector in Israel, by real estate collateral type (NIS in millions)

	September 30, 2018						
	Credit risk to the public[1]						
	Credit risk			Total problematic credit risk		Balance of provision for credit losses	
	On balance sheet[2]	Off balance sheet[3]	Total	Impaired	Other problematic[4]	Balance sheet credit risk	Off-balance sheet credit risk
Secured by real estate in Israel:							
Housing	9,835	17,163	26,998	125	28	75	30
Commercial and industrial	4,346	769	5,115	45	8	54	2
Total secured by real estate in Israel:	14,181	17,932	32,113	170	36	129	32
Not secured by real estate in Israel	2,845	3,156	6,001	150	68	44	13
Total for construction and real estate economic sector in Israel	17,026	21,088	38,114	320	104	173	45
Of which: Designated for project assistance	8,788	15,039	23,827	1	23	65	31
	September 30, 2017						
Secured by real estate in Israel:							
Housing	6,990	14,331	21,321	151	28	49	26
Commercial and industrial	3,971	787	4,758	47	25	54	2
Total secured by real estate in Israel:	10,961	15,118	26,079	198	53	103	28
Not secured by real estate in Israel	2,945	3,054	5,999	107	58	45	14
Total for construction and real estate economic sector in Israel	13,906	18,172	32,078	305	111	148	42
Of which: Designated for project assistance	7,073	13,614	20,687	11	4	57	29
	December 31, 2017						
Secured by real estate in Israel:							
Housing	7,783	14,204	21,987	126	5	63	30
Commercial and industrial	4,319	769	5,088	60	13	57	2
Total secured by real estate in Israel:	12,102	14,973	27,075	186	17	120	32
Not secured by real estate in Israel	2,700	2,950	5,650	132	67	47	9
Total for construction and real estate economic sector in Israel	14,802	17,923	32,725	318	84	167	41
Of which: Designated for project assistance	7,617	13,047	20,663	13	4	61	28

(1) On- and off-balance sheet credit risk, problematic credit risk and impaired loans to the public are stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower.

(2) Loans to the public, investment in debentures by the public, other debt by the public and other assets with respect to derivative instruments against the public.

(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits.

(4) On- and off-balance sheet credit risk with respect to the public, which is inferior or under special supervision.

Below is information about credit risk in the construction and real estate economic sector in Israel, by asset status (NIS in millions):

	September 30, 2018			September 30, 2017			December 31, 2017		
	Credit risk[(1)]			Credit risk[(1)]			Credit risk[(1)]		
	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total
Real estate collateral in Israel									
Real estate yet to be completely constructed:									
Raw land	6,470	4,556	11,026	4,844	3,096	7,940	5,090	1,853	6,943
Real estate under construction	4,454	12,473	16,927	3,864	11,395	15,259	4,463	12,606	17,068
Real estate completely constructed	3,257	903	4,160	2,253	627	2,880	2,550	514	3,064
Total credit secured by real estate in Israel	14,181	17,932	32,113	10,961	15,118	26,079	12,102	14,973	27,075
Not secured by real estate in Israel	2,845	3,156	6,001	2,945	3,054	5,999	2,700	2,950	5,650
Total credit risk for construction and real estate	17,026	21,088	38,114	13,906	18,172	32,078	14,802	17,923	32,725

(1) On- and off-balance sheet credit risk is stated before impact of provision for credit losses, and before impact of deductible collateral with respect to borrower indebtedness.

Credit risk data for the construction and real estate clients sector as of September 30, 2018 show that 51.6% of the on-balance sheet credit risk and 71.3% of the off-balance sheet credit risk is associated with closed assistance to real estate projects, mostly for residential construction in areas of strong demand in Central Israel and in Jerusalem. Most of the off-balance sheet credit is due to guarantees provided to home buyers pursuant to the Sale Act.

Most of the credit risk in the construction and real estate sector is backed by real estate fully pledged to secure loan repayment. Note that for credit not secured by real estate collateral, there is other collateral in place, such as: deposits, securities etc.

The share of the construction and real estate sector in Israel out of total credit risk to the public at the Bank as of September 30, 2018, as presented below (Credit Risk by Economic Sector) is 15.5%.

Note that according to Proper Banking Conduct Directive 315, the rate of indebtedness of the construction and real estate sector (for calculation of sector concentration) is 11.43% (excluding liabilities, including contingent liabilities to extend credit or to provide guarantees and amounts of Sales Act guarantees for which the Bank has obtained an insurance policy).

Credit risk by economic sector – Consolidated

As of September 30, 2018

Reported amounts (NIS in millions)

	Total credit risk[1]			Off balance sheet debts[2] and credit risk (other than derivatives)[3]				Credit losses[4]		
	Total	Credit erformance rating[5]	Problem-atic [6]	Total	Debts	Problem-atic [6]	Impaired	Expenses with respect to credit losses	Net accounting write-offs	Balance of provision for credit losses
Borrower activity in Israel										
Public – commercial										
Agriculture, forestry and fishing	802	794	8	802	593	8	6	–	1	7
Mining and excavation	832	832	–	807	412	–	–	–	–	4
Industry and production	9,060	8,656	404	8,891	5,558	404	257	18	12	117
Construction and real estate – construction[7]	35,434	35,037	397	35,429	14,642	397	304	4	(9)	173
Construction and real estate – real estate operations	2,680	2,653	27	2,669	2,378	27	16	(3)	–	45
Electricity and water delivery	1,886	1,860	26	1,391	738	26	2	2	2	7
Commerce	10,999	10,685	314	10,897	7,993	314	210	70	40	180
Hotels, dining and food services	1,244	1,194	50	1,244	942	50	24	9	8	26
Transport and storage	1,499	1,482	17	1,487	1,128	17	6	3	6	10
Information and communications	1,128	1,115	13	1,120	492	13	8	2	2	6
Financial services	12,456	12,273	183	10,570	3,705	183	13	(1)	4	63
Other business services	4,148	4,070	78	4,143	2,867	78	40	10	15	45
Public and community services	2,429	2,391	38	2,398	1,902	38	24	4	1	15
Total commercial	84,597	83,042	1,555	81,848	43,350	1,555	910	118	82	698
Private individuals – housing loans	131,608	130,264	1,344	131,608	124,423	1,344	52	34	5	658
Private individuals – other	29,866	29,359	223	29,679	19,246	223	71	82	69	258
Total public – activity in Israel	246,071	242,665	3,122	243,135	187,019	3,122	1,033	234	156	1,614
Banks in Israel	1,074	1,074	–	325	299	–	–	–	–	–
Government of Israel	7,986	7,986	–	–	–	–	–	–	–	–
Total activity in Israel	255,131	251,725	3,122	243,460	187,318	3,122	1,033	234	156	1,614
Borrower activity overseas										
Total public – activity overseas	5,690	5,669	21	5,526	4,329	21	5	(2)	(2)	38
Overseas banks	8,486	8,486	–	6,965	6,759	–	–	1	–	2
Overseas governments	2,222	2,222	–	569	569	–	–	–	–	–
Total activity overseas	16,398	16,377	21	13,060	11,657	21	5	(1)	(2)	40
Total	271,529	268,102	3,143	256,520	198,975	3,143	1,038	233	154	1,654

(1) On- and off-balance sheet credit risk, including with respect to derivative instruments (NIS in millions): Debts[2] – 198,975; debentures – 10,001; securities borrowed or acquired in conjunction with resale agreements – 115; Assets with respect to derivative instruments – 2,604; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 59,834.

(2) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements.

(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits, except for derivative instruments.

(4) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).

(5) Credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policies. This is in accordance with directives of the Supervisor of Banks.

(6) On- and off-balance sheet credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.

(7) Includes on-balance sheet credit risk amounting to NIS 1,705 million and off-balance sheet credit risk amounting to NIS 1,998 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 6,400 million for which insurance has been acquired to cover the Sales Act guarantee portfolio from international re-insurers.

Credit Risk by Economic Sector – Consolidated – continued

As of September 30, 2017

Reported amounts (NIS in millions)

	Total credit risk[1]			Off balance sheet debts[2] and credit risk (other than derivatives)[3]						
								Credit losses[4]		
	Total	Credit performance rating[5]	Problematic[6]	Total	Debts	Problematic[6]	Impaired	Expenses with respect to credit losses	Net accounting write-offs	Balance of provision for credit losses
Borrower activity in Israel										
Public – commercial										
Agriculture, forestry and fishing	784	769	15	784	580	15	2	5	1	12
Mining and excavation	576	576	–	545	307	–	–	(1)	–	3
Industry and production	8,528	8,306	222	8,357	4,974	222	104	17	11	98
Construction and real estate – construction[7]	29,481	29,094	387	29,475	11,875	387	283	1	(4)	145
Construction and real estate – real estate operations	2,597	2,568	29	2,577	2,016	29	22	(67)	(53)	45
Electricity and water delivery	1,618	1,588	30	1,318	792	30	3	4	–	8
Commerce	10,568	10,104	464	10,443	7,620	464	167	41	75	166
Hotels, dining and food services	1,118	1,080	38	1,117	863	38	12	14	7	26
Transport and storage	2,059	2,030	29	2,051	1,710	29	11	7	6	10
Information and communications	1,036	1,020	16	1,031	458	16	12	1	1	7
Financial services	11,397	11,184	213	9,389	3,272	213	30	(21)	(16)	91
Other business services	3,648	3,556	92	3,625	2,560	92	48	17	11	47
Public and community services	1,989	1,959	30	1,892	1,516	30	21	3	8	3
Total commercial	75,399	73,834	1,565	72,604	38,543	1,565	715	21	47	661
Private individuals – housing loans	124,993	123,928	1,065	124,993	119,310	1,065	41	18	8	624
Private individuals – other	28,214	27,751	225	28,120	18,490	225	73	93	62	239
Total public – activity in Israel	228,606	225,513	2,855	225,717	176,343	2,855	829	132	117	1,524
Banks in Israel	1,719	1,719	–	333	190	–	–	–	–	1
Government of Israel	9,802	9,802	–	–	–	–	–	–	–	–
Total activity in Israel	240,127	237,034	2,855	226,050	176,533	2,855	829	132	117	1,525
Borrower activity overseas										
Total public – activity overseas	5,421	5,417	4	5,251	3,743	4	4	–	1	37
Overseas banks	4,174	4,174	–	2,247	2,206	–	–	–	–	1
Overseas governments	1,437	1,437	–	426	426	–	–	–	–	–
Total activity overseas	11,032	11,028	4	7,924	6,375	4	4	–	1	38
Total	251,159	248,062	2,859	233,974	182,908	2,859	833	132	118	1,563

(1) On- and off-balance sheet credit risk, including with respect to derivative instruments (NIS in millions): Debts[2] – 182,908; debentures – 10,846; securities borrowed or acquired in conjunction with resale agreements – 2; Assets with respect to derivative instruments – 3,808; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 53,595.

(2) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements.

(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits, except for derivative instruments.

(4) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).

(5) Credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policies. This is in accordance with directives of the Supervisor of Banks.

(6) On- and off-balance sheet credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.

(7) Includes on-balance sheet credit risk amounting to NIS 1,485 million and off-balance sheet credit risk amounting to NIS 1,515 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 5,616 million for which insurance has been acquired to cover the Sales Act guarantee portfolio from international re-insurers.

Credit Risk by Economic Sector – Consolidated – continued

As of December 31, 2017

Reported amounts (NIS in millions)

	Total credit risk[1]			Off balance sheet debts[2] and credit risk (other than derivatives)[3]				Credit losses[4]		
	Total	Credit performance rating[5]	Problematic[6]	Total	Debts	Problematic[6]	Impaired	Expenses with respect to credit losses	Net accounting write-offs	Balance of provision for credit losses
Borrower activity in Israel										
Public – commercial										
Agriculture, forestry and fishing	809	801	8	807	607	8	4	2	2	8
Mining and excavation	630	630	–	570	376	–	–	(1)	(1)	4
Industry and production	8,597	8,321	276	8,425	4,962	276	127	34	15	111
Construction and real estate – construction[7]	29,897	29,515	382	29,889	12,527	382	303	4	(16)	160
Construction and real estate – real estate operations	2,828	2,808	20	2,810	2,265	20	15	(64)	(53)	48
Electricity and water delivery	1,402	1,372	30	1,138	609	30	3	3	–	7
Commerce	9,898	9,617	281	9,761	7,491	281	213	49	99	150
Hotels, dining and food services	1,154	1,108	46	1,154	897	46	19	15	9	25
Transport and storage	2,081	2,061	20	2,071	1,739	20	10	10	6	13
Information and communications	1,037	1,022	15	1,032	466	15	7	1	2	6
Financial services	10,346	10,144	202	8,203	3,393	202	15	(37)	(9)	68
Other business services	3,716	3,625	91	3,651	2,639	91	41	23	14	50
Public and community services	2,215	2,183	32	2,079	1,663	32	24	6	2	12
Total commercial	74,610	73,207	1,403	71,590	39,634	1,403	781	45	70	662
Private individuals – housing loans	126,273	125,169	1,104	126,273	120,189	1,104	33	24	9	629
Private individuals – other	28,728	28,163	221	28,507	18,812	221	71	123	86	245
Total public – activity in Israel	229,611	226,539	2,728	226,370	178,635	2,728	885	192	165	1,536
Banks in Israel	1,372	1,372	–	316	213	–	–	(1)	–	–
Government of Israel	9,099	9,099	–	1	1	–	–	–	–	–
Total activity in Israel	240,082	237,010	2,728	226,687	178,849	2,728	885	191	165	1,536
Borrower activity overseas										
Total public – activity overseas	5,542	5,538	4	5,389	3,967	4	3	1	1	38
Overseas banks	3,714	3,714	–	2,000	1,874	–	–	–	–	1
Overseas governments	1,450	1,450	–	455	455	–	–	–	–	–
Total activity overseas	10,706	10,702	4	7,844	6,296	4	3	1	1	39
Total	250,788	247,712	2,732	234,531	185,145	2,732	888	192	166	1,575

(1) On- and off-balance sheet credit risk, including with respect to derivative instruments (NIS in millions): Debts[2] – 185,145; debentures – 10,034; securities borrowed or acquired in conjunction with resale agreements – 76; Assets with respect to derivative instruments – 3,421; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 52,112.
(2) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements.
(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits, except for derivative instruments.
(4) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).
(5) Credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policies. This is in accordance with directives of the Supervisor of Banks.
(6) On- and off-balance sheet credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(7) Includes on-balance sheet credit risk amounting to NIS 1,571 million and off-balance sheet credit risk amounting to NIS 1,478 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 5,237 million for which insurance has been acquired to cover the Sales Act guarantee portfolio from international re-insurers.

Exposure to Foreign Countries – Consolidated[(1)]

Reported amounts (NIS in millions)

Part A – Information regarding total exposure to foreign countries and exposure to countries for which total exposure to each country exceeds 1% of total consolidated assets or 20% of capital, whichever is lower:

	Balance sheet exposure[(2)]		
Country	Cross-border balance sheet exposure		
	To governments[(4)]	To banks	To others
September 30, 2018			
USA	7,367	301	1,485
France	–	8	1,346
Germany	176	27	117
UK	–	114	734
Other	335[(6)]	213	1,965
Total exposure to foreign countries	7,878	663	5,647
Of which: Total exposure to LDC countries	10	1	437
To Greece, Portugal, Spain, Italy and Ireland	–	2	58
September 30, 2017			
USA	4,288	430	1,207
UK	–	260	430
Other	47	343	3,254
Total exposure to foreign countries	4,335	1,033	4,891
Of which: Total exposure to LDC countries	2	–	536
To Greece, Portugal, Spain, Italy and Ireland	–	1	44
December 31, 2017			
USA	3,231	336	1,239
France	–	142	1,295
Germany	172	61	98
Other	54	338	2,325
Total exposure to foreign countries	3,457	877	4,957
Of which: Total exposure to LDC countries	11	–	535
To Greece, Portugal, Spain, Italy and Ireland	–	3	43

See remarks below.

Balance sheet exposure of Bank affiliates in foreign country to local residents						Off-balance sheet exposure[(2)(3)(5)]		Cross-border balance sheet exposure	
Balance sheet exposure before deduction of local liabilities	Deduction with respect to local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	On-balance sheet problematic credit risk	Impaired debts	Total off-balance sheet exposure	Of which: Off-balance sheet troubled credit risk	Maturing in under 1 year	Maturing in over 1 year
354	354	–	9,153	26	–	562	–	6,240	2,913
–	–	–	1,354	27	2	3,388	–	58	1,296
–	–	–	320	–	–	4,196	–	79	241
1,449	461	988	1,836	15	–	1,112	–	192	656
–	–	–	2,513	25	2	1,105	–	777	1,736
1,803	815	988	15,176	93	4	10,363	–	7,346	6,842
–	–	–	448	4	–	139	–	141	307
–	–	–	60	–	–	66	–	24	36
389	389	–	5,925	19	–	1,370	–	1,834	4,091
1,084	468	616	1,306	13	–	2,926	–	306	384
–	–	–	3,644	32	–	4,270	–	1,155	2,489
1,473	857	616	10,875	64	–	8,566	–	3,295	6,964
–	–	–	538	5	–	153	–	132	406
–	–	–	45	–	–	417	–	12	33
368	368	–	4,806	15	–	654	–	1,532	3,274
–	–	–	1,437	21	–	2,565	–	210	1,227
–	–	–	331	–	–	2,999	–	106	225
1,201	482	719	3,436	23	–	1,661	–	930	1,787
1,569	850	719	10,010	59	–	7,879	–	2,778	6,513
–	–	–	546	6	–	149	–	125	421
–	–	–	46	1	–	66	–	14	32

Exposure to foreign countries – consolidated[(1)] – continued

Reported amounts (NIS in millions)

Part B – Information regarding countries for which total exposure to each country is between 0.75%-1% of total consolidated assets or between 15%-20% of capital, whichever is lower:

	September 30, 2018		September 30, 2017		December 31, 2017	
	Balance sheet exposure	Off-balance sheet exposure	Balance sheet exposure	Off-balance sheet exposure	Balance sheet exposure	Off-balance sheet exposure
UK	–	–	–	–	1,343	687
France	–	–	1,442	851	–	–

Part C – Information regarding balance sheet exposure to foreign countries facing liquidity issues

As of September 30, 2018, September 30, 2017 and December 31, 2017, the Bank has no balance sheet exposure to foreign countries facing liquidity issues.

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

(2) On- and off-balance sheet credit risk, problematic commercial credit risk and impaired debt are stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.

(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits, in conformity with Proper Banking Conduct Directive 313.

(4) Governments, official institutions and central banks.

(5) The balance of off-balance sheet exposure includes NIS 7,918 million with respect to acquiring insurance from international reinsurers for the portfolio of Sales Act guarantees for borrowers in the real estate sector in Israel. (as of December 31, 2017: NIS 5,237 million; as of September 30, 2017: NIS 5,616 million).

(6) Includes exposure to Multiparty Development Banks (MDB).

Credit exposure to foreign financial institutions

Below is information on the Bank's exposure to foreign financial institutions[1][2] (NIS in millions):

External credit rating	On-balance sheet credit risk[3] Before offset of deposits with respect to master netting agreements[5]	On-balance sheet credit risk[3] After offset of deposits with respect to master netting agreements[6]	Off balance sheet credit risk[4]	Current credit exposure Before offset of deposits with respect to master netting agreements	Current credit exposure After offset of deposits with respect to master netting agreements[5]
					September 30, 2018
AAA to AA-	628	539	8,180	8,808	8,719
A+ to A-	60	28	784	844	812
BBB+ to BBB-	12	10	56	68	66
BB+ to B-	–	–	20	20	20
Lower than B-	–	–	–	–	–
Unrated	1	1	–	1	1
Total credit exposure to foreign financial institutions	701	578	9,040	9,741	9,618
					September 30, 2017
AAA to AA-	530	477	2,393	2,923	2,870
A+ to A-	357	90	4,283	4,640	4,373
BBB+ to BBB-	31	31	–	31	31
BB+ to B-	–	–	19	19	19
Lower than B-	–	–	–	–	–
Unrated	1	1	–	1	1
Total credit exposure to foreign financial institutions	919	599	6,695	7,614	7,294
					December 31, 2017
AAA to AA-	746	648	5,581	6,327	6,229
A+ to A-	306	94	269	575	363
BBB+ to BBB-	73	72	–	73	72
BB+ to B-	–	–	20	20	20
Lower than B-	–	–	–	–	–
Unrated	2	2	–	2	2
Total credit exposure to foreign financial institutions	1,127	816	5,870	6,997	6,686

As of September 30, 2018, September 30, 2017 and December 31, 2017 there was no problematic credit risk, net.

Problematic credit risk – credit risk for impaired, inferior credit or credit under special supervision.

(1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the former. Bank exposure is almost entirely to banks and investment banks primarily incorporated in the UK, USA, Germany, Switzerland and France.
(2) After deduction of provision for credit losses.
(3) Bank deposits, loans to the public, investment in debentures, securities borrowed or acquired in conjunction with resale agreements and other assets with respect to derivative instruments.
(4) Primarily guarantees and commitments to grant credit, including guarantees to secure indebtedness of third parties. The balance of off-balance sheet exposure to financial institutions includes NIS 7,918 million as of September 30, 2018 (as of September 30, 2017: NIS 5,616 million; as of December 31, 2017: NIS 5,237 million) with respect to acquiring insurance from international reinsurers for the portfolio of Sales Act guarantees for borrowers in the real estate sector in Israel.
(5) Presented net of fair value of liabilities with respect to derivative instruments for counter-parties which have signed master netting agreements. Comparative figures were reclassified.
(6) With respect to offset of cash deposits used as collateral for transactions with regard to financial derivatives.

The aforementioned credit exposure excludes exposure to financial institutions for which complete, explicit government guarantees are in place, and exclude investments in asset-backed securities. For more information with regard to credit exposure composition with respect to derivative instruments vis-à-vis banks and dealers/brokers (domestic and foreign), see Note 11.B. to the financial statements.

Some of the exposures listed in the above table are included under "Credit Risk by Economic Sector", under "Financial services". This includes deposits with banks, loans to the public, public investment in debentures and other assets with respect to derivative instruments. Futures transactions, weighted in accordance with rules stated in Proper Business Conduct Directive 313, are included as part of off-balance sheet credit risk, and are excluded from the above table.

In conjunction with its policies regarding management of exposure to foreign financial institutions, the Bank’s Board of Directors sets, *inter alia*, the risk appetite – i.e. the maximum exposure limit for states and foreign financial institutions, while adjusting the exposure limit to the risk assessment for each state and financial institution. Exposure limits are set based, inter alia, on rating of the various nations and financial institutions and on Bank assessment of the risk level in a manner which diversifies exposure.

The Bank determines the exposure limit to each financial institution based on the most recent rating available for said institution, provided by one of the leading international rating agencies are used – based on financial information for the institution under review. Exposure limits per institution include maximum exposure amount and maximum time to maturity for different types of activities and transactions. To this end, the existence (or absence) of an offset agreement for derivative operations with these financial institution is also taken into consideration. The policies also specify a hierarchy of authority for approval of specific transactions within the exposure limits.

The Bank monitors current ratings published for financial institutions to which it has exposure, and adjusts the exposure limits and actual exposure, as required, to the current rating. The Bank also reviews on a regular basis any additional information available with regard to these institutions in order to monitor exposure even where the credit rating may not reflect the complete picture.

The Bank takes into consideration the maturity dates of its credit exposure in conjunction with the Bank's liquidity requirements. Deposits are normally deposited for short terms, whereas exposure with respect to derivatives and investments in securities are for longer terms.

Housing credit risk and its development

In conjunction with credit risks management, the Bank takes various actions to manage, control and mitigate risks associated with provision of housing loans. The Bank estimates the risk profile associated with provision of housing loans as low, relative to the inherent risk in the Bank's overall loan portfolio, due to the high level of client diversification, geographic diversification of borrowers, relatively low leverage, which recently has decreased even further due to Bank of Israel directives, intensive review procedures of borrower quality and their repayment capacity, and securing credit with property as collateral.

The Bank acts regularly to control and manage the risk associated with housing loans, for which the Retail Division, the Risks Control Division and other Bank entities are responsible. This activity includes portfolio analysis by inherent risk factors (LTV, repayment ratio, geographic location, loan age, income decile etc.) and carrying out a variety of stress scenarios to review the impact of macro-economic factors on portfolio risk – primarily the impact of the unemployment rate and interest rates. The Bank has developed an advanced model for rating housing loans, which includes a rating for each loan and calculation of potential loss in case of failure. This model is in addition to the Bank's existing monitoring tools.

Risk appetite and risk profile in mortgage segment

As part of its credit risk policies, the Bank has set various restrictions on housing loan operations, to account for major risk factors. These factors are reviewed from time to time and additional restrictions are imposed as needed, i.e. based on the actual risk profile of the mortgage portfolio and its trend, as well as on regulatory directives from the Bank of Israel.

The risk appetite for mortgages is defined using multiple risk benchmarks, which apply to credit risk and concentration risk aspects at regular performance level. These benchmarks include: differential risk premium (reflecting the risk of the mortgagee), the LTV ratio, property location (geographic risk), credit quality benchmark (see below under Credit Control), loan repayment to income ratio, loan purpose, loan term, loan track mix, property type, document quality, normative interest rate, financial wealth and cross restrictions on combinations of multiple parameters.

The Bank constantly monitors the risk profile of the mortgage portfolio and its development over time, in view of the specified risk appetite. In particular, this monitoring is conducted through the Bank's quarterly risks document which is presented to and approved by Bank manage, the Board of Directors and its Risks Management Committee. Such monitoring reveals that leading risk benchmarks continue to remain relatively low. These benchmarks include: LTV ratios, repayment ratio, rate of obligo in default and, in particular, the rate of arrears for new loans (one year since origination), which is testimony to the high quality of underwriting at the Bank. Note that the average LTV ratio for the Bank's mortgage portfolio (at end of September 2018) was 52.8% reflecting the LTV ratio upon loan origination – see more details below). The Bank also estimates the "actual" LTV ratio for the portfolio, based on changes to property values, based on estimates by the Central Bureau of Statistics against the outstanding portfolio balances. This ratio is lower than the original LTV ratio due to the constantly higher housing prices, reflected by the mortgage inventory in the portfolio. These data support the Bank's estimate that the potential for loss due to the Bank's mortgage portfolio, even in scenarios involving material decline in housing prices, is low. In addition, the Bank regularly reviews its mortgage portfolio under stress conditions, including under significant change in macro-economic conditions, using multiple methodologies. The outcome of stress testing indicates that portfolio risk has decreased and that the potential impact of a severe stress event in the market is low.

Volume of mortgages granted by the Household segment is as follows:

	Loans granted (NIS in millions)		
	First nine months		Rate of change
	2018	2017	In %
Mortgages issued (for housing and any purpose)			
From the Bank's funds	15,801	14,902	6.0
From funds of the Finance Ministry			
Directed loans	205	143	43.4
Standing loans and grants	54	54	–
Total new loans	16,060	15,099	6.4
Refinanced loans	1,646	1,032	59.5
Total loans originated	17,706	16,131	9.8
Number of borrowers (includes refinanced loans)	32,399	30,735	5.4

Below are details of various risk attributes of the housing loan portfolio(1) as of September 30, 2018 (NIS in millions):

LTV ratio	Repayment ratio out of regular income	Loan age(2) (time elapsed since loan grant) Up to 3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Up to 60%	Up to 35%	2,648	8,837	10,613	23,813	17,355	5,551	68,817
	35%-50%	254	917	1,483	4,097	5,007	1,216	12,974
	50%-80%	–	–	–	67	1,581	446	2,094
	Over 80%	–	–	–	1	132	83	216
60%-75%	Up to 35%	1,162	3,372	4,135	14,879	7,702	1,157	32,407
	35%-50%	108	319	487	1,765	1,881	317	4,877
	50%-80%	–	–	–	17	439	124	580
	Over 80%	–	–	–	–	31	15	46
Over 75%	Up to 35%	80	373	237	211	1,221	1,080	3,202
	35%-50%	10	31	25	29	250	368	713
	50%-80%	–	–	–	–	44	112	156
	Over 80%	–	–	–	–	2	29	31
Total		4,262	13,849	16,980	44,879	35,645	10,498	126,113
Of which:								
Loans granted with original amount over NIS 2 million		286	796	1,127	2,399	1,615	167	6,390
Percentage of total housing loans		6.7%	5.7%	6.6%	5.3%	4.5%	1.6%	5.1%
Loans bearing variable interest:								
Non-linked, at prime lending rate		1,162	3,797	4,256	12,641	12,351	3,450	37,657
CPI-linked(3)		10	21	25	127	3,317	1,886	5,386
In foreign currency(3)		113	413	600	1,269	1,513	259	4,167
Total		1,285	4,231	4,881	14,037	17,181	5,595	47,210
Non-linked loans at prime lending rate, as percentage of total housing loans		27.3%	27.4%	25.1%	28.2%	34.7%	32.9%	29.9%
CPI-linked loans bearing variable interest as percentage of total housing loans		0.2%	0.2%	0.1%	0.3%	9.3%	18.0%	4.3%
Loans with LTV over 75% as percentage of total housing loans		2.1%	2.9%	1.5%	0.5%	4.3%	15.1%	3.3%

(1) Balance of housing loans after provision by extent of arrears.
(2) The loan balances presented above are aged based on the date of loan origination, and include under the same age group any loan balances actually provided at a later date.
Furthermore, loan refinancing does not modify the loan age, i.e. the loan balance is attributed to the original loan origination date. This treatment also applies to refinancing of "directed" loans originally guaranteed by the State and refinanced to loans for which the Bank is responsible.
(3) Pursuant to directives by the Supervisor of Banks, these include loans for which the interest rate is adjusted more frequently than once every 5 years.

Attributes of the Bank's housing loan portfolio

The Bank's policies with regard to mortgages are based on a conservative approach, limiting specific risk for each loan by reviewing various attributes. These attributes include: LTV ratio, ratio of repayment to regular borrower income, and borrower capacity to make current repayments even under scenarios involving a change in interest rates. Whenever loans are granted with attributes which do not meet one or more of the standards set by the Bank for these attributes, the Bank requires additional bolstering for the loan, such as guarantors for the loan, proven repayment capacity not based on regular borrower income etc. In recent years, due to expansion of the housing market and relatively low interest environment, the Bank has enhanced measures taken to monitor and mitigate risk, as reflected by a significant decrease in loan risk factors, as detailed below (all data below as of September 30, 2018).

LTV ratio

One of the key parameters used by the Bank in minimizing risk in its housing loan portfolio is the LTV ratio (ratio of loan amount to value of the property pledged as collateral).

The average loan-to-value ratio for the Bank's mortgage portfolio as of September 30, 2018 was 52.8%, compared to 54.2% on September 30, 2017 and to 54.1% on December 31, 2017. Out of the total loan portfolio of the Bank, amounting to NIS 126.1 million, some 96.7% were granted with an original LTV ratio under 75%, which secures the loan even in case of an extreme 25% decrease in value of the property pledged as collateral.

The LTV ratio in this report is the historical LTV ratio calculated upon loan approval, and does not account for any current repayments which reduce the loan balance nor any changes in value of properties pledged as collateral. The significant increase in housing prices, as from late 2008 and, conversely, reduced loan balances due to current repayments result in a decrease in the current "actual" LTV ratio and, as noted above, based on changes to property values as estimated by the Central Bureau of Statistics, against current portfolio balances. This ratio is lower than the historical LTV ratio. Total loans granted at LTV ratios over 75% in the past two years amounted to NIS 0.8 billion, or only 0.6% of the total housing loan portfolio.

Note, in this regard, that the Bank's average LTV ratio as of September 30, 2018, based on current outstanding balances (with no change to property value due to changes in housing prices) would have decreased as follows: For loans originated up to one year ago – by 4%. For loans originated one to 5 years ago – by 7%; for loans originated over 5 years ago – by 19%; for all loans in total – by 11%.

The percentage of loans granted with a high LTV ratio (over 75%) out of total housing loan portfolio of the Bank to 1.5% for loans granted 1-2 years ago, 2.9% for loans granted 3-12 months ago and 2.1% for loans granted in the third quarter of 2018.

Repayment as percentage of regular income

The LTV ratio of a housing loan is a benchmark of loan security, regardless of borrower attributes. Therefore, in addition, when a mortgage is approved, the Bank requires borrowers to show their capacity to make current loan repayments on schedule, primarily by calculating the ratio of monthly repayment to regular borrower income.

The average repayment ratio for the Bank's housing loan portfolio is 26.7%. Some 82.8% of the Bank's mortgage portfolio were granted to borrowers with a repayment ratio under 35% (the average repayment ratio for these borrowers is 23.3%). Some 14.7% of the mortgage portfolio was granted to borrowers with a repayment ratio of 35% to 50% (the average repayment ratio for these borrowers is 39.5%). Some 2.3% of mortgages was granted to borrowers with a repayment ratio of 50% to 80% (the average repayment ratio for these borrowers is 59.6%), and only 0.2% was granted to borrowers with a repayment ratio over 80% (the average repayment ratio for these borrowers is 92%).

The loans with a high repayment ratio are loans granted to borrowers with significant other assets, whose repayment capacity is not necessarily based on current income, to borrowers with very high income where the repayment ratio is less significant, or where additional bolstering of the loan is in place, in addition to the pledged property and repayment capacity of the borrower, such as financially robust guarantors.

Loans bearing variable interest

The Bank offers clients housing loans which in part bear adjustable interest and in part are linked (to CPI, foreign currency) or non-linked (NIS-denominated loans).

The directive by the Supervisor of Banks dated May 3, 2011, restricted the portion of loans extended bearing interest which may vary within a 5-year term to 33% of total loan amount. The Supervisor's letter dated August 29, 2013 stipulates that in addition, a banking corporation may not approve a housing loan where the ratio of the loan portion bearing variable interest to total loan amount exceeds 67% – regardless of the frequency of interest rate change.

The Bank provides clients with the knowledge and expertise of its staff in order for clients to understand the risk involved with a loan bearing adjustable interest and how this risk may be mitigated or avoided. The Bank advises clients to attribute appropriate weighting to this risk, and to be cautious when deciding upon the loan composition.

Total loans linked to the prime lending rate granted over the past two years, which constitute the major portion of risk associated with such mortgages, is NIS 9.2 billion, or only 7.3% of the housing loan portfolio.

Note however that before approving a loan linked to the prime lending rate, similar to loan approvals for other variable interest tracks, the Bank reviews the repayment capacity of the borrower under scenarios where the prime lending rate would increase to the "normative interest rate".

Loan amount

Loans granted by the Bank with an original amount over NIS 2 million amounted in total to NIS 6.4 billion on September 30, 2018, or only 5.1% of the Bank's housing loan portfolio.

Provision by extent of arrears

Below are details of the provision for credit losses with respect to housing loans for which a minimum provision for credit losses was made by extent of arrears, in accordance with appendix to Proper Banking Conduct Directive 314, as of September 30, 2018 (NIS in millions):

	Extent of arrears							
		In arrears 90 days or longer					Balance with respect to refinanced loans in arrears(2)	Total
	In arrears 30 to 89 days(1)	90 days to 6 months	6-15 months	15-33 months	Over 33 months	Total over 90 days		
Amount in arrears	8	18	18	14	226	276	43	327
Of which: Balance of provision for interest(3)	–	–	–	1	111	112	6	118
Recorded debt balance	508	655	322	88	134	1,199	96	1,803
Balance of provision for credit losses (4)	–	–	39	41	101	181	44	225
Debt balance, net	508	655	283	47	33	1,018	52	1,578

(1) In conformity with Public Reporting Directives, excludes the balance of housing loans in arrears up to 2 months.

(2) Loans for which an agreement was signed for repayment of arrears by borrower, where a change was made in the repayment schedule for the loan balance not yet due.

(3) With respect to interest on amounts in arrears.

(4) Excludes balance of provision for interest.

For more information about housing credit risk, see the Detailed Risks Report on the Bank website.

Operational risk

Risk description and development

Operational risk is defined by the Bank of Israel as the risk of loss due to inappropriateness or failure of internal procedures, people, systems or due to external events.
The Bank has defined a framework for management of operational risks, which includes a definition of corporate governance that specifies the roles and responsibilities of the lines of defense and the importance of deploying an appropriate operational risk management culture at the Bank.
The Bank actively handles operational risk in order to support operations of the business units, to improve major business processes associated with their operations and thus, to increase business value, rather than only reduce expected loss due to operational risk.

Information security and cyber risk – Information security risk is risk arising from faults in protection of the Bank's computer systems and information stored there. Cyber risk arises from an event including an attack on computer systems by or on behalf of internal or external adversaries of the Bank.
IT risk – risk arising from failure of the Bank's IT systems as a result of deficient availability and performance of these systems, incorrect performance and lack of support by the systems for the Bank's business needs.
Legal risk – Risk of loss due to exposure to fines, lawsuits and/or punitive action due to breach of contract or disagreements. Legal risk includes risks arising from legal exposure due to Bank conduct with its various interested parties (such as: clients, suppliers and other third parties).
See below for developments in legal risk.
The Bank applies Proper Banking Conduct Directive 355 concerning "Management of business continuity".
In the third quarter of 2018, the Bank continued to implement the drill plan, including drills for operating a mobile branch, call-up drills, cyber drill together with the Cyber Unit and also continued to implement the annual work plan, including revision and improvement of procedures and emergency files.
The Bank concluded the data collection process, as part of business implication analysis (BIA), as part of the multi-year maintenance plan, the conclusions from which will be presented to management by end of 2018.

Information security and cyber security

Directive 361 with regard to Cyber Defense Management provides guidelines for proper management of cyber risks, which require expansion and adjustment of the IT risks management framework with regard to the threat space perception and the required defensive capabilities. Accordingly, the Bank has an approved strategy and comprehensive cyber defense policy and has specified the defense lines for its implementation , has appointed an Information Security and Cyber Defense Manager, reporting to the Manager, Risks Control Division – responsible, *inter alia*, for setting policy on information security and cyber defense at the Bank, development of a cyber defense work plan, monitoring the implementation of this work plan and review of the effectiveness of systems and processes for information security and cyber defense.
The direct banking systems at the Bank include authentication processes and tools in conformity with Proper Banking Conduct Directive 367.
In the first quarter of 2018, as part of an extensive wave of fraud attempts in the banking system, multiple attempts were made to transfer funds from client accounts which were victims of a phishing attack, where their account credentials and credit card information were stolen by using a fake website.
These attempts were effectively identified by the defense systems applied by the Bank to protect its client accounts.
The Bank immediately notified the clients whose accounts showed suspicious login or transfer attempts and instructed these clients to cancel their credit cards.
This event was reported to relevant parties at the Bank and elsewhere. No damage was incurred by the Bank nor by Bank clients.
In the third quarter of 2018, the Bank's defense systems identified and foiled two attempts to defraud clients and to steal funds from their accounts. No damage was incurred by the Bank nor by Bank clients.

Information technology risk

In recent years, the risks associated with IT management have increased, due to development and deployment of new technologies and evolution of new risk and threats. Other than under routine conditions, the IT management framework addresses system failures, such as: system faults and preparation for emergency situations. This is also intended to ensure that the Bank maintain business continuity during an alert or emergency. This may mitigate reputation risks and business risks which could arise under such conditions.

Legal risk

Proper Banking Conduct Directive no. 350 concerning "Operational risks" defines legal risk as including absence of potential for legal enforcement of an agreement and "including, but not being limited to exposure to fines or penalties arising from supervisory action, as well as from individual arrangements".
The Bank's Legal Division regularly analyzes the legal risk components, the risk boundaries (arising, for example, from the counter-party identity, from creation of collateral etc.) as well as specific risk attributes while reviewing its risk level and exposure with attention to the different lines of business at the Bank.
Following developments in the investigation by the US DOJ, the Bank has reviewed the need to revise the impact of various risk factors and increased, on the financial statements for the second quarter, the impact of legal risk from low-medium to medium. For more information about developments in the investigation by the US Department of Justice, see Note 10.B.4 to the financial statements.

For more information about operational risk, see also the Detailed Risks Report on the Bank website.

Market risk and interest risk

Risk description and development

Market risk – This is the risk of loss from On- and off-balance sheet positions, arising from change in fair value of financial instruments, due to change in market risk factors (interest rates, exchange rates, inflation, prices of equities and commodities).

Interest rate risk in the banking portfolio is the risk to Bank profit (change in revenues) or to the Bank's economic value, primarily due to changes in the structure of interest rate curves relevant for Bank operations, non-identical fluctuations of various curves used by the Bank for pricing and management of its exposures, or from the fact that a change in interest rates may result in a change in composition of the Bank's assets and liabilities due to exercise of options for early repayment due to change in market interest rates.

The market risk in the negotiable portfolio is minimal, in line with Bank policy. The bank portfolio is exposed to increase in the interest rate curve due to the relatively long-term structure of uses (the mortgage portfolio) and decrease in early mortgage repayment rates. Assessment of Bank exposure to interest risks in the third quarter of 2018 remains Medium.

Below is the VaR for the Bank Group (NIS in millions):

	First nine months		All of
	2018	2017	2017
At end of period	563	463	533
Maximum value during period	(FEB) 640	(APR) 781	(APR) 781
Minimum value during period	(JAN) 549	(FEB) 388	(FEB) 388

Market risk is primarily due to interest risk in the bank portfolio, as presented below.

Back-testing of the historical-analytic VaR model shows one case in which the daily loss exceeded the forecast VaR value. This number of cases is within the criteria specified by the Basel Committee for review of the VaR model quality.

Analysis of interest risk in bank portfolio

Below is the effect[1] of a parallel shift of the curve by 2% on the economic value of the Bank's portfolio in EVE terms (NIS in millions):

	September 30, 2018					
					Change in fair value	
	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	Dollar	EUR	Other	Total
2% increase	(249)	(1,954)	47	(37)	1	(2,192)
Decrease of 2%	721	2,367	(30)	41	(1)	3,098
	September 30, 2017					
2% increase	(721)	(911)	49	(33)	1	(1,615)
Decrease of 2%	1,269	1,161	(26)	38	(1)	2,441
	December 31, 2017					
2% increase	(714)	(1,112)	26	(47)	(1)	(1,848)
Decrease of 2%	1,285	1,408	(5)	53	2	2,743

(1) Calculated based on current data used for actual interest risk management.

In preparing the mortgage repayment cash flows forecast for the Bank, assumptions with regard to the prepayment rate and manner are taken into account. Market risk in the Bank's negotiable portfolio, primarily composed of portfolios managed in the trading room, is managed by means of quantitative limitations specified for each portfolio based on its activity.

Overall risk values in the third quarter of 2018 were higher than in the corresponding period last year, primarily due to current mortgage operations, partially offset by raising sources for long terms, derivative transactions and sale of mortgage portfolios.

Exposure of the Bank and its subsidiaries to changes in interest rates

Reported amounts (NIS in millions)

	As of September 30, 2018					
	On Call to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 10 years
Israeli currency – non-linked						
Financial assets, amounts receivable with respect to derivative instruments and to complex financial assets						
Financial assets[(1)]	126,372	2,032	6,559	11,673	8,018	7,024
Financial derivative instruments (other than options)	8,542	9,673	25,954	9,551	6,863	5,769
Options (in terms of underlying asset)	1,054	1,607	2,057	373	115	–
Total fair value	135,968	13,312	34,570	21,597	14,996	12,793
Financial liabilities, amounts payable with respect to derivative instruments and to complex financial liabilities						
Financial liabilities[(1)]	81,379	10,924	24,854	19,977	12,791	7,661
Financial derivative instruments (other than options)	19,806	19,876	14,531	9,267	7,123	5,701
Options (in terms of underlying asset)	1,911	884	1,809	239	58	–
Total fair value	103,096	31,684	41,194	29,483	19,972	13,362
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	32,872	(18,372)	(6,624)	(7,886)	(4,976)	(569)
Cumulative exposure in sector	32,872	14,500	7,876	(10)	(4,986)	(5,555)

Specific remarks:

(1) Excludes balance sheet balances of financial derivative instruments, fair value of off-balance sheet financial instruments and fair value of complex financial instruments.

(2) Weighted average by fair value of average effective duration.

					As of September 30, 2018			As of September 30, 2017			As of December 31, 2017
Over 10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective duration(2)	Total fair value	Internal rate of return	Average effective duration(2)	Total fair value	Internal rate of return	Average effective duration(2)
				In %	in years		In %	in years		In %	in years
3,538	330	563	166,109	3.78	0.96	163,613	3.80	1.29	164,265	3.67	1.31
19	–	–	66,371		0.84	71,520		0.96	60,731		0.97
–	–	–	5,206		0.95	4,007		1.36	4,155		1.36
3,557	330	563	237,686		0.93	239,140		1.19	229,151		1.22
777	4	–	158,367	0.93	1.07	149,182	0.96	1.12	148,845	0.87	1.10
–	–	–	76,304		0.88	85,703		0.92	75,000		0.90
–	–	–	4,901		0.73	3,336		1.16	3,814		1.10
777	4	–	239,572		1.00	238,221		1.05	227,659		1.03
2,780	326	563	(1,886)			919			1,492		
(2,775)	(2,449)	(1,886)	(1,886)			919			1,492		

Exposure of the Bank and its subsidiaries to changes in interest rates – continued

Reported amounts (NIS in millions)

	As of September 30, 2018					
	On Call to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 10 years
Israeli currency – linked to the CPI						
Financial assets, amounts receivable with respect to derivative instruments and to complex financial assets						
Financial assets(1)	1,576	2,221	9,494	18,638	14,183	4,392
Financial derivative instruments (other than options)	311	118	682	1,347	300	571
Total fair value	1,887	2,339	10,176	19,985	14,483	4,963
Financial liabilities, amounts payable with respect to derivative instruments and to complex financial liabilities						
Financial liabilities(1)	600	971	7,163	10,643	7,894	7,315
Financial derivative instruments (other than options)	529	275	2,709	1,542	689	443
Total fair value	1,129	1,246	9,872	12,185	8,583	7,758
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	758	1,093	304	7,800	5,900	(2,795)
Cumulative exposure in sector	758	1,851	2,155	9,955	15,855	13,060

Specific remarks:

(1) Excludes balance sheet balances of financial derivative instruments, fair value of off-balance sheet financial instruments and fair value of complex financial instruments.

(2) Weighted average by fair value of average effective duration.

			As of September 30, 2018			As of September 30, 2017			As of December 31, 2017		
Over 10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective duration(2)	Total fair value	Internal rate of return	Average effective duration(2)	Total fair value	Internal rate of return	Average effective duration(2)
				In %	in years		In %	in years		In %	in years
2,224	254	12	52,994	2.81	3.23	50,536	2.78	2.99	50,926	2.78	3.03
–	–	–	3,329		2.54	3,790		2.36	3,613		2.29
2,224	254	12	56,323		3.19	54,326		2.95	54,539		2.98
2,262	–	2	36,850	0.99	3.22	37,838	1.32	3.78	38,814	1.07	3.75
22	–	–	6,209		1.69	7,119		1.55	6,963		1.51
2,284	–	2	43,059		3.00	44,957		3.43	45,777		3.41
(60)	254	10	13,264			9,369			8,762		
13,000	13,254	13,264	13,264			9,369			8,762		

Exposure of the Bank and its subsidiaries to changes in interest rates – continued

Reported amounts (NIS in millions)

	As of September 30, 2018					
	On Call to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 10 years
Foreign currency[1]						
Financial assets, amounts receivable with respect to derivative instruments and to complex financial assets						
Financial assets[2]	12,661	4,879	2,044	1,399	2,573	614
Financial derivative instruments (other than options)	27,551	24,989	25,610	6,112	2,365	1,105
Options (in terms of underlying asset)	1,104	2,294	1,947	219	52	–
Total fair value	41,316	32,162	29,601	7,730	4,990	1,719
Financial liabilities, amounts payable with respect to derivative instruments and to complex financial liabilities						
Financial liabilities[2]	19,812	6,174	10,037	649	168	11
Financial derivative instruments (other than options)	16,071	14,550	35,029	6,503	1,768	1,289
Options (in terms of underlying asset)	1,307	1,912	2,200	348	95	–
Total fair value	37,190	22,636	47,266	7,500	2,031	1,300
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	4,126	9,526	(17,665)	230	2,959	419
Cumulative exposure in sector	4,126	13,652	(4,013)	(3,783)	(824)	(405)

Specific remarks:

(1) Includes Israeli currency linked to foreign currency.

(2) Excludes balance sheet balances of financial derivative instruments, fair value of off-balance sheet financial instruments and fair value of complex financial instruments.

(3) Weighted average by fair value of average effective duration.

			As of September 30, 2018			As of September 30, 2017			As of December 31, 2017		
Over 10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective duration(3)	Total fair value	Internal rate of return	Average effective duration(3)	Total fair value	Internal rate of return	Average effective duration(3)
				In %	in years		In %	in years		In %	in years
97	–	65	24,332	2.86	0.77	19,038	1.87	0.94	18,131	2.14	0.97
–	–	–	87,732		0.38	89,292		0.40	80,083		0.45
–	–	–	5,616		0.12	3,707		0.21	4,228		0.06
97	–	65	117,680		0.45	112,037		0.49	102,442		0.53
–	–	–	36,851	2.02	0.32	36,484	1.01	0.31	35,744	1.17	0.29
–	–	–	75,210		0.50	71,374		0.59	62,191		0.65
–	–	–	5,862		0.30	4,269		0.35	4,503		0.11
–	–	–	117,923		0.43	112,127		0.49	102,438		0.50
97	–	65	(243)			(90)			4		
(308)	(308)	(243)	(243)			(90)			4		

Exposure of the Bank and its subsidiaries to changes in interest rates – continued

Reported amounts (NIS in millions)

	As of September 30, 2018					
	On Call to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 10 years
Total exposure to interest rate fluctuations						
Financial assets, amounts receivable with respect to derivative instruments and to complex financial assets						
Financial assets(1)	140,609	9,132	18,097	31,710	24,774	12,030
Financial derivative instruments (other than options)	36,404	34,780	52,246	17,010	9,528	7,445
Options (in terms of underlying asset)	2,158	3,901	4,004	592	167	–
Total fair value	179,171	47,813	74,347	49,312	34,469	19,475
Financial liabilities, amounts payable with respect to derivative instruments and to complex financial liabilities						
Financial liabilities(1)	101,791	18,069	42,054	31,269	20,853	14,987
Financial derivative instruments (other than options)	36,406	34,701	52,269	17,312	9,580	7,433
Options (in terms of underlying asset)	3,218	2,796	4,009	587	153	–
Total fair value	141,415	55,566	98,332	49,168	30,586	22,420
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	37,756	(7,753)	(23,985)	144	3,883	(2,945)
Cumulative exposure in sector	37,756	30,003	6,018	6,162	10,045	7,100

Specific remarks:

(1) Excludes balance sheet balances of financial derivative instruments, fair value of off-balance sheet financial instruments and fair value of complex financial instruments.

(2) Weighted average by fair value of average effective duration.

General remarks:

- In this table, data by terms represents the present value of future cash flows from each financial instrument, discounted using the interest rate which discounts them to the fair value consistent with assumptions according to which fair value was calculated for the financial instruments in Note 15 to the financial statements.
- Internal rate of return is the interest rate which discounts the expected cash flows from a financial instrument to its fair value recognized under Note 15 to the financial statements.
- Average effective duration of a group of financial instruments is an approximation of the change, in percent, in fair value of the group of financial instruments which would be caused by a minor change (0.1% increase) in the internal rate of return of each of the financial instruments.
- Certain transactions conducted by the Bank constitute complex financial instruments, which include embedded derivative elements not detached, in accordance with Public Reporting Directives. These transactions include, inter alia, loans with exit points, deposits bearing graduated interest rates with withdrawal dates, credit and deposits with guaranteed minimum and deposits with optional linkage. The Bank reflects the interest rate risk with respect to these instruments in a reasonable manner, by spreading maturities of the cash flows in accordance with contract dates, and with various assumptions based on past experience.

				As of September 30, 2018			As of September 30, 2017			As of December 31, 2017	
Over 10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective duration(2)	Total fair value	Internal rate of return	Average effective duration(2)	Total fair value	Internal rate of return	Average effective duration(2)
				In %	in years		In %	in years		In %	in years
5,859	584	640	243,435	3.26	1.44	233,187	3.30	1.63	233,322	3.25	1.66
19	–	–	157,432		0.62	164,602		0.69	144,427		0.71
–	–	–	10,822		0.52	7,714		0.81	8,383		0.70
5,878	584	640	411,689		1.10	405,503		1.23	386,132		1.29
3,039	4	2	232,068	1.00	1.29	223,504	1.13	1.44	223,403	0.97	1.43
22	–	–	157,723		0.73	164,196		0.80	144,154		0.83
–	–	–	10,763		0.49	7,605		0.70	8,317		0.56
3,061	4	2	400,554		1.05	395,305		1.16	375,874		1.18
2,817	580	638	11,135			10,198			10,258		
9,917	10,497	11,135	11,135			10,198			10,258		

Impact of hypothetical changes in interest rates on fair value of financial instruments of the Bank and its subsidiaries

Fair value of financial instruments before impact of hypothetical changes in interest rates (NIS in millions):

	Israeli currency		Foreign currency[1]			
	Non-linked	Linked to CPI	Dollar	EUR	Other	Total
September 30, 2018						
Financial assets[2]	166,109	52,994	18,671	3,477	2,184	243,435
Amounts receivable with respect to financial derivative instruments[3]	71,577	3,329	77,684	10,673	4,991	168,254
Financial liabilities[2]	(158,367)	(36,850)	(29,918)	(4,511)	(2,422)	(232,068)
Amounts payable with respect to financial derivative instruments[3]	(81,205)	(6,209)	(66,474)	(9,687)	(4,911)	(168,486)
Total	(1,886)	13,264	(37)	(48)	(158)	11,135
December 31, 2017						
Financial assets[2]	164,265	50,926	13,070	3,172	1,889	233,322
Amounts receivable with respect to financial derivative instruments[3]	64,886	3,613	68,750	10,741	4,820	152,810
Financial liabilities[2]	(148,845)	(38,814)	(28,725)	(4,643)	(2,376)	(223,403)
Amounts payable with respect to financial derivative instruments[3]	(78,814)	(6,963)	(52,978)	(9,320)	(4,396)	(152,471)
Total	1,492	8,762	117	(50)	(63)	10,258

Net fair value of financial instruments, after impact of changes in interest rates (NIS in millions)[4]:

	Israeli currency		Foreign currency[1]				Change in fair value	
	Non-linked	Linked to CPI	Dollar	EUR	Other	Total	NIS in millions	In %
September 30, 2018								
Change in interest rates:								
Concurrent immediate increase of 1%	(1,829)	12,947	(124)	(63)	(158)	10,773	(362)	(3.3)
Concurrent immediate increase of 0.1%	(1,882)	13,231	(46)	(50)	(158)	11,095	(40)	(0.4)
Concurrent immediate decrease of 1%	(1,893)	13,612	57	(32)	(158)	11,586	451	4.1
December 31, 2017								
Change in interest rates:								
Concurrent immediate increase of 1%	1,613	8,783	57	(92)	(65)	10,296	38	0.4
Concurrent immediate increase of 0.1%	1,503	8,764	110	(54)	(63)	10,260	2	–
Concurrent immediate decrease of 1%	1,421	8,739	185	(6)	(60)	10,279	21	0.2

(1) Includes Israeli currency linked to foreign currency.

(2) Includes complex financial instruments. Excludes balance sheet balances of financial derivative instruments and fair value of off-balance sheet financial instruments.

Note that in calculation of the fair value of financial instruments, as stated in Note 15 to the financial instruments, the discount rate for financial assets reflects the inherent credit risk and the discount rate for financial liabilities also reflects the Bank's premium on raising resources. This differs from calculation of the effect of interest risk in the banking portfolio, in EVE (Economic Value of Equity) terms, which only includes the effect of exposure to risk-free interest. There are also differences in assignment of expected future cash flows from different financial instruments. For the effects listed above, the fair value of financial instruments bearing variable interest were calculated assuming that cash flows would be repaid upon the next change in the contractual interest rate.

(3) Amounts receivable (and payable) with respect to financial derivative instruments, discounted using interest rates used for calculation of the fair value.

(4) Net fair value of financial instruments presented in each linkage segment is the net fair value for this segment, assuming the indicated change in all interest rates in the linkage segment. Total net fair value of financial instruments is the net fair value of all financial instruments (excluding non-monetary items), assuming the indicated change in all interest rates in all linkage segments.

For further details of assumptions used in calculation of the fair value of financial instruments, see Note 15 to the financial statements.

Analysis of CPI and exchange rate exposures

Below is analysis of the sensitivity of Bank Group capital to changes in major exchange rates and in the CPI(before tax effect) as of September 30, 2018, capital increase (erosion) (NIS in millions):

	Scenarios				Historical stress scenario[1]	
	10% increase	5% increase	Decrease of 5%	Decrease of 10%	Maximum increase	Maximum decrease
CPI[2]	1,443.1	722.1	433.8	(469.5)	(782.6)	(1,565.1)
Dollar	71.0	35.1	21.3	(20.0)	(31.2)	(69.7)
Pound Sterling	–	0.4	0.3	–	0.4	1.8
Yen	0.9	0.1	–	0.7	1.5	3.7
EUR	0.9	1.9	0.5	1.0	2.7	1.5
Swiss Franc	(0.1)	(0.1)	–	–	–	(0.2)

(1) Stress scenarios were calculated based on daily changes in the exchange rate and monthly changes in the CPI, in the last 10 years.

(2) Capital sensitivity to a 3% increase / decrease in the CPI is NIS 433.8 million and NIS (469.5) million, respectively.

For more information about market and interest risk, see the Detailed Risks Report on the Bank website.

Share price risk

For more information about share price risk, see the Detailed Risks Report on the Bank website.

For information about equity investments in the bank portfolio, see Note 5 to these financial statements and Notes 12 and 15.A to the 2017 financial statements.

Liquidity and financing risk

Risk description and development

Liquidity risk – risk resulting from uncertainty as to the availability of sources and the ability to realize assets within a specified period of time and at a reasonable price.
Financing risk – risk resulting from shortage of financing sources or too high costs to raise such sources.

Liquidity risk is managed subject to the limitations of the Board of Directors and Management in an effort to minimize the losses deriving from an investment of surplus liquidity in assets that are highly liquid, but have a low yield.
There were no deviations from the Board of Directors' limitations recorded in the first nine months of 2018.
For more information about liquidity risk, see also the Detailed Risks Report on the Bank website.

Financing risk is managed, as part of the liquidity risk, using Board and management restrictions on concentration of financing sources and through reduced dependence on material counter-parties.

The Bank's main financing sources are stable and diverse sources for different time horizons – retail and business deposits, long-term deposits from financial institutions and issues of debentures and notes. The Bank sees the great importance of diversification of its financing sources and acts proactively to identify sources for longer terms, including through a wide range of deposits offered by the Bank to its clients, deposits with unique attributes, which allow clients to benefit from relatively high interest over the long term with optional liquidity during the deposit term. In the first nine months of 2018, the Bank continued diversifying its financing sources and reducing concentration risk. Concentration risk for financing sources remained low.

For more information about financing sources, see chapter "Developments in financing sources" above.

For more information about financing risk, see also the Detailed Risks Report on the Bank website.

Liquidity coverage ratio

In conformity with Proper Banking Conduct Directive 221 "Liquidity coverage ratio", the minimum regulatory requirement as from January 1, 2017 is 100%. As part of its risks management policy, the Bank's Board of Directors specified that additional safety cushions are to be maintained, beyond the regulatory minimum ratio; so that the target liquidity coverage ratio for the Bank and the Group in 2018 would by 5% higher than the minimum required. This ratio is managed and reported for all currencies in aggregate and for NIS separately, both at Bank level and on Group basis. The ratio for the Bank solo and the consolidated ratio are calculated daily and reported as the average of daily observations over 90 days prior to the report date. This directive is in addition to liquidity risk management using internal models, as stipulated by Directive 342, as described above.

The average (consolidated) liquidity coverage ratio for the third quarter of 2018 was 121%. As noted above, in the third quarter of 2018 there were no recorded deviations from these restrictions.

For details of Amendment 28 of the Mutual Investment Act which applies to ETFs restrictions as to the investment rate and holdings of various assets, see chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" (Legislation and Supervision of Bank Group Operations) of these financial statements.

For more information about liquidity risk, see also the Detailed Risks Report on the Bank website.

As of September 30, 2018, the balance of the three largest depositor groups at the Bank Group amounted to NIS 8.4 billion.

Soliciting sources and Bank liquidity status – In the first nine months of 2018, there was an increase in the Bank's balance of deposits from the public. The balance of deposits from the public rose from NIS 183.6 billion on December 31, 2017 to NIS 192.9 billion on September 30, 2018, an increase by 5.1%.

In the non-linked segment, total deposits from the public amounted to NIS 143.4 billion, an increase by 7.7% compared to end of 2017. In the CPI-linked sector, deposits from the public amounted to NIS 13.9 billion, an increase by 11.6%, and in the foreign currency sector – to NIS 35.7 billion, an increase by 2.7% compared to end of 2017.

Other risks

Compliance and regulatory risk

Risk description and its development

Compliance risk is the risk of imposition of legal or regulatory sanctions, material financial loss or impact to reputation, which the Bank may incur due to its failure to comply with compliance provisions.

Compliance risk includes cross-border risk, which is presented separately below.

Compliance risk remained unchanged in the first nine months of 2018 and is defined as low-medium; the Bank believes it is trending downwards.

The decrease is due, *inter alia*, to further addressing the risks classified as High and further increase in control and training, further increased efficiency of work processes in this area and focused management, including improvement of client accounts where documents and data were found to be missing.

On July 8, 2018, the Bank received a demand from ISA for payment of a monetary sanction amounting to NIS 220 thousand, due to breach of Section 4 of the ISA directive concerning "Client referral to portfolio management services" – whereby investment advisors are prohibited from discouraging clients from contracting with a particular portfolio management company.

For more information about compliance and regulatory risk, see the Detailed Risks Management Report on the Bank website.

Cross-border and AML risk

Risk description and its development

Cross-border risk is the risk of financial loss (including due to legal proceedings, fines or sanctions imposed by statutory authorities or others in Israel and in other countries) and of impact to reputation, arising from the Bank's failure to comply with statutory provisions originating in other countries – whether provisions binding on the Bank or provisions which are not binding, but failure to comply with them may cause the Bank to incur damage, or from overseas activities of Bank clients in contravention of any statutory provisions.

Cross-border risk includes, *inter alia*, risk of damage, including impact to reputation, due to lawsuits or other enforcement proceedings brought by authorities in other countries, with regard to foreign tax laws applicable to certain Bank clients, AML and terror financing laws, sanctions imposed by international bodies and foreign authorities or other laws. Cross-border risk also applies at the Bank's overseas affiliates; in transactions with clients who are foreign residents; in business operations conducted by Bank representatives in foreign countries; and with regard to funds of individual Israeli clients invested overseas.

Cross-border risk includes the risk arising from obligations arising from US tax laws applicable to Bank Group operations outside of the USA (the Foreign Account Tax Compliance Act – "FATCA" and Qualified Intermediary – "QI"). This risk is also due to obligations stipulated by the Common Reporting Standard (CRS) issued by the OECD.

The Bank has near-zero appetite for cross-border risk.

Cross-border risk remained unchanged in the first nine months of 2018 and is defined as low-medium. The Bank manages risk by, *inter alia*, revising procedures, automating work processes, delivering training and assigning specialized branches to do business with such clients. In the first nine months of this year, multiple efforts were completed to review files, improve client data and have clients sign forms in order to comply with regulatory requirements.

AML and terror financing risk is the risk of imposition of legal or regulatory sanctions, of material financial loss or of damage to reputation and image, which the Bank may incur due to non And financing terrorism-compliance with AML and terror financing provisions.

The Bank has near-zero risk appetite with regard to AML risk.

AML risk remained unchanged in the first nine months of 2018, due to continued intensive training and deployment activity, along with risk-focused controls and taking effective action to avoid recurrence of extraordinary events and compliance failures. The technology-based system for identifying and reporting unusual activity is in regular use at branches and allows for close monitoring of banking activity. This is along with the increase in business activity and in view of further increased regulatory activity reflected, *inter alia*, in new directives being issued frequently, which the Bank is preparing for.

For more information about cross-border and AML risk, see the Detailed Risks Management Report on the Bank website.

Reputation risk

Risk description and its development

The Bank has mapped reputation risk as a material risk, because past events indicate that impact to the reputation of a financial institution may result in significant loss of value. Reputation risk is a stand-alone risk, but may also arise from materialization of other risks at the Bank, such as materialization of an operational risk event. Furthermore, impact to Bank reputation may bring about the materialization of other risks, in particular liquidity risk – with growing demand by clients to withdraw deposits.

The Bank routinely measures its reputation risk in the capital market, in the public and among clients and the business community. This measurement is based on specific quarterly studies which review public opinion (Bank clients and those of other banks), on monthly monitoring of on line discourse, on satisfaction surveys among Bank clients etc. Reports with regard to reputation risk are sent to Bank management and to the Board of Directors in the quarterly Risks Document – as is the case for all risks mapped by the Bank.

Following developments in the investigation by the US DOJ, the Bank has reviewed the need to revise the impact of various risk factors and increased, on the financial statements for the second quarter, the impact of reputation risk from low-medium to medium. For more information about developments in the investigation by the US Department of Justice, see Note 10.B.4 to the financial statements.

For more information about reputation risk, see also the Detailed Risks Report on the Bank website.

Strategic- business risk -

Risk description and its development

Strategic-business risk is the risk, in real time or potentially in future, of impact to Bank profits, capital or reputation, due to erroneous business decisions, improper deployment of decisions or insufficient preparation for changes in the business environment. This means the risk that the Bank chose the wrong strategy or that the Bank would not be able to implement the business and strategic plan as planned. The materiality of strategic risk requires the Bank to take measures which would allow it to manage this risk and take steps for assessment and early identification of events which may preclude implementation of the strategy.

Following developments in the investigation by the US DOJ, the Bank has reviewed the need to revise the impact of various risk factors and increased, on the financial statements for the second quarter, the impact of strategic risk from low-medium to medium. For more information about developments in the investigation, see Note 10.B.4 to the financial statements. See also chapter "Business goals and strategy" above.

Realization of the Igud acquisition transaction, should it be realized, would challenge the Bank, due to the operating merger of the two banks, along with continued achievement of objectives in Mizrahi Tefahot's current strategic plan.

On August 5, 2018, the Bank and shareholders of Bank Igud signed an addendum to the agreement, whereby the parties agreed to appeal the decision, jointly with Bank Igud. Such an appeal was filed with the Anti-Trust Court on September 6, 2018. For more information see chapter "Significant Events in the Bank Group's Business" above.

This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought before the Bank's Board of Directors. These assumptions may not materialize due to factors not all of which are under the Bank's control.

For more information about strategic – business risk, see also the Detailed Risks Report on the Bank website.

For more information about environmental risk, see chapter "Risks Overview" of the 2017 Report of the Board of Directors and Management.

Policies and critical accounting estimates, controls and procedures

Policies and critical accounting estimates

The Bank's financial statements are prepared in conformity with generally accepted accounting policies in Israel (Israeli GAAP) and in accordance with Public Reporting Directives of the Supervisor of Banks.

For most topics, these directives are based on generally acceptable accounting practices by US banks. For other, less material topics, these directives are based on International Financial Reporting Standards (IFRS) and on generally accepted accounting principles in Israel (Israeli GAAP). When International Financial Reporting Standards (IFRS) allow multiple alternatives, or do not specifically refer to a certain situation, these directives prescribe specific implementation guidelines, mostly based on generally acceptable accounting practices by US banks.

The significant accounting policies are detailed in Note 1 to the 2017 financial statements.

The application of generally accepted accounting principles by management at the time that the financial statements are prepared occasionally involves various assumptions, assessments and estimates that affect the amounts and business results reported in the financial statements. Some of the assumptions, assessments and estimates are critical to the financial position or the results of operations reflected in the Group's financial statements, because of the materiality of the matter, complexity of calculations or the extent of the probability that matters shrouded in uncertainty will be realized.

Provisions for legal claims

The financial statements include appropriate provisions to cover possible damages, where, in the estimation of the Bank's management, based on the opinion of its legal counsel, a provision is required.

In accordance with the directives of the Supervisor of Banks, claims have been classified according to the range of probability of realization of the risk exposure, as follows:

1) Probable risk: there is a probability of more than 70% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Probable, an appropriate provision was made in the financial statements.
2) Reasonably Possible risk: there is a probability of between 20% and 70% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Reasonably Possible, an appropriate provision is made in specific instances on the financial statements, at the discretion of Bank management and based on the opinion of legal counsel.
3) Remote risk: there is a probability of less than 20% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Remote, no provision was made in the financial statements.

Note 26.C to the annual financial statements for disclosure of material claims (whose amount, excluding interest and expenses, is over 1% of equity attributable to shareholders of the Bank) and Note 10.B. to these financial statements provide disclosure of material changes compared to the annual report.

Likewise, disclosure is given to motions for recognition as class actions, when the amount claimed in them is material, when, in the estimation of the Bank's management, based on the opinion of its legal counsel, it is not possible, on the date of preparing these financial statements, to estimate their possible outcome, and therefore, no provision was recorded for them.

In accordance with the directives of the Supervisor of Banks, the Bank is permitted to determine for class actions that it is not possible to estimate the prospects for realization of the exposure to risk in the four financial statements published since the claim was filed, or in case of delay of proceedings by decision of the Court. Beyond this, only in rare cases is the Bank permitted to determine that the prospects for realizing the exposure cannot be determined.

Note that the provision for legal claims and contingent liabilities depends on multiple factors and involves a high degree of uncertainty. New information to be received by the Bank in the future with regard to existing exposures as of the approval date of the financial statements may materially impact the exposure amount or the provision required with respect to such exposure.

The financial statements as of June 30, 2018 include a revised estimate of exposure with respect to the US DOJ investigation, amounting to NIS 425 million (USD 116.5 million). The cumulative provision with respect to this investigation as of September 30, 2018 amounts to NIS 589.8 million (USD 162.6 million). For more information see Note 10.B.4 to the financial statements.

For more information about accounting policies on critical matters, see chapter "Policies and critical accounting estimates" of the 2017 Report of the Board of Directors and Management.

For more information about changes to critical accounting policies and critical accounting estimates with regard to the group-based provision for credit losses and with regard to sector indebtedness limitation, see chapter "Changes to critical accounting policies and to critical accounting estimates" above.

Controls and Procedures

In accordance with the Public Reporting Directives of the Supervisor of Banks, based on requirements stipulated in Sections 302 and 404 of the American Sarbanes Oxley Act, the Bank President & CEO and the Chief Accountant of the Bank have each separately signed a Certification attached to the financial statements on "Disclosure Controls and Procedures (hereinafter: "Disclosure Certification").

The Disclosure Certification relates to the controls and procedures that were designed to assure that the information that the Bank requires for disclosure in accordance with the Public Reporting Regulations of the Supervisor of Banks, is accumulated, processed and sent to the Bank's Executive Management in a manner that enables decisions to be reached at an appropriate time, with respect to disclosure requirements. The certification also refers to setting of internal controls over financial reporting intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks.

Evaluation of controls and procedures with regard to disclosure

Further to adjustment of controls and procedures with regard to disclosure concerning the change in layout of the financial statements, made in 2017, in the first nine months of 2018 additional adjustments were made with regard to quarterly financial statements. Bank management, together with the Bank President & CEO and the Chief Accountant of the Bank, evaluated the effectiveness of the Bank's disclosure controls and procedures as of September 30, 2018. Based on this evaluation, the Bank President & CEO and the Chief Accountant of the Bank concluded that at the end of the period ended September 30, 2018, the disclosure controls and procedures are effective for recording, processing, summarizing and reporting the information that the Bank is required to disclose in the quarterly report, in accordance with the Public Reporting Regulations of the Supervisor of Banks, on the date stipulated in these Regulations.

Changes to internal controls

In the third quarter of 2018, no change occurred in the Bank's internal controls over financial reporting that had a material effect, or can reasonably be expected to have a material effect on the Bank's internal controls over financial reporting.

Moshe Vidman Chairman of the Board of Directors	**Eldad Fresher** President & CEO

Approval date:
Ramat Gan
November 12, 2018

Certification

I, ELDAD FRESHER, certify that:

1. I have reviewed the quarterly report of Bank Mizrahi Tefahot Ltd. ("the Bank") for the quarter ended September 30, 2018 (“the Report”).
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact nor omit to state any material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, would not be misleading with respect to the period covered by the Report.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders’ equity and cash flows of the Bank as of the dates and for the periods presented in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure[1] and to the Bank's internal controls over financial reporting[1] as well as:
   A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those entities, particularly during the period in which the Report is being prepared;
   B. We have set such internal controls over financial reporting, or had it set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks;
   C. We have evaluated the effectiveness of the Bank’s disclosure controls and procedures and presented our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and
   D. We have disclosed in this Report any change in the Bank’s internal controls over financial reporting that occurred during this quarter, that has materially affected, or is reasonably likely to materially affect, the Bank’s internal controls over financial reporting; and
5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank’s independent auditors, the Board of Directors and the Audit and Balance Sheet Committees of the Board of Directors of the Bank:
   A. All significant deficiencies and material weaknesses in the determination or operation of internal controls over financial reporting which are reasonably likely to impair the Bank’s ability to record, process, summarize and report financial information; and
   B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank’s internal controls over financial reporting.

   The aforesaid does not derogate from my responsibility or the responsibility of any other person according to the law.

Eldad Fresher
President & CEO

November 12, 2018

(1) As defined in Public Reporting Directives with regard to "Report of the Board of Directors and Management".

Certification

I, MENAHEM AVIV, certify that:

1. I have reviewed the quarterly report of Bank Mizrahi Tefahot Ltd. ("the Bank") for the quarter ended September 30, 2018 (“the Report”).
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact nor omit to state any material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, would not be misleading with respect to the period covered by the Report.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders’ equity and cash flows of the Bank as of the dates and for the periods presented in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure(1) and to the Bank's internal controls over financial reporting(1) as well as:
   A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those entities, particularly during the period in which the Report is being prepared;
   B. We have set such internal controls over financial reporting, or had it set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks;
   C. We have evaluated the effectiveness of the Bank’s disclosure controls and procedures and presented our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and
   D. We have disclosed in this Report any change in the Bank’s internal controls over financial reporting that occurred during this quarter, that has materially affected, or is reasonably likely to materially affect, the Bank’s internal controls over financial reporting; and
5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank’s independent auditors, the Board of Directors and the Audit and Balance Sheet Committees of the Board of Directors of the Bank:
   A. All significant deficiencies and material weaknesses in the determination or operation of internal controls over financial reporting which are reasonably likely to impair the Bank’s ability to record, process, summarize and report financial information; and
   B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank’s internal controls over financial reporting.

   The aforesaid does not derogate from my responsibility or the responsibility of any other person according to the law.

Menahem Aviv
Vice-president, Chief Accountant

November 12, 2018

(1) As defined in public reporting regulations with regard to "Report of the Board of Directors and management".

Deloitte.

Independent Auditors' Review Report to Shareholders of Bank Mizrahi-Tefahot Limited

Introduction

We have reviewed the enclosed financial information of Bank Mizrahi Tefahot Ltd. ("the Bank"), consisting of the condensed consolidated interim balance sheet as of September 30, 2018, the condensed consolidated interim statements of profit and loss, comprehensive income, changes to shareholder equity and cash flows for the nine-month and three-month periods then ended. The Board of Directors and management are responsible for preparation and presentation of financial information for these interim periods, in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for interim financial reporting and in accordance with directives and guidance of the Supervisor of Banks. We are responsible for expressing our conclusion as to the financial information for this interim period based on our review.

We did not review the condensed financial information of certain consolidated subsidiaries, whose assets included in consolidation constitute 5.84% of total consolidated assets as of September 30, 2018, and whose net interest revenues before expenses with respect to credit losses included in the consolidated statements of profit and loss constitute 8.41% and 8.37% of total consolidated net interest revenues before expenses with respect to credit losses, respectively, for the nine-month and three-month periods then ended. Furthermore, we did not review the condensed financial information for the interim period of an associated company treated according to the equity method, the investment in which amounted to NIS 19 million as of September 30, 2018. The condensed financial information for the interim periods of the aforementioned companies was reviewed by other independent auditors. We have been provided with their review reports and our conclusions, in as much as it relates to the financial information with respect to those companies, is based on the review reports by those other independent auditors.

Review scope

We have conducted our review in accordance with Review Standard no. 1 of the Institute of Certified Public Accountants in Israel "Review of Financial Information for Interim Periods Conducted by the Entity's Independent Auditor" and with the review standard whose application to review of banking corporations is stipulated in accordance with directives and guidance of the Supervisor of Banks. A review of financial information for interim periods consists of discussions, mostly with persons responsible for financial and accounting issues, and of application of analytical and other review procedures. A review is significantly limited in scope as compared to an audit conducted in accordance with generally accepted audit standards in Israel, and therefore it does not enable us to achieve assurance that we have knowledge of all material matters which might have been identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, and on the review reports of other auditors, nothing has come to our attention that would cause us to believe that the aforementioned financial information has not been prepared, in all material aspects, in accordance with Israeli GAAP for interim financial reporting and in accordance with directives and guidance of the Supervisor of Banks.

Without qualifying our conclusion, we draw your attention to:

A. Note 8, section 3 and Note 10.B.3. with regard to contingent liabilities of the Bank and its subsidiary, including lawsuits filed against the Bank and motions for class action status.

B. Note 10.B.4. with regard to an investigation by the US Department of Justice concerning Bank Group business with its US clients.

Brightman Almagor Zohar & Co.

Brightman Almagor Zohar & Co.
Certified Public Accountants
Member of Deloitte Touche Tohmatsu Limited

Tel Aviv, November 12, 2018

Tel Aviv - Main Office
1 Azrieli Center Tel Aviv, 6701101 P.O.B. 16593
Tel Aviv, 6116402 I Tel: +972 (3) 608 5555 I Fax: +972 (3) 609 4022 I info@deloitte.co.il

Jerusalem
3 Kiryat Ha'Mada
Har Hotzvim Tower
Jerusalem, 9777603
P.O.B. 45396
Jerusalem, 9145101
Tel: +972 (2) 501 8888
Fax: +972 (2) 537 4173
info-jer@deloitte.co.il

Haifa
5 Ma'aleh Hashichrur
P.O.B. 5648
Haifa, 3105502
Tel: +972 (4) 860 7333
Fax: +972 (4) 867 2528
info-haifa@deloitte.co.il

Beer Sheva
12 Alumot
Omer Industrial Park
P.O.B. 1369
Omer, 8496500
Tel: +972 (8) 690 9500
Fax: +972 (8) 690 9600
info-beersheva@deloitte.co.il

Eilat
The City Center
P.O.B. 583
Eilat, 8810402
Tel: +972 (8) 637 5676
Fax: +972 (8) 637 1628
info-eilat@deloitte.co.il

Deloitte
3 Azrieli Center
Tel Aviv, 6701101
Tel: +972 (3) 607 0500
Fax: +972 (3) 607 0501
info@deloitte.co.il

Deloitte Analytics
7 Hasivim
P.O.B. 7796
Petah Tikva, 4959368
Tel: +972 (77) 8322221
Fax: +972 (3) 9190372
info@deloitte.co.il

Seker - Deloitte
7 Giborey Israel St.
P.O.B. 8458
Netanya, 4250407
Tel: +972 (9) 892 2444
Fax: +972 (9) 892 2440
info@deloitte.co.il

Condensed Financial Statements

Table of Contents

Condensed consolidated statement of profit and loss

Reported amounts (NIS in millions)

	Note	For the three months ended September 30, 2018	For the three months ended September 30, 2017	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017	For the year ended December 31, 2017
			(unaudited)		(unaudited)	(audited)
Interest revenues	2	1,832	1,300	5,518	4,571	6,222
Interest expenses	2	596	289	1,856	1,360	1,875
Interest revenues, net		1,236	1,011	3,662	3,211	4,347
Expenses with respect to credit losses	6,13	61	41	233	132	192
Interest revenues, net after expenses with respect to credit losses		1,175	970	3,429	3,079	4,155
Non-interest revenues						
Non-interest financing revenues	3	105	61	324	81	136
Commissions		366	346	1,091	1,056	1,423
Other revenues		12	28	35	52	94
Total non-interest revenues		483	435	1,450	1,189	1,653
Operating and other expenses						
Payroll and associated expenses		598	(1)635	1,724	(1)1,678	(1)2,271
Maintenance and depreciation of buildings and equipment		186	187	561	554	742
Other expenses		152	(1)150	888	(1)440	(1)598
Total operating and other expenses		936	972	3,173	2,672	3,611
Pre-tax profit		722	433	1,706	1,596	2,197
Provision for taxes on profit		250	161	654	584	806
After-tax profit		472	272	1,052	1,012	1,391
Share in profits of associated companies, after tax effect		-	-	1	-	-
Net profit:						
Before attribution to non-controlling interests		472	272	1,053	1,012	1,391
Attributable to non-controlling interests		(18)	(11)	(49)	(30)	(44)
Attributable to shareholders of the Bank		454	261	1,004	982	1,347

(1) Comparative figures for previous periods were reclassified. For more information about directives of the Supervisor of Banks with regard to improved presentation of expenses with respect to pension and other post-employment benefits, see Note 1.D.4.

The accompanying notes are an integral part of the financial statements.

M. Vidman

Moshe Vidman
Chairman of the Board of Directors

Eldad Fresher
President & CEO

Menahem Aviv
Vice-president, Chief Accountant

Approval date:
Ramat Gan, November 12, 2018

Condensed consolidated statement of profit and loss – Continued

Reported amounts (NIS in millions)

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2018	2017	2018	2017	2017
		(unaudited)		(unaudited)	(audited)
Diluted earnings per share[(1)] (in NIS)					
Basic earnings					
Net profit attributable to shareholders of the Bank	1.95	1.12	4.31	4.23	5.80
Weighted average number of ordinary shares used to calculate basic earnings (thousand of shares)	233,206	232,420	232,993	232,310	232,357
Diluted earnings					
Net profit attributable to shareholders of the Bank	1.94	1.11	4.28	4.20	5.76
Weighted average number of ordinary shares used to calculate diluted earnings (thousands of shares)	234,335	234,087	234,323	233,914	233,949

(1) Share of NIS 0.1 par value. See Note 1.D.1. for application of US GAAP with regard to earnings per share.

Condensed consolidated statement of comprehensive income

Reported amounts (NIS in millions)

	Note	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
		2018	2017	2018	2017	2017
			(unaudited)		(unaudited)	(audited)
Net profit:						
Before attribution to non-controlling interests		472	272	1,053	1,012	1,391
Attributable to non-controlling interests		(18)	(11)	(49)	(30)	(44)
Net profit attributable to shareholders of the Bank		454	261	1,004	982	1,347
Other comprehensive income (loss) before taxes	4					
Adjustments for presentation of available-for-sale securities at fair value, net		(5)	5	(84)	49	22
Adjustments from translation of financial statements of investments in associated companies[(1)]		–	(1)	1	(2)	(4)
Net loss from cash flow hedges		3	–	(1)	–	(8)
Adjustment of liabilities with respect to employees' benefits[(2)]		3	(47)	84	(139)	(132)[(3)]
Total other comprehensive income (loss), before tax		1	(43)	–	(92)	(122)
Related tax effect		–	17	–	32	44
Other comprehensive income (loss) after taxes[(4)]						
Other comprehensive income (loss), before attribution to non-controlling interests		1	(26)	–	(60)	(78)
Less other comprehensive income (loss) attributed to non-controlling interests		–	1	(1)	13	12
Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes		1	(25)	(1)	(47)	(66)
Comprehensive income:						
Before attribution to non-controlling interests		473	246	1,053	952	1,313
Attributable to non-controlling interests		(18)	(10)	(50)	(17)	(32)
Comprehensive income attributable to shareholders of the Bank		455	236	1,003	935	1,281

(1) Adjustments from translation of financial statements of associated companies.
(2) Includes adjustments with respect to actuarial estimates included in the reported period for defined-benefit pension plans and current amortization of adjustments with respect to liabilities to profit and loss.
(3) Includes: The effect of update to the assumption of salary cost and update to the remuneration increase rate on the actuarial liability for employees' rights at the Bank, amounting to NIS 69 million, net of taxes, as well as the effect of the streamlining plan at Bank Yahav on Bank shareholders' equity amounting to NIS 11 million. For more information see Note 22 to the 2017 financial statements.
(4) For more information see Note 4 to the financial statements – Cumulative Other Comprehensive Income (Loss).

The accompanying notes are an integral part of the financial statements.

Condensed consolidated balance sheet

Reported amounts (NIS in millions)

		As of September 30,		As of December 31,
	Note	2018	2017	2017
			(unaudited)	(audited)
Assets				
Cash and deposits with banks		42,423	42,578	41,130
Securities(1)(2)	5	10,093	10,938	10,133
Securities loaned or purchased in resale agreements		115	2	76
Loans to the public	6,13	191,348	180,086	182,602
Provision for credit losses	6,13	(1,552)	(1,465)	(1,484)
Loans to the public, net		189,796	178,621	181,118
Loans to Governments		569	426	456
Investments in associated companies		32	33	32
Buildings and equipment		1,360	1,359	1,403
Intangible assets and goodwill		87	87	87
Assets with respect to derivative instruments	11	2,604	3,808	3,421
Other assets		1,752	1,726	1,716
Total assets		248,831	239,578	239,572
Liabilities and Equity				
Deposits from the public	7	192,943	184,221	183,573
Deposits from banks		655	1,462	1,125
Deposits from the Government		44	60	51
Debentures and subordinated notes		29,769	29,129	29,923
Liabilities with respect to derivative instruments	11	2,836	3,293	3,082
Other liabilities (3)		7,451	7,387	7,491
Total liabilities		233,698	225,552	225,245
Shareholders' equity attributable to shareholders of the Bank		14,441	13,399	13,685
Non-controlling interests		692	627	642
Total equity		15,133	14,026	14,327
Total liabilities and equity		248,831	239,578	239,572

(1) Of which: NIS 6,566 million at fair value on consolidated basis (September 30, 2017 – NIS 7,594 million; December 31, 2017 – NIS 6,768 million).

(2) For more information with regard to securities pledged to lenders, see Note 5 to the financial statements.

(3) Of which: Provision for credit losses with respect to off balance sheet credit instruments amounting to NIS 100 million (on September 30, 2017 – NIS 96 million, on December 31, 2017 – NIS 90 million).

The accompanying notes are an integral part of the financial statements.

Condensed Statement of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

	Share capital and premium[(1)]	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves
	For the three months ended September 30, 2018 (unaudited)			
Balance as of June 30, 2018	2,191	54	–	2,245
Net profit for the period	–	–	–	–
Dividends paid[(6)]	–	–	–	–
Realization of share-based payment transactions[(2)]	5	(5)	–	–
Other comprehensive income (loss), net, after tax	–	–	–	–
Balance as of September 30, 2018	2,196	49	–	2,245
	For the three months ended September 30, 2017 (unaudited)			
Balance as of June 30, 2017	2,249	47	(76)	2,220
Net profit for the period	–	–	–	–
Dividends paid	–	–	–	–
Benefit from share-based payment transactions	–	7	–	7
Related tax effect	–	–	–	–
Realization of share-based payment transactions[(2)]	3	(3)	–	–
Cancellation of treasury shares[(5)]	(76)	–	76	–
Other comprehensive income (loss), net, after tax	–	–	–	–
Balance as of September 30, 2017	2,176	51	–	2,227

(1) Share premium generated prior to March 31, 1986.

(2) In the third quarter of 2018, 221,262 ordinary NIS 0.1 par value shares were issued (In the third quarter of 2017, 123,844 ordinary NIS 0.1 par value shares were issued) for exercise of options pursuant to the Employee Stock Option Plan.

(3) For details see Note 4 – Cumulative Other Comprehensive Income.

(4) For more information about various limitations on dividend distributions, see Note 24 to the 2017 financial statements.

(5) On September 18, 2017, the Board of Directors of the Bank decided to cancel 2.5 million shares of NIS 0.1 par value each of the Bank's issued share capital acquired by the Bank which constitute dormant shares that do not confer any rights in the Bank. Accordingly, on September 25, 2017, the dormant shares were canceled in the Bank's records.

(6) In the third quarter of 2018, no dividends were distributed with respect to earnings in the second quarter of 2018.

The accompanying notes are an integral part of the financial statements.

	Cumulative other comprehensive income (loss)(3)	Retained earnings(4)	Total shareholder equity	Non-controlling interests	Total equity
	(385)	12,126	13,986	674	14,660
	–	454	454	18	472
	–	–	–	–	–
	–	–	–	–	–
	1	–	1	–	1
	(384)	12,580	14,441	692	15,133
	(339)	11,395	13,276	617	13,893
	–	261	261	11	272
	–	(120)	(120)	–	(120)
	–	–	7	–	7
	–	–	–	–	–
	–	–	–	–	–
	–	–	–	–	–
	(25)	–	(25)	(1)	(26)
	(364)	11,536	13,399	627	14,026

Condensed Statement of Changes in Shareholders' Equity – Continued

Reported amounts (NIS in millions)

	Share capital and premium[(1)]	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves
	For the nine months ended September 30, 2018 (unaudited)			
Balance as of December 31, 2017	2,180	65	–	2,245
Net profit for the period	–	–	–	–
Dividends paid	–	–	–	–
Realization of share-based payment transactions[(2)]	16	(16)	–	–
Other comprehensive income (loss), net, after tax	–	–	–	–
Balance as of September 30, 2018	2,196	49	–	2,245
	For the nine months ended September 30, 2017 (unaudited)			
Balance as of December 31, 2016	2,239	58	(76)	2,221
Net profit for the period	–	–	–	–
Dividends paid	–	–	–	–
Benefit from share-based payment transactions	–	6	–	6
Related tax effect	–	–	–	–
Realization of share-based payment transactions[(2)]	13	(13)	–	–
Cancellation of treasury shares[(6)]	(76)	–	76	–
Other comprehensive income (loss), net, after tax	–	–	–	–
Balance as of September 30, 2017	2,176	51	–	2,227
	For the year ended December 31, 2017 (audited)			
Balance as of December 31, 2016	2,239	58	(76)	2,221
Net profit for the period	–	–	–	–
Dividends paid	–	–	–	–
Benefit from share-based payment transactions	–	24	–	24
Related tax effect	–	–	–	–
Realization of share-based payment transactions[(2)]	17	(17)	–	–
Cancellation of treasury shares[(6)]	(76)	–	76	–
Other comprehensive income (loss), net, after tax	–	–	–	–
Balance as of December 31, 2017	2,180	65	–	2,245

(1) Share premium generated prior to March 31, 1986.

(2) In the first nine months of 2018, the Bank issued 649,977 ordinary NIS 0.1 par value shares each. (In the first nine months of 2017 and in all of 2017, 419,484 and 533,719 ordinary NIS 0.1 par value shares were issued, respectively) for exercise of options pursuant to the Employee Stock Option Plan. The Bank issued 30,580 ordinary NIS 0.1 par value shares to the Bank President & CEO. (In the first nine months of 2017 and in all of 2017, 9,137 ordinary NIS 0.1 par value shares were issued to the Bank President & CEO. each).

(3) For details see Note 4 – Cumulative Other Comprehensive Income.

(4) For more information about various limitations on dividend distributions, see Note 24 to the 2017 financial statements.

(5) On April 26, 2017, June 20, 2017, September 26, 2017 and December 10, 2017, the Bank paid dividends amounting to NIS 39.8, 96.3, 120.0 and 78.3 million, respectively, in conformity with a decision by the Bank/s Board of Directors.

(6) On September 18, 2017, the Board of Directors of the Bank decided to cancel 2.5 million shares of NIS 0.1 par value each of the Bank's issued share capital acquired by the Bank which constitute dormant shares that do not confer any rights in the Bank. Accordingly, on September 25, 2017, the dormant shares were canceled in the Bank's records.

(7) Includes: The effect of update to the assumption of salary cost and update to the remuneration increase rate on the actuarial liability for employees' rights at the Bank, amounting to NIS 69 million, net of taxes, as well as the effect of the streamlining plan at Bank Yahav on Bank shareholders' equity amounting to NIS 11 million. For more information see Note 22 to the 2017 financial statements.

The accompanying notes are an integral part of the financial statements.

Cumulative other comprehensive income (loss) [3]	Retained earnings [4]	Total shareholder equity	Non-controlling interests	Total equity
(383)	11,823	13,685	642	14,327
–	1,004	1,004	49	1,053
–	(247)	(247)		(247)
–	–	–	–	–
(1)	–	(1)	1	–
(384)	12,580	14,441	692	15,133
(317)	10,810	12,714	610	13,324
–	982	982	30	1,012
–	[5](256)	(256)	–	(256)
–	–	6	–	6
–	–	–	–	–
–	–	–	–	–
–	–	–	–	–
[7](47)	–	(47)	(13)	(60)
(364)	11,536	13,399	627	14,026
(317)	10,810	12,714	610	13,324
–	1,347	1,347	44	1,391
–	[5](334)	(334)	–	(334)
–	–	24	–	24
–	–	–	–	–
–	–	–	–	–
–	–	–	–	–
[7](66)	–	(66)	(12)	(78)
(383)	11,823	13,685	642	14,327

Condensed statement of cash flows[(1)]

Reported amounts (NIS in millions)

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2018	2017	2018	2017	2017
		(unaudited)	(unaudited)		(audited)
Cash flows provided by current operations					
Net profit	472	272	1,053	1,012	1,391
Adjustments					
Share of the Bank in undistributed earnings of associated companies	–	–	(1)	–	–
Depreciation of buildings and equipment	57	65	178	187	245
Expenses with respect to credit losses	61	41	233	132	192
Gain from sale of securities available for sale	(11)	(22)	(18)	(47)	(52)
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	1	1	4	–	1
Gain from sale of buildings and equipment	–	(21)	–	(21)	(55)
Impairment of assets held for sale	–	–	1	–	–
Expenses arising from share-based payment transactions	–	7	–	6	24
Deferred taxes, net	(5)	18	(77)	(36)	9
Change in employees' provisions and liabilities	15	15	40	21	98
Adjustments with respect to exchange rate differentials	15	(42)	(65)	75	82
Proceeds from sale of loan portfolios	–	–	–	(1)	(4)
Accrual differences included with investment and financing operations	156	(28)	80	(43)	32
Net change in current assets					
Assets with respect to derivative instruments	853	576	816	(224)	155
Securities held for trading	247	(32)	32	168	138
Other assets, net	(83)	335	122	(91)	(74)
Net change in current liabilities					
Liabilities with respect to derivative instruments	(528)	(800)	(246)	(273)	(484)
Other liabilities	(251)	282	1	373	388
Net cash provided by current operations	999	667	2,153	1,238	2,086

(1) Restated. Format of the disclosure concerning the cash flows statement was adapted to US GAAP as stipulated in provisions of Topic 230 of the codification. For more information see Note 1.D.1.

The accompanying notes are an integral part of the financial statements.

Condensed statement of cash flows[1] – Continued

Reported amounts (NIS in millions)

	For the three months ended September 30, 2018	For the three months ended September 30, 2017	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017	For the year ended December 31, 2017
		(unaudited)	(unaudited)		(audited)
Cash flows provided by investment activities					
Net change in deposits with banks	151	(459)	79	(405)	(403)
Net change in loans to the public	(3,276)	(2,020)	(10,926)	(8,397)	(11,865)
Net change in loans to Governments	126	(114)	6	(96)	(126)
Net change in securities loaned or acquired in resale agreements	(93)	4	(39)	7	(67)
Acquisition of debentures held to maturity	(346)	–	(925)	(111)	(111)
Proceeds from redemption of securities held to maturity	–	–	723	–	–
Acquisition of securities available for sale	(267)	(1,499)	(2,042)	(4,323)	(4,501)
Proceeds from sale of securities available for sale	156	1,209	836	3,640	4,671
Proceeds from redemption of securities available for sale	–	–	1,449	–	–
Proceeds from sale of loan portfolios	557	535	2,324	1,453	2,586
Purchase of loan portfolios	(154)	(55)	(430)	(453)	(702)
Acquisition of buildings and equipment	(53)	(48)	(135)	(141)	(247)
Proceeds from sale of buildings and equipment	–	3	–	281	328
Proceeds from realized investment in associated companies	–	–	1	–	1
Net cash provided by investment activities	(3,199)	(2,444)	(9,079)	(8,545)	(10,436)
Cash flows provided by financing operations					
Net change in deposits from the public	3,043	3,541	9,370	5,969	5,321
Net change in deposits from banks	(220)	8	(470)	(75)	(412)
Net change in deposits from Government	(3)	3	(7)	10	1
Issuance of debentures and subordinated notes	–	3,527	–	6,230	6,909
Redemption of debentures and subordinated notes	(411)	(2,251)	(413)	(4,048)	(4,051)
Dividends paid to shareholders	–	(120)	(247)	(256)	(334)
Net cash provided by financing operations	2,409	4,708	8,233	7,830	7,434
Increase (decrease) in cash	209	2,931	1,307	523	(916)
Cash balance at beginning of the period	41,675	38,970	40,497	41,495	41,495
Effect of changes in exchange rate on cash balances	(15)	42	65	(75)	(82)
Cash balance at end of the period	41,869	41,943	41,869	41,943	40,497
Interest and taxes paid / received					
Interest received	1,886	1,434	5,048	4,835	6,521
Interest paid	515	601	1,240	1,445	1,717
Dividends received	–	5	6	11	4
Income taxes received	–	–	98	64	64
Income taxes paid	275	163	810	438	780
Appendix A – Non-cash Transactions					
Acquisition of buildings and equipment	–	3	–	3	25

(1) Restated. Format of the disclosure concerning the cash flows statement was adapted to US GAAP as stipulated in provisions of Topic 230 of the codification. For more information see Note 1.D.1.

Note 1 – Reporting Principles and Accounting Policies

A. Overview

On September 30, 2018, the Bank's Board of Directors authorized publication of these condensed financial statements as of November 12, 2018.

The condensed financial statements are prepared in accordance with Israeli GAAP for financial reporting of interim periods and in accordance with directives of the Supervisor of Banks, and do not include all information required in annual financial statements. These condensed financial statements should be read in conjunction with the audited financial statements as of December 31, 2017.

As noted in the annual report, for most topics, the Supervisor of Banks' directives are based on generally acceptable accounting practices by US banks. For other, less material topics, these directives are based on International Financial Reporting Standards (IFRS) and on generally accepted accounting principles in Israel (Israeli GAAP).

When International Financial Reporting Standards (IFRS) allow multiple alternatives, or do not specifically refer to a certain situation, these directives prescribe specific implementation guidelines, mostly based on generally acceptable accounting practices by US banks.

In accordance with directives of the Supervisor of Banks, the condensed financial statements are only issued on a consolidated basis.

The Group accounting policies in these condensed consolidated quarterly financial statements is consistent with the policies applied to the annual financial statements, except as noted below.

B. Reclassification on the financial statements

Data in these financial statements as of September 30, 2017 and as of December 31, 2017 includes reclassification of balances and notes in conformity with directives of the Supervisor of Banks with regard to codification update 2017-07 re improved presentation of expenses with respect to pension and other post-employment benefits. For more information see section D.4. below.

C. Use of estimates

As stated in Note 1.D.6)D. On the 2017 financial statements, the group-based provision for credit losses for 2017 was based, inter alia, on historical loss rates in various economic sectors, divided into problematic and non-problematic debt, for the 7 years ended on December 31, 2017, in conformity with directives of the Supervisor of Banks. In conformity with the revised directives, the range was increased to 8 years in 2018.

The financial statements for the second quarter of this year included (as do these financial statements) an updated estimate of exposure with respect to an investigation by the US Department of Justice concerning Bank Group business with its US clients, amounting to NIS 425 million (USD 116.5 million). This is due to the US DOJ notice to the Bank, with regard to a settlement to conclude the on-going investigation by the US DOJ. For more information see Note 10.B.4 to the financial statements.

D. Initial application of accounting standards, accounting standard updates and directives of the Supervisor of Banks

As from reporting periods starting on January 01, 2018 (unless otherwise noted), the Bank applies the following new accounting standards and directives:

1. Reporting by banking corporations in Israel in conformity with US GAAP on these topics: Non-current assets held for sale and discontinued operations; fixed assets and impairment of fixed assets, investment property; earnings per share; statement of cash flows; interim reporting; Interest capitalization and Guarantees.
2. Share-based payment
3. Limit on sector indebtedness
4. Improved presentation of expenses with respect to pension and other post-employment benefits
5. Recognition of revenues from contracts with clients

Below is a description of the substance of changes made to accounting policies and reporting regulations in the condensed consolidated financial statements and description of the effect of their initial application, if any.

6. **Reporting by banking corporations in Israel in conformity with US GAAP on these topics: Non-current assets held for sale and discontinued operations; fixed assets and impairment of fixed assets, investment property; earnings per share; statement of cash flows; interim reporting; Interest capitalization and Guarantees**.

1. .

On October 13, 2016, the Supervisor of Banks issued a circular concerning reporting by banking corporations and credit card issuers in Israel, in conformity with US GAAP. The circular revises the Public Reporting Directives and adopts generally accepted accounting standards in the US on these topics:

- US GAAP with regard to topic 205-20 of the codification "Discontinued operations".
- US GAAP with regard to topic 360 of the codification "Fixed assets".
- US GAAP with regard to topic 260 of the codification "Earnings per share".
- US GAAP with regard to topic 230-10 of the codification "Statement of cash flows".
- US GAAP with regard to topic 270 of the codification "Interim period reporting".
- US GAAP with regard to topic 835-20 of the codification "Interest capitalization".
- US GAAP with regard to topic 460 of the codification "Guarantees".

The Bank applies the directives stipulated in the circular dated January 1, 2018.

Application of the circular has no material impact on the Bank's financial statements, other than a change in presentation in the cash flow statement and of earnings per share on the profit and loss statement.

2. Share-based payment

In May 2017, the US Financial Accounting Standards Board ("FASB") issued Revision 2017-09, amending topic 718 of the codification with regard to the scope of changes to terms (hereinafter: “the Amendment”).

The revision is designed to clarify when it is required to treat changes to terms of share-based payment award as a modification.

According to the revision, modification accounting should be applied with respect to changes to the plan, unless the fair value, vesting conditions or classification of the award (as capital or liability award) are the same before and after the modification.

However, companies should continue to apply modification accounting for changes made due to:

- Laws or regulations; or
- New standards with regard to: Revenue recognition, leases or credit losses.

Furthermore, disclosures are still required for significant changes to terms of a share-based payment award as well as assessment of tax implications, even if such change does not result in modification accounting being applied.

The Bank applies these changes as from January 1, 2018.

Application of this update has no material impact on the Bank's financial statements.

Note 1 – Reporting Principles and Accounting Policies – continued

3. Limit on sector indebtedness

On July 10, 2017, the Supervisor of Banks published a memo regarding sector indebtedness limit, including changes to Proper Banking Conduct Directives 314 and 315.

The major changes to Proper Banking Conduct Directives according to this memo are as follows:

- Setting a category of sector indebtedness limit, whereby indebtedness for a specific sector may not exceed 20% of total indebtedness to the public and, in some cases, not to exceed 22%.
- The additional provision and general provision mechanism has been rescinded.
- When setting the provision for credit losses, the risk with respect to credit for which no current financial statements are available should be weighted.

The Bank applies these changes as from January 1, 2018.

Application of this amendment has no material impact on the Bank's financial statements.

4. Improved presentation of expenses with respect to pension and other post-employment benefits

On January 1, 2018, the Supervisor of Banks issued a circular with regard to codification update 2017-07 re improved presentation of expenses with respect to pension and other post-employment benefits.

The update clarifies that components of benefit cost included under payroll expenses on the statement of profit and loss should be separated, so that only cost of service remains under payroll expenses, with all other costs presented under non-operating expenses (Other Expenses). Furthermore, the update clarifies that only the cost of service may be capitalized, in cases where payroll expenses may be capitalized, and other components of the benefit cost may not be capitalized.

According to the circular, the Bank retroactively applies the directives to these financial statements, including by reclassification of comparative figures.

Below are details of the effect of initial implementation on profit and loss data:

	For the three months ended September 30, 2017			For the nine months ended September 30, 2017			For the year ended December 31, 2017		
	(unaudited)					(unaudited)	(audited)		
	Amount presented in these financial statements	Effect of classi-fication	In conformity with previous provisions	Amount presented in these financial statements	Effect of classi-fication	In conformity with previous provisions	Amount presented in these financial statements	Effect of classi-fication	In conformity with previous provisions
Profit and loss									
Payroll and associated expenses	635	(15)	650	1,678	(38)	1,716	2,271	(55)	2,326
Other expenses	150	15	135	440	38	402	598	55	543

5. Recognition of revenues from contracts with clients

On January 11, 2015, the Supervisor of Banks issued a circular concerning adoption of an update to accounting rules with regard to revenues from contracts with clients. The circular updates the Public Reporting Directives in view of the publication of ASU 2014-09, a new standard on revenue recognition in US accounting rules. In conformity with provisions of the standard, revenue is to be recognized at the amount expected to be received in consideration of transfer of goods or provision of services to clients.

The new standard does not apply, *inter alia*, to financial instruments and to contractual rights or obligations within the scope of chapter 310 of the codification. Furthermore, the Bank of Israel directives clarify that, in general, provisions of the new standards would not apply to accounting treatment of interest revenues and expenses nor to non-interest financing revenues.

The Bank applies provisions of the new standard as from January 1, 2018.

Application of this circular has no material impact on the Bank's financial statements.

Note 1 – Reporting Principles and Accounting Policies – continued

E. New accounting standards and new directives by the Supervisor of Banks prior to their implementation

Standard / update topic	Issue date	Start date	Issued by	Standard summary	Effect on the Bank's financial statements
ASU 2017-04 Impairment of goodwill	January 2017	January 01, 2020	US Financial Accounting Standards Board ("FASB")	A two-stage test should be applied for each reporting unit, whereby impairment of goodwill is to be recognized in the amount of the difference between the fair value of the reported unit and its carrying amount, taking into account the effect of taxes on income. However, the impairment loss may not exceed the goodwill allocated to the reporting unit.	No material effect is expected
Receivables ASU 2017-08	March 2017	January 1, 2019	US Financial Accounting Standards Board ("FASB")	The amortization period of premium on debentures with optional early redemption by the issuer is to be calculated based on the earliest redemption date.	No material effect is expected
Adoption of updates to US GAAP with regard to provision for credit losses ASU 2016-13	March 2018	January 1, 2021	Supervisor of Banks	Provision for credit losses is to be calculated in conformity with the expected loss over the credit term. This is *in lieu* of estimation of the loss incurred and yet to be identified; estimation of the provision for credit losses shall include significant use of forward-looking information, reflecting reasonable forecasts with regard to future economic events; the new rules for calculating the provision for credit losses shall apply to loans (including housing loans), debentures held to maturity and certain off-balance sheet credit exposures.	The Bank is studying the impact of adopting the standards.
Reporting by banking corporations and credit card issuers in Israel, in conformity with generally accepted accounting principles in the USA with regard to leases	July 2018	January 1, 2020	Supervisor of Banks	Banking corporations that lease assets for a term longer than 12 months shall recognize these on the balance sheet, even in case of an operating lease; for operational lease transactions, an asset shall be recorded on the balance sheet reflecting the corporation's right to use the leased asset, against a liability to make lease payments; as for capital adequacy, risk assets with respect to leases recognized on the balance sheet shall be weighted at 100% for the purpose of minimum capital ratio.	The Bank is studying the impact of adopting the standards.
Extension of transitional provision regarding implementation of provisions of Section 830 of the Codification "Foreign currency matters"	July 2018	January 1, 2021	Supervisor of Banks	The transitional provision instructs banking corporations not to include exchange rate differentials with respect to available-for-sale debentures as part of fair value adjustment of such debentures, but rather to continue treating these as stipulated in the Public Reporting Regulations prior to adoption of Section 830 of the Codification "Foreign currency matters", through January 1, 2021.	No material effect is expected
Adoption of updates to US GAAP with regard to recognition and measurement of financial Instruments ASU 2016-01	August 2018	January 01, 2019	Supervisor of Banks	Changes to fair value of shares available for sale, whose fair value is available and are as yet unrealized, would be recognized in the statement of profit and loss rather than in Other Comprehensive Income; shares with no fair value available would typically be presented at cost, adjusted for changes to observable prices of shares of the same issuer; the methods for determination of fair value for the Note on fair value of financial instruments have been revised.	No material effect is expected
Adoption of updates to US GAAP with regard to derivative instruments and hedging activities ASU 2017-12	August 2018	January 1, 2019	Supervisor of Banks	The rules expand the capacity of banking corporations to hedge certain risk components, thereby aligning the presentation of hedging instruments and hedged items on the financial statements; the rules simplify the application of accounting directives with regard to hedging, primarily through relief in requirements for review of the hedge effectiveness and hedge documentation; the rules update the disclosure re activities of banking corporations in derivative instruments.	The Bank is studying the impact of adopting the standards.
Updated standard with regard to changes to disclosure requirements of defined benefit plans ASU 2018-14	August 2018	January 1, 2021	US Financial Accounting Standards Board ("FASB")	Elimination of the required presentation of estimated amounts under Other Comprehensive Income expected to be deducted from cumulative Other Comprehensive Income to the Statement of Profit and Loss as expense in the following year; Elimination of the required presentation of future annual benefit amounts covered by insurance contracts and significant transactions between the entity or related parties and the plan; details to be provided of reasons for material gain or loss associated with change in liability with respect to defined benefit in the period; Clarification of disclosure requirements for entities with two or more plans.	No effect on the financial statements, other than change to presentation in the Note on employee rights.

Note 2 – Interest revenues and expenses

Reported amounts (NIS in millions)

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2018	2017	2018	2017	2017
		(unaudited)	(unaudited)		(audited)
A. Interest revenues[(1)]					
From loans to the public	1,743	1,235	5,282	4,390	5,989
From loans to Governments	8	3	18	9	11
From deposits with the Bank of Israel and from cash	32	22	71	56	74
From deposits with banks	2	6	5	11	8
From debentures	47	34	142	105	140
Total interest revenues	1,832	1,300	5,518	4,571	6,222
B. Interest expenses					
On deposits from the public	412	233	1,216	909	1,261
On deposits from governments	-	-	-	-	2
On deposits from banks	3	3	7	9	11
On debentures and subordinated notes	180	53	631	440	599
On other liabilities	1	-	2	2	2
Total interest expenses	596	289	1,856	1,360	1,875
Total interest revenues, net	1,236	1,011	3,662	3,211	4,347
C. Details of net effect of hedging derivative instruments on interest revenues	3	2	8	(6)	(6)
D. Details of interest revenues on accrual basis from debentures					
Held to maturity	9	12	29	34	43
Available for sale	36	21	110	68	94
Held for trading	2	1	3	3	3
Total included under interest revenues	47	34	142	105	140

(1) Includes the effective element in the hedging ratios.

Note 3 – Non-interest financing revenues

Reported amounts (NIS in millions)

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2018	2017	2018	2017	2017
		(unaudited)	(unaudited)		(audited)
A. Non-interest financing revenues (expenses) with respect to non-trading purposes					
1. From activity in derivative instruments					
Non-effective element of hedging ratios(1)	1	–	–	–	–
Net revenues (expenses) with respect to ALM derivative instruments(2)	–	312	941	(898)	(1,089)
Total from activity in derivative instruments	1	312	941	(898)	(1,089)
2. From investment in debentures					
Gains on sale of debentures available for sale	2	17	8	41	44
Total from investment in debentures	2	17	8	41	44
3. Exchange rate differences, net	73	(279)	(701)	914	1,196
4. Gains from investment in shares					
Gains on sale of available-for-sale shares	9	5	10	6	8
Provision for impairment of available-for-sale shares	–	–	(1)	–	–
Dividends from available-for-sale shares	–	–	6	5	4
Total from investment in shares	9	5	15	11	12
5. Net gains with respect to loans sold	–	–	–	1	4
Total non-interest financing revenues with respect to non-trading purposes	85	55	263	69	167
B. Non-interest financing revenues (expenses) with respect to trading operations(3)					
Net revenues (expenses) with respect to other derivative instruments	21	7	65	12	(30)
Realized losses from adjustment to fair value of debentures held for trading, net	(2)	(1)	(2)	–	–
Unrealized losses from adjustment to fair value of debentures held for trading, net	1	–	(2)	–	(1)
Total from trading operations(4)	20	6	61	12	(31)
Details of non-interest financing revenues (expenses) with respect to trading operations, by risk exposure					
Interest exposure	–	–	–	2	2
Foreign currency exposure	20	3	57	8	(37)
Exposure to shares	1	1	5	2	4
Exposure to commodities and others	(1)	2	(1)	–	–
Total	20	6	61	12	(31)

(1) Excludes the effective element in the hedging ratios.
(2) derivative instruments which constitute part of the Bank's asset and liability management system, which were not intended as hedges.
(3) Includes exchange rate differentials resulting from trading operations.
(4) For interest revenues from investments in debentures held for trading, see Note 2.D.

Note 4 – Cumulative other comprehensive income (loss)

Reported amounts (NIS in millions)

A. Changes to cumulative other comprehensive income (loss), after tax effect

	Other comprehensive income (loss), before attribution to non-controlling interests						
	Adjustments for presentation of securities available for sale at fair value	Translation adjustments[1]	Net gain (loss) from cash flow hedges	Adjustments with respect to employees' benefits	Total	Other comprehensive income attributed to non-controlling interests	Other comprehensive Income attributable to shareholders of the Bank
	For the three months ended September 30, 2018 (unaudited)						
Balance as of June 30, 2018	(67)	(1)	1	(334)	(401)	(16)	(385)
Net change in the period	(3)	–	2	2	1	–	1
Balance as of September 30, 2018	(70)	(1)	3	(332)	(400)	(16)	(384)
	For the three months ended September 30, 2017 (unaudited)						
Balance as of June 30, 2017	(1)	–	9	(364)	(356)	(17)	(339)
Net change in the period	5	(1)	–	(30)	(26)	(1)	(25)
Balance as of September 30, 2017	4	(1)	9	(394)	(382)	(18)	(364)
	For the nine months ended September 30, 2018 (unaudited)						
Balance as of December 31, 2017	(15)	(2)	4	(387)	(400)	(17)	(383)
Net change in the period	(55)	1	(1)	55	–	1	(1)
Balance as of September 30, 2018	(70)	(1)	3	(332)	(400)	(16)	(384)
	For the nine months ended September 30, 2017 (unaudited)						
Balance as of December 31, 2016	(29)	1	9	(303)	(322)	(5)	(317)
Net change in the period	32	(2)	–	(90)	(60)	(13)	(47)
Balance as of September 30, 2017	3	(1)	9	(393)	(382)	(18)	(364)
	For the year ended December 31, 2017 (audited)						
Balance as of December 31, 2016	(29)	1	9	(303)	(322)	(5)	(317)
Net change in the period	14	(3)	(5)	(84)[2]	(78)	(12)	(66)
Balance as of December 31, 2017	(15)	(2)	4	(387)	(400)	(17)	(383)

(1) Foreign currency translation adjustments of associated companies whose functional currency differs from that of the Bank.

(2) Includes: The effect of update to the assumption of salary cost and update to the remuneration increase rate on the actuarial liability for employees' rights at the Bank, amounting to NIS 69 million, net of taxes, as well as the effect of the streamlining plan at Bank Yahav on Bank shareholders' equity amounting to NIS 11 million. For more information see Note 22 to the 2017 financial statements.

Note 4 – Cumulative other comprehensive income (loss) – continued

Reported amounts (NIS in millions)

B. Changes in items of cumulative other comprehensive income (loss) before and after tax effect

	For the three months ended September 30					
	2018			2017		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
	(unaudited)					
Change in items of other comprehensive income (loss), before attribution to non-controlling interests:						
Adjustments for presentation of securities available for sale at fair value						
Net unrealized gains (losses) from adjustments to fair value	(7)	3	(4)	22	(6)	16
Losses (gains) with respect to available-for-sale securities reclassified to the statement of profit and loss(1)	2	(1)	1	(17)	6	(11)
Net change in the period	(5)	2	(3)	5	–	5
Translation adjustments						
Adjustments from translation of financial statements(2)	–	–	–	(1)	–	(1)
Net change in the period	–	–	–	(1)	–	(1)
Cash flows hedges						
Net gains (losses) with respect to cash flows hedging	3	(1)	2	–	–	–
Net (gains) losses with respect to cash flow hedges reclassified to the statement of profit and loss(3)	–	–	–	–	–	–
Net change in the period	3	(1)	2	–	–	–
Employee benefits						
Net actuarial gain (loss) for the period	(9)	3	(6)	(50)	18	(32)
Net losses reclassified to the statement of profit and loss	12	(4)	8	3	(1)	2
Net change in the period	3	(1)	2	(47)	17	(30)
Total net change in the period	1	–	1	(43)	17	(26)
Total net change in the period attributable to non-controlling interests	–	–	–	1	–	1
Total net change in the period attributable to shareholders of the Bank	1	–	1	(42)	17	(25)

(1) Pre-tax amount included in the statement of profit and loss under "Non-interest financing revenues". For details, see Note 3.A.2. to the financial statements.

(2) Foreign currency translation adjustments of associated companies whose functional currency differs from that of the Bank.

(3) Pre-tax amount included in the statement of profit and loss under "Interest revenues". For more information see Note 2.C. to the financial statements.

(4) Includes: The effect of update to the assumption of salary cost and update to the remuneration increase rate on the actuarial liability for employees' rights at the Bank, amounting to NIS 69 million, net of taxes, as well as the effect of the streamlining plan at Bank Yahav on Bank shareholders' equity amounting to NIS 11 million. For more information see Note 22 to the 2017 financial statements.

	For the nine months ended September 30						For the year ended December 31,		
	2018			2017			2017		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
		(unaudited)						(audited)	
	(92)	32	(60)	90	(31)	59	66	(23)	43
	8	(3)	5	(41)	14	(27)	(44)	15	(29)
	(84)	29	(55)	49	(17)	32	22	(8)	14
	1	–	1	(2)	–	(2)	(4)	1	(3)
	1	–	1	(2)	–	(2)	(4)	1	(3)
	(1)	–	(1)	–	–	–	(8)	3	(5)
	–	–	–	–	–	–	–	–	–
	(1)	–	(1)	–	–	–	(8)	3	(5)
	57	(20)	37	(147)	52	(95)	(150)	54	[4](96)
	27	(9)	18	8	(3)	5	18	(6)	12
	84	(29)	55	(139)	49	(90)	(132)	48	(84)
	–	–	–	(92)	32	(60)	(122)	44	(78)
	(1)	–	(1)	18	(5)	13	18	(6)	12
	(1)	–	(1)	(74)	27	(47)	(104)	38	(66)

Note 5 – Securities

September 30, 2018 (unaudited)

Reported amounts (NIS in millions)

	Carrying amount	Amortized Cost (for shares – cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[1]
Debentures held to maturity					
of Government of Israel	3,436	3,436	41	(2)	3,475
Total debentures held to maturity	3,436	3,436	41	(2)	3,475

	Carrying amount	Amortized Cost (for shares – cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[1]
(2) Securities available for sale					
Debentures and bonds -					
Of the Government of Israel[2]	4,260	4,290	12	(42)	4,260
Of foreign governments [2][5]	1,654	1,720	–	(66)	1,654
Of foreign financial institutions[7]	461	469	–	(8)	461
Of others overseas	17	18	–	(1)	17
Total debentures available for sale	6,392	6,497	12	(117)	6,392
Shares[3]	92	92	–	–	92
Total securities available for sale	6,484	6,589	12[4]	(117)[4]	6,484

	Carrying amount	Amortized Cost (for shares – cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[1]
(3) Securities held for trading					
Debentures -					
of Government of Israel	173	174	–	(1)	173
Total securities held for trading	173	174	–	(1)[6]	173
Total securities	10,093	10,199	53	(120)	10,132

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.

(2) Of which: Securities pledged to lenders, amounting to NIS 473 million.

(3) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 91 million.

(4) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".

(5) Primarily US government debentures.

(6) Charged to statement of profit and loss but not yet realized.

(7) Includes exposure to Multiparty Development Banks (MDB).

Remarks:

– For more information about operations involving investments in debentures – see Notes 2.D, 3.A.2 and 3.B to the financial statements. For more information about investments in shares – see Note 3.A.4 to the financial statements.

– The distinction between Israeli and foreign debentures was made in conformity with the country of residence of the authority which issued the securities.

Note 5 – Securities – Continued

September 30, 2017 (unaudited)

Reported amounts (NIS in millions)

	Carrying amount	Amortized Cost (for shares – cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value(1)
Debentures held to maturity					
of Government of Israel	3,255	3,255	82	–	3,337
Total debentures held to maturity	3,255	3,255	82	–	3,337

	Carrying amount	Amortized Cost (for shares – cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value(1)
(2) Securities available for sale					
Debentures and bonds -					
Of the Government of Israel(2)	4,415	4,385	39	(9)	4,415
Of foreign governments (2)(5)	2,961	2,985	–	(24)	2,961
Of foreign financial institutions	18	18	–	–	18
Of others overseas	17	18	–	(1)	17
Total debentures available for sale	7,411	7,406	39	(34)	7,411
Shares(3)	92	92	–	–	92
Total securities available for sale	7,503	7,498	39(4)	(34)(4)	7,503

	Carrying amount	Amortized Cost (for shares – cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value(1)
(3) Securities held for trading					
Debentures -					
of Government of Israel	180	180	–	–	180
Total securities held for trading	180	180	–	–	180
Total securities	10,938	10,933	121	(34)	11,020

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.

(2) Of which: Securities pledged to lenders, amounting to NIS 405 million.

(3) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 89 million.

(4) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".

(5) Primarily US government debentures.

Remarks:

– For more information about operations involving investments in debentures – see Notes 2.D, 3.A.2 and 3.B to the financial statements. For more information about investments in shares – see Note 3.A.4 to the financial statements.

– The distinction between Israeli and foreign debentures was made in conformity with the country of residence of the authority which issued the securities.

Note 5 – Securities – Continued

As of December 31, 2017 (audited)

Reported amounts (NIS in millions)

	Carrying amount	Amortized Cost (for shares – cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[1]
(1) Debentures held to maturity					
of Government of Israel	3,267	3,267	75	–	3,342
Total debentures held to maturity	3,267	3,267	75	–	3,342

	Carrying amount	Amortized Cost (for shares – cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[1]
(2) Securities available for sale					
Debentures and bonds -					
Of the Government of Israel[2]	4,136	4,117	24	(5)	4,136
Of foreign governments [2][5]	2,233	2,271	–	(38)	2,233
Of foreign financial institutions	173	174	–	(1)	173
Of others overseas	16	17	–	(1)	16
Total debentures available for sale	6,558	6,579	24	(45)	6,558
Shares[3]	99	99	–	–	99
Total securities available for sale	6,657	6,678	24[4]	(45)[4]	6,657

	Carrying amount	Amortized Cost (for shares – cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[1]
(3) Securities held for trading					
Debentures -					
of Government of Israel	209	209	–	–	209
Total securities held for trading	209	209	–	–	209
Total securities	10,133	10,154	99	(45)	10,208

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.

(2) Of which: Securities pledged to lenders, amounting to NIS 424 million.

(3) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 98 million.

(4) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".

(5) Primarily US government debentures.

Remarks:

– For more information about operations involving investments in debentures – see Notes 2.D, 3.A.2 and 3.B to the financial statements. For more information about investments in shares – see Note 3.A.4 to the financial statements.

– The distinction between Israeli and foreign debentures was made in conformity with the country of residence of the authority which issued the securities.

Note 5 – Securities – Continued

Reported amounts (NIS in millions)

(4) Fair value and unrealized losses, by time period and impairment rate, of securities available for sale, which include unrealized loss:

	As of September 30, 2018							
	Less than 12 months				12 months or more			
	Fair value[1]	Unrealized losses 0%-20%	Unrealized losses 20%-40%	Total	Fair value[1]	Unrealized losses 0%-20%	Unrealized losses 20%-40%	Total
Debentures -								
of Government of Israel	2,108	38	–	38	653	4	–	4
Of foreign governments	618	11	–	11	933	55	–	55
Of foreign financial institutions	460	8	–	8	–	–	–	–
Of others overseas	–	–	–	–	10	1	–	1
Total securities available for sale	3,186	57	–	57	1,596	60	–	60

	As of September 30, 2017							
	Less than 12 months				12 months or more			
	Fair value[1]	Unrealized losses 0%-20%	Unrealized losses 20%-40%	Total	Fair value[1]	Unrealized losses 0%-20%	Unrealized losses 20%-40%	Total
Debentures -								
of Government of Israel	1,297	9	–	9				
Of foreign governments	1,056	24		24	–	–	–	–
Of others overseas	–	–	–	–	10	1	–	1
Total securities available for sale	2,353	33	–	33	10	1	–	1

	As of December 31, 2017							
	Less than 12 months				12 months or more			
	Fair value[1]	Unrealized losses 0%-20%	Unrealized losses 20%-40%	Total	Fair value[1]	Unrealized losses 0%-20%	Unrealized losses 20%-40%	Total
Debentures -								
of Government of Israel	674	1	–	1	611	4	–	4
Of foreign governments	339	4	–	4	1,110	34	–	34
Of foreign financial institutions	173	1	–	1	–	–	–	–
Of others overseas	–	–	–	–	10	1	–	1
Total securities available for sale	1,186	6	–	6	1,731	39	–	39

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.

(2) The Bank has no securities in a position of unrecognized loss.

(5) Asset-backed and mortgage-backed securities

As of September 30, 2018, September 30, 2017 and December 31, 2017, there was no balance of asset-backed or mortgage-backed securities.

Note 6 – Credit risk, loans to the public and provision for credit losses

Reported amounts (NIS in millions)

A. Debts[1], loans to the public and balance of provision for credit losses

	September 30, 2018 (unaudited)					
	Loans to the public					
	Commer-cial	Housing	Individual – other	Total	Banks and governments	Total
Recorded debt balance of debt s[1]						
reviewed on individual basis	37,823	52	695	38,570	7,627	46,197
reviewed on group basis	9,236	124,726	18,816	152,778	–	152,778
Of which: By extent of arrears	1,563	124,726	–	126,289	–	126,289
Total debts	47,059	[2]124,778	19,511	191,348	7,627	198,975
Of which:						
Impaired debts under restructuring	133	–	53	186	–	186
Other impaired debts	620	52	18	690	–	690
Total impaired debts	753	52	71	876	–	876
Debts in arrears 90 days or longer	41	1,293	25	1,359	–	1,359
Other problematic debts	587	–	124	711	–	711
Total problematic debts	1,381	1,345	220	2,946	–	2,946
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	537	3	29	569	2	571
reviewed on group basis	108	656	219	983	–	983
Of which: Provision by extent of arrears[3]	5	656	–	661	–	661
Total provision for credit losses	645	659	248	1,552	2	1,554
Of which: With respect to impaired debts	126	3	19	148	–	148

	September 30, 2017 (unaudited)					
Recorded debt balance of debts[1]						
reviewed on individual basis	[4]33,215	41	[4]869	34,125	2,822	36,947
reviewed on group basis	[4]8,463	119,629	[4]17,869	145,961	–	145,961
Of which: By extent of arrears	1,178	118,870	–	120,048	–	120,048
Total debts	41,678	[2]119,670	18,738	180,086	2,822	182,908
Of which:						
Impaired debts under restructuring	91	–	50	141	–	141
Other impaired debts	433	41	24	498	–	498
Total impaired debts	524	41	74	639	–	639
Debts in arrears 90 days or longer	65	1,024	25	1,114	–	1,114
Other problematic debts	739	–	125	864	–	864
Total problematic debts	1,328	1,065	224	2,617	–	2,617
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	[4]494	4	25	523	2	525
reviewed on group basis	[4]116	621	205	942	–	942
Of which: Provision by extent of arrears[3]	5	621	–	626	–	626
Total provision for credit losses	610	625	230	1,465	2	1,467
Of which: With respect to impaired debts	102	4	14	120	–	120

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Includes general-purpose loans secured by a lien on a residential apartment, amounting to NIS 6,872 million (as of September 30, 2017 – NIS 6,085 million).
(3) Includes balance of provision in excess of that required by extent of arrears, assessed on individual basis, amounting to NIS 18 million (as of September 30, 2017 – NIS 19 million), and assessed on group basis, amounting to NIS 436 million (as of September 30, 2017 – NIS 418 million).
(4) Reclassified.

Note 6 – Credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

A. Debts[1], loans to the public and balance of provision for credit losses – continued

	As of December 31, 2017 (audited)					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Recorded debt balance of debt[1]						
reviewed on individual basis	[4]34,368	33	[4]655	35,056	2,543	37,599
reviewed on group basis	[4]8,629	120,514	[4]18,403	147,546	–	147,546
Of which: By extent of arrears	1,265	120,514	–	121,779	–	121,779
Total debts	42,997	[2]120,547	19,058	182,602	2,543	185,145
Of which:						
Impaired debts under restructuring	105	–	50	155	–	155
Other impaired debts	515	33	20	568	–	568
Total impaired debts	620	33	70	723	–	723
Debts in arrears 90 days or longer	42	1,072	22	1,136	–	1,136
Other problematic debts	553	–	125	678	–	678
Total problematic debts	1,215	1,105	217	2,537	–	2,537
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	[4]508	2	24	534	1	535
reviewed on group basis	[4]110	628	212	950	–	950
Of which: Provision by extent of arrears[3]	5	628	–	633	–	633
Total provision for credit losses	618	630	236	1,484	1	1,485
Of which: With respect to impaired debts	119	2	15	136	–	136

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Includes general-purpose loans secured by a lien on a residential apartment, amounting to NIS 6,291 million.

(3) Includes balance of provision beyond that required by extent of arrears, calculated on individual basis amounting to NIS 16 million, and calculated on group basis amounting to NIS 421 million.

(4) Reclassified.

Note 6 – Credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Change in balance of provision for credit losses

	Commercial	Housing	Individual – other	Total	Banks and governments	Total
	For the three months ended September 30, 2018 (unaudited)					
	Provision for credit losses					
	Loans to the public					
Balance of provision for credit losses at start of period	735	643	253	1,631	3	1,634
Expenses with respect to credit losses	15	17	30	62	(1)	61
Net accounting write-off[(1)]	(51)	(2)	(40)	(93)	–	(93)
Recovery of debts written off in previous years[(1)]	36	1	15	52	–	52
Net accounting write-offs	(15)	(1)	(25)	(41)	–	(41)
Balance of provision for credit losses at end of period	735	659	258	1,652	2	1,654
Of which: With respect to off balance sheet credit instruments	90	–	10	100	–	100
	For the three months ended September 30, 2017 (unaudited)					
Balance of provision for credit losses at start of period	695	621	237	1,553	2	1,555
Expenses with respect to credit losses	2	6	33	41	–	41
Net accounting write-off[(1)]	(41)	(2)	(45)	(88)	–	(88)
Recovery of debts written off in previous years[(1)]	41	–	14	55	–	55
Net accounting write-offs	–	(2)	(31)	(33)	–	(33)
Balance of provision for credit losses at end of period	697	625	239	1,561	2	1,563
Of which: With respect to off balance sheet credit instruments	87	–	9	96	–	96
	For the nine months ended September 30, 2018 (unaudited)					
Balance of provision for credit losses at start of period	699	630	245	1,574	1	1,575
Expenses with respect to credit losses	118	34	80	232	1	233
Net accounting write-off[(1)]	(153)	(6)	(114)	(273)	–	(273)
Recovery of debts written off in previous years[(1)]	71	1	47	119	–	119
Net accounting write-offs	(82)	(5)	(67)	(154)	–	(154)
Balance of provision for credit losses at end of period	735	659	258	1,652	2	1,654
Of which: With respect to off balance sheet credit instruments	90	–	10	100	–	100
	For the nine months ended September 30, 2017 (unaudited)					
Balance of provision for credit losses at start of period	724	615	208	1,547	2	1,549
Expenses with respect to credit losses	21	18	93	132	–	132
Net accounting write-off[(1)]	(195)	(8)	(104)	(307)	–	(307)
Recovery of debts written off in previous years[(1)]	147	–	42	189	–	189
Net accounting write-offs	(48)	(8)	(62)	(118)	–	(118)
Balance of provision for credit losses at end of period	697	625	239	1,561	2	1,563
Of which: With respect to off balance sheet credit instruments	87	–	9	96	–	96

(1) Net accounting write-offs presented in the Note primarily consists of write-offs of a technical nature, due to passage of time of clients being in arrears, in conformity with US standards applicable to the Bank in this regard. Thus, for example, the balance of the provision for large impaired debt s will typically be subject to accounting write-off after two years. Debt measured on a group basis will be subject to write-off after 150 days in arrears. This means that the Bank's collection efforts may sometimes take longer than the timing for write-off according to accounting rules. Consequently, relatively high balances of "accounting write-offs" and relatively high balances of "Recovery of debts written off in previous years" are presented.

Note 7 – Deposits from the Public

Reported amounts (NIS in millions)

A. Deposit types by location and depositor type

	September 30, 2018	2017 (unaudited)	December 31, 2017 (audited)
In Israel			
On-call			
Non interest-bearing	47,076	42,208	44,324
Interest-bearing	22,003	20,998	22,189
Total on-call	69,079	63,206	66,513
Term deposits	118,599	115,885	112,188
Total deposits in Israel[(1)]	187,678	179,091	178,701
Outside of Israel			
On-call			
Non interest-bearing	551	559	504
Interest-bearing	4	5	5
Total on-call	555	564	509
Term deposits	4,710	4,566	4,363
Total deposits overseas	5,265	5,130	4,872
Total deposits from the public	192,943	184,221	183,573
(1) Includes:			
Deposits from individuals	92,559	86,818	87,456
Deposits from institutional investors	40,714	39,404	38,881
Deposits from corporations and others	54,405	52,869	52,364

B. Deposits from the public by size

	September 30, 2018	2017 (unaudited)	December 31, 2017 (audited)
Maximum deposit			
Up to 1	66,856	62,846	63,493
Over 1 to 10	44,670	40,670	41,125
Over 10 to 100	27,714	26,761	26,906
Over 100 to 500	23,218	22,589	23,911
Above 500	30,485	31,355	28,138
Total	192,943	184,221	183,573

Note 8 – Employees' Rights

Description of benefits

1. Employment terms of the vast majority of Group employees and managers are subject to provisions of collective bargaining agreements. Pension liabilities to these employees, except for Bank Yahav employees, are covered by regular deposits to pension, provident and severance-pay funds, which release the Bank from severance-pay liabilities for those employees by law. For more information about various benefits to Bank employees and managers, see Note 22 to the financial statements as of December 31, 2017.

2. Remuneration policy for all Bank employees other than officers

   On March 20, 2017, the Board of Directors resolved, after receiving the recommendation from the Remuneration Committee, to approve a revised remuneration policy for all Bank employees, other than officers who are subject to the revised remuneration policy for Bank officers, as noted above (hereinafter: "the revised remuneration policy for all Bank employees"). For more information see Note 22.A.5. to the 2017 financial statements.

3. For more information about an economic arbitration between the Bank and the Mizrahi Tefahot Employees' Union, see Note 22.A.6. to the 2017 financial statements. Management believes, based on the opinion of legal counsel, that exposure with respect to this arbitration cannot be estimated.

   For more information about signing of a new collective bargaining agreement with the Employees' Union in December 2017 and implications of this agreement, see Note 22.A.6. to the 2017 financial statements.

4. Payroll agreements for employees represented by the Council of Managers and Authorized Signatories

   The labor agreement with the Council of Managers is effective through 2017. Negotiations are underway in order to sign a new labor agreement for the coming years.

5. Labor and payroll agreements at the Technology Division

   Employment terms of employees of Mizrahi Tefahot Technology Division Ltd. (hereinafter: "the Technology Division") are arranged in the labor constitution that was signed in 1989 and in a series of agreements signed by the Technology Division Employee Council, the Labor Union and the Technology Division over the years.

   Employees of the Technology Division have their pay linked to the pay for Bank employees.

   On August 15, 2018, a collective bargaining agreement was signed by the Technology Division and the division's employee representation and the MAOF trade union. This agreement has no material impact on the financial statements.

Note 8 – Employees' Rights – Continued

6. Net benefit cost components recognized in profit and loss with respect to defined-benefit and defined-contribution pension plans (NIS in millions)[(1)]

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31,
	2018	2017	2018	2017	2017
		(unaudited)	(unaudited)		(audited)
Under payroll and associated expenses					
Cost of service[(2)]	13	12	39	35	42
Under other expenses					
Cost of interest[(3)]	10	12	30	33	42
Expected return on plan assets[(4)]	(1)	(1)	(3)	(3)	(4)
Deduction of non-allowed amounts:					
Net actuarial loss[(5)]	12	4	27	9	18
Total under other expenses	21	15	54	39	56
Total benefit cost, net	34	27	92	74	98
Total expense with respect to defined-contribution pension	34	30	101	88	121
Total expenses recognized on profit and loss	68	57	193	162	219

7. Deposits to defined-benefit pension plans (NIS in millions)

	Forecast	Actual deposits				
	For[(6)]	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31,
	2018	2018	2017	2018	2017	2017
			(unaudited)		(unaudited)	(audited)
Deposits	1.8	1.4	1.5	4.6	4.8	6.3

(1) For more information about directives of the Supervisor of Banks with regard to improved presentation of expenses with respect to pension and other post-employment benefits, see Note 1.D. 4.

(2) Cost of service is the current accrual of future employee benefits in the period.

(3) Cost of interest is the amount recognized in the period, set based on the increase in obligation with respect to expected benefit due to passage of time.

(4) Expected return is the expected return on plan assets, determined based on expected long-term rates of return on plan assets and based on the established market value of plan assets.

(5) Deduction of net gain or loss previously recognized in Cumulative Other Comprehensive Income.

(6) Estimated deposits to be paid into defined-benefit pension plans through end of 2018.

Note 9 – Capital Adequacy, liquidity and leverage

Reported amounts (NIS in millions)

A. Capital adequacy

Calculated in accordance with Proper Banking Conduct Directives 201-211 "Measurement and Capital Adequacy"

		September 30,		December 31,
		2018	2017	2017
			(unaudited)	(audited)
1.	**Consolidated data**			
A.	**Capital for purpose of calculating the capital ratio**			
	Tier I shareholders' equity	14,951	14,055	14,333
	Tier I capital	14,951	14,055	14,333
	Tier II capital	4,874	4,603	5,251
	Total capital	19,825	18,658	19,584
B.	**Weighted risk asset balances**			
	Credit risk	137,095	128,818	130,525
	Market risks	1,462	1,213	1,605
	Operational risk	9,315	8,332	8,394
	Total weighted risk asset balances(1)	147,872	138,363	140,524
				In %
C.	**Ratio of capital to risk components**			
	Ratio of Tier I capital to risk components	10.11	10.16	10.20
	Ratio of Tier I capital to risk components	10.11	10.16	10.20
	Ratio of total capital to risk components	13.41	13.48	13.94
	Minimum Tier I capital ratio required by Supervisor of Banks(2)	9.84	9.86	9.86
	Total minimum capital ratio required by the Supervisor of Banks(2)	13.34	13.36	13.36
2.	**Significant subsidiaries**			
	Bank Yahav for Government Employees Ltd. and its subsidiaries			
	Ratio of Tier I capital to risk components	9.49	9.34	9.27
	Ratio of Tier I capital to risk components	9.49	9.34	9.27
	Ratio of total capital to risk components	13.53	13.53	13.01
	Minimum Tier I capital ratio required by Supervisor of Banks	9.00	9.00	9.00
	Total minimum capital ratio required by the Supervisor of Banks	12.50	12.50	12.50

(1) Of the total weighted balance of risk assets, NIS 210 million was deducted due to adjustments with respect to the streamlining plan (on September 30, 2017: NIS 322 million; on December 31, 2017: NIS 298 million).

(2) The minimum capital ratio required by the Supervisor of Banks is increased by a capital requirement reflecting 1% of the outstanding balance of housing loans as of the report date.

Note 9 – Capital Adequacy, liquidity and leverage – Continued

Reported amounts (NIS in millions)

A. Capital adequacy – Continued

Calculated in accordance with Proper Banking Conduct Directives 201-211 "Measurement and Capital Adequacy" – continued

	September 30,		December 31,
	2018	2017	2017
		(unaudited)	(audited)
3. Capital components for calculating the capital ratio (on consolidated basis)			
A. Tier I capital			
Shareholders' equity	15,133	14,026	14,327
Differences between shareholder equity and Tier I capital	(282)	(164)	(169)
Total Tier I capital before regulatory adjustments and deductions	14,851	13,862	14,158
Regulatory adjustments and deductions:			
Goodwill	(87)	(87)	(87)
Regulatory adjustments and other deductions	(9)	(15)	(11)
Total supervisory adjustments and deductions, before adjustments with respect to the streamlining plan – Tier I capital	(96)	(102)	(98)
Total adjustments with respect to the streamlining program[(1)]	196	295	273
Total Tier I capital after regulatory adjustments and deductions	14,951	14,055	14,333
B. Tier II capital			
Tier II capital: Instruments, before deductions	3,376	3,160	3,821
Tier II capital: Provisions, before deductions	1,498	1,443	1,430
Total Tier II capital, before deductions	4,874	4,603	5,251
Deductions:			
Total deductions – Tier II capital	–	–	–
Total Tier II capital	4,874	4,603	5,251

4. Effect of transitional provisions on Tier I capital

			In %
Ratio of capital to risk components			
Ratio of Tier I capital to risk components, before effect of transitional provision of Directive 299 and before effect of adjustments with respect to the streamlining plan[(2)]	9.96	9.86	9.92
Effect of transitional provisions, before effect of adjustments with respect to the streamlining plan	–	0.06	0.06
Effect of adjustments with respect to the streamlining plan	0.15	0.24	0.22
Ratio of Tier I capital to risk components before application of transitional provisions	10.11	10.16	10.20

(1) Of which, NIS 142 million with respect to streamlining program concerning employees' rights and NIS 54 million with respect to streamlining program concerning real estate (on September 30, 2017: NIS 218 million with respect to streamlining program concerning employees' rights and NIS 77 million with respect to streamlining program concerning real estate; on December 31, 2017: NIS 202 million with respect to streamlining program concerning employees' rights and NIS 71 million with respect to streamlining program concerning real estate).

(2) Before effect of transitional provisions concerning adoption of US GAAP with regard to employees' rights.

Note 9 – Capital Adequacy, liquidity and leverage – Continued

Reported amounts (NIS in millions)

B. Liquidity coverage ratio

Calculated in accordance with Proper Banking Conduct Directive 221 "Liquidity coverage ratio"

		September 30,	December 31,
	2018	2017	2017
		(unaudited)	(audited)
		In %	
1. Consolidated data			
Liquidity coverage ratio(1)	(2)121	117	118
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100	100
2. Bank data			
Liquidity coverage ratio(1)	121	117	118
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100	100
3. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and its subsidiaries			
Liquidity coverage ratio(1)	237	298	260
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100	100

C. Leverage ratio

Calculated in conformity with Proper Banking Conduct Directive 218 "Leverage ratio"

		September 30,	December 31,
	2018	2017	2017
		(unaudited)	(audited)
1. Consolidated data			
Tier I capital(3)	14,951	14,055	14,333
Total exposure	273,087	261,982	261,504
			In %
Leverage ratio	5.47	5.36	5.48
Minimum leverage ratio required by the Supervisor of Banks(4)	5.00	5.00	5.00
2. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and its subsidiaries			
Leverage ratio	5.40	5.02	5.14
Minimum leverage ratio required by the Supervisor of Banks(4)	4.70	4.70	4.70

(1) In terms of simple average of daily observations during the reported quarter.

(2) The liquidity coverage ratio as of September 30, 2018 includes the effect of implementation of Bank of Israel directives to apply a reduced withdrawal rate with respect to operational deposits, as from the first quarter of 2018.

(3) For effect of transitional provisions and effect of adjustments with respect to the streamlining program, see sections A.3, A.4 above.

(4) Banking corporations are required to achieve the minimum leverage ratio required by the Supervisor of Banks as from January 1, 2018.

D. The Bank applies the capital adequacy directives based on the Basel directives, as issued by the Supervisor of Banks in Proper Banking Conduct Directives 201-222 and in the Q&A file.

For more information about the Supervisor of Banks' directives regarding capital adequacy, see Note 25 to the 2017 financial statements.

E. On March 15, 2018, the Supervisor of Banks issued a circular revising Proper Banking Conduct Directive 203 "Measurement and capital adequacy – Credit risk" with regard to risk weighting of loans with LTV ratio higher than 60%.

The circular stipulated that loans with LTV ratio higher than 60% would be assigned a 60% risk weighting, compared to 75% prior to this revision. The revision is designed to provide relief to young couples and second home buyers who purchase apartments with a high LTV ratio.

The revision is effective as from the circular issue date. The Bank is applying this directive.

Application of this directive reduces risk assets due to origination of housing loans with LTV ratio higher than 60%, originated as from the circular issue date.

F. In August 2018, Bank Yahav issued contingent subordinated notes (Contingent Convertibles – CoCo) with loss-absorption provisions through principal write-off, amounting to NIS 180 million. These notes qualify pursuant to Basel III provisions.

G. On October 21, 2018, after the balance sheet date, Tefahot Issuance issued to the public contingent subordinated notes (Contingent Convertibles – CoCo) (Series 48) with loss-absorption provisions through principal write-off (compliant with Basel III provisions and recognized by the Supervisor of Banks as Tier II capital), with par value of NIS 710.6 million for consideration of NIS 710.6 million.

H. On November 1, 2018, the Supervisor of Banks issued a draft amendment of Proper Banking Conduct Directive 203 "Capital Adequacy".

The draft includes a revision of the Credit Conversion Factor (CCF) applied to guarantees to secure investments by apartment buyers pursuant to the Sale Act.

According to this revision, the CCF for Sales Act guarantees with respect to apartments yet to be delivered would be 30% (instead of 50% currently).

Implementation of this directive will be reflected in the financial statements for 2018.

The Bank believes that application of this directive would result in a decrease in risk assets amounting to NIS 950 million (an increase by 0.07% in Tier I capital ratio).

Note 10 – Contingent Liabilities and Special Commitments

Reported amounts (NIS in millions)

A. Other liabilities and special commitments

		September 30, 2018	September 30, 2017	December 31, 2017
		(unaudited)		(audited)
1.	Computerization and software service contracts	272	261	240
2.	Acquisition and renovation of buildings	12	8	5
3.	Long-term leases – rent for buildings and equipment with respect to contracting payable in coming years(1):			
	First year	183	172	179
	Second year	186	176	179
	Third year	181	174	174
	Fourth year	175	165	168
	Fifth year	173	164	167
	Sixth year and thereafter	1,629	1,638	1,645
	Total rent for buildings and equipment	2,527	2,489	2,512

4. Credit sales operations

The following table provides a summary of credit sales operations at the Bank:

	For the three months ended September 30, 2018	For the three months ended September 30, 2017	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017	For the year ended December 31, 2017
	(unaudited)		(unaudited)		(audited)
Carrying amount of credit sold	536	546	2,325	1,463	2,598
Consideration	544	546	2,349	1,465	2,625
Service obligation – expense with respect to operating services	8	–	24	1	23

(1) Includes IT and operating services provided to Bank Yahav by an international TaTa Group company as from January 1, 2017. The company specializes, *inter alia*, in providing IT services to financial institutions and banking corporations world-wide. In this regard, Bank Yahav uses a core banking system which includes banking services in various channels, based on the bank's lines of business. Bank Yahav also receives operating services from the company with respect to IT systems it provides, as well as additional outsourced services.

Bank Yahav's contract with the company is a long-term one and Bank Yahav may optionally extend it for additional terms of up to 30 years.

B. Contingent liabilities and other special commitments

1. For details of other contingent liabilities and special commitments by the Bank group, see Note 26 to the 2017 financial statements. Below is a description of material changes relative to the Note provided in the 2017 annual report.

2. Various claims are pending against the Bank and its subsidiaries, namely, claims of customers, as well as motions for recognition of various class actions. In the estimation of the management of the Bank, based on the estimation of the managements of its subsidiaries and on the opinion of their legal counsel as to the possible outcome of the pending claims and motions for approval of claims as class actions, the financial statements include appropriate provisions, where necessary, to cover possible damages.

   Below are details of material claims, including motions for class action status and claims where the claim amount (excluding interest and expenses) exceeds 1% of the Bank's shareholder equity, in which developments and changes have occurred compared to the description included in the 2017 financial statements:

   A) In May 2011, the Bank received a claim and motion for approval of class action status. The claim concerns two alleged claims made against the Bank – firstly, late reporting to the Court Order Execution Service of payments made to reduce debt which is subject to proceedings at the Court Order Execution Service. Secondly, failure to indicate on the reporting forms the number of the principal to be reduced by the reported credit, and the number of the interest calculation rule applied to the reported payment amount. The lawsuit and motion allege that, by late reporting to the Court Order Execution Service and by failure to provide the aforementioned indications on the reporting forms, the Bank misleads clients, causes clients not to be credited with interest in line with the date of their payment and in accordance with the correct interest rate, creates a situation in which the debt on Court Order Execution Service files is higher than the real debt, and over-charges in payments. The lawsuit and motion further allege that the Enforcement and Collection Authority and the Court Order Execution Service admit that under crediting occurs in case of late reporting and failure to provide the required indications on the reporting form.

      The plaintiff claims he is unable to estimate the damage incurred by the entire class of plaintiffs, but believes (on a basis which is not clear to the Bank) that it amounts to hundreds of millions of NIS.

      On January 9, 2012, the Bank filed its response to the motion, describing in detail the factual and legal defense claims made by the Bank. On May 20, 2012, the plaintiff filed their response to the Bank's response to the motion. In view of new claims made by the plaintiff in their response to the Bank's response, the Bank filed a further, more detailed response on August 15, 2012.

      On October 17, 2012 and on October 29, 2012, the Court held preliminary hearings in this case.

      The parties have agreed and launched a reconciliation process aimed to try and resolve their differences. The reconciliation process was concurrent with regard to other motions filed against other banks for the same cause, as well as with regard to other motions for class action status filed against the Bank and against other banks for causes related to debt management in Court Order Execution Service files.

      The parties negotiated directly from August 2014 and in January 2016, due to a specific disagreement, the negotiations between the parties were terminated. They were resumed soon thereafter, in an attempt to reached an agreed arrangement.

      On August 29, 2016, a Court hearing took place and the Court resolved that the parties to this lawsuit and to the lawsuit described in section B. below, should file a settlement agreement and motion for approval thereof, no later than October 30, 2016. The resolution dated November 7, 2016 allowed the parties an extension to file a settlement agreement and motion for approval thereof, no later than November 30, 2016. On January 16, 2017, a hearing concerning the settlement agreement took place. On March 28, 2017, a hearing took place with regard to the settlement agreement and in particular, concerning the issue of Court action and its scope On June 12, 2017, the parties filed the draft settlement agreement with the Court, asking for the Court's assistance in the matter of the aforementioned Court action. On June 15, 2017, another hearing on this disagreement took place.

      In accordance with the Court ruling of July 4, 2017, on August 13, 2017, the parties submitted the final agreed version of the settlement agreement.

On November 7, 2017, the parties submitted to the Court the signed settlement agreement and its appendices with the application for approval thereof. On March 8, 2018 and on April 10, 2018, further hearings took place, at which the Court raised questions regarding the settlement agreement in general and in particular, the issue of maintaining information confidentiality by the Enforcement and Collection Authority. On May 28, 2018, a further hearing took place, at which the Court asked, *inter alia*, for clarifications regarding the motion by the Bank dated May 22, 2018 with regard to the need for maintaining data confidentiality, as well as clarifications with regard to other sections of the settlement agreement. At the end of this hearing, it was agreed that a ruling would be issued on preliminary approval in principle of the settlement agreement would be given upon receiving further clarifications from the parties. A clarification notice from the bank with regard to sections of the settlement agreement was filed on July 5, 2018. A ruling has yet to be issued.

B) In December 2012, an action and a motion for recognition as a class action were filed with the Tel Aviv District Court, with regard to setting rates of arrears interest charged by the Bank in Court Order Execution Service cases filed against debtors. According to the plaintiff, the Bank charges interest significantly higher than the maximum interest rate on checking accounts. The plaintiff is unable to estimate the amount claimed.

The parties agreed to add this motion to the reconciliation process on-going with regard to other motions which also concern collection processes conducted by the Bank against clients in debt, as stated in section A. above and on January 4, 2016, a resolution was issued to refer the above claim for hearing by the same party as the above claims.

This motion, along with the motion for the lawsuit in section A. above, are in negotiations of a settlement agreement, as stated in section A. above.

C) In August 2011, a claim and motion for class action status was filed with the Central District Court amounting to "hundreds of millions of NIS". No specific amount was specified in the statement of claim. The plaintiff seeks a verdict, pursuant to the Class Action Lawsuit Act, whereby the claim would be made on behalf of all Bank clients whose account was charged legal fees not approved by any legal jurisdiction, or whose account was charged unlawful interest with respect to approved legal fees.

In February 2012, the Bank filed its response to the motion and in August 2012, the plaintiff filed their response to the Bank's response to the motion.

In November 2012, the parties launched a reconciliation process designed to try and settle their disagreements. The reconciliation process was concurrent with regard to other motions filed against other banks for the same cause, as well as with regard to other motions for class action status filed against the Bank and against other banks for causes related to debt management in Court Order Execution Service files. The parties negotiated directly from August 2014 and in January 2016, due to a specific disagreement, the negotiations between the parties were terminated. They were resumed soon thereafter, in an attempt to reached an agreed arrangement. On January 6, 2016, the Bank filed a motion seeking a preliminary ruling on its claim with regard to the statute of limitations with regard to the cause of claim of alleged class members and/or of most of them. The plaintiff's response was filed on January 26, 2016 and the Bank's response was filed on February 1, 2016. On February 14, 2016, a resolution was handed down whereby, inter alia, the claim with regard to the statute of limitations would be adjudicated at the end of the process.

Following direct negotiations between the parties, the parties reached an agreed settlement brought for approval by the Court on November 14, 2016.

On January 16, 2017, a hearing took place at which the parties agreed for the Bank to respond to questions raised at the hearing with regard to the settlement agreement and motion for approval filed by the parties. On February 8, 2017, the Bank filed its comments with the Court. On March 7, 2017, the Court ordered that within 15 days, a revised announcement text is to be filed with the Court for approval, and a copy of the settlement agreement is to be sent to the Supervisor of Banks and to the Attorney General and the parties were instructed to file their claims with regard to the issue of the statute of limitations.

On April 2, the Court approved the revised announcement text and on April 12, 2017, the announcement was published in the newspapers with regard to filing a motion for approval of a settlement agreement.

Further to the Court resolutions dated March 7, 2017 and June 13, 2017, the Bank filed additional claims with regard to the statute of limitations; a resolution is still pending.

The position of the Attorney General with regard to the settlement was submitted on July 30 and on September 17, 2017, the Bank filed its response to the the Attorney General's position, and the plaintiff filed their response to the Attorney General's position.

On October 2, 2017, a hearing was held with regard to the Attorney General's position. On May 28, 2018, a further hearing took place, at which the Court asked for further clarifications with regard to the settlement agreement. At the end of this hearing it was agreed that the Court would issue its ruling in absence of the parties. On September 17, 2018, a partial verdict was issued, whereby the Court approved the settlement agreement reached by the parties, despite the objection by the Attorney General's representative. In this partial verdict, the Bank's claim of thestatute of limitations was accepted. Moreover, dates were set for publishing the approval of the agreement and for filing claims with regard to legal fees and remuneration.

On October 25, 2018, the Bank filed a motion for approval of a notice to be published with regard to approval of the agreement. On October 31, 2018, the plaintiff announced that they did not intend to appeal the verdict and consent to publication of the notice in the format as provided by the Bank.

D) In September 2011, a claim and motion for class action status was filed with the Central District Court against the Bank, Bank Leumi LeIsrael Ltd. and Bank HaPoalim Ltd., for alleged unlawful charging of compounded interest, in contravention of statutes and agreements, on housing loans – including targeted loans, eligibility loans and additional loans, excluding standing loans. The total claim amount against the banks was NIS 927 million. The Bank's share of this claim amounts to NIS 364 million.

In May 2012, the Bank filed its response to this claim, claiming *inter alia* that it was unfounded, that the Bank acted in accordance with statutory provisions and did not charge any compounded interest in the manner in which banks in general and the Bank, in particular, acted. The position of the Supervisor of Banks, which supports the banks' position, was also filed in this case.

In July 2013, an evidentiary hearing took place and the experts on behalf of the parties were questioned. The plaintiffs filed their summation. In September 2014, the Bank filed its summation and in December 2014, the plaintiffs filed their summary responses.

On August 16, 2015 a verdict was issued, rejecting the motion for class action status.

On December 7, 2015, the parties appealed the verdict to the Supreme Court. The parties filed their summations and response summations.

On March 14, 2018, a hearing of the appeal by the Supreme Court took place, where the appellants accepted the recommendation made by the Court and agreed to withdraw their appeal. Therefore, this hearing was concluded with a verdict which rejects the appeal without awarding of expenses.

E.) 1) In August 2013, a claim and motion for class action status in the amount of NIS 10.5 billion were filed with the Tel Aviv District Court against the 5 major banks, including the Bank, and against bank Presidents, including the Bank President & CEO, in person – with respect to unlawful charging of commissions by the banks with regard to foreign currency conversion and transfer, which the plaintiffs allege was made without proper disclosure. The plaintiffs also claim that a restrictive trade practice exists among the banks.

In September 2013, the defendants filed a motion with the Court, seeking dismissal of the personal claim against bank Presidents, and the individual claim against them was dismissed.

A revised motion for class action status filed on February 3, 2014 set the claim amount at NIS 11.15 billion for all banks on aggregate.

2) In March 2014, a claim and motion for class action status in the amount of NIS 2.07 billion were filed with the Tel Aviv District Court against the Bank and against Bank Otzar HaChayal, Mercantile Discount Bank, Bank Igud Le Israel and Bank Yahav, alleging unlawful commissions charged by the banks with regard to conversion and transfer of foreign currency (this claim is identical to the aforementioned one).

A motion has been filed to combine heating of this motion with the first aforementioned motion and the Court has agreed to said motion and has combined both claims.

On December 23, 2014, the Bank filed its response to each of the motions for class action status. The plaintiffs filed their response to the combined response to the two aforementioned motions, in which they attributed part of the claim amount to each of the plaintiffs; the Bank's alleged share for both these claims amounted to NIS 1.145 billion in principal.

On March 8, 2015, a pre-trial hearing of this case took place, after which the Court set deadlines for completion of the statements of claim by all parties.

On April 23, 2015, the plaintiffs filed, in conformity with the Court decision, a summary motion for approval of class action status, based on the current motions. The Bank filed its response to the summary motion on October 18, 2015.

On October 25, 2015, another pre-trial hearing took place. In this hearing, the Court combined the hearing of motions filed against the credit card companies and the Postal Bank with those filed against the banks. Evidentiary hearings took place in March 2016. The plaintiffs filed their summations in April 2016. Given the banks' motion to dismiss the plaintiffs' summation, an extension was granted for the banks to file their summations within 60 days after the decision on the motion to dismiss. On August 10, 2016, the Court accepted the motion by the banks and ordered the summation by the plaintiffs to be dismissed; on September 4, 2016, the plaintiffs filed new summations; and on January 17, 2017, the Bank filed its summation and the plaintiffs filed their response summations. On March 1, 2018, a verdict was handed down rejecting the motions and requiring the defendants to pay the expenses. On March 18, 2017, concurrently with filing of the appeal, the plaintiffs filed a motion to delay execution of the verdict (payment of expenses) and a motion seeking exemption from a bond deposit and a motion to add evidence in the appeal. On May 23, 2018, the Supreme Court ruled that the payment of expenses would be delayed pending a ruling on the appeal. An appeal hearing is scheduled for April 1, 2019.

F) In March 2015, a counter-claim was filed against the Bank with the Central District Court, along with a motion for class action status, with respect to alleged over-charging of commissions in an "individual" account and in a "small business" account, allegedly in breach of Banking Rules (Customer Service) (Commissions), 2008. The plaintiff alleges that the breach was due, *inter alia*, to the Bank charging holders of "individual" or "small business" account commissions for certain services at higher tariffs than those set for large corporations, in contravention of the aforementioned Banking Rules.

The plaintiff claimed they were unable to estimate the damage incurred by potential class members.

The Bank filed its response to the motion on June 30, 2015. The plaintiff also filed their response to the Bank's response.

According to a Court resolution dated September 10, 2015, the Bank of Israel filed its position on December 15, 2015. On December 16, 2015, another pre-trial hearing took place – at which the parties were urged to negotiate a potential settlement agreement. A pre-trial hearing took place on March 29, 2016 and an evidentiary hearing took place on July 12, 2016. On November 8, 2016, the plaintiff filed their summation and on January 22, 2017, the Bank filed their summation, and the plaintiff filed their response summation. On January 31, 2017, a verdict was issued, whereby the motion was partially accepted. Dates were scheduled for filing a statement of claim and a response statement. As ruled by the Court, the plaintiff filed a motion to confirm a substitute class representative. On June 7, 2018, the Bank filed its objection to confirmation of the plaintiff as substitute class representative and the plaintiff filed its response. On July 4, 2018, the Court ruled that claims by the parties in the motion to confirm a substitute class representative would be heard at a pre-trial hearing scheduled for January 6, 2019.

G) In December 2015, a motion for class action status was filed against Bank Yahav, alleging that Bank Yahav charged individual clients (and small businesses) commissions whose amount and rate exceed the allowed maximum, specified in the price list for non-small businesses. This claim does not specify an estimated claim amount. The parties have negotiated a settlement agreement and on January 15, 2018, the parties filed a motion with the Court to approve the settlement agreement.

On March 28, 2018, the Court issued a verdict confirming the settlement agreement.

Note 10 – Contingent Liabilities and Special Commitments – continued

H) In January 2016, a claim and motion for class action status was filed with the Jerusalem District Court, amounting in total to NIS 697.5 million, against the Bank, First International Bank of Israel Ltd., Bank Otzar HaChayal Ltd., Bank Yahav for Government Employees Ltd. and Bank Igud LeIsrael Ltd. (hereinafter: "the defendants"). This claim alleges discrimination of the Arab population with regard to access to banking services, in that the defendants do not maintain branches close to Arab population and do not make their banking services accessible to this population – in alleged violation of the Prohibition of Discrimination in Products, Services and in Access to Entertainment Venues and to Public Venues Act, 2000.

The plaintiff seeks a verdict stating, in conformity with the Class Action Lawsuit Act, that the claim is to be filed on behalf of all Israeli residents who are Muslim, Christian or Druze, who suffer from discrimination in access to banking services by the defendants, due to absence of bank branches of the defendants in their town.

The plaintiffs set their claim against all defendants at NIS 697.5 million, noting that each defendant's share of the damage caused to class members is based on their market share – as is their share in compensation to class members. The Bank filed its response to the motion on August 4, 2016 and the plaintiffs filed their response to it on November 13, 2016.

A pre-trial hearing took place on December 19, 2016, at which the Court recommended that the parties reach a settlement in this case. As proposed by the Court, the parties have started negotiations. On May 10, 2017, another pre-trial hearing took place where the parties informed the Court that they had not reached understandings. On May 24, 2017, the plaintiffs filed data obtained from the Bank of Israel about the banks in 2009 and thereafter, the respondents filed their own updated data. Evidentiary hearings took place in November. The parties filed their written summations and verbal summations were heard on November 30, 2017.

On December 28, 2017, a verdict was issued rejecting the motion for approval. On February 11, 2018, this verdict was appealed to the Supreme Court. On March 21, 2018, the plaintiffs filed a motion seeking to reduce the bond amount set in this case, the Bank filed its response and the Court rejected the motion.

An appeal hearing is scheduled for April 10, 2019.

I) In May 2016, a lawsuit was filed against the Bank with the Tel Aviv Yafo District Court, along with a motion for class action status, amounting to NIS 220 million. The lawsuit alleges unlawful over-charging of commissions to clients eligible to be classified as a small business, in breach of the Bank's duties in its relations with clients.

The plaintiff claims that the Bank has not disclosed to clients who manage a small business that they are eligible for the lower commission schedule of a "small business", in order to foil the commission reform and to charge small businesses commissions other than according to the small business tariff, allegedly resulting in unlawful gain at the expense of these clients.

The Bank filed its response to the motion on November 1, 2016 and the plaintiff filed their response to the Bank's response on November 30, 2016.

On April 23, 2017, a preliminary hearing took place and resolutions were handed down with regard to questions and document discovery; the parties are to comply with these by May 23, 2017. Given the plaintiff's notice of their intention to file a motion to consolidate the hearing of this motion with a hearing of 5 other motions for class action status in lawsuits filed on the same matter, on June 22, 2017 the Bank filed a petition with the Court seeking a stay of proceedings in this lawsuit, including preliminary discovery proceedings, pending a ruling by the Supreme Court on the motion for consolidation. On June 28, 2017, a motion was filed with the Supreme Court for consolidation of the hearing of this lawsuit with the five other motions; the Bank filed its response on July 10, 2017; on July 20, 2017 the Court rejected the motion to consolidate all of these lawsuits. In conformity with directives from the Supreme Court, a motion was filed with the District Court for joint hearing of the motions, on January 21, 2018 the motion was heard and on April 17, 2018, a ruling was issued ordering a joint hearing by the same Tel Aviv District Court Judge. A joint hearing of all the motions is scheduled for December 19, 2018.

J) In December 2016, a motion for class action status was filed with the Central District Court against the Bank, Bank HaPoalim, Bank Leumi and Discount Bank, alleging charging of foreign currency-related fees not in conformity with provisions of the complete price list, as stated in Banking Regulations (Customer Service) (Fees), 2008 and in violation of Section 9 of the Banking Act (Customer Service), 1981. According to the plaintiff, the defendant banks charge minimum fees with respect to various foreign currency-related transactions, graduated according to transaction amount, allegedly in contravention of provisions of the complete price list, whereby the defendant banks must list the fee they charge for a range of transactions as "Percentage (minimum, maximum)". The plaintiff further claims that the defendant banks are in breach of the Anti-Trust Act by maintaining a restrictive arrangement.

The plaintiff notes that they do not have the final data, which are available to the defendants. However, they estimate the damage incurred to be at least NIS 500 million.

The Bank's response was filed on April 23, 2017 and the plaintiff's response was filed on May 21, 2017. On July 3, 2017, a pre-trial hearing took place after which the plaintiff was allowed to amend their motion and to file it no later than October 15, 2017. On September 3, 2017, a revised motion was filed and the Bank has filed its response to the revised motion. On December 24, 2017, a pre-trial hearing took place, after which the Court asked to receive the Bank of Israel position on the question under dispute. On February 12, 2018, the Supervisor of Banks submitted its position, whereby charging a minimum commission for gradual foreign currency transfer from overseas to overseas, provided that the basic structure of minimum and maximum commissions is maintained, does not constitute a breach of the commission rules included in the complete price list. On that date, the Court handed down its resolution, whereby the plaintiffs would inform the Court by February 26, 2018, whether they wish to pursue the case in view of the position of the Supervisor of Banks. On March 13, 2018, a hearing took place at which the plaintiffs asked to withdraw their motion for approval. Consequently, a verdict was handed down, confirming the plaintiffs' withdrawal without award of expenses.

K) In February 2017, a motion for class action status was filed with the Central District Court against the Bank, Bank Leumi, Bank Hapoalim and Bank Yahav, alleging over-charging and un-lawful charging of "teller commission", where only the "direct channel commission" should have been charged, in violation of Banking Regulations (Customer Service) (Fees), 2008 and in violation of Section 9 of the Banking Act (Customer Service), 1981. The plaintiff allege that where clients deposit check and/or cash through a teller at the Bank branch, due to failure of the automated deposit machines, without assistance from the teller, the clients are charged the "teller commission", rather than the lower "direct channel commission". The plaintiffs are unable to estimate the amount claimed.

The Bank filed its response to the motion on October 31, 2017. On December 14, 2017, a pre-trial hearing took place, after which a decision was made whereby the plaintiff should state their position within 90 days, whether to continue to pursue their claim as it stands, or whether they wish to withdraw , or amend their claim. At this stage, none of these actions took place and the plaintiffs have yet to announce their position. A hearing of the original claim is scheduled for November 19, 2018.

L) In November 2017, a claim and motion for class action status were filed with the District Court Center–Lod against the Bank, in the amount of NIS 437.3 million alleging charging of excess interest on housing loans, due to reduction of the loan component based on the prime lending rate which is allegedly misleading and lacking proper disclosure.

According to the plaintiffs, the Bank refrained from providing its customers with a housing loan, in which the loan component based on the prime lending rate is the maximum permitted by Bank of Israel directives (33.3%), in order to increase the amount which the Bank may provide in supplementary, much costlier loans.

The plaintiffs note that they do not deny or challenge the fact that the Bank has discretion in granting housing loans and the approved composition of the loan, but rather the manner in which the Bank exercises its discretion and its extended fiduciary, trust and disclosure duties.

The Bank filed its response on March 29, 2018 and the plaintiffs have filed their response to the Bank's response. A pre-trial hearing took place on July 02, 2018, after which the Court suggested the parties seek mediation. The direct discussions by the parties failed and the case would be brought again before the Court.

For all claims against the Bank Group in individual amounts over NIS 2 million, excluding claims listed in section 2 above, there is additional, non-remote exposure for which no provision was made, amounting to NIS 74 million.

Note 10 – Contingent Liabilities and Special Commitments – continued

3. Motions for class action status and a motion for approval of a derivative claim are pending against the Bank and subsidiaries, where the amount claimed is material, as well as appeals to the High Court of Justice, as itemized below, which, in the opinion of the Bank's management, based on the opinion of the managements of its subsidiaries, and on the opinion of their legal counsel, the prospects for which cannot be estimated on the date of the financial statements, so that no provision was made for these.

   A) In March 2015, a motion for approval of derivative claim was filed with the District Court in Tel Aviv ("the motion") on behalf of the Bank and its subsidiary, UMB (Switzerland) Ltd. ("Mizrahi Switzerland") against past and incumbent officers of the Bank and of Mizrahi Switzerland, at a minimum amount of NIS 95 million, for damage allegedly sustained by Mizrahi Group due to the defendants' deeds and omissions with regard to providing assistance to US clients in avoiding taxes in the USA. The plaintiff claims that defendants should reimburse the Bank for the damage they have caused to Mizrahi Group in general and to the Bank in particular.

      On March 24, 2015, a Bank shareholder filed a motion in conjunction with the aforementioned proceeding, seeking to join as a party to that proceeding and to delay the hearing or, alternatively, to dismiss it out of hand, given the motion for document discovery filed by that shareholder in December 2014 with the Tel Aviv District Court against the Bank and its officers pursuant to provisions of Section 198a of the Companies Law 1999 ("the motion for discovery"). In conjunction with the motion for discovery, the plaintiff asked the Court to instruct the Bank and the other defendants to provide to the plaintiff various documents with regard to on-going proceedings in the USA, so as to allow the plaintiff to review potential filing of a motion for derivative defense (on behalf of the Bank in the USA) or filing of a motion for approval of a derivative claim (against executives and employees of the Bank). The plaintiff claims in the motion for discovery that the process of the motion for discovery is a pending process which has priority over the motion for approval – which is why hearing of the motion for approval should be delayed and even dismissed out of hand.

      On May 10, 2015, the Court approved, in conjunction with the motion for approval, a hearing arrangement agreed by the parties in this case, with regard to dates for filing statements of claim whereby, *inter alia*, at this stage the deadlines for filing the defendants' responses to the motion for approval would be suspended and soon after a decision is given, *inter alia*, with regard to the aforementioned motion to join and subject to it, the schedule for filing these responses would be set considering, *inter alia*, the progress made in proceedings with the Department of Justice in the USA.

      It should be noted, with regard to the motion for discovery, that on May 3, 2015, a preliminary hearing of this motion took place wherein the Court approved the agreement reached by the parties, that the hearing of the actual motion for discovery would currently be suspended, pending completion of document discovery for filing with authorities in the USA. In December 2015, the Court resolved that the motion for approval would be dismissed, but the dismissal would be delayed that should the motion for discovery be allowed and should the plaintiff of the motion for discovery file a motion for approval 90 days after receiving the documents in a timely manner as instructed by the Court in its resolution, the motion for approval would be dismissed. Should the discovery motion be dismissed, or should a motion for approval not be filed by 90 days after receiving the documents – the motion for approval would be considered a preliminary motion to any other motion, if filed.

      On April 18, 2016, the Court resolved to postpone the hearing of the motion pending conclusion of the investigation and reporting of its outcome.

      On April 12, 2017, the Court directed the Attorney General to inform the Court in 45 days' time of their intention to join the proceeding. On April 12, 2017, the Court directed the Attorney General to inform the Court of their intention to join the proceeding. On August 3, 2017, the Attorney General submitted a notice on behalf thereof, regarding their appearance in the discovery process, to which they attached their position. On September 10, 2017, the Bank and the other respondents filed their responses to the Attorney General's position.

      On September 19, 2017 Court approved a procedural arrangement reached by the parties in the case, whereby the hearing of this case will be suspended at this stage, subject to the respondents reporting to the Court and to the plaintiff as from December 31, 2017, once every 90 days, of the investigation by the US DOJ. Updates with regard to the investigation process were given on March 29, 2018 and on June 27, 2018.

      On October 2, 2018, the Bank provided an update to the Court with regard to the investigation process, enclosing the report made public on the Bank's financial statements as of June 30, 2018 whereby, *inter alia*, the Bank started negotiations with the US DOJ, the outcome of which cannot yet be estimated. Consequently, the Court scheduled the case for follow-up in 90 days.

      See also section 4 with regard to investigation by the US Department of Justice concerning Bank Group business with its US clients.

B.) In December 2017, a motion for approval of class action status was filed with the Jerusalem District Court against the Bank and against Bank Otzar HaChayal, Bank Leumi Le-Israel Ltd. and Bank Mercantile Discount. The motion concerns credit extended under the Small Business Fund.

The plaintiffs allege that the respondent banks, providing credit under the Small Business Fund, require borrowers to deposit part of the loan funds, which constitutes forbidden service contingent on service, while allegedly raising the effective interest rate for the loan. They further allege that this conduct by the banks constitutes a restrictive trade practice.

The plaintiff set the claim amount for the Bank at over NIS 147 million.

On April 25, 2018, the Bank filed a motion to dismiss out of hand or, alternatively, to order the plaintiff to deposit a bond to guarantee the Bank's expenses; Israel Discount Bank also filed its own motion to dismiss. In view of the motions, the Court has "frozen" the date for the defendants to file their responses. On June 24, 2018, a pre-trial hearing took place and the Court accepted the plaintiffs' motions to file an amended motion, no later than December 1, 2018.

C.) In December 2017, a claim and motion for approval of class action status was filed with the Central District Court amounting to NIS 124 million. The claim involves setting of interest rate in housing loans bearing adjustable interest - debentures. The plaintiffs allege that the Bank issues an approval in principle to the client, listing the debenture base as the only mechanism for interest calculation in the adjustable interest track - debentures for the term of the loan. However, the loan agreement includes another mechanism titled "Emergency Protection Mechanism" for setting the interest rate, in addition to the original mechanism, without providing proper disclosure. It is further alleged that the condition stipulated by the Bank in the agreement, with regard to triggering of the Emergency Protection Mechanism, is unfair and gives the Bank an unreasonable advantage over its clients.

The Bank filed its response on July 25, 2018 and a pre-trial hearing is scheduled for December 12, 2018.

D.) In September 2018, a claim and motion for approval of class action status was filed with the Tel Aviv Yafo District Court in the amount of NIS 180 million (estimate).

The motion alleges over-charging of commission upon early repayment of housing loans consisting of multiple tracks, some of which have generated positive capitalization differences and some of which have generated negative capitalization differences, where the Bank fails to offset the capitalization differences of the different tracks against each other, in contravention of provisions of the Banking Ordinance (Early repayment of Housing Loan), 2002.

The plaintiffs seek a ruling, pursuant to the Class Action Lawsuit Act, whereby the lawsuit would be filed on behalf of all Bank clients who have and/or would repay a mortgage by full or partial early repayment and one of their tracks generated a negative capitalization balance not offset against the early repayment fee, as stipulated by law.

4. Further to section C.12 of Note 26 to the financial statements as of December 31, 2017 and to section B.4 of Note 10 to the financial statements as of March 31, 2018 and to section B.4 of Note 10 to the financial statements as of June 30, 2018, the Bank is conducting negotiations with the US Department of Justice ("US DOJ"), in order to quickly reach an agreed outline for the Bank Group to conclude the investigation.

Pursuant to the above, meetings and discussions have been held, in which, inter alia, the principles for calculating payment in accordance with the provisions of the relevant penalty guidelines of the US DOJ (Organizational Sentencing Guidelines) were discussed. The calculation of the payment as aforesaid is likely to be based on the loss of tax to the Tax Authorities in the United States with respect to US customers, and on the component of revenues generated by the Bank Group from these customers ("the computed payment component"), as well as on the penalty component. In the second half of October, a draft DPA (Deferred Prosecution Agreement), which has yet to be discussed with the US DOJ, was furnished to the Bank's representatives.

At the same time as conducting the negotiations, in October 2018, the Bank completed the delivery of data and information details previously requested by the US DOJ, including data regarding accounts purported to be US accounts. In addition, the Bank is taking steps to supply further information and documents, as requested in the framework of the management of the negotiations.

It should be noted that the Bank's legal counsels have expressed their opinion that they are unable to estimate the outcome of the negotiations with the US DOJ, as well as the potential loss that is liable to be incurred by the Bank Group with respect to the investigation.

Nevertheless, according to the estimation of the Bank management and based on the opinion of the Bank's legal counsels, and taking note, inter alia, of the amount of the penalty component paid by other banks in various arrangements reached with the US DOJ in connection with investigations relating to undeclared accounts of US taxpayers, the provision with respect to the investigation included in the financial statements as of June 30, 2018 (USD 162.6 million) matches the existing information held by the Bank, as of the date of approval of the financial statements as of September 30, 2018, in conformity with guidelines listed in the Note to the financial statements. as of June 30, 2018, i.e. the loss of tax to the US Tax Authorities with respect to US customers, the component of revenues generated by the Bank Group from these customers and the minimum amount in the range of the most likely penalty.

In view of the aforesaid, and taking note of the uncertainty, it is possible that, in the future, it will become apparent that the amount of the loss that will be realized (particularly, due to the penalty component) will be significantly higher than the amount of the provision provided to date.

Noting the aforesaid, the Board of Directors of the Bank has not declared the payment of dividends with respect to the profits of the third quarter of 2018 at the date of approval of the financial statements for this quarter.

Note that recording the provision or the Board of Directors' resolution not to make any dividends distribution, as noted above, do not constitute admission of the investigation conclusions nor any claim made by the US DOJ nor by any third party – and do not even constitute a consent to pay the provision amount with respect to this matter.

Note 11 – Derivative instruments and hedging activities

Reported amounts (NIS in millions)

A) Activity on consolidated basis

	As of September 30, 2018 (unaudited)					
	Interest contracts					
	NIS – CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
1. Stated amounts of derivative instruments						
A. Hedging derivatives[1]						
Forward contracts	296	–	–	–	–	296
Other option contracts:						
Options written	–	18	–	–	–	18
Swaps	2,050	920	–	–	–	2,970
Total	2,346	938	–	–	–	3,284
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	2,050	920	–	–	–	2,970
B. ALM derivatives[1][2]						
Forward contracts	3,262	–	99,494	–	38	102,794
Option contracts traded on stock exchange:						
Options written	–	–	1,168	–	–	1,168
Options purchased	–	–	1,175	–	–	1,175
Other option contracts:						
Options written	–	–	16,666	–	–	16,666
Options purchased	–	–	14,250	–	–	14,250
Swaps	3,357	35,074	7,280	–	–	45,711
Total	6,619	35,074	140,033	–	38	181,764
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	3,244	21,589	–	–	–	24,833
C. Other derivatives[1]						
Forward contracts	–	–	1,433	–	–	1,433
Option contracts traded on stock exchange:						–
Options written	–	–	4,618	5,010	8,036	17,664
Options purchased	–	–	4,618	5,010	8,036	17,664
Other option contracts:						–
Options written	–	–	–	95	–	95
Options purchased	–	725	–	35	–	760
Swaps	–	–	19	4,053	–	4,072
Total	–	725	10,688	14,203	16,072	41,688
Includes interest rate swaps on which the Bank agreed to pay an interest rate	–	–	–	–	–	–

(1) Except for credit derivatives and spot contracts for foreign currency swaps.

(2) Derivatives which constitute part of the Bank's asset and liability management system, which were not intended as hedges.

Note 11 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

A) Activity on consolidated basis – continued

	As of September 30, 2018 (unaudited)					
	Interest contracts					
	NIS – CPI	Other	Foreign currency	with respect to shares	Commodities and other contracts	
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is guarantor	–	–	–	–	290	290
Credit derivatives in which the Bank is beneficiary	–	–	–	–	644	644
Foreign currency spot swap contracts	–	–	5,526	–	–	5,526
Total	–	–	5,526	–	934	6,460
Total stated amounts of derivative instruments	8,965	36,737	156,247	14,203	17,044	233,196
Fair value, gross, of derivative instruments						
A. Hedging derivatives(1)						
Positive fair value, gross	10	2	–	–	–	12
Negative fair value, gross	12	42	–	–	–	54
B. ALM derivatives(1)(2)						
Positive fair value, gross	245	488	1,523	–	2	2,258
Negative fair value, gross	96	599	1,812	–	2	2,509
C. Other derivatives(1)						
Positive fair value, gross	–	2	77	256	1	336
Negative fair value, gross	–	2	51	216	1	270
D. Credit derivatives						
Credit derivatives in which the Bank is guarantor						
Negative fair value, gross	–	–	–	–	1	1
Credit derivatives in which the Bank is beneficiary						
Positive fair value, gross	–	–	–	–	4	4
Negative fair value, gross	–	–	–	–	2	2
Total						
Positive fair value, gross(3)	255	492	1,600	256	7	2,610
Fair value amounts offset on the balance sheet	–	–	–	–	–	–
Carrying amount of assets with respect to derivative instruments	255	492	1,600	256	7	2,610
Of which: Carrying amount of assets with respect to derivative instruments not subject to a master netting agreement or to similar agreements	96	103	775	193	6	1,173
Total						
Negative fair value, gross	108	643	1,863	216	6	2,836
Fair value amounts offset on the balance sheet	–	–	–	–	–	–
Carrying amount of liabilities with respect to derivative instruments	108	643	1,863	216	6	2,836
Of which: Carrying amount of liabilities with respect to derivative instruments not subject to a master netting agreement or to similar agreements	51	181	1,059	195	4	1,490

(1) Except for credit derivatives.

(2) Derivatives which constitute part of the Bank's asset and liability management system, which were not intended as hedges.

(3) Of which: Positive gross fair value of assets with respect to embedded derivative instruments amounting to NIS 6 million.

Note 11 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

A) Activity on consolidated basis – continued

	As of September 30, 2017 (unaudited)					
	Interest contracts				Commodities	
	NIS – CPI	Other	Currency contracts	Contracts for shares	and other contracts	Total
Stated amounts of derivative instruments						
Hedging derivatives[1]						
Forward contracts	1,382	–	–	–	–	1,382
Other option contracts:						–
Options written	–	18	–	–	–	18
Swaps	–	1,042	–	–	–	1,042
Total	1,382	1,060	–	–	–	2,442
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	–	1,042	–	–	–	1,042
ALM derivatives[1][2]						
Forward contracts	5,847	–	102,550	–	38	108,435
Option contracts traded on stock exchange:						
Options written	–	–	80	–	–	80
Options purchased	–	–	201	–	–	201
Other option contracts:						
Options written	–	–	10,996	–	–	10,996
Options purchased	–	–	10,568	–	–	10,568
Swaps	2,237	33,935	7,803	–	–	43,975
Total	8,084	33,935	132,198	–	38	174,255
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	2,125	20,765	–	–	–	22,890
Other derivatives[1]						
Forward contracts	–	–	1,138	–	–	1,138
Option contracts traded on stock exchange:						–
Options written	–	–	4,901	8,292	5,190	18,383
Options purchased	–	–	4,901	8,292	5,190	18,383
Other option contracts:						–
Options written	–	–	–	38	–	38
Options purchased	–	70	–	42	–	112
Swaps	–	4	8	5,117	–	5,129
Total	–	74	10,948	21,781	10,380	43,183
Includes interest rate swaps on which the Bank agreed to pay an interest rate	–	4	–	–	–	4

(1) Except for credit derivatives and spot contracts for foreign currency swaps.
(2) Derivatives which constitute part of the Bank's asset and liability management system, which were not intended as hedges.

Note 11 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

A) Activity on consolidated basis – continued

	As of September 30, 2017 (unaudited)					
	Interest contracts				Commodities	
			Foreign	with respect	and other	
	NIS – CPI	Other	currency	to shares	contracts	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is beneficiary	–	–	–	–	680	680
Foreign currency spot swap contracts	–	–	6,893	–	–	6,893
Total	–	–	6,893	–	680	7,573
Total stated amounts of derivative instruments	9,466	35,069	150,039	21,781	11,098	227,453
2. Fair value, gross, of derivative instruments						
A. Hedging derivatives(1)						
Positive fair value, gross	18	7	–	–	–	25
Negative fair value, gross	2	65	–	–	–	67
B. ALM derivatives(1)(2)						
Positive fair value, gross	347	904	2,143	–	1	3,395
Negative fair value, gross	181	1,175	1,530	–	1	2,887
C. Other derivatives(1)						
Positive fair value, gross	–	1	80	308	–	389
Negative fair value, gross	–	–	50	287	–	337
D. Credit derivatives						
Credit derivatives in which the Bank is beneficiary						
Positive fair value, gross	–	–	–	–	4	4
Negative fair value, gross	–	–	–	–	2	2
Total						
Positive fair value, gross(3)	365	912	2,223	308	5	3,813
Fair value amounts offset on the balance sheet	–	–	–	–	–	–
Carrying amount of assets with respect to derivative instruments	365	912	2,223	308	5	3,813
Of which: Carrying amount of assets with respect to derivative instruments not subject to a master netting agreement or to similar agreements	184	167	1,066	147	5	1,569
Total						
Negative fair value, gross	183	1,240	1,580	287	3	3,293
Fair value amounts offset on the balance sheet	–	–	–	–	–	–
Carrying amount of liabilities with respect to derivative instruments	183	1,240	1,580	287	3	3,293
Of which: Carrying amount of liabilities with respect to derivative instruments not subject to a master netting agreement or to similar agreements	45	279	1,040	262	2	1,628

(1) Except for credit derivatives.

(2) Derivatives which constitute part of the Bank's asset and liability management system, which were not intended as hedges.

(3) Of which: Positive gross fair value of assets with respect to embedded derivative instruments amounting to NIS 5 million.

Note 11 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

A) Activity on consolidated basis – continued

	As of December 31, 2017 (audited)					
	Interest contracts				Commodities	
			Currency	Contracts	and other	
	NIS – CPI	Other	contracts	for shares	contracts	Total
1. Stated amounts of derivative instruments						
A. Hedging derivatives[1]						
Forward contracts	1,500	–	–	–	–	1,500
Other option contracts:						
Options written	–	17	–	–	–	17
Swaps	–	937	–	–	–	937
Total	1,500	954	–	–	–	2,454
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	–	937	–	–	–	937
B. ALM derivatives[1][2]						
Forward contracts	5,125	–	89,541	–	46	94,712
Option contracts traded on stock exchange:						
Options written	–	–	97	–	–	97
Options purchased	–	–	288	–	–	288
Other option contracts:						
Options written	–	–	12,328	–	–	12,328
Options purchased	–	–	11,392	–	–	11,392
Swaps	2,458	28,923	7,707	–	–	39,088
Total	7,583	28,923	121,353	–	46	157,905
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	2,346	17,768	–	–	–	20,114
C. Other derivatives[1]						
Forward contracts	–	–	1,050	–	–	1,050
Option contracts traded on stock exchange:						
Options written	–	–	4,803	13,503	5,853	24,159
Options purchased	–	–	4,803	13,503	5,853	24,159
Other option contracts:						
Options written	–	–	–	49	–	49
Options purchased	–	69	–	41	–	110
Swaps	–	3	28	5,031	–	5,062
Total	–	72	10,684	32,127	11,706	54,589
Includes interest rate swaps on which the Bank agreed to pay an interest rate	–	3	–	–	–	3

(1) Except for credit derivatives and spot contracts for foreign currency swaps.

(2) Derivatives which constitute part of the Bank's asset and liability management system, which were not intended as hedges.

Note 11 – Derivative instruments and hedging activities – continued
Reported amounts (NIS in millions)

A) Activity on consolidated basis – continued

	As of December 31, 2017 (audited)					
	Interest contracts					
	NIS – CPI	Other	Foreign currency	with respect to shares	Commodities and other contracts	
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is beneficiary	–	–	–	–	776	776
Foreign currency spot swap contracts	–	–	4,909	–	–	4,909
Total	–	–	4,909	–	776	5,685
Total stated amounts of derivative instruments	9,083	29,949	136,946	32,127	12,528	220,633
2. Fair value, gross, of derivative instruments						
A. Hedging derivatives(1)						
Positive fair value, gross	11	7	–	–	–	18
Negative fair value, gross	3	58	–	–	–	61
B. ALM derivatives(1)(2)						
Positive fair value, gross	304	651	1,964	–	1	2,920
Negative fair value, gross	175	910	1,544	–	1	2,630
C. Other derivatives(1)						
Positive fair value, gross	–	–	92	392	–	484
Negative fair value, gross	–	–	59	330	–	389
D. Credit derivatives						
Credit derivatives in which the Bank is beneficiary						
Positive fair value, gross	–	–	–	–	5	5
Negative fair value, gross	–	–	–	–	2	2
Total						
Positive fair value, gross(3)	315	658	2,056	392	6	3,427
Fair value amounts offset on the balance sheet	–	–	–	–	–	–
Carrying amount of assets with respect to derivative instruments	315	658	2,056	392	6	3,427
Of which: Carrying amount of assets with respect to derivative instruments not subject to a master netting agreement or to similar agreements	140	79	904	227	5	1,355
Total						
Negative fair value, gross	178	968	1,603	330	3	3,082
Fair value amounts offset on the balance sheet	–	–	–	–	–	–
Carrying amount of liabilities with respect to derivative instruments	178	968	1,603	330	3	3,082
Of which: Carrying amount of liabilities with respect to derivative instruments not subject to a master netting agreement or to similar agreements	45	217	982	279	3	1,526

(1) Except for credit derivatives.
(2) Derivatives which constitute part of the Bank's asset and liability management system, which were not intended as hedges.
(3) Of which: Positive gross fair value of assets with respect to embedded derivative instruments amounting to NIS 6 million.

Note 11 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

B) Credit risk on derivative instruments according to counter-party to the contract – Consolidated

	As of September 30, 2018 (unaudited)					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivative instruments [(1)]	**44**	**1,221**	**10**	**5**	**1,330**	**2,610**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	–	(959)	–	–	(154)	(1,113)
Mitigation of credit risk with respect to cash collateral received	–	(162)	–	–	(269)	(431)
Net amount of assets with respect to derivative instruments	44	100	10	5	907	1,066
Off-balance sheet credit risk on derivative instruments[(3)]	106	1,113	357	–	896	2,472
Mitigation of off-balance sheet credit risk	–	(506)	–	–	(112)	(618)
Net off-balance sheet credit risk with respect to derivative instruments	106	607	357	–	784	1,854
Total credit risk on derivative instruments	150	707	367	5	1,691	2,920
Carrying amount of liabilities with respect to derivative instruments	**54**	**1,600**	**10**	**47**	**1,125**	**2,836**
Gross amounts not offset on the balance sheet:						
Financial instruments	–	(959)	–	–	(154)	(1,113)
Pledged cash collateral	–	(494)	–	(16)	–	(510)
Net amount of liabilities with respect to derivative instruments	54	147	10	31	971	1,213

	As of September 30, 2017 (unaudited)					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivative instruments [(2)]	**90**	**2,401**	**13**	**41**	**1,268**	**3,813**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	–	(1,586)	–	–	(98)	(1,684)
Mitigation of credit risk with respect to cash collateral received	–	(594)	–	(41)	(270)	(905)
Net amount of assets with respect to derivative instruments	90	221	13	–	900	1,224
Off-balance sheet credit risk on derivative instruments[(3)]	165	1,395	101	–	900	2,561
Mitigation of off-balance sheet credit risk	–	(501)	–	–	(102)	(603)
Net off-balance sheet credit risk with respect to derivative instruments	165	894	101	–	798	1,958
Total credit risk on derivative instruments	255	1,115	114	–	1,698	3,182
Carrying amount of liabilities with respect to derivative instruments	**90**	**2,052**	**13**	**–**	**1,138**	**3,293**
Gross amounts not offset on the balance sheet:						
Financial instruments	–	(1,586)	–	–	(98)	(1,684)
Pledged cash collateral	–	(308)	–	–	–	(308)
Net amount of liabilities with respect to derivative instruments	90	158	13	–	1,040	1,301

(1) Includes positive fair value, gross, of embedded derivative instruments amounting to NIS 6 million.

(2) Includes positive fair value, gross, of embedded derivative instruments amounting to NIS 5 million.

(3) The difference, if positive, between the total amount with respect to derivative instruments (including with respect to derivative instruments with negative fair value) included under borrower indebtedness, as calculated for restrictions on indebtedness of a borrower, before mitigation of credit risk, and the carrying amount of assets with respect to derivative instruments of the borrower.

Reported amounts (NIS in millions)

B) Credit risk with respect to financial derivative instruments according to counter-party to the contract – Consolidated – continued

	As of December 31, 2017 (audited)					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivative instruments [(1)]	**86**	**2,014**	**14**	**57**	**1,256**	**3,427**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	–	(1,426)	–	–	(40)	(1,466)
Mitigation of credit risk with respect to cash collateral received	–	(520)	–	(56)	(303)	(879)
Net amount of assets with respect to derivative instruments	86	68	14	1	913	1,082
Off-balance sheet credit risk on derivative instruments[(2)]	169	1,224	170	–	843	2,406
Mitigation of off-balance sheet credit risk	–	(468)	–	–	(92)	(560)
Net off-balance sheet credit risk with respect to derivative instruments	169	756	170	–	751	1,846
Total credit risk on derivative instruments	255	824	184	1	1,664	2,928
Carrying amount of liabilities with respect to derivative instruments	**86**	**1,760**	**14**	**–**	**1,222**	**3,082**
Gross amounts not offset on the balance sheet:						
Financial instruments	–	(1,426)	–	–	(40)	(1,466)
Pledged cash collateral	–	(281)	–	–	–	(281)
Net amount of liabilities with respect to derivative instruments	86	53	14	–	1,182	1,335

(1) Includes positive fair value, gross, of embedded derivative instruments amounting to NIS 6 million.

(2) The difference, if positive, between the total amount with respect to derivative instruments (including with respect to derivative instruments with negative fair value) included under borrower indebtedness, as calculated for restrictions on indebtedness of a borrower, before mitigation of credit risk, and the carrying amount of assets with respect to derivative instruments of the borrower.

In the nine-month period ended September 30, 2018, the Bank recognized revenues from a decrease in credit losses with respect to derivative instruments, amounting to NIS 3 million (in the nine-month period ended September 30, 2017 the Bank recognized revenues from a decrease in credit losses with respect to derivative instruments amounting to NIS 2 million and in all of 2017, the Bank recognized revenues from a decrease in credit losses with respect to derivative instruments amounting to NIS 2 million).

Note 11 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

C) Maturity dates – stated amounts: year-end balances – Consolidated

	As of September 30, 2018 (unaudited)				
	Up to three months	3 months to 1 year	1-5 years	Over five years	Total
Interest contracts:					
NIS – CPI	1,460	3,654	2,796	1,055	8,965
Other	3,341	8,743	17,834	6,819	36,737
Currency contracts	95,604	49,871	10,324	448	156,247
Contracts for shares	11,422	2,136	645	–	14,203
Commodities and other contracts	16,336	7	476	225	17,044
Total	128,163	64,411	32,075	8,547	233,196

	As of September 30, 2017 (unaudited)				
Interest contracts:					
NIS – CPI	1,056	3,207	4,379	824	9,466
Other	4,216	5,378	17,752	7,723	35,069
Currency contracts	92,411	45,887	10,492	1,249	150,039
Contracts for shares	18,219	3,283	279	–	21,781
Commodities and other contracts	10,485	21	238	354	11,098
Total	126,387	57,776	33,140	10,150	227,453

	As of December 31, 2017 (audited)				
Interest contracts:					
NIS – CPI	1,438	3,325	3,500	820	9,083
Other	2,263	4,764	15,261	7,661	29,949
Currency contracts	78,476	46,524	10,897	1,049	136,946
Contracts for shares	28,062	3,562	503	–	32,127
Commodities and other contracts	11,737	239	204	348	12,528
Total	121,976	58,414	30,365	9,878	220,633

Note 12 – Operating Segments

A. Information regarding supervisory operating segments

On November 3, 2014, the Supervisor of Banks issued an update to the Public Reporting Directives concerning supervisory operating segments. According to the directive, the Bank is required to provide, on its financial statements, disclosure with regard to supervisory operating segments in conformity with a uniform, comparable layout specified by the Supervisor of Banks; attribution to supervisory operating segments is typically determined by the turnover volume for clients.

Financial information in the Report by the Board of Directors and Management is included in conformity with definitions of supervisory operating segments.

In addition, the financial statements include – in Note 12 to the financial statements – disclosure with regard to "Operating segments in conformity with the management approach".

An operating segment in conformity with the management approach is a Bank component with operations which may derive revenues and incur expenses which meet the following criteria:

- Its operating results are regularly reviewed for the purpose of decision making about resource allocation and for performance evaluation.
- Separate financial information is available with regard to it.

In fact, there is a strong correlation between supervisory operating segments and "operating segments in conformity with the management approach" but nevertheless, there are some differences in client attribution to segments and in decision making. Therefore, at this stage, the financial statements also include reporting of operating results in conformity with "the management approach", as noted above.

Supervisory operating segments

Supervisory operating segments include operating segments for individuals and operating segments for other than individuals (including business operating segments, institutional investors and financial management of the Bank).

Individuals are defined as persons with no indebtedness to the Bank or whose indebtedness is classified as indebtedness of "individuals – housing loans and others", in conformity with definitions of credit risk classification by economic sector.

Definitions of supervisory operating segments are as follows:

Households – individuals, other than private banking clients, as noted below.

Private banking – individuals who manage a financial asset portfolio in excess of NIS 3 million.

Small and micro businesses – businesses with turnover amounting up to NIS 50 million.

Medium businesses – businesses with turnover higher than NIS 50 million and lower than NIS 250 million.

Large businesses – businesses with turnover higher than NIS 250 million

Institutional investors – Businesses which own pension funds, study funds, mutual funds, ETFs, insurance companies, stock exchange members, portfolio managers.

Financial management – includes trading operations, asset and liability management and non-banking investments.

Trade operations – Investment in securities held for trading, market making operations for securities, operations involving derivative instruments not designated as hedges and which are not part of asset and liability management for the Bank, borrowing of securities for trading, short selling of securities, underwriting services for securities.

Asset and liability management – including investment in debentures available for sale and in debentures held to maturity, hedging using derivative instruments, ALM hedging, deposits with banks and deposits from banks in Israel and overseas, currency hedging of investments overseas, deposits with and from Governments.

Real investments – Investment in shares available for sale and in associated companies of businesses.

Other financial management operations – management, operation, trust and custody services for banks, sale and management of loan portfolios.

The aforementioned operating segments are divided into operations in Israel and operations overseas; operations overseas are presented separately and are divided into operations of individuals and business operations only.

Note 12 – Operating Segments – continued
Supervisory operating segments
For the nine months ended September 30, 2018 (unaudited)
Reported amounts (NIS in millions)

	Operations in Israel					
	Households				Private banking	Small and micro businesses
	Housing loans	Others	Of which: Credit cards	Total		
Interest revenues from externals	3,106	713	26	3,819	1	756
Interest expenses from externals	–	435	–	435	119	66
Interest revenues, net from externals	3,106	278	26	3,384	(118)	690
Interest revenues, net – inter-segment	(1,988)	665	(4)	(1,323)	172	48
Total interest revenues, net	1,118	943	22	2,061	54	738
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	119	385	111	504	7	272
Total non-interest revenues	119	385	111	504	7	272
Total revenues	1,237	1,328	133	2,565	61	1,010
Expenses with respect to credit losses	34	81	–	115	1	103
Operating and other expenses to externals	432	1,254	45	1,686	34	568
Operating and other expenses – inter-segment	–	(106)	(10)	(106)	6	(59)
Total operating and other expenses	432	1,148	35	1,580	40	509
Pre-tax profit (loss)	771	99	98	870	20	398
Provision for taxes on profit	270	32	29	302	7	136
After-tax profit (loss)	501	67	69	568	13	262
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	501	67	69	568	13	262
Net profit attributed to non-controlling interests	–	(25)	(3)	(25)	–	(1)
Net profit (loss) attributable to shareholders of the banking corporation	501	42	66	543	13	261
Average balance of assets	122,704	20,254	3,721	142,958	95	17,860
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	122,704	20,254	3,721	142,958	95	17,860
Balance of loans to the public at end of reported period	124,507	20,653	3,690	145,160	86	18,765
Balance of impaired debts	52	71	–	123	–	445
Balance of debt in arrears 90 days or longer	1,292	25	–	1,317	–	41
Average balance of liabilities	–	80,988	3,721	80,988	12,335	19,941
Of which: Average balance of deposits from the public	–	77,267	–	77,267	12,335	19,941
Balance of deposits from the public at end of reported period	–	79,523	–	79,523	13,036	20,481
Average balance of risk assets (1)	68,176	17,782	3,167	85,958	30	17,205
Balance of risk assets at end of reported period(1)	69,581	18,153	3,193	87,734	30	17,865
Average balance of assets under management(2)	9,004	44,085	–	53,089	2,399	21,239
Composition of interest revenues, net:						
Margin from credit granting operations	1,067	608	22	1,675	1	645
Margin from activities of receiving deposits	–	332	–	332	53	75
Other	51	3	–	54	–	18
Total interest revenues, net	1,118	943	22	2,061	54	738

(1) Risk assets – as calculated for capital adequacy (Proper Banking Conduct Directive 201).
(2) Assets under management – includes clients' provident funds, study funds, mutual funds and securities.

Medium businesses	Large businesses	Institutional investors	Financial management segment	Total activity in Israel	Operations overseas Total – operations overseas	Total
180	416	30	82	5,284	234	5,518
37	159	309	667	1,792	64	1,856
143	257	(279)	(585)	3,492	170	3,662
35	136	369	584	21	(21)	-
178	393	90	(1)	3,513	149	3,662
-	-	-	316	316	8	324
57	83	32	151	1,106	20	1,126
57	83	32	467	1,422	28	1,450
235	476	122	466	4,935	177	5,112
(1)	13	-	1	232	1	233
43	64	49	674	3,118	55	3,173
47	67	41	4	-	-	-
90	131	90	678	3,118	55	3,173
146	332	32	(213)	1,585	121	1,706
50	110	11	(4)	612	42	654
96	222	21	(209)	973	79	1,052
-	-	-	1	1	-	1
96	222	21	(208)	974	79	1,053
-	-	-	(23)	(49)	-	(49)
96	222	21	(231)	925	79	1,004
6,130	15,687	1,329	49,759	233,818	9,683	243,501
-	-	-	32	32	-	32
6,130	15,687	1,329	-	184,059	3,268	187,327
6,134	16,141	1,255	-	187,541	3,807	191,348
63	245	-	-	876	-	876
-	-	-	-	1,358	1	1,359
7,526	25,575	40,056	34,410	220,831	7,921	228,752
7,526	25,575	40,056	-	182,700	5,290	187,990
8,151	25,773	40,714	-	187,678	5,265	192,943
7,026	21,045	2,516	6,418	140,198	3,878	144,076
6,927	22,418	2,300	6,407	143,681	4,191	147,872
3,102	25,495	159,521	12,709	277,554	-	277,554
144	330	25	-	2,820	77	2,897
30	52	62	-	604	11	615
4	11	3	(1)	89	61	150
178	393	90	(1)	3,513	149	3,662

Note 12 – Operating Segments – continued
Supervisory operating segments
For the nine months ended September 30, 2017 (unaudited)
Reported amounts (NIS in millions)

	Operations in Israel					
		Households			Private banking	Small and micro businesses
	Housing loans	Others	Of which: Credit cards	Total		
Interest revenues from externals	2,410	637	25	3,047	1	666
Interest expenses from externals	–	336	–	336	91	49
Interest revenues, net from externals	2,410	301	25	2,711	(90)	617
Interest revenues, net – inter-segment	(1,454)	543	(4)	(911)	133	37
Total interest revenues, net	956	844	21	1,800	43	654
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	111	376	108	487	7	246
Total non-interest revenues	111	376	108	487	7	246
Total revenues	1,067	1,220	129	2,287	50	900
Expenses with respect to credit losses	18	86	–	104	1	107
Operating and other expenses to externals	442	1,200	41	1,642	33	536
Operating and other expenses – inter-segment	–	(89)	(8)	(89)	5	(49)
Total operating and other expenses	442	1,111	33	1,553	38	487
Pre-tax profit	607	23	96	630	11	306
Provision for taxes on profit	222	9	35	231	4	112
After-tax profit	385	14	61	399	7	194
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	385	14	61	399	7	194
Net profit attributed to non-controlling interests	–	(13)	(2)	(13)	–	(1)
Net profit (loss) attributable to shareholders of the banking corporation	385	1	59	386	7	193
Average balance of assets	117,317	18,658	3,229	135,975	77	15,943
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	117,317	18,658	3,229	135,975	77	15,943
Balance of loans to the public at end of reported period	119,310	19,644	3,547	138,954	97	16,428
Balance of impaired debts	41	73	–	114	–	370
Balance of debt in arrears 90 days or longer	1,024	25	–	1,049	–	56
Average balance of liabilities	–	76,268	3,229	76,268	11,371	18,169
Of which: Average balance of deposits from the public	–	73,039	–	73,039	11,371	18,169
Balance of deposits from the public at end of reported period	–	74,786	–	74,786	12,032	19,007
Average balance of risk assets (1)	64,626	16,583	3,035	81,209	27	15,231
Balance of risk assets at end of reported period(1)	66,020	16,833	3,130	82,853	19	15,913
Average balance of assets under management(2)	6,932	41,962	–	48,894	2,404	17,020
Composition of interest revenues, net:						
Margin from credit granting operations	924	553	21	1,477	1	577
Margin from activities of receiving deposits	–	289	–	289	42	64
Other	32	2	–	34	–	13
Total interest revenues, net	956	844	21	1,800	43	654

(1) Risk assets – as calculated for capital adequacy (Proper Banking Conduct Directive 201).

(2) Assets under management – includes clients' provident funds, study funds, mutual funds and securities.

					Operations overseas	Total
Medium businesses	Large businesses	Institutional investors	Financial management segment	Total – operations in Israel	Total – operations overseas	
169	384	32	103	4,402	169	4,571
19	114	253	460	1,322	38	1,360
150	270	(221)	(357)	3,080	131	3,211
3	74	305	373	14	(14)	–
153	344	84	16	3,094	117	3,211
–	–	–	76	76	5	81
54	93	33	165	1,085	23	1,108
54	93	33	241	1,161	28	1,189
207	437	117	257	4,255	145	4,400
(16)	(47)	(19)	–	130	2	132
41	71	60	235	2,618	54	2,672
39	56	35	3	–	–	–
80	127	95	238	2,618	54	2,672
143	357	41	19	1,507	89	1,596
52	131	15	6	551	33	584
91	226	26	13	956	56	1,012
–	–	–	–	–	–	–
91	226	26	13	956	56	1,012
–	–	–	(16)	(30)	–	(30)
91	226	26	(3)	926	56	982
5,480	14,687	1,509	49,573	223,244	10,447	233,691
–	–	–	33	33	–	33
5,480	14,687	1,509	–	173,671	3,055	176,726
5,714	14,564	1,079	–	176,836	3,250	180,086
54	100	–	–	638	1	639
9	–	–	–	1,114	–	1,114
6,348	28,531	38,543	31,719	210,949	9,005	219,954
6,348	28,531	38,543	–	176,001	5,104	181,105
6,609	27,253	39,404	–	179,091	5,130	184,221
6,351	20,902	2,365	5,716	131,801	3,499	135,300
6,966	20,679	2,167	6,217	134,814	3,549	138,363
4,283	26,692	147,954	12,023	259,270	–	259,270
129	294	25	–	2,503	68	2,571
19	42	57	–	513	10	523
5	8	2	16	78	39	117
153	344	84	16	3,094	117	3,211

Note 12 – Operating Segments – continued
Supervisory operating segments
For the three months ended September 30, 2018 (unaudited)
Reported amounts (NIS in millions)

	Operations in Israel					
			Households		Private banking	Small and micro businesses
	Housing loans	Others	Of which: Credit cards	Total		
Interest revenues from externals	983	229	9	1,212	–	263
Interest expenses from externals	–	142	–	142	41	25
Interest revenues, net from externals	983	87	9	1,070	(41)	238
Interest revenues, net – inter-segment	(594)	235	(1)	(359)	59	23
Total interest revenues, net	389	322	8	711	18	261
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	39	130	39	169	2	91
Total non-interest revenues	39	130	39	169	2	91
Total revenues	428	452	47	880	20	352
Expenses with respect to credit losses	17	32	–	49	–	32
Operating and other expenses to externals	136	419	15	555	11	195
Operating and other expenses – inter-segment	–	(31)	(3)	(31)	2	(18)
Total operating and other expenses	136	388	12	524	13	177
Pre-tax profit	275	32	35	307	7	143
Provision for taxes on profit	95	11	12	106	2	50
After-tax profit	180	21	23	201	5	93
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	180	21	23	201	5	93
Net profit attributed to non-controlling interests	–	(9)	(1)	(9)	–	(1)
Net profit attributable to shareholders of the banking corporation	180	12	22	192	5	92
Average balance of assets	124,642	20,250	3,775	144,892	89	18,508
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	124,642	20,250	3,775	144,892	89	18,508
Balance of loans to the public at end of reported period	124,507	20,653	3,690	145,160	86	18,765
Balance of impaired debts	52	71	–	123	–	445
Balance of debt in arrears 90 days or longer	1,292	25	–	1,317	–	41
Average balance of liabilities	–	82,700	3,775	82,700	12,717	20,593
Of which: Average balance of deposits from the public	–	78,925	–	78,925	12,717	20,593
Balance of deposits from the public at end of reported period	–	79,523	–	79,523	13,036	20,481
Average balance of risk assets (1)	69,026	18,140	3,166	87,166	23	17,767
Balance of risk assets at end of reported period(1)	69,581	18,153	3,193	87,734	30	17,865
Average balance of assets under management(2)	9,676	44,383	–	54,059	2,539	22,187
Composition of interest revenues, net:						
Margin from credit granting operations	369	204	8	573	–	226
Margin from activities of receiving deposits	–	118	–	118	18	27
Other	20	–	–	20	–	8
Total interest revenues, net	389	322	8	711	18	261

(1) Risk assets – as calculated for capital adequacy (Proper Banking Conduct Directive 201).

(2) Assets under management – includes clients' provident funds, study funds, mutual funds and securities.

Medium businesses	Large businesses	Institutional investors	Financial management segment	Total – operations in Israel	Operations overseas Total – operations overseas	Total
59	145	10	47	1,736	96	1,832
16	48	103	195	570	26	596
43	97	(93)	(148)	1,166	70	1,236
18	37	123	114	15	(15)	-
61	134	30	(34)	1,181	55	1,236
-	-	-	105	105	-	105
20	28	10	51	371	7	378
20	28	10	156	476	7	483
81	162	40	122	1,657	62	1,719
(11)	(6)	(1)	(1)	62	(1)	61
19	25	17	97	919	17	936
14	20	12	1	-	-	-
33	45	29	98	919	17	936
59	123	12	25	676	46	722
20	43	4	9	234	16	250
39	80	8	16	442	30	472
-	-	-	-	-	-	-
39	80	8	16	442	30	472
-	-	-	(8)	(18)	-	(18)
39	80	8	8	424	30	454
6,108	17,023	1,381	52,029	240,030	11,179	251,209
-	-	-	32	32	-	32
6,108	17,023	1,381	-	188,001	3,300	191,301
6,134	16,141	1,255	-	187,541	3,807	191,348
63	245	-	-	876	-	876
-	-	-	-	1,358	1	1,359
7,814	25,283	41,106	34,076	224,289	8,567	232,856
7,814	25,283	41,106	-	186,438	5,286	191,724
8,151	25,773	40,714	-	187,678	5,265	192,943
6,916	21,860	2,600	6,411	142,743	4,085	146,828
6,927	22,418	2,300	6,407	143,681	4,191	147,872
2,866	25,129	171,383	13,029	291,192	-	291,192
48	113	9	-	969	27	996
11	16	19	-	209	4	213
2	5	2	(34)	3	24	27
61	134	30	(34)	1,181	55	1,236

Note 12 – Operating Segments – continued
Supervisory operating segments

For the three months ended September 30, 2017 (unaudited)

Reported amounts (NIS in millions)

	Operations in Israel					
		Households			Private banking	Small and micro businesses
	Housing loans	Others	Of which: Credit cards	Total		
Interest revenues from externals	568	202	9	770	–	222
Interest expenses from externals	–	70	–	70	26	15
Interest revenues, net from externals	568	132	9	700	(26)	207
Interest revenues, net – inter-segment	(236)	159	(2)	(77)	40	24
Total interest revenues, net	332	291	7	623	14	231
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	36	127	37	163	3	82
Total non-interest revenues	36	127	37	163	3	82
Total revenues	368	418	44	786	17	313
Expenses with respect to credit losses	6	32	–	38	–	37
Operating and other expenses to externals	156	432	15	588	11	196
Operating and other expenses – inter-segment	–	(33)	(3)	(33)	2	(18)
Total operating and other expenses	156	399	12	555	13	178
Pre-tax profit (loss)	206	(13)	32	193	4	98
Provision for taxes on profit	77	(5)	12	72	1	36
After-tax profit (loss)	129	(8)	20	121	3	62
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	129	(8)	20	121	3	62
Net profit attributed to non-controlling interests	–	(6)	(1)	(6)	–	–
Net profit (loss) attributable to shareholders of the banking corporation	129	(14)	19	115	3	62
Average balance of assets	118,763	19,058	3,637	137,821	89	16,579
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	118,763	19,058	3,637	137,821	89	16,579
Balance of loans to the public at end of reported period	119,310	19,644	3,547	138,954	97	16,428
Balance of impaired debts	41	73	–	114	–	370
Balance of debt in arrears 90 days or longer	1,024	25	–	1,049	–	56
Average balance of liabilities	–	77,858	3,637	77,858	11,809	19,195
Of which: Average balance of deposits from the public	–	74,221	–	74,221	11,809	19,195
Balance of deposits from the public at end of reported period	–	74,786	–	74,786	12,032	19,007
Average balance of risk assets(1)	65,569	16,712	3,058	82,281	20	15,780
Balance of risk assets at end of reported period(1)	66,020	16,833	3,130	82,853	19	15,913
Average balance of assets under management(2)	7,040	46,538	–	53,578	2,340	19,472
Composition of interest revenues, net:						
Margin from credit granting operations	322	188	7	510	1	200
Margin from activities of receiving deposits	–	103	–	103	13	25
Other	10	–	–	10	–	6
Total interest revenues, net	332	291	7	623	14	231

(1) Risk assets – as calculated for capital adequacy (Proper Banking Conduct Directive 201).

(2) Assets under management – includes clients' provident funds, study funds, mutual funds and securities.

	Medium businesses	Large businesses	Institutional investors	Financial management segment	Total – operations in Israel	Operations overseas Total – operations overseas	Total
	62	116	11	57	1,238	62	1,300
	4	37	60	64	276	13	289
	58	79	(49)	(7)	962	49	1,011
	(6)	30	79	(83)	7	(7)	–
	52	109	30	(90)	969	42	1,011
	–	–	–	60	60	1	61
	18	32	9	60	367	7	374
	18	32	9	120	427	8	435
	70	141	39	30	1,396	50	1,446
	(2)	(23)	(9)	–	41	–	41
	16	33	19	90	953	19	972
	14	21	13	1	–	–	–
	30	54	32	91	953	19	972
	42	110	16	(61)	402	31	433
	16	41	6	(23)	149	12	161
	26	69	10	(38)	253	19	272
	–	–	–	–	–	–	–
	26	69	10	(38)	253	19	272
	–	–	–	(5)	(11)	–	(11)
	26	69	10	(43)	242	19	261
	5,886	13,961	1,385	50,267	225,988	10,803	236,791
	–	–	–	33	33	–	33
	5,886	13,961	1,385	–	175,721	3,107	178,828
	5,714	14,564	1,079	–	176,836	3,250	180,086
	54	100	–	–	638	1	639
	9	–	–	–	1,114	–	1,114
	6,736	26,591	40,393	30,923	213,505	9,361	222,866
	6,736	26,591	40,393	–	178,945	5,084	184,029
	6,609	27,253	39,404	–	179,091	5,130	184,221
	6,699	20,918	2,212	6,308	134,218	3,537	137,755
	6,966	20,679	2,167	6,217	134,814	3,549	138,363
	4,487	26,312	146,316	12,285	264,790	–	264,790
	47	97	8	–	863	22	885
	7	12	21	–	181	4	185
	(2)	–	1	(90)	(75)	16	(59)
	52	109	30	(90)	969	42	1,011

Note 12 – Operating Segments – continued

Supervisory operating segments

For the year ended December 31, 2017 (audited)

Reported amounts (NIS in millions)

	Operations in Israel					
	Households				Private banking	Small and micro businesses
	Housing loans	Others	Of which: Credit cards	Total		
Interest revenues from externals	3,294	861	33	4,155	2	904
Interest expenses from externals	–	461	–	461	124	65
Interest revenues, net from externals	3,294	400	33	3,694	(122)	839
Interest revenues, net – inter-segment	(1,983)	743	(5)	(1,240)	181	56
Total interest revenues, net	1,311	1,143	28	2,454	59	895
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	145	502	145	647	10	335
Total non-interest revenues	145	502	145	647	10	335
Total revenues	1,456	1,645	173	3,101	69	1,230
Expenses with respect to credit losses	24	122	–	146	1	149
Operating and other expenses to externals	600	1,627	56	2,227	46	726
Operating and other expenses – inter-segment	–	(121)	(11)	(121)	7	(67)
Total operating and other expenses	600	1,506	45	2,106	53	659
Pre-tax profit	832	17	128	849	15	422
Provision for taxes on profit	305	6	47	311	6	155
After-tax profit	527	11	81	538	9	267
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	527	11	81	538	9	267
Net profit attributed to non-controlling interests	–	(21)	(3)	(21)	–	(1)
Net profit (loss) attributable to shareholders of the banking corporation	527	(10)	78	517	9	266
Average balance of assets	118,042	18,866	3,415	136,908	86	16,190
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	118,042	18,866	3,415	136,908	86	16,190
Balance of loans to the public at end of reported period	120,189	20,058	3,611	140,247	119	17,045
Balance of impaired debts	33	70	–	103	–	396
Balance of debt in arrears 90 days or longer	1,071	22	–	1,093	–	42
Average balance of liabilities	–	76,920	3,415	76,920	11,563	18,284
Of which: Average balance of deposits from the public	–	73,505	–	73,505	11,563	18,284
Balance of deposits from the public at end of reported period	–	75,008	–	75,008	12,448	18,942
Average balance of risk assets(1)	65,085	16,675	3,051	81,760	28	15,484
Balance of risk assets at end of reported period(1)	66,921	17,202	3,115	84,123	31	16,344
Average balance of assets under management(2)	7,080	42,450	–	49,530	2,367	17,500
Composition of interest revenues, net:						
Margin from credit granting operations	1,268	744	28	2,012	1	786
Margin from activities of receiving deposits	–	396	–	396	58	84
Other	43	3	–	46	–	25
Total interest revenues, net	1,311	1,143	28	2,454	59	895

(1) Risk assets – as calculated for capital adequacy (Proper Banking Conduct Directive 201).
(2) Assets under management – includes clients' provident funds, study funds, mutual funds and securities.
(3) Includes capital gains under Other Revenues amounting to NIS 47 million before tax, from realization of assets in conjunction with asset reorganization and streamlining of the Bank's branch network.

					Operations overseas	Total
Medium businesses	Large businesses	Institutional investors	Financial management segment	Total activity in Israel	Total – operations overseas	
222	506	42	158	5,989	233	6,222
26	159	340	645	1,820	55	1,875
196	347	(298)	(487)	4,169	178	4,347
10	117	410	482	16	(16)	–
206	464	112	(5)	4,185	162	4,347
–	(1)	(1)	131	129	7	136
76	134	44	242(3)	1,488	29	1,517
76	133	43	373	1,617	36	1,653
282	597	155	368	5,802	198	6,000
7	(89)	(22)	(1)	191	1	192
53	94	77	317	3,540	71	3,611
53	76	48	4	–	–	–
106	170	125	321	3,540	71	3,611
169	516	52	48	2,071	126	2,197
62	189	19	18	760	46	806
107	327	33	30	1,311	80	1,391
–	–	–	–	–	–	–
107	327	33	30	1,311	80	1,391
–	–	–	(22)	(44)	–	(44)
107	327	33	8	1,267	80	1,347
5,704	14,642	1,413	49,529	224,472	10,140	234,612
–	–	–	33	33	–	33
5,704	14,642	1,413	–	174,943	3,031	177,974
5,854	15,011	1,175	–	179,451	3,151	182,602
64	160	–	–	723	–	723
–	–	–	–	1,135	1	1,136
6,470	27,864	38,748	32,221	212,070	8,694	220,764
6,470	27,864	38,748	–	176,434	5,102	181,536
7,138	26,284	38,881	–	178,701	4,872	183,573
6,484	20,887	2,334	5,872	132,849	3,495	136,344
7,014	20,747	2,290	6,493	137,042	3,482	140,524
4,116	26,700	147,742	12,174	260,129	–	260,129
176	393	34	–	3,402	93	3,495
25	60	76	–	699	12	711
5	11	2	(5)	84	57	141
206	464	112	(5)	4,185	162	4,347

Note 12 – Operating Segments – continued

B. Operating segments in conformity with the management approach

The Bank manages its operations in six major operating segments, which are distinguished by client characteristics and type of banking services required, as well as by the organizational unit responsible for servicing each segment. Operating segment definition is based on the Bank's organizational structure, as described below. The operations in the six operating segments include all areas of banking operations including classic banking activity (loans and deposits), securities activity for clients and activity in derivative instruments, as well as custom banking services designed for needs in specific fields. Operations of the various segments are conducted via Bank branches, trading room, Business Centers, Bank HQ departments and subsidiaries in Israel and overseas.

For more information about measurement of Bank operations in conformity with the supervisory segments approach, as specified by the Supervisor of Banks, see chapter "Supervisory operating segments" above.

Below are the Bank's operating segments in conformity with the management approach:

Household segment – under responsibility of the Retail Division, This segment includes small household clients and mortgage operations. The division provides appropriate banking services and financial products to segment clients, including in the field of mortgages.

Small business segment – under responsibility of the Retail Division, which also serves small business clients, having an indebtedness level of less than NIS 6 million, sales of less than NIS 30 million and liquid asset balance of less than NIS 10 million. Banking services and financial products, including commercial banking services as required, are provided to segment clients.

Private banking – private banking is under responsibility of the Private Banking and International Operations sector of the Finance Division. Private banking sector clients are individual clients with liquid assets (primarily short-term deposits and security investments) over NIS 1 million. Clients of this segment have high financial wealth, to whom the Bank offers access to unique products and services in capital market activity, advisory service and investment management.

Commercial banking – clients of this segment are private and public companies of medium size (middle market) and medium level of indebtedness, and are served by the Business Banking Division, primarily by the Business sector, which operates via six business centers located throughout Israel. Business customers are assigned to the Business sector primarily using the following criteria: total indebtedness of NIS 625 million, sales of NIS 30-120 million or liquid assets of NIS 10-40 million. Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

Business banking – the Major Corporations sector in the Business Division is responsible for the Business Banking segment, which is the focal point for handling the largest business clients. Criteria by which clients are assigned to the Corporate sector include: total indebtedness over NIS 25 million, sales over NIS 120 million or liquid assets over NIS 40 million. This segment provides a range of banking and financial services to the largest companies in the economy, in an array of industries, at relatively high levels of indebtedness. Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

Financial management – operations in this segment include, inter alia, management of assets and liabilities, management of exposure to market risk, management of the nostro portfolio and liquidity management as well as trading room operations in the financial and capital markets. The segment is under responsibility of the Finance Division, except for investments in non-banking corporations, which are under the responsibility of the business division.

The major products and guidelines for attribution of balances, revenues and expenses to clients in the system to operating segments in conformity with the management approach, are similar to products and guidelines according to the supervisory operating segment approach.

Note 12 – Operating Segments – continued

Operating segments in conformity with the management approach.

For the nine months ended September 30, 2018 (unaudited)

Reported amounts (NIS in millions)

	House-holds – other	House-holds – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial manage-ment	Total consolidated
Interest revenues, net:								
From outside operating segments	385	2,885	(12)	458	138	454	(646)	3,662
Inter-segment	735	(1,919)	73	113	20	277	701	–
Total interest revenues, net	1,120	966	61	571	158	731	55	3,662
Non-interest financing revenues	3	–	1	1	–	23	296	324
Commissions and other revenues	384	116	42	224	40	157	163	1,126
Total revenues	1,507	1,082	104	796	198	911	514	5,112
Expenses with respect to credit losses	73	32	1	97	(1)	29	2	233
Operating and other expenses	1,196	420	68	431	108	262	688	3,173
Pre-tax profit (loss)	238	630	35	268	91	620	(176)	1,706
Provision for taxes on profit	83	226	15	91	32	201	6	654
After-tax profit (loss)	155	404	20	177	59	419	(182)	1,052
Share in net profits of associated companies, after tax	–	–	–	–	–	–	1	1
Net profit (loss):								
Before attribution to non-controlling interests	155	404	20	177	59	419	(181)	1,053
Attributable to non-controlling interests	(24)	–	–	(2)	–	–	(23)	(49)
Net profit (loss) attributable to shareholders of the Bank	131	404	20	175	59	419	(204)	1,004
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	10.3%	8.2%	48.1%	22.0%	12.7%	17.0%	–	9.7%
Average balance of loans to the public, net	24,595	117,352	1,017	12,431	5,502	24,929	–	185,826
Average balance of deposits from the public	84,865	–	8,005	19,350	6,863	59,797	9,110	187,990
Average balance of assets	25,062	117,772	1,629	12,556	5,566	29,804	51,112	243,501
Average balance of risk assets (2)	20,982	65,410	578	10,965	6,199	33,102	6,840	144,076

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.

(2) Risk weighted assets – as calculated for capital adequacy (Proper Banking Conduct Directive No. 201).

Note 12 – Operating Segments – continued
Operating segments in conformity with the management approach.
For the nine months ended September 30, 2017 (unaudited)

Reported amounts (NIS in millions)

	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:								
From outside operating segments	412	2,224	(8)	439	120	417	(393)	3,211
Inter-segment	605	(1,403)	63	72	16	216	431	–
Total interest revenues, net	1,017	821	55	511	136	633	38	3,211
Non-interest financing revenues	3	–	–	1	–	16	61	81
Commissions and other revenues	379	109	40	207	35	169	169	1,108
Total revenues	1,399	930	95	719	171	818	268	4,400
Expenses with respect to credit losses	83	18	–	110	1	(80)	–	132
Operating and other expenses	1,167	417	66	421	98	250	253	2,672
Pre-tax profit	149	495	29	188	72	648	15	1,596
Provision for taxes on profit	55	181	11	69	26	237	5	584
After-tax profit	94	314	18	119	46	411	10	1,012
Share in net profits of associated companies, after tax	–	–	–	–	–	–	–	–
Net profit:								
Before attribution to non-controlling interests	94	314	18	119	46	411	10	1,012
Attributable to non-controlling interests	(14)	–	–	–	–	–	(16)	(30)
Net profit (loss) attributable to shareholders of the Bank	80	314	18	119	46	411	(6)	982
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	6.6%	6.7%	37.9%	16.3%	11.9%	17.2%	–	10.1%
Average balance of loans to the public, net	22,750	112,432	899	11,524	4,674	22,985	–	175,264
Average balance of deposits from the public	79,446	–	7,981	18,033	6,422	58,986	10,237	181,105
Average balance of assets	23,521	112,807	1,559	11,675	4,733	28,647	50,749	233,691
Average balance of risk assets (2)	19,546	61,964	649	9,763	5,142	31,963	6,273	135,300

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.

(2) Risk weighted assets – as calculated for capital adequacy (Proper Banking Conduct Directive No. 201).

Note 12 – Operating Segments – continued

Operating segments in conformity with the management approach.

For the three months ended September 30, 2018 (unaudited)

Reported amounts (NIS in millions)

	House-holds – other	House-holds – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial manage-ment	Total consolidated
Interest revenues, net:								
From outside operating segments	131	903	(5)	159	48	151	(151)	1,236
Inter-segment	252	(570)	26	41	9	99	143	–
Total interest revenues, net	383	333	21	200	57	250	(8)	1,236
Non-interest financing revenues	1	–	1	1	–	7	95	105
Commissions and other revenues	127	38	14	75	13	54	57	378
Total revenues	511	371	36	276	70	311	144	1,719
Expenses with respect to credit losses	27	16	1	33	–	(15)	(1)	61
Operating and other expenses	405	137	23	150	38	90	93	936
Pre-tax profit	79	218	12	93	32	236	52	722
Provision for taxes on profit	27	75	4	32	11	82	19	250
After-tax profit	52	143	8	61	21	154	33	472
Share in net profits of associated companies, after tax	–	–	–	–	–	–	–	–
Net profit:								
Before attribution to non-controlling interests	52	143	8	61	21	154	33	472
Attributable to non-controlling interests	(9)	–	–	(1)	–	–	(8)	(18)
Net profit attributable to shareholders of the Bank	43	143	8	60	21	154	25	454
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	10.2%	8.8%	71.0%	23.2%	13.4%	19.2%	22.0%	13.4%

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.

Note 12 – Operating Segments – continued

Operating segments in conformity with the management approach.

For the three months ended September 30, 2017 (unaudited)

Reported amounts (NIS in millions)

	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:								
From outside operating segments	67	509	(2)	165	41	148	83	1,011
Inter-segment	282	(225)	22	14	7	73	(173)	–
Total interest revenues, net	349	284	20	179	48	221	(90)	1,011
Non-interest financing revenues	1	–	–	1	–	5	54	61
Commissions and other revenues	126	36	14	69	12	53	64	374
Total revenues	476	320	34	249	60	279	28	1,446
Expenses with respect to credit losses	35	7	(3)	34	(2)	(30)	–	41
Operating and other expenses	420	153	22	154	36	91	96	972
Pre-tax profit (loss)	21	160	15	61	26	218	(68)	433
Provision for taxes on profit	8	59	6	23	10	81	(26)	161
After-tax profit (loss)	13	101	9	38	16	137	(42)	272
Share in net profits of associated companies, after tax	–	–	–	–	–	–	–	–
Net profit (loss):								
Before attribution to non-controlling interests	13	101	9	38	16	137	(42)	272
Attributable to non-controlling interests	(6)	–	–	–	–	–	(5)	(11)
Net profit (loss) attributable to shareholders of the Bank	7	101	9	38	16	137	(47)	261
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)[1]	1.7%	6.5%	76.6%	15.7%	13.3%	17.7%	–	8.0%

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.

Note 12 – Operating Segments – continued
Operating segments in conformity with the management approach.
For the year ended December 31, 2017 (audited)
Reported amounts (NIS in millions)

	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:								
From outside operating segments	548	3,043	(11)	585	162	564	(544)	4,347
Inter-segment	837	(1,915)	85	109	22	295	567	–
Total interest revenues, net	1,385	1,128	74	694	184	859	23	4,347
Non-interest financing revenues	4	–	1	1	1	23	106	136
Commissions and other revenues	506	143	52	276	45	238	257(3)	1,517
Total revenues	1,895	1,271	127	971	230	1,120	386	6,000
Expenses with respect to credit losses	117	23	–	142	7	(88)	(9)	192
Operating and other expenses	1,572	557	92	561	134	340	355	3,611
Pre-tax profit	206	691	35	268	89	868	40	2,197
Provision for taxes on profit	76	254	13	98	33	318	14	806
After-tax profit	130	437	22	170	56	550	26	1,391
Share in net profits of associated companies, after tax	–	–	–	–	–	–	–	–
Net profit:								
Before attribution to non-controlling interests	130	437	22	170	56	550	26	1,391
Attributable to non-controlling interests	(21)	–	–	(1)	–	–	(22)	(44)
Net profit attributable to shareholders of the Bank	109	437	22	169	56	550	4	1,347
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	6.7%	6.9%	33.4%	16.9%	10.4%	16.8%	1.1%	10.2%
Average balance of loans to the public, net	23,026	113,112	919	11,598	4,750	23,106	–	176,511
Average balance of deposits from the public	80,092	–	7,931	18,252	6,389	58,954	9,918	181,536
Average balance of assets	24,383	113,510	1,550	11,758	4,809	28,527	50,075	234,612
Average balance of risk assets (2)	19,691	62,374	646	9,947	5,257	32,022	6,407	136,344

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.

(2) Risk weighted assets – as calculated for capital adequacy (Proper Banking Conduct Directive No. 201).

(3) Includes capital gains under Other Revenues amounting to NIS 47 million before tax, from realization of assets in conjunction with asset reorganization and streamlining of the Bank's branch network.

Note 12 – Operating Segments – continued

C. Effect of attribution of expenses related to the US DOJ investigation on operating segments

Had the expenses related to the US DOJ investigation been attributed to the private banking segment (rather than to the financial management segment, as attributed by the Bank), according to the supervisory approach, the results of the private banking segment for third quarter and for the first nine months of 2018 would have amounted to a loss of NIS 7 million and NIS 287 million, , respectively. Results of the private banking segment for the third quarter and first nine months of 2017 would have amounted to profits of NIS 2 million and loss of NIS 11 million, respectively.

Results of the private banking segment according to the supervisory approach for 2017 would have amounted to a loss of NIS 11 million.

Results of the financial management segment according to the supervisory approach for the third quarter and first nine months of 2018 would have amounted to ptofits of NIS 26 million and NIS 63 million, , respectively. Results of the financial management segment for the third quarter and first nine months of 2017 would have amounted to a profit of NIS 42 million and NIS 15 million, , respectively.

Results of the financial management segment according to the supervisory approach for 2017 would have amounted to profit of NIS 28 million.

Given the provisions of Note 10.B.4, expenses related to the US DOJ investigation were attributed, in conformity with the supervisory approach, to private banking only.

According to management's approach, Results of the private banking segment for the third quarter and first nine months of 2018 would have amounted to a profit of NIS 5 million and a loss of NIS 280 million, respectively. Results of the private banking segment for the third quarter and first nine months of 2017 would have amounted to a profit of NIS 2 million and a loss of NIS 1 million, respectively.

Results of the private banking segment according to the management approach for 2017 would have amounted to profit amounting to NIS 2 million.

Results of the financial management segment according to the management approach for the second quarter and first half of 2018 would have amounted to a profit of NIS 35 million and NIS 107 million. Results of the financial management segment for the third quarter and first nine months of 2017 would have amounted to a profit of NIS 40 million and NIS 13 million, , respectively.

Results of the financial management segment according to the management approach for 2017 would have amounted to iprofit amounting to NIS 24 million.

Given the provisions of Note 10.B.4, expenses related to the US DOJ investigation were attributed, in conformity with the management approach, to private banking only.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses

Reported amounts (NIS in millions)

A. Off balance sheet debts[(1)] and credit instruments

1. Change in balance of provision for credit losses

	For the three months ended September 30, 2018 (unaudited)					
	Provision for credit losses					
	Loans to the public					
	Commer-cial	Housing	Individual – other	Total	Banks and governments	Total
Balance of provision for credit losses at start of period	735	643	253	1,631	3	1,634
Expenses with respect to credit losses	15	17	30	62	(1)	61
Net accounting write-off[(2)]	(51)	(2)	(40)	(93)	–	(93)
Recovery of debts written off in previous years[(2)]	36	1	15	52	–	52
Net accounting write-offs	(15)	(1)	(25)	(41)	–	(41)
Balance of provision for credit losses at end of period	735	659	258	1,652	2	1,654
Of which: With respect to off balance sheet credit instruments	90	–	10	100	–	100
	For the three months ended September 30, 2017 (unaudited)					
Balance of provision for credit losses at start of period	695	621	237	1,553	2	1,555
Expenses with respect to credit losses	2	6	33	41	–	41
Net accounting write-off[(2)]	(41)	(2)	(45)	(88)	–	(88)
Recovery of debts written off in previous years[(2)]	41	–	14	55	–	55
Net accounting write-offs	–	(2)	(31)	(33)	–	(33)
Balance of provision for credit losses at end of period	697	625	239	1,561	2	1,563
Of which: With respect to off balance sheet credit instruments	87	–	9	96	–	96
	For the nine months ended September 30, 2018 (unaudited)					
Balance of provision for credit losses at start of period	699	630	245	1,574	1	1,575
Expenses with respect to credit losses	118	34	80	232	1	233
Net accounting write-off[(2)]	(153)	(6)	(114)	(273)	–	(273)
Recovery of debts written off in previous years[(2)]	71	1	47	119	–	119
Net accounting write-offs	(82)	(5)	(67)	(154)	–	(154)
Balance of provision for credit losses at end of period	735	659	258	1,652	2	1,654
Of which: With respect to off balance sheet credit instruments	90	–	10	100	–	100
	For the nine months ended September 30, 2017 (unaudited)					
Balance of provision for credit losses at start of period	724	615	208	1,547	2	1,549
Expenses with respect to credit losses	21	18	93	132	–	132
Net accounting write-off[(2)]	(195)	(8)	(104)	(307)	–	(307)
Recovery of debts written off in previous years[(2)]	147	–	42	189	–	189
Net accounting write-offs	(48)	(8)	(62)	(118)	–	(118)
Balance of provision for credit losses at end of period	697	625	239	1,561	2	1,563
Of which: With respect to off balance sheet credit instruments	87	–	9	96	–	96

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Net accounting write-offs presented in the Note primarily consists of write-offs of a technical nature, due to passage of time of clients being in arrears, in conformity with US standards applicable to the Bank in this regard. Thus, for example, the balance of the provision for large impaired debt s will typically be subject to accounting write-off after two years. Debt measured on a group basis will be subject to write-off after 150 days in arrears. This means that the Bank's collection efforts may sometimes take longer than the timing for write-off according to accounting rules. Consequently, relatively high balances of "accounting write-offs" and relatively high balances of "Recovery of debts written off in previous years" are presented.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

A. Off balance sheet debts[1] and credit instruments

2. Additional information about calculation of the provision for credit losses with respect to debts, and debts for which the provision has been calculated:

	September 30, 2018 (unaudited)					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Recorded debt balance of debts [1]						
reviewed on individual basis	37,823	52	695	38,570	7,627	46,197
reviewed on group basis	9,236	124,726	18,816	152,778	–	152,778
Of which: the provision for credit losses is calculated by extent of arrears	1,563	124,726	–	126,289	–	126,289
Total debts	47,059	124,778[2]	19,511	191,348	7,627	198,975
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	537	3	29	569	2	571
reviewed on group basis	108	656	219	983	–	983
Of which: Loans for which a provision for credit losses is calculated by extent of arrears[3]	5	656	–	661	–	661
Total provision for credit losses	645	659	248	1,552	2	1,554
	September 30, 2017 (unaudited)					
Recorded debt balance of debts [1]						
reviewed on individual basis	[4]33,215	41	[4]869	34,125	2,822	36,947
reviewed on group basis	[4]8,463	119,629	[4]17,869	145,961	–	145,961
Of which: the provision for credit losses is calculated by extent of arrears	1,178	118,870	–	120,048	–	120,048
Total debts	41,678	[2]119,670	18,738	180,086	2,822	182,908
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	[4]494	4	25	523	2	525
reviewed on group basis	[4]116	621	205	942	–	942
Of which: Loans for which a provision for credit losses is calculated by extent of arrears[3]	5	621	–	626	–	626
Total provision for credit losses	610	625	230	1,465	2	1,467
	As of December 31, 2017 (audited)					
Recorded debt balance of debts [1]						
reviewed on individual basis	[4]34,368	33	[4]655	35,056	2,543	37,599
reviewed on group basis	[4]8,629	120,514	[4]18,403	147,546	–	147,546
Of which: the provision for credit losses is calculated by extent of arrears	1,265	120,514	–	121,779	–	121,779
Total debts	42,997	120,547[2]	19,058	182,602	2,543	185,145
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	[4]508	2	24	534	1	535
reviewed on group basis	[4]110	628	212	950	–	950
Of which: Loans for which a provision for credit losses is calculated by extent of arrears[3]	5	628	–	633	–	633
Total provision for credit losses	618	630	236	1,484	1	1,485

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Includes general-purpose loans secured by a lien on a residential apartment, amounting to NIS 6,872 million (as of September 30, 2017: NIS 6,085 million and as of December 31, 2017: NIS 6,291 million).

(3) Includes balance of provision in excess of that required by extent of arrears, assessed on individual basis, amounting to NIS 18 million (as of September 30, 2017: NIS 19 million, as of December 31, 2017: NIS 16 million), and assessed on group basis, amounting to NIS 436 million (as of September 30, 2017: NIS 418 million, as of December 31, 2017: NIS 421 million).

(4) Reclassified.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

1.A. Credit quality and arrears

	As of September 30, 2018 (unaudited)					
		Problematic[2]			Non impaired debts – additional information	
	Non problematic	Non impaired	Impaired[3]	Total	In arrears 90 days or longer[4]	In arrears 30 to 89 days[5]
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction[8]	14,417	77	148	14,642	8	17
Construction and real estate – real estate operations	2,351	11	16	2,378	1	5
Financial services	3,522	170	13	3,705	2	23
Commercial – other	21,699	355	571	22,625	30	116
Total commercial	41,989	613	748	43,350	41	161
Private individuals – housing loans	123,079	[7]1,292	52	124,423	[7]1,292	[6]504
Private individuals – other	19,026	149	71	19,246	25	89
Total public – activity in Israel	184,094	2,054	871	187,019	1,358	754
Banks in Israel	299	–	–	299	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	184,393	2,054	871	187,318	1,358	754
Borrower activity overseas						
Public – commercial						
Construction and real estate	1,968	15	2	1,985	–	1
Commercial – other	1,721	–	3	1,724	–	–
Total commercial	3,689	15	5	3,709	–	1
Private individuals	619	1	–	620	1	4
Total public – activity overseas	4,308	16	5	4,329	1	5
Overseas banks	6,759	–	–	6,759	–	–
Overseas governments	569	–	–	569	–	–
Total activity overseas	11,636	16	5	11,657	1	5
Total public	188,402	2,070	876	191,348	1,359	759
Total banks	7,058	–	–	7,058	–	–
Total governments	569	–	–	569	–	–
Total	196,029	2,070	876	198,975	1,359	759

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.

(3) Generally, impaired debts do not accrue interest revenues. For information about certain impaired debts restructured using problematic debt restructuring, see Note 13.B.2.c. to the financial statements.

(4) Classified as problematic non-impaired debts. Accruing interest revenues.

(5) Accruing interest revenues. Debts in arrears 30 to 89 days amounting to NIS 56 million were classified as problematic non-impaired debts.

(6) In conformity with Public Reporting Directives, excludes the balance of housing loans in arrears up to 2 months.

(7) Includes balance of housing loans amounting to NIS 89 million provided for by extent of arrears of borrower, for which an agreement has been signed for repayment of arrears by the borrower, where a change was made to the repayment schedule for the outstanding loan balance not yet due.

(8) Includes debts amounting to NIS 1,705 million, extended to certain purchase groups which are in the process of construction.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

1.A. Credit quality and arrears – continued

	As of September 30, 2017 (unaudited)					
		Problematic[2]			Non impaired debts – additional information	
	Non problematic	Non impaired	Impaired[3]	Total	In arrears 90 days or longer[4]	In arrears 30 to 89 days[5]
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction[8]	11,699	79	97	11,875	27	43
Construction and real estate – real estate operations	1,987	7	22	2,016	–	10
Financial services	3,059	185	28	3,272	1	4
Commercial – other	20,473	533	374	21,380	37	102
Total commercial	37,218	804	521	38,543	65	159
Private individuals – housing loans	118,245	(7)1,024	41	119,310	(7)1,024	(6)441
Private individuals – other	18,267	150	73	18,490	25	73
Total public – activity in Israel	173,730	1,978	635	176,343	1,114	673
Banks in Israel	190	–	–	190	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	173,920	1,978	635	176,533	1,114	673
Borrower activity overseas						
Public – commercial						
Construction and real estate	1,606	–	–	1,606	–	–
Commercial – other	1,526	–	3	1,529	–	–
Total commercial	3,132	–	3	3,135	–	–
Private individuals	607	–	1	608	–	–
Total public – activity overseas	3,739	–	4	3,743	–	–
Overseas banks	2,206	–	–	2,206	–	–
Overseas governments	426	–	–	426	–	–
Total activity overseas	6,371	–	4	6,375	–	–
Total public	177,469	1,978	639	180,086	1,114	673
Total banks	2,396	–	–	2,396	–	–
Total governments	426	–	–	426	–	–
Total	180,291	1,978	639	182,908	1,114	673

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.

(3) Generally, impaired debts do not accrue interest revenues. For information about certain impaired debt restructured using problematic debt restructuring, see Note 13.B.2.c. to the financial statements.

(4) Classified as problematic non-impaired debts. Accruing interest revenues.

(5) Accruing interest revenues. Debts in arrears 30 to 89 days amounting to NIS 53 million were classified as problematic non-impaired debts.

(6) In conformity with Public Reporting Directives, excludes the balance of housing loans in arrears up to 2 months.

(7) Includes balance of housing loans amounting to NIS 107 million provided for by extent of arrears of borrower, for which an agreement has been signed for repayment of arrears by the borrower, where a change was made to the repayment schedule for the outstanding loan balance not yet due.

(8) Includes debts amounting to NIS 1,485 million, extended to certain purchase groups which are in the process of construction.

Reported amounts (NIS in millions)

B. Debts[1]

1.A. Credit quality and arrears – continued

	As of December 31, 2017 (audited)					
		Problematic[2]			Non impaired debts – additional information	
	Non problematic	Non impaired	Impaired[3]	Total	In arrears 90 days or longer[4]	In arrears 30 to 89 days[5]
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction[8]	12,310	72	145	12,527	8	36
Construction and real estate – real estate operations	2,245	5	15	2,265	1	13
Financial services	3,191	187	15	3,393	–	2
Commercial – other	20,676	331	442	21,449	33	89
Total commercial	38,422	595	617	39,634	42	140
Private individuals – housing loans	119,085	[7]1,071	33	120,189	[7]1,071	[6]390
Private individuals – other	18,595	147	70	18,812	22	73
Total public – activity in Israel	176,102	1,813	720	178,635	1,135	603
Banks in Israel	213	–	–	213	–	–
Government of Israel	1	–	–	1	–	–
Total activity in Israel	176,316	1,813	720	178,849	1,135	603
Borrower activity overseas						
Public – commercial						
Construction and real estate	1,849	–	–	1,849	–	–
Commercial – other	1,511	–	3	1,514	–	–
Total commercial	3,360	–	3	3,363	–	–
Private individuals	603	1	–	604	1	–
Total public – activity overseas	3,963	1	3	3,967	1	–
Overseas banks	1,874	–	–	1,874	–	–
Overseas governments	455	–	–	455	–	–
Total activity overseas	6,292	1	3	6,296	1	–
Total public	180,065	1,814	723	182,602	1,136	603
Total banks	2,087	–	–	2,087	–	–
Total governments	456	–	–	456	–	–
Total	182,608	1,814	723	185,145	1,136	603

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.

(3) Generally, impaired debts do not accrue interest revenues. For information about certain impaired debt restructured using problematic debt restructuring, see Note 13.B.2.c. to the financial statements.

(4) Classified as problematic non-impaired debts. Accruing interest revenues.

(5) Accruing interest revenues. Debts in arrears 30 to 89 days amounting to NIS 63 million were classified as problematic non-impaired debts.

(6) In conformity with Public Reporting Directives, excludes the balance of housing loans in arrears up to 2 months.

(7) Includes balance of housing loans amounting to NIS 102 million provided for by extent of arrears of borrower, for which an agreement has been signed for repayment of arrears by the borrower, where a change was made to the repayment schedule for the outstanding loan balance not yet due.

(8) Includes debts amounting to NIS 1,571 million, extended to certain purchase groups which are in the process of construction.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

1. B. Credit quality

The state of debts arrears is monitored daily and automatically, providing one of the key indications of credit quality. The state of arrears, and consequently classification of the debt, are based, *inter alia*, on the actual number of days in arrears for each debt.

Non-performing debts

Debt measured on individual basis is classified as non-performing (not accruing interest revenues) after 90 days in arrears. Debt previously restructured as problematic debt and which is again in arrears with regard to the new terms thereof – is also classified as non-performing. Debt measured on a group basis is classified as non-performing (inferior) after 150 days in arrears. At that time, accounting write-off of the debt is also carried out.

Inferior debts

Debt in the individual track is classified as inferior debt accruing revenues after 60 days in arrears. Debt in the group track is classified as inferior after 90 days in arrears.

Housing loans

The state of arrears for housing loans is monitored by the extent of arrears for the loan, except for loans with no monthly or quarterly payment.

Credit risk attributes, including specific risk for housing loans, are included on the Report of the Board of Directors and Management under "Risks Overview".

Below is the recorded debt balance by credit quality and by credit segment of the Bank:

	September 30, 2018 (unaudited)					
	Credit segment					
Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Debts in good standing	45,678	123,433	19,291	569	7,058	196,029
Problematic non-impaired debts[(1)]	628	1,293	149	–	–	2,070
Impaired debts	753	52	71	–	–	876
Total	47,059	124,778	19,511	569	7,058	198,975

	September 30, 2017 (unaudited)					
	Credit segment					
Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Debts in good standing	40,350	118,605	18,514	426	2,396	180,291
Problematic non-impaired debts[(1)]	804	1,024	150	–	–	1,978
Impaired debts	524	41	74	–	–	639
Total	41,678	119,670	18,738	426	2,396	182,908

	As of December 31, 2017 (audited)					
	Credit segment					
Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Debts in good standing	41,782	119,442	18,841	456	2,087	182,608
Problematic non-impaired debts[(1)]	595	1,072	147	–	–	1,814
Impaired debts	620	33	70	–	–	723
Total	42,997	120,547	19,058	456	2,087	185,145

(1) Balance sheet credit risk which is inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

A. Impaired debts and individual provision

	September 30, 2018 (unaudited)				
	Balance of impaired debts for which an individual provision has been made[2][3]	Balance of individual provision	Balance of impaired debts for which no individual provision has been made[2]	Total balance of impaired debts[2]	Contractual principal balance of impaired debts
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	62	17	86	148	220
Construction and real estate – real estate operations	7	2	9	16	51
Financial services	11	5	2	13	22
Commercial – other	330	102	241	571	672
Total commercial	410	126	338	748	965
Private individuals – housing loans	34	3	18	52	52
Private individuals – other	29	19	42	71	88
Total public – activity in Israel	473	148	398	871	1,105
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	473	148	398	871	1,105
Borrower activity overseas					
Public – commercial					
Construction and real estate	2	–	–	2	4
Commercial – other	3	–	–	3	6
Total commercial	5	–	–	5	10
Private individuals	–	–	–	–	1
Total public – activity overseas	5	–	–	5	11
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	5	–	–	5	11
Total public	478	148	398	876	1,116
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	478	148	398	876	1,116
Of which:					
Measured at present value of cash flows	466	148	322	788	
Debts under problematic debts restructuring	116	19	70	186	

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Recorded debt balance.

(3) Debt balance net of accounting write-off, if made.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

A. Impaired debts and individual provision – continued

	September 30, 2017 (unaudited)				
	Balance of impaired debts for which an individual provision has been made[2][3]	Balance of individual provision	Balance of impaired debts for which no individual provision has been made[2]	Total balance of impaired debts[2]	Contractual principal balance of impaired debts
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	70	16	27	97	178
Construction and real estate – real estate operations	8	–	14	22	53
Financial services	21	6	7	28	35
Commercial – other	221	80	153	374	470
Total commercial	320	102	201	521	736
Private individuals – housing loans	12	4	29	41	41
Private individuals – other	28	14	45	73	74
Total public – activity in Israel	360	120	275	635	851
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	360	120	275	635	851
Borrower activity overseas					
Public – commercial					
Construction and real estate	–	–	–	–	–
Commercial – other	3	–	–	3	3
Total commercial	3	–	–	3	3
Private individuals	–	–	1	1	2
Total public – activity overseas	3	–	1	4	5
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	3	–	1	4	5
Total public	363	120	276	639	856
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	363	120	276	639	856
Of which:					
Measured at present value of cash flows	354	120	263	617	
Debts under problematic debts restructuring	63	15	78	141	

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Recorded debt balance.

(3) Debt balance net of accounting write-off, if made.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[(1)]

2. Additional information about impaired debts

A. Impaired debts and individual provision – continued

	As of December 31, 2017 (audited)				
	Balance of impaired debts for which an individual provision has been made[(2)(3)]	Balance of individual provision	Balance of impaired debts for which no individual provision has been made[(2)]	Total balance of impaired debts[(2)]	Contractual principal balance of impaired debts
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	73	19	72	145	223
Construction and real estate – real estate operations	9	1	6	15	47
Financial services	6	5	9	15	26
Commercial – other	297	94	145	442	481
Total commercial	385	119	232	617	777
Private individuals – housing loans	15	2	18	33	33
Private individuals – other	24	15	46	70	83
Total public – activity in Israel	424	136	296	720	893
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	424	136	296	720	893
Borrower activity overseas					
Public – commercial					
Construction and real estate	–	–	–	–	3
Commercial – other	3	–	–	3	3
Total commercial	3	–	–	3	6
Private individuals	–	–	–	–	3
Total public – activity overseas	3	–	–	3	9
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	3	–	–	3	9
Total public	427	136	296	723	902
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	427	136	296	723	902
Of which:					
Measured at present value of cash flows	418	136	227	645	
Debts under problematic debts restructuring	101	17	54	155	

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Recorded debt balance.

(3) Debt balance net of accounting write-off, if made.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[(1)]

2. Additional information about impaired debts

B. Average balance and interest revenues[(4)]

	For the three months ended					
	September 30, 2018 (unaudited)			September 30, 2017 (unaudited)		
	Average balance of impaired debts[(2)]	Interest revenues recorded[(3)]	Of which: Recorded on cash basis	Average balance of impaired debts[(2)]	Interest revenues recorded[(3)]	Of which: Recorded on cash basis
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	150	2	2	95	1	1
Construction and real estate – real estate operations	19	–	–	21	1	1
Financial services	14	–	–	30	–	–
Commercial – other	580	1	1	353	3	2
Total commercial	763	3	3	499	5	4
Private individuals – housing loans	47	–	–	33	–	–
Private individuals – other	74	1	1	71	1	–
Total public – activity in Israel	884	4	4	603	6	4
Banks in Israel	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	884	4	4	603	6	4
Borrower activity overseas						
Public – commercial						
Construction and real estate	1	–	–	2	–	–
Commercial – other	3	–	–	3	–	–
Total commercial	4	–	–	5	–	–
Private individuals	–	–	–	–	–	–
Total public – activity overseas	4	–	–	5	–	–
Overseas banks	–	–	–	–	–	–
Overseas governments	–	–	–	–	–	–
Total activity overseas	4	–	–	5	–	–
Total public	888	4	4	608	6	4
Total banks	–	–	–	–	–	–
Total governments	–	–	–	–	–	–
Total[(4)]	888	4	4	608	6	4

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Average recorded debt balance of impaired debts during reported period.
(3) Interest revenues recorded in the reported period with respect to average balance of debts in arrears, in the period in which the debts were classified as impaired.
(4) Had the impaired debt s accrued interest at the original terms, the Bank would have recognized interest revenues amounting to NIS 18 million (as of September 30, 2017 – NIS 15 million).

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[(1)]

2. Additional information about impaired debts

B. Average balance and interest revenues[(4)]

	For the nine months ended					
	September 30, 2018 (unaudited)			September 30, 2017 (unaudited)		
	Average balance of impaired debts[(2)]	Interest revenues recorded[(3)]	Of which: Recorded on cash basis	Average balance of impaired debts[(2)]	Interest revenues recorded[(3)]	Of which: Recorded on cash basis
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	152	3	3	97	2	2
Construction and real estate – real estate operations	17	–	–	48	2	2
Financial services	14	–	–	24	–	–
Commercial – other	542	4	3	367	7	6
Total commercial	725	7	6	536	11	10
Private individuals – housing loans	41	–	–	32	–	–
Private individuals – other	72	3	3	69	2	1
Total public – activity in Israel	838	10	9	637	13	11
Banks in Israel	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	838	10	9	637	13	11
Borrower activity overseas						
Public – commercial						
Construction and real estate	1	–	–	2	–	–
Commercial – other	3	–	–	3	–	–
Total commercial	4	–	–	5	–	–
Private individuals	–	–	–	–	–	–
Total public – activity overseas	4	–	–	5	–	–
Overseas banks	–	–	–	–	–	–
Overseas governments	–	–	–	–	–	–
Total activity overseas	4	–	–	5	–	–
Total public	842	10	9	642	13	11
Total banks	–	–	–	–	–	–
Total governments	–	–	–	–	–	–
Total(4)	842	10	9	642	13	11

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Average recorded debt balance of impaired debts during reported period.
(3) Interest revenues recorded in the reported period with respect to average balance of debts in arrears, in the period in which the debts were classified as impaired.
(4) Had the impaired debt s accrued interest at the original terms, the Bank would have recognized interest revenues amounting to NIS 55 million (as of September 30, 2017 – NIS 47 million).

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[(1)]

2. Additional information about impaired debts

C. Problematic debts under restructuring

	September 30, 2018 (unaudited)				
	Recorded debt balance				
	Not accruing interest revenues	Accruing interest revenues[(2)] in arrears 90 days or longer	Accruing interest revenues[(2)], in arrears 30-89 days	Accruing interest revenues [(2)] not in arrears	Total[(3)]
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	27	–	–	–	27
Construction and real estate – real estate operations	1	–	–	–	1
Financial services	3	–	–	–	3
Commercial – other	94	–	–	8	102
Total commercial	125	–	–	8	133
Private individuals – housing loans	–	–	–	–	–
Private individuals – other	28	–	1	24	53
Total public – activity in Israel	153	–	1	32	186
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	153	–	1	32	186
Borrower activity overseas					
Public – commercial					
Construction and real estate	–	–	–	–	–
Commercial – other	–	–	–	–	–
Total commercial	–	–	–	–	–
Private individuals	–	–	–	–	–
Total public – activity overseas	–	–	–	–	–
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	–	–	–	–	–
Total public	153	–	1	32	186
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	153	–	1	32	186

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Accruing interest revenues.
(3) Included under impaired debts.

As of September 30, 2018, the Bank had no commitments to provide additional credit to debtors subject to problematic debt restructuring, for which credit terms have been revised.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts [1]

2. Additional information about impaired debts

C. Problematic debts under restructuring – continued

	September 30, 2017 (unaudited)				
	Recorded debt balance				
	Not accruing interest revenues	Accruing interest revenues[2] in arrears 90 days or longer	Accruing interest revenues[2], in arrears 30-89 days	Accruing interest revenues [2] not in arrears	Total[3]
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	16	–	–	–	16
Construction and real estate – real estate operations	1	–	–	1	2
Financial services	3	–	–	–	3
Commercial – other	69	–	–	1	70
Total commercial	89	–	–	2	91
Private individuals – housing loans	–	–	–	–	–
Private individuals – other	27	–	1	22	50
Total public – activity in Israel	116	–	1	24	141
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	116	–	1	24	141
Borrower activity overseas					
Public – commercial					
Construction and real estate	–	–	–	–	–
Commercial – other	–	–	–	–	–
Total commercial	–	–	–	–	–
Private individuals	–	–	–	–	–
Total public – activity overseas	–	–	–	–	–
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	–	–	–	–	–
Total public	116	–	1	24	141
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	116	–	1	24	141

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Accruing interest revenues.

(3) Included under impaired debts.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts [1]

2. Additional information about impaired debts

C. Problematic debts under restructuring – continued

	As of December 31, 2017 (audited)				
	Recorded debt balance				
	Not accruing interest revenues	Accruing interest revenues[2] in arrears 90 days or longer	Accruing interest revenues[2], in arrears 30-89 days	Accruing interest revenues [2] not in arrears	Total[3]
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	15	–	–	–	15
Construction and real estate – real estate operations	2	–	–	–	2
Financial services	3	–	–	–	3
Commercial – other	81	–	–	4	85
Total commercial	101	–	–	4	105
Private individuals – housing loans	–	–	–	–	–
Private individuals – other	28	–	1	21	50
Total public – activity in Israel	129	–	1	25	155
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	129	–	1	25	155
Borrower activity overseas					
Public – commercial					
Construction and real estate	–	–	–	–	–
Commercial – other	–	–	–	–	–
Total commercial	–	–	–	–	–
Private individuals	–	–	–	–	–
Total public – activity overseas	–	–	–	–	–
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	–	–	–	–	–
Total public	129	–	1	25	155
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	129	–	1	25	155

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Accruing interest revenues.

(3) Included under impaired debts.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts [1]

2. Additional information about impaired debts

C. Problematic debts under restructuring – continued

	Restructurings made [2]					
	For the three months ended					
	September 30, 2018 (unaudited)			September 30, 2017 (unaudited)		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	8	–	(1)	9	4	4
Construction and real estate – real estate operations	2	–	–	1	–	–
Financial services	–	–	–	–	–	–
Commercial – other	62	8	8	53	5	4
Total commercial	72	8	7	63	9	8
Private individuals – housing loans	–	–	–	–	–	–
Private individuals – other	182	7	7	107	5	6
Total public – activity in Israel	254	15	14	170	14	14
Banks in Israel	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	254	15	14	170	14	14
Borrower activity overseas						
Public – commercial						
Construction and real estate	–	–	–	–	–	–
Commercial – other	–	–	–	–	–	–
Total commercial	–	–	–	–	–	–
Private individuals	–	–	–	–	–	–
Total public – activity overseas	–	–	–	–	–	–
Overseas banks	–	–	–	–	–	–
Overseas governments	–	–	–	–	–	–
Total activity overseas	–	–	–	–	–	–
Total public	254	15	14	170	14	14
Total banks	–	–	–	–	–	–
Total governments	–	–	–	–	–	–
Total	254	15	14	170	14	14

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Included under impaired debts.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts [1]

2. Additional information about impaired debts

C. Problematic debts under restructuring – continued

	Restructurings made [2]					
	For the nine months ended					
	September 30, 2018 (unaudited)			September 30, 2017 (unaudited)		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	30	22	21	30	8	8
Construction and real estate – real estate operations	8	1	1	6	1	–
Financial services	2	–	–	1	–	–
Commercial – other	230	50	49	162	108	51
Total commercial	270	73	71	199	117	59
Private individuals – housing loans	–	–	–	–	–	–
Private individuals – other	678	28	27	445	20	20
Total public – activity in Israel	948	101	98	644	137	79
Banks in Israel	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	948	101	98	644	137	79
Borrower activity overseas						
Public – commercial						
Construction and real estate	–	–	–	–	–	–
Commercial – other	–	–	–	–	–	–
Total commercial	–	–	–	–	–	–
Private individuals	–	–	–	–	–	–
Total public – activity overseas	–	–	–	–	–	–
Overseas banks	–	–	–	–	–	–
Overseas governments	–	–	–	–	–	–
Total activity overseas	–	–	–	–	–	–
Total public	948	101	98	644	137	79
Total banks	–	–	–	–	–	–
Total governments	–	–	–	–	–	–
Total	948	101	98	644	137	79

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Included under impaired debts.

Reported amounts (NIS in millions)

B. Debts [1]
2. Additional information about impaired debts
C. Problematic debts under restructuring – continued

	Restructurings made which are in default[2]			
	For the three months ended			
	September 30, 2018 (unaudited)		September 30, 2017 (unaudited)	
				Recorded debt balance
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
Borrower activity in Israel				
Public – commercial				
Construction and real estate – construction	1	–	–	–
Construction and real estate – real estate operations	–	–	–	–
Financial services	–	–	–	–
Commercial – other	10	1	12	1
Total commercial	11	1	12	1
Private individuals – housing loans	–	–	–	–
Private individuals – other	17	1	25	–
Total public – activity in Israel	28	2	37	1
Banks in Israel	–	–	–	–
Government of Israel	–	–	–	–
Total activity in Israel	28	2	37	1
Borrower activity overseas				
Public – commercial				
Construction and real estate	–	–	–	–
Commercial – other	–	–	–	–
Total commercial	–	–	–	–
Private individuals	–	–	–	–
Total public – activity overseas	–	–	–	–
Overseas banks	–	–	–	–
Overseas governments	–	–	–	–
Total activity overseas	–	–	–	–
Total public	28	2	37	1
Total banks	–	–	–	–
Total governments	–	–	–	–
Total	28	2	37	1

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Debts which became, in the reported period, debts in arrears of 30 days or longer, which were restructured under problematic debt restructuring in the 12 months prior to the date on which they became debts in arrears

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts [1]

2. Additional information about impaired debts

C. Problematic debts under restructuring – continued

	Restructurings made which are in default[2]			
	For the nine months ended			
	September 30, 2018 (unaudited)		September 30, 2017 (unaudited)	
			Recorded debt balance	
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
Borrower activity in Israel				
Public – commercial				
Construction and real estate – construction	4	1	5	–
Construction and real estate – real estate operations	3	–	–	–
Financial services	1	–	–	–
Commercial – other	44	7	20	1
Total commercial	52	8	25	1
Private individuals – housing loans	–	–	–	–
Private individuals – other	76	2	67	1
Total public – activity in Israel	128	10	92	2
Banks in Israel	–	–	–	–
Government of Israel	–	–	–	–
Total activity in Israel	128	10	92	2
Borrower activity overseas				
Public – commercial				
Construction and real estate	–	–	–	–
Commercial – other	–	–	–	–
Total commercial	–	–	–	–
Private individuals	–	–	–	–
Total public – activity overseas	–	–	–	–
Overseas banks	–	–	–	–
Overseas governments	–	–	–	–
Total activity overseas	–	–	–	–
Total public	128	10	92	2
Total banks	–	–	–	–
Total governments	–	–	–	–
Total	128	10	92	2

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Debts which became, in the reported period, debts in arrears of 30 days or longer, which were restructured under problematic debt restructuring in the 12 months prior to the date on which they became debts in arrears

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts

3. Additional information about housing loans

Below is the composition of balances by loan-to-value ratio (LTV)[1], repayment type and interest type:

		September 30, 2018 (unaudited)			
		Housing loan balance			Off-balance sheet credit risk
		Total	Of which: Bullet / balloon	Of which: Variable interest	Total
Senior lien: LTV ratio	Up to 60%	83,234	2,992	53,815	2,651
	Over 60%	41,270	526	26,698	1,587
Junior lien or no lien		274	2	204	2,947
Total		124,778	3,520	80,717	7,185

		September 30, 2017 (unaudited)			
		Total	Of which: Bullet / balloon	Of which: Variable interest	Total(2)
Senior lien: LTV ratio	Up to 60%	76,918	2,850	49,522	3,346
	Over 60%	42,503	494	27,897	1,336
Junior lien or no lien		249	2	181	1,001
Total		119,670	3,346	77,600	5,683

		As of December 31, 2017 (audited)			
		Total	Of which: Bullet / balloon	Of which: Variable interest	Total(2)
Senior lien: LTV ratio	Up to 60%	77,785	2,905	50,100	3,354
	Over 60%	42,511	516	27,835	1,322
Junior lien or no lien		251	2	185	1,408
Total		120,547	3,423	78,120	6,084

(1) Ratio of approved facility upon extending the facility to the property value, as approved by the Bank upon extending the facility

(2) Reclassified.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

C. Information about purchase and sale of debts

	For the three months ended September 30, 2018				For the three months ended September 30, 2017			
	Commercial	Housing	Other	Total	Commercial	Housing	Other	Total
Loans acquired	91	–	64	155	–	–	55	55
Loans sold	–	536	–	536	–	546	–	546

	For the nine months ended September 30, 2018				For the nine months ended September 30, 2017			
	Commercial	Housing	Other	Total	Commercial	Housing	Other	Total
Loans acquired	170	–	262	432	90	–	363	453
Loans sold	144	2,181	–	2,325	187	1,276	–	1,463

	For the year ended December 31, 2017			
	Commercial	Housing	Other	Total
Loans acquired	109	–	593	702
Loans sold	290	2,308	–	2,598

D. Off-balance sheet financial instruments

Contractual balances or their denominated amounts at end of quarter

	September 30, 2018	September 30, 2017	December 31, 2017	September 30, 2018	September 30, 2017	December 31, 2017
	Balance(1)			Provision for credit losses		
	(unaudited)		(audited)	(unaudited)		(audited)
Transactions in which the balance represents a credit risk:						
– Unutilized debitory account and other credit facilities in accounts available on demand	17,714	17,952	15,045	21	23	20
– Guarantees to home buyers(3)	10,865	11,393	10,795	6	6	6
– Irrevocable commitments for loans approved but not yet granted(4)	14,493	11,593	12,044	12	14	12
– Unutilized revolving credit card facilities	7,542	6,745	6,801	5	4	4
– Commitments to issue guarantees(3)	7,535	6,435	5,981	4	4	4
– Other guarantees and liabilities(2)(3)	7,208	5,367	5,677	28	23	23
– Loan guarantees(3)	2,294	2,243	2,283	23	21	20
– Documentary credit	315	199	201	1	1	1

(1) Contractual balances or their stated amounts at the end of the period, before effect of provision for credit losses.
(2) Includes the Bank's liabilities for its share in the risks fund of the MAOF Clearinghouse of NIS 30 million. (as of September 30, 2017 and December 31, 2017 – NIS 48 million and NIS 38 million, respectively).
For more information see Note 26.C.2. and Note 27.B. to Financial Statements as of December 31, 2017.
(3) The Bank provides guarantees to improve the credit and transaction capacity of its clients.
The term to maturity of guarantees to home buyers is typically up to three years.
With respect to these guarantees and to commitment to issue such guarantees, the Bank has acquired a credit exposure insurance policy. The insurance policy covers 80% of the guarantees and is effective as from December 31, 2016.
The term to maturity of other guarantees, performance guarantees and credit backing guarantees is typically up to one year.
(4) Includes the effect of extension of the lock period for approval in principle of housing loans, from 12 days to 24 days, in conformity with the revision of Proper Banking Conduct Directive 451 "Procedures for extending housing loans".

Note 14 – Assets and Liabilities by Linkage Basis

As of September 30, 2018 (unaudited)

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]			Non-monetary items[2]	
	Non-linked	CPI-linked	USD	EUR	Other currencies		Total
Assets							
Cash and deposits with banks	34,735	554	6,611	329	194	–	42,423
Securities	4,161	376	4,998	466	–	92	10,093
Securities borrowed or bought in conjunction with resale agreements	–	115	–	–	–	–	115
Loans to the public, net[3]	126,471	52,212	6,656	2,514	1,943	–	189,796
Loans to Governments	–	–	406	163	–	–	569
Investments in associated companies	35	–	–	–	–	(3)	32
Buildings and equipment	–	–	–	–	–	1,360	1,360
Intangible assets and goodwill	–	–	–	–	–	87	87
Assets with respect to derivative instruments	1,176	383	923	97	25	–	2,604
Other assets	1,201	380	74	4	47	46	1,752
Total assets	167,779	54,020	19,668	3,573	2,209	1,582	248,831
Liabilities							
Deposits from the public	143,425	13,866	28,897	4,407	2,348	–	192,943
Deposits from banks	117	7	421	91	19	–	655
Deposits from the Government	19	1	24	–	–	–	44
Debentures and subordinated notes	8,266	21,503	–	–	–	–	29,769
Liabilities with respect to derivative instruments	1,256	98	1,357	103	22	–	2,836
Other liabilities	5,309	1,216	648	10	56	212	7,451
Total liabilities	158,392	36,691	31,347	4,611	2,445	212	233,698
Difference	9,387	17,329	(11,679)	(1,038)	(236)	1,370	15,133
Impact of hedging derivative instruments:							
derivative instruments (other than options)	2,346	(2,346)	–	–	–	–	–
Non-hedging derivative instruments:							
derivative instruments (other than options)	(12,124)	(819)	11,795	1,117	31	–	–
Net in-the-money options (in terms of underlying asset)	173	–	(254)	21	60	–	–
Net out-of-the-money options (in terms of underlying asset)	57	–	103	(146)	(14)	–	–
Total	(161)	14,164	(35)	(46)	(159)	1,370	15,133
Net in-the-money options (capitalized par value)	(480)	–	485	91	(96)	–	–
Net out-of-the-money options (capitalized par value)	2,264	–	(1,615)	(993)	344	–	–

(1) Includes linked to foreign currency.

(2) Includes derivative instruments whose base relates to a non-monetary item.

(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted *pro-rata* from the different linkage bases.

Note 14 – Assets and Liabilities by Linkage Basis – Continued

As of September 30, 2017 (unaudited)

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]			Non-monetary items[2]	Total
	Non-linked	CPI-linked	USD	EUR	Other currencies		
Assets							
Cash and deposits with banks	39,892	122	1,955	273	336	–	42,578
Securities	4,051	692	5,728	375	–	92	10,938
Securities borrowed or bought in conjunction with resale agreements	2	–	–	–	–	–	2
Loans to the public, net[3]	118,592	49,950	6,257	2,207	1,615	–	178,621
Loans to Governments	–	–	207	191	28	–	426
Investments in associated companies	35	–	–	–	–	(2)	33
Buildings and equipment	–	–	–	–	–	1,359	1,359
Intangible assets and goodwill	–	–	–	–	–	87	87
Assets with respect to derivative instruments	2,824	381	307	240	56	–	3,808
Other assets	1,194	430	21	20	18	43	1,726
Total assets	166,590	51,575	14,475	3,306	2,053	1,579	239,578
Liabilities							
Deposits from the public	133,345	15,770	28,336	4,282	2,488	–	184,221
Deposits from banks	273	11	1,056	74	48	–	1,462
Deposits from the Government	33	2	25	–	–	–	60
Debentures and subordinated notes	8,277	20,852	–	–	–	–	29,129
Liabilities with respect to derivative instruments	2,392	124	440	304	33	–	3,293
Other liabilities	5,775	1,153	232	11	42	174	7,387
Total liabilities	150,095	37,912	30,089	4,671	2,611	174	225,552
Difference	16,495	13,663	(15,614)	(1,365)	(558)	1,405	14,026
Impact of hedging derivative instruments:							
derivative instruments (other than options)	1,363	(1,363)	–	–	–	–	–
Non-hedging derivative instruments:							
derivative instruments (other than options)	(15,935)	(2,223)	16,150	1,517	491	–	–
Net in-the-money options (in terms of underlying asset)	697	–	(638)	(45)	(14)	–	–
Net out-of-the-money options (in terms of underlying asset)	(133)	–	284	(116)	(35)	–	–
Total	2,487	10,077	182	(9)	(116)	1,405	14,026
Net in-the-money options (capitalized par value)	(631)	–	109	526	(4)	–	–
Net out-of-the-money options (capitalized par value)	639	–	(258)	(410)	29	–	–

(1) Includes linked to foreign currency.

(2) Includes derivative instruments whose base relates to a non-monetary item.

(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted *pro-rata* from the different linkage bases.

Note 14 – Assets and Liabilities by Linkage Basis – Continued

As of December 31, 2017 (audited)

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]				
	Non-linked	CPI-linked	USD	EUR	Other currencies	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	38,800	122	1,689	299	220	–	41,130
Securities	3,859	753	4,993	429	–	99	10,133
Securities borrowed or bought in conjunction with resale agreements	68	8	–	–	–	–	76
Loans to the public, net[3]	120,730	50,293	6,220	2,240	1,635	–	181,118
Loans to Governments	–	–	257	199	–	–	456
Investments in associated companies	28	7	–	–	–	(3)	32
Buildings and equipment	–	–	–	–	–	1,403	1,403
Intangible assets and goodwill	–	–	–	–	–	87	87
Assets with respect to derivative instruments	2,551	402	268	145	55	–	3,421
Other assets	1,167	423	50	–	33	43	1,716
Total assets	167,203	52,008	13,477	3,312	1,943	1,629	239,572
Liabilities							
Deposits from the public	133,194	15,681	27,805	4,556	2,337	–	183,573
Deposits from banks	291	10	754	70	–	–	1,125
Deposits from the Government	25	2	24	–	–	–	51
Debentures and subordinated notes	8,321	21,602	–	–	–	–	29,923
Liabilities with respect to derivative instruments	2,315	130	420	179	38	–	3,082
Other liabilities	5,841	1,165	253	11	38	183	7,491
Total liabilities	149,987	38,590	29,256	4,816	2,413	183	225,245
Difference	17,216	13,418	(15,779)	(1,504)	(470)	1,446	14,327
Impact of hedging derivative instruments:							
derivative instruments (other than options)	1,489	(1,489)	–	–	–	–	–
Non-hedging derivative instruments:							
derivative instruments (other than options)	(15,974)	(2,133)	16,069	1,513	525	–	–
Net in-the-money options (in terms of underlying asset)	427	–	(278)	(65)	(84)	–	–
Net out-of-the-money options (in terms of underlying asset)	(106)	–	133	7	(34)	–	–
Total	3,052	9,796	145	(49)	(63)	1,446	14,327
Net in-the-money options (capitalized par value)	(32)	–	(232)	281	(17)	–	–
Net out-of-the-money options (capitalized par value)	356	–	110	(604)	138	–	–

(1) Includes linked to foreign currency.

(2) Includes derivative instruments whose base relates to a non-monetary item.

(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted *pro-rata* from the different linkage bases.

Note 15 – Balances and estimates of fair value of financial instruments

Reported amounts (NIS in millions)

1) Information on the fair value of financial instruments is presented below:

A. Fair value balances

	September 30, 2018 (unaudited)				
		Fair value			
	Book balance	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total
Financial assets					
Cash and deposits with banks	42,423	12,523	28,618	1,280	42,421
Securities[(3)]	10,093	6,247	3,794	91	10,132
Securities loaned or purchased in resale agreements	115	115	–	–	115
Loans to the public, net	189,796	454	10,697	[(5)]178,524	189,675
Loans to Governments	569	–	–	569	569
Investments in associated companies	35	–	–	35	35
Assets with respect to derivative instruments	2,604	94	1,524	[(2)]986	2,604
Other financial assets	580	6	–	574	580
Total financial assets	[(4)]246,215	19,439	44,633	182,059	246,131
Financial liabilities					
Deposits from the public	192,943	454	53,081	141,381	194,916
Deposits from banks	655	–	270	385	655
Deposits from the Government	44	–	–	46	46
Debentures and subordinated notes	29,769	28,724	–	1,867	30,591
Liabilities with respect to derivative instruments	2,836	104	1,768	964[(2)]	2,836
Other financial liabilities	5,862	357	4,022	1,481	5,860
Total financial liabilities	[(4)]232,109	29,639	59,141	146,124	234,904

(1) Level 1 – Fair value measurement using quoted prices on an active market. Level 2 – Fair value measurements using other significant observed data.
Level 3 – Fair value measurements using significant non-observed data.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

(3) For more information about the carrying amount and fair value of securities, see Note 5 to the financial statements.

(4) Includes assets and liabilities amounting to NIS 61,819 million and NIS 55,149 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.

(5) Of which embedded derivatives in loans to the public, net amounting to NIS 6 million.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

A. Fair value balances – continued

	September 30, 2017 (unaudited)				
		Fair value			
	Book balance	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total
Financial assets					
Cash and deposits with banks	42,578	6,530	34,868	1,165	42,563
Securities[(3)]	10,938	7,819	3,115	86	11,020
Securities loaned or purchased in resale agreements	2	2	–	–	2
Loans to the public, net	178,621	354	9,936	[(5)]168,274	178,564
Loans to Governments	426	–	–	417	417
Investments in associated companies	33	–	–	36	36
Assets with respect to derivative instruments	3,808	148	2,723	[(2)]937	3,808
Other financial assets	676	14	–	663	677
Total financial assets	[(4)]237,082	14,867	50,642	171,578	237,087
Financial liabilities					
Deposits from the public	184,221	354	49,207	136,717	186,278
Deposits from banks	1,462	–	445	1,082	1,527
Deposits from the Government	60	–	–	64	64
Debentures and subordinated notes	29,129	28,463	–	1,451	29,914
Liabilities with respect to derivative instruments	3,293	148	2,208	[(2)]937	3,293
Other financial liabilities	5,721	401	3,831	1,489	5,721
Total financial liabilities	[(4)]223,886	29,366	55,691	141,740	226,797

(1) Level 1 – Fair value measurement using quoted prices on an active market. Level 2 – Fair value measurements using other significant observed data.
Level 3 – Fair value measurements using significant non-observed data.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

(3) For more information about the carrying amount and fair value of securities, see Note 5 to the financial statements.

(4) Includes assets and liabilities amounting to NIS 62,105 million and NIS 50,212 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.

(5) Of which embedded derivatives in loans to the public, net amounting to NIS 5 million.

Note 15 – Balances and estimates of fair value of financial instruments – continued
Reported amounts (NIS in millions)

A. Fair value balances – continued

	As of December 31, 2017 (audited)				
		Fair value			
	Book balance	Level 1[1]	Level 2[1]	Level 3[1]	Total
Financial assets					
Cash and deposits with banks	41,130	4,043	36,048	1,021	41,112
Securities[3]	10,133	6,950	3,160	98	10,208
Securities loaned or purchased in resale agreements	76	76	–	–	76
Loans to the public, net	181,118	395	10,300	[5]170,276	180,971
Loans to Governments	456	–	–	456	456
Investments in associated companies	33	–	–	36	36
Assets with respect to derivative instruments	3,421	193	2,329	899[2]	3,421
Other financial assets	562	57	–	505	562
Total financial assets	[4]236,929	11,714	51,837	173,291	236,842
Financial liabilities					
Deposits from the public	183,573	395	51,213	134,120	185,728
Deposits from banks	1,125	–	372	754	1,126
Deposits from the Government	51	–	–	54	54
Debentures and subordinated notes	29,923	29,411	–	1,478	30,889
Liabilities with respect to derivative instruments	3,082	193	1,984	[2]905	3,082
Other financial liabilities	5,606	517	3,935	1,154	5,606
Total financial liabilities	[4]223,360	30,516	57,504	138,465	226,485

(1) Level 1 – Fair value measurement using quoted prices on an active market. Level 2 – Fair value measurements using other significant observed data.
Level 3 – Fair value measurements using significant non-observed data.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

(3) For more information about the carrying amount and fair value of securities, see Note 5 to the financial statements.

(4) Includes assets and liabilities amounting to NIS 60,751 million and NIS 53,863 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.

(5) Of which embedded derivatives in loans to the public, net amounting to NIS 6 million.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value:

1. On recurring basis

	September 30, 2018 (unaudited)			
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets				
Securities available for sale				
Debentures:				
of Government of Israel	944	3,316	–	4,260
Of foreign governments	1,654	–	–	1,654
Of banks and financial institutions overseas	–	461	–	461
Of others overseas	–	17	–	17
Shares	1	–	–	1
Securities held for trading:				
Debentures of the Government of Israel	173	–	–	173
Of banks and financial institutions overseas	–	–	–	–
Securities loaned or purchased in resale agreements	115	–	–	115
Credit with respect to loans to clients	454	–	–	454
Assets with respect to derivative instruments[(1)]				
Interest contracts:				
NIS / CPI	–	119	136	255
Other	–	477	15	492
Currency contracts	53	868	679	1,600
Contracts for shares	40	60	150	250
Commodities and other contracts	1	–	6	7
Other financial assets	6	–	–	6
Other	–	–	6	6
Total assets	3,441	5,318	992	9,751
Liabilities				
Deposits with respect to borrowing from clients	454	–	–	454
Liabilities with respect to derivative instruments[(1)]				
Interest contracts:				
NIS / CPI	–	71	37	108
Other	–	604	39	643
Currency contracts	62	1,036	765	1,863
Contracts for shares	41	56	119	216
Commodities and other contracts	1	1	4	6
Other financial liabilities	357	–	–	357
Total liabilities	915	1,768	964	3,647

(1) Fair value measurement of derivative instruments classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value – continued

1. On recurring basis

	September 30, 2017 (unaudited)			
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets				
Securities available for sale				
Debentures:				
of Government of Israel	1,335	3,080	–	4,415
Of foreign governments	2,961	–	–	2,961
Of banks and financial institutions in Israel	–	–	–	–
Of banks and financial institutions overseas	–	18	–	18
Of others overseas	–	17	–	17
Shares	3	–	–	3
Securities held for trading:				
Debentures of the Government of Israel	180	–	–	180
Of banks and financial institutions overseas				–
Securities loaned or purchased in resale agreements	2	–	–	2
Credit with respect to loans to clients	354	–	–	354
Assets with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	–	249	116	365
Other	–	892	20	912
Currency contracts	48	1,487	688	2,223
Contracts for shares	100	95	108	303
Commodities and other contracts	–	–	5	5
Other financial assets	14	–	–	14
Other	–	–	5	5
Total assets	4,997	5,838	942	11,777
Liabilities				
Deposits with respect to borrowing from clients	354	–	–	354
Liabilities with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	–	108	75	183
Other	–	1,199	41	1,240
Currency contracts	47	829	704	1,580
Contracts for shares	101	72	114	287
Commodities and other contracts	–	–	3	3
Other financial liabilities	401	–	–	401
Total liabilities	903	2,208	937	4,048

(1) Fair value measurement of derivative instruments classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value – continued:

1. On recurring basis

	As of December 31, 2017 (audited)			
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets				
Securities available for sale				
Debentures:				
of Government of Israel	1,165	2,971	–	4,136
Of foreign governments	2,233	–	–	2,233
Of banks and financial institutions overseas	–	173	–	173
Of others overseas	–	16	–	16
Shares	1	–	–	1
Securities held for trading:				–
Debentures of the Government of Israel	209	–	–	209
Securities loaned or purchased in resale agreements	76	–	–	76
Credit with respect to loans to clients	395	–	–	395
Assets with respect to derivative instruments[(1)]				
Interest contracts:				
NIS / CPI	–	169	146	315
Other	–	637	21	658
Currency contracts	52	1,401	603	2,056
Contracts for shares	141	122	123	386
Commodities and other contracts	–	–	6	6
Other financial assets	57	–	–	57
Other	–	–	6	6
Total assets	4,329	5,489	905	10,723
Liabilities				
Deposits with respect to borrowing from clients	395	–	–	395
Liabilities with respect to derivative instruments[(1)]				
Interest contracts:				
NIS / CPI	–	93	85	178
Other	–	933	35	968
Currency contracts	53	881	669	1,603
Contracts for shares	140	77	113	330
Commodities and other contracts	–	–	3	3
Other financial liabilities	517	–	–	517
Total liabilities	1,105	1,984	905	3,994

(1) Fair value measurement of derivative instruments classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value – continued:

2. On non-recurring basis

	September 30, 2018 (unaudited)				For the three months ended September 30, 2018	For the nine months ended September 30, 2018
				Fair value	Gains	
	Level 1[1]	Level 2[1]	Level 3[1]	Total		
Impaired credit whose collection is contingent on collateral	–	14	74	88	15	16

	September 30, 2017 (unaudited)				For the three months ended September 30, 2017	For the nine months ended September 30, 2017
				Fair value	Gains	
	Level 1[1]	Level 2[1]	Level 3[1]	Total		
Impaired credit whose collection is contingent on collateral	–	–	22	22	23	68

	As of December 31, 2017 (audited)				For the year ended December 31, 2017
				Fair value	Gains
	Level 1[1]	Level 2[1]	Level 3[1]	Total	
Impaired credit whose collection is contingent on collateral	–	–	78	78	76

(1) Level 1 – Fair value measurement using quoted prices on an active market.
Level 2 – Fair value measurements using other significant observed data.
Level 3 – Fair value measurements using significant non-observed data.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3:

	For the three months ended September 30, 2018 (unaudited)								
		Net realized / unrealized gains (losses) included(1)							
	Fair value as of June 30, 2018	In statement of profit and loss	In statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of September 30, 2018	Unrealized gains(losses) with respect to instruments held as of September 30, 2018
Assets									
Assets with respect to derivative instruments(3)(2)									
Interest contracts:									
NIS / CPI	125	2	–	1	–	(11)	19	136	25
Other	19	(2)	–	–	–	(2)	–	15	66
Currency contracts	1,101	(23)	–	275	–	(674)	–	679	430
Contracts for shares	130	37	–	21	–	(38)	–	150	–
Commodities and other contracts	5	–	–	1	–	–	–	6	1
Other	4	–	–	2	–	–	–	6	–
Total assets	1,384	14	–	300	–	(725)	19	992	522
Liabilities									
Liabilities with respect to derivative instruments(3)(2)									
Interest contracts:									
NIS / CPI	49	(3)	–	1	–	(14)	4	37	11
Other	38	2	–	1	–	(2)	–	39	87
Currency contracts	965	(14)	–	138	–	(324)	–	765	648
Contracts for shares	102	24	–	18	–	(25)	–	119	–
Commodities and other contracts	3	1	–	–	–	–	–	4	2
Total liabilities	1,157	10	–	158	–	(365)	4	964	748

(1) Realized gains (losses) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gains and losses included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value under Other Comprehensive Income.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

(3) Included in statement of profit and loss under "Non-interest financing revenues".

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3 – Continued:

	For the three months ended September 30, 2017 (unaudited)								
		Realized / unrealized gains (losses) included, net(1)							
	Fair value as of June 30, 2017	In statement of profit and loss	under Other Compre-hensive Income under Equity	Acquisi-tions	Sales	Disposi-tions	Transfer to level 3	Fair value as of September 30, 2017	Unrealized Gains (losses) with respect to instruments held as of September 30, 2017
Assets									
Assets with respect to derivative instruments(3)(2)									
Interest contracts:									
NIS / CPI	100	13	–	–	–	(8)	11	116	99
Other	26	(3)	–	–	–	(3)	–	20	56
Currency contracts	903	(13)	–	219	–	(421)	–	688	434
Contracts for shares	111	(5)	–	22	–	(20)	–	108	–
Commodities and other contracts	7	(1)	–	–	–	(1)	–	5	–
Other	7	–	–	–	–	(2)	–	5	–
Total assets	1,154	(9)	–	241	–	(455)	11	942	589
Liabilities									
Liabilities with respect to derivative instruments(3)(2)									
Interest contracts:									
NIS / CPI	80	(10)	–	–	–	–	5	75	17
Other	46	(1)	–	–	–	(4)	–	41	64
Currency contracts	1,076	(65)	–	194	–	(501)	–	704	466
Contracts for shares	76	69	–	26	–	(57)	–	114	–
Commodities and other contracts	3	2	–	–	–	(2)	–	3	–
Total liabilities	1,281	(5)	–	220	–	(564)	5	937	547

(1) Realized gains (losses) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gains and losses included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value under Other Comprehensive Income.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

(3) Included in statement of profit and loss under "Non-interest financing revenues".

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3 – Continued:

	For the nine months ended September 30, 2018 (unaudited)								
		Net realized / unrealized gains (losses) included[1]							
	Fair value as of December 31, 2017	In statement of profit and loss	In statement of Other Comprehensive Income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of September 30, 2018	Unrealized gain (loss) with respect to instruments held as of September 30, 2018
Assets									
Assets with respect to derivative instruments[3][2]									
Interest contracts:									
NIS / CPI	146	(15)	–	2	–	(34)	37	136	25
Other	21	(4)	–	1	–	(3)	–	15	66
Currency contracts	603	201	–	1,311	–	(1,436)	–	679	430
Contracts for shares	123	94	–	65	–	(132)	–	150	–
Commodities and other contracts	6	(2)	–	2	–	–	–	6	1
Other	6	1	–	2	–	(3)	–	6	–
Total assets	905	275	–	1,383	–	(1,608)	37	992	522
Liabilities									
Liabilities with respect to derivative instruments[3][2]									
Interest contracts:									
NIS / CPI	85	(1)	–	9	–	(70)	14	37	11
Other	35	4	–	2	–	(2)	–	39	87
Currency contracts	669	293	–	512	–	(709)	–	765	648
Contracts for shares	113	72	–	29	–	(95)	–	119	–
Commodities and other contracts	3	1	–	–	–	–	–	4	2
Other	–	–	–	–	–	–	–	–	–
Total liabilities	905	369	–	552	–	(876)	14	964	748

(1) Realized gains (losses) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gains and losses included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value under Other Comprehensive Income.
(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.
(3) Included in statement of profit and loss under "Non-interest financing revenues".

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3 – Continued:

	For the nine months ended September 30, 2017 (unaudited)								
		Realized / unrealized gains (losses) included, net[1]							
	Fair value as of December 31, 2016	In statement of profit and loss	In statement of Other Compre-hensive Income under Equity	Acqui-sitions	Sales	Disposi-tions	Transfer to level 3	Fair value as of September 30, 2017	Unrealized gain s(losses) with respect to instruments held as of September 30, 2017
Assets									
Assets with respect to derivative instruments[3][2]									
Interest contracts:									
NIS / CPI	205	(59)	–	1	–	(55)	24	116	99
Other	517	(488)	–	–	–	(9)	–	20	56
Currency contracts	660	266	–	910	–	(1,148)	–	688	434
Contracts for shares	328	(154)	–	73	–	(139)	–	108	–
Commodities and other contracts	7	1	–	–	–	(3)	–	5	–
Other	8	–	–	2	–	(5)		5	–
Total assets	1,725	(434)	–	986	–	(1,359)	24	942	589
Liabilities									
Liabilities with respect to derivative instruments[3][2]									
Interest contracts:									
NIS / CPI	64	(31)	–	2	–	(19)	59	75	17
Other	669	(612)	–	1	–	(17)	–	41	64
Currency contracts	790	388	–	901	–	(1,375)	–	704	466
Contracts for shares	311	(92)	–	48	–	(153)	–	114	–
Commodities and other contracts	4	3	–	–	–	(4)	–	3	–
Other	–	–	–	–	–	–	–	–	–
Total liabilities	1,838	(344)	–	952	–	(1,568)	59	937	547

(1) Realized gains (losses) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gains and losses included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value under Other Comprehensive Income.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

(3) Included in statement of profit and loss under "Non-interest financing revenues".

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3 – Continued:

	For the year ended December 31, 2017 (audited)								
		Realized / unrealized gains (losses) included, net[1]							
	Fair value as of December 31, 2016	In statement of profit and loss	In statement of Other Comprehensive Income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of December 31, 2017	Unrealized gains (losses) with respect to instruments held as of December 31, 2017
Assets									
Assets with respect to derivative instruments[3][2]									
Interest contracts:									
NIS / CPI	205	(69)	–	2	–	(87)	95	146	126
Other	517	(489)	–	2	–	(9)	–	21	134
Currency contracts	660	344	–	1,079	–	(1,480)	–	603	474
Contracts for shares	328	(98)	–	95	–	(202)	–	123	–
Commodities and other contracts	7	2	–	–	–	(3)	–	6	1
Other	8	–	–	3	–	(5)	–	6	–
Total assets	1,725	(310)	–	1,181	–	(1,786)	95	905	735
Liabilities									
Liabilities with respect to derivative instruments[3][2]									
Interest contracts:									
NIS / CPI	64	(30)	–	2	–	(20)	69	85	13
Other	669	(618)	–	1	–	(17)	–	35	198
Currency contracts	790	390	–	1,179	–	(1,690)	–	669	649
Contracts for shares	311	(64)	–	63	–	(197)	–	113	–
Commodities and other contracts	4	5	–	–	–	(6)	–	3	1
Total liabilities	1,838	(317)	–	1,245	–	(1,930)	69	905	861

(1) Realized gains (losses) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gains and losses included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value under Other Comprehensive Income.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

(3) Included in statement of profit and loss under "Non-interest financing revenues".

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

D. Additional information about non-observed significant data and valuation techniques used in fair value measurement of items classified at Level 3:

	Fair value as of September 30, 2018	Valuation technique	Non-observed data	Range	Weighted average
Assets with respect to derivative instruments:					
Interest contracts – NIS CPI	112	Cash flows discounting	Inflationary expectations	1.11%- 0.93%	0.97%
Contracts for shares	110	Options pricing model	Standard deviation per share	68.20% – 25.69%	41.26%
Other	770	Cash flows discounting	Counter-party credit quality	3.10% – 0.30%	1.72%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	32	Cash flows discounting	Inflationary expectations	1.11%- 0.93%	1.00%
Other	932	Cash flows discounting	Counter-party credit quality	2.65% – 0.30%	1.68%

	Fair value as of September 30, 2017	Valuation technique	Non-observed data	Range	Weighted average
Assets with respect to derivative instruments:					
Interest contracts – NIS CPI	67	Cash flows discounting	Inflationary expectations	0.11% – 0.10%	0.10%
Contracts for shares	83	Options pricing model	Standard deviation per share	38.41% – 38.41%	38.41%
Other	792	Cash flows discounting	Counter-party credit quality	3.10% – 0.30%	1.38%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	70	Cash flows discounting	Inflationary expectations	0.10% – 0.10%	0.10%
Other	867	Cash flows discounting	Counter-party credit quality	3.10% – 0.30%	1.89%

	Fair value as of December 31, 2017	Valuation technique	Non-observed data	Range	Weighted average
Assets with respect to derivative instruments:					
Interest contracts – NIS CPI	104	Cash flows discounting	Inflationary expectations	0.43% – 0.41%	0.41%
Contracts for shares	–	Options pricing model	Standard deviation per share	44.53% – 29.56%	38.96%
Other	801	Cash flows discounting	Counter-party credit quality	3.10% – 0.30%	1.38%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	80	Cash flows discounting	Inflationary expectations	0.43% – 0.41%	0.41%
Other	825	Cash flows discounting	Counter-party credit quality	3.10% – 0.30%	1.89%

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

E. Transfers between Levels 1 and 2 of the fair value hierarchy

There were no transfers from Level 2 and Level 3 to Level 1 during the reported period.

F. Election of fair value option

Should the Bank elect the fair value option, changes to fair value of investments in certain debentures would be charged to the Statement of Profit and Loss, with debentures classified under the portfolio held for trading, although they had not been purchased for this purpose.

Election of the fair value option was made under the following circumstances:

1. Reduce volatility in profit and loss resulting from changes between the original measurement basis of financial instruments designated at the fair value option, and the measurement basis of derivative financial instruments used to manage risks with respect to such investments.
2. Complexity of implementing hedge accounting.
3. More accurate economic presentation of assets managed on fair value basis.

As of September 30, 2018, December 31, 2017 and September 30, 2017, the Bank did not select the fair value option.

Note 16 – Other matters

On February 1, 2018, the Bank applied to the Supervisor of Banks for approval of a buy-back of 5 million Bank shares. The share purchase is to be conducted against shares allotted or to be alloted pursuant to the stock option plans for 2014-2016 and the stock option plans for 2017-2019. On July 23, 2018, the Supervisor of Banks approved the buy-back plan subject to conditions specified.

Buy-back of Bank shares is tantamount to a distribution of dividends. See also Note 10.B.4 to these financial statements.

Note 17 – Events after the balance sheet date

On October 21, 2018, after the balance sheet date, Tefahot Issuance issued to the public contingent subordinated notes (Contingent Convertibles – CoCo) (Series 48) with loss-absorption provisions through principal write-off (compliant with Basel III provisions and recognized by the Supervisor of Banks as Tier II capital), with par value of NIS 710.6 million for consideration of NIS 710.6 million.

Corporate governance, other information about the Bank and its management

Table of Contents

Corporate governance

Board of Directors and management

Board of Directors

During the first nine months of 2018, the Bank's Board of Directors held 19 plenary meetings. During this period there were also 40 meetings of Board committees and 3 Board member workshops.

On June 5, 2018, Ms. Osnat Ronen resigned her office as Board member.

On July 2, 2018, Mr. Gideon Siterman announced early termination of his office by a few days and resigned his office as External Board member.

On June 25, 2018, Mr. Yossi Shachak resigned his office as member of the Remuneration Committee.

On July 23, 2018, the Bank announced it would convene an extraordinary General Meeting of shareholders with an agenda including the appointment of an External Board member. For more information see Immediate Report dated July 23, 2018, reference 2018-01-069643 and amended Immediate Report dated July 24, 2018, reference 2018-01-069973.

On August 30, 2018, Ms. Chana Feyer was appointed External Board Member of the Bank. For more information see Immediate Report dated August 30, 2018, reference 2018-01-080926 and Immediate Report dated August 30, 2018, reference 2018-01-080869.

Members of Bank management and senior officers

In the first nine months of 2018 there were no changes to members of Bank management and senior officers.

Internal Auditor

Details of internal audit within the Group, including the professional standards applied by internal audit, the annual and multi-annual work plan and considerations in its determination, extent of employment of the Internal Auditor and his team and the manner in which reports are submitted with regard to findings of the Internal Auditor have been included in chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" of the 2017 annual report. No material changes occurred in these details during the reported period.

Transactions with controlling shareholders and related parties

Transactions with affiliated persons were executed in the ordinary course of business, at market terms and under terms similar to those of transactions effected with unrelated entities.

On August 30, 2018, the General Meeting of Bank shareholders approved once again the Bank's waiver and commitment to indemnification, with regard to applicability to controlling shareholders of the Bank and their relatives who may serve from time to time, including those who have served in the past or to be appointed in future. For more information see Immediate Report dated August 30, 2018 (reference: 2018-01-080869).

On September 6, 2018, the Board of Directors approved, after approval by the Remuneration Committee, contracting by the Bank of a Board member and officer liability insurance policy, for a term of 18 months as from October 1, 2018. For more information, see Immediate Report dated September 06, 2018, reference 2018-01-083194.

Controlling shareholders

Below are developments compared to the 2017 financial statements:

Ofer Group

On March 18, 2018, the Bank received notice from Ofer Investments Ltd. and from Ofer Bros. Holdings (1989) Ltd. with regard to agreement on principles of a separation outline, due to provisions of the Competition Enhancement and Concentration Reduction Act, 2013.

The outline principles are designed to separate control of the significant financial entity (the Bank) from control of the significant non-banking entity (Meliseron Ltd. "Melliseron" / Ofer Investments Ltd. "Ofer Investments") among shareholders in Ofer Group ("the outline"). Note that this outline is not a binding agreement and is merely designed to serve as basis for preparation of a detailed agreement.

For more information about agreed principles for the separation outline at Ofer Group, with due consideration to provisions of the Competition Enhancement and Concentration Reduction Act, 2013, see the Immediate Report by the Bank dated March 18, 2018 (reference: 2018-01-020733).

On August 15, 2018, the Governor of the Bank of Israel, Ms. Karnit Flug, signed an amendment to the permit for holding control and means of control over the Bank, amending the permit issued on January 15, 2013. According to this amendment to the permit, the permit dated January 15, 2013, issued to the estate of Mr. Juli Ofer RIP which is managed by the estate administrators will be terminated, the estate would be removed from the list of permit holders and Ms. Liora Ofer would be listed as holder of Ofer Holdings shares held by Juli Ofer RIP, previously held by the estate administrators. For more information (including a condition for the amendment to the permit), see the Bank's Immediate Report dated August 23, 2018 (reference: 2018-01-078451).

Further to principles of the Outline, on November 8, 2018, a detailed agreement was signed by Ms. Liora Ofer (and a company wholly owned by her) an L.I.N. (Holdings) Ltd. "LIN"), a company affiliated with Mr. Eyal Ofer and Ofer Group companies, which governs the separation of their mutual holdings in Ofer Investments and in Meliseron, on the one hand, and in Bank Mizrahi on the other hand (hereinafter: "the Separation Agreement").

The Separation Agreement stipulates, *inter alia*, that upon the closing date and subject to fulfillment of the suspensive conditions stipulated in the Agreement: (a) LIN would acquire all Bank Mizrahi shares held by Ofer Investments and Ofer Holdings (for consideration equal to the company share price on February 1, 2018 (NIS 64.43), which is the date when negotiations of the financial principles for separation were first formulated, subject to adjustments for dividends distributed and/or to be distributed from that date through the closing date; (b) Ms. Liora Ofer, through a company wholly owned by her, would acquire all shares of Ofer Investments held by LIN (33.33%), so that after closing of the Agreement, Ms. Liora Ofer would hold 85% of the share capital of Ofer Investments and Mr. Doron Ofer would hols 15% of the share capital of Ofer Investments.

The outcome is, subject to closing of the Separation Agreement, that Ms. Liora Ofer (through a company wholly owned by her) would only control non-banking holdings (Ofer Investments and Meliseron) and would be separate from its holdings in the Bank, and LIN would only control the Bank and would separate from its holdings in the significant non-banking corporation (Ofer Investments and Meliseron).

Closing of the transactions subject of the Separation Agreement, scheduled for mid February 2019, is contingent on fulfillment of suspensive conditions, including approval by the Bank of Israel and a ruling by the Tax Authority with regard to certain aspects involved in execution of the Agreement, and the parties may terminate the Agreement prior to accepting these, or upon occurrence of a material change in circumstances relative to the current situation.

For more information see Immediate Report by the Bank dated November 8, 2018 (reference: 2018-01-106707).

Human Resources

Developments in labor relations

For more information about an economic arbitration between the Bank and the Mizrahi Tefahot Employees' Union, see Note 22.A.6. to the 2017 financial statements. Management believes, based on the opinion of legal counsel, that exposure with respect to this arbitration cannot be estimated.

Legislation and Supervisory Regulation of Bank Group Operations

Laws and regulations

European Union Markets in Financial Instruments Directive (MIFID 2)

European regulation applicable to European countries, became effective on January 3, 2018. The objective of this regulation is to create uniform directives in Europe, so as to increase trading transparency, market efficiency and investor protection in the European market. This regulation is not directly applicable to the Bank in Israel, but given the Bank's global operations and many interfaces with the European market, the Bank has been requested to arrange its contractual relations with European counterparts.

Credit Data Act, 2016

On April 12, 2016, the Credit Data Act was published and would become effective on October 12, 2018, unless postponed (but not later than April 12, 2020). In actual fact, the effective start date was postponed to April 12, 2019.

The act reforms the market for credit data service. When this act would become effective, the Credit Data Service Act, 2002 would be rescinded.

This act is relevant for the Bank, both due to the Bank being an "information source", required to provide credit data for Bank clients to a central information repository at the Bank of Israel and due to the Bank being a "credit data user", authorized to receive credit data from the credit bureaus.

In conformity with the Act, an information repository is being created at the Bank of Israel. A credit bureau would receive information from this repository and a credit provider may request a credit report, credit indication (definitive recommendation on whether to extend credit) and monitoring (monitoring of changes to the borrower's standing over the loan term) from the credit bureau. In order to obtain information, the credit provider must obtain explicit consent from the borrower (to obtain an indication, it is sufficient to inform the borrower). A client may ask the Bank of Israel to exclude their credit data from the repository or not to provide such data for compiling a credit report.

Over the preparation period for application of the Act (from publishing of the Act through its effective start date), the Bank provides information about clients to the repository being created, as instructed from time to time by the Bank of Israel.

Application of the Act is not expected to have any material impact on the Bank's financial statements.

Financial Services Supervision Act (Regulated Financial Services), 2016

The first stage of the Act became effective on June 1, 2017, stipulating mandatory licensing of credit service providers, in order to regulate the non-banking credit market.

As from June 1, 2017 it is not permitted to engage in Israel in "extending credit" (which is very widely defined) without a valid license, contingent on minimum capital, verification of good standing and supervision by the Supervisor of Capital Market, Insurance and Savings. The second stage of the Act concerns services involving financial assets and became effective on October 1, 2018; as from this date, it is no longer allowed to engage in "provision of service in financial assets" in Israel without a license pursuant to this Act. (Primarily refers to services of cashing / exchange, sale / transfer, management and safekeeping of financial assets. "Financial asset", for this matter, includes virtual currencies). The prohibitions stipulated in the Act would not apply to financial institutions, which are subject to licensing pursuant to other legislation. Regulations approved on July 24, 2018 exempt from mandatory licensing any supervised foreign banks in OECD countries, certain corporations providing non-consumer credit, credit co-operatives and other service providers. The Bank refuses account management to anyone required by law to hold a license who would fail to present such license.

On February 1, 2018, Amendment 4 to the Act became effective, stipulating that operation of a "credit brokerage system" constitutes a "financial service". As from this date, it is not possible to engage in operation of a credit brokerage system in Israel without an appropriate license. The Amendment stipulates, *inter alia*, that the license holder must manage lender and borrower funds transferred to the license holder in a separate trust account in favor of the lenders, with one of the entities listed in the Act, including with a banking corporation.

The Bank applies the Act.

Application of this Act has no impact on the Bank's financial statements.

Restructuring of the Stock Exchange

On April 6, 2017, the Securities Law (Amendment No. 63), 2017 was officially published, concerning restructuring of the Stock Exchange.

The Law puts in place the legal infrastructure for separation of ownership of the Tel Aviv Stock Exchange and the rights of Stock Exchange members to use its services, while removing the existing requirement for the Stock Exchange to distribute its earnings. It also stipulates restrictions on holding of shares of the Stock Exchange, requiring Stock Exchange members and banking corporations other than Stock Exchange members to sell any means of control they hold in excess of 5%. The Law further stipulates arrangements for allocation of share capital of the Stock Exchange among members thereof and sale of holdings in excess of 5%. In conformity with the Act, on June 29, 2017 the Stock Exchange filed a request to convene a General Meeting of Stock Exchange members, in order to approve an arrangement on changes to the Stock Exchange structure in conformity with Section 350 of the Companies Law (hereinafter: "the Arrangement"). In the proposed Arrangement, bylaws of the clearinghouses were amended so that clearinghouse members would not take part in its management and objections were made to the proposed text. The Court approved the motion to convene a General Meeting and ordered that should agreement be reached on the change to wording of a proposed resolution on amendment of the clearinghouse Bylaws, no further Court hearing would be required. Consequently, provisions with regard to amendment of clearinghouse Bylaws were revised to include claim and audit proceedings and have been approved by the Stock Exchange Audit Committee and Board of Directives (hereinafter: “the Amendment”). On August 10, the Arrangement was approved, as amended, by the General Meeting of Stock Exchange members; on August 16, a motion was filed with the Tel Aviv District Court for approval of the Agreement pursuant to Section 350 of the Companies Law On September 7, 2017, the Court approved the arrangement for changing the stock exchange structure.

On September 18, 2017, the Bank received a letter from the Tel Aviv Stock Exchange, containing a notice of share allotment to the Bank and registration of the Bank in the Stock Exchange's register of shareholders.

On December 28, 2017, the Tel Aviv Stock Exchange Ltd. ("Stock Exchange Company") contacted the Bank, which holds 6,640,416 shares or 6.640417% of the Stock Exchange share capital, as shareholder of the Stock Exchange, seeking proposals to acquire the shares held by the Bank. This solicitation was addressed to Stock Exchange members, whereby shareholders wishing to sell their shares in the Stock Exchange Company ("Offering Shareholder") are requested to issue an offer to the Stock Exchange Company for sale and transfer of Stock Exchange Company shares held thereby, at such terms and conditions as stated in the solicitation. According to the solicitation, the price for shares offered for sale was set at NIS five hundred (500) million divided by the total number of allotted shares of the Stock Exchange Company, multiplied by the number of shares offered for sale by the Offering Shareholder. On January 18, 2018, the Bank accepted the Stock Exchange’s offer to sell part (1.7%) of the Stock Exchange shares held by the Bank, such that after the sale, the Bank would hold 4,900,000 shares, or 4.9% of the Stock Exchange share capital. The expected consideration for these shares amounts to NIS 8.7 million. On April 16, 2018. the Bank was informed by the stock exchange member that the Bank's aforementioned proposed sale of shares has been accepted. According to this notice, the shares would be sold and transferred to one or to multiple buyers ("the Buyer"). The consideration payable to the Bank would be higher than indicated in the offer but, in conformity with provisions of the Securities Act on this matter, the difference between the consideration paid and the price indicated in the offer would be transferred to the stock exchange member. Closing of the transaction is contingent on obtaining regulatory approvals and closing is scheduled for June 19, 2018 ("the Effective Date"). Should the approvals not be obtained or the closing not take place by the Effective Date, the transaction would be terminated unless otherwise agreed by the Buyer, the Stock Exchange and the Bank.

On June 12, 2018, the Stock Exchange contacted the Bank, seeking to delay the effective date to August 31, 2018, with all other terms and conditions of the transaction remaining unchanged; the Bank agreed to this request by the Stock Exchange.

On August 27, 2018, the Bank received notice from the Stock Exchange, whereby the closing of the transaction for sale of Stock Exchange shares took place and the proceeds for the shares, amounting to NIS 8.7 million, were deposited into the Bank's account.

The Non-banking Loans Arrangement Law (Amendment 5), 2017

On August 6, 2017, the Law, known as the "Fair Credit Law", was published.
The law applies to credit extended to individuals from banking corporations, settlement providers, insurers and management companies.

The Law provides a uniform maximum interest rate for all lending entities and applies to:

- Loans in NIS: The Bank of Israel interest rate plus 15%.
- Loans in foreign currency: One-year LIBOR interest rate plus 15%.
- Arrears interest: Maximum interest rate multiplied by 1.2.

In the third year after implementation of the Law, the Finance Minister will examine the average interest rate for credit extended by banks and will be authorized to reduce the maximum borrowing cost.

The following were excluded from the scope of the uniform maximum interest rate:

- Short-term loans (up to 3 months) – capped at a maximum of 5% over the maximum interest rate.
- Transactions involving discounting a note for business (non-personal) use.
- Loans subject to an interest rate decree, pursuant to the Interest Law (such as arrears interest for housing loans or CPI-linked loans).

The provisions of the Law would apply only to new loans. The effective start date of the Law is November 6, 2018. However, the effective start date of this Law is expected to be postponed by six months.
The Bank is preparing to implement the Act. Application of the Act is not expected to have any material impact on the Bank's financial statements.

Reduction of Cash Usage Act, 2018

On March 18, 2018, the Reduction of Cash Usage Act, 2018 was made public.
The Act is designed to reduce the use of cash in transactions – by both payer and payee.
The Act also governs payment by check. The Act stipulates certain restrictions on the use of cash and checks.
The Act will become effective on January 1, 2019, except for certain sections effective as from July 1, 2019.
Pursuant to the Act, the Supervisor of Banks may impose monetary sanctions on banking corporations that pay a check in breach of any of the restrictions applicable to such check pursuant to Addendum II.
The Supervision of Banks may start imposing sanctions as from July 1, 2019.

The Bank is preparing to implement the Act.

Insolvency and Financial Rehabilitation Act, 2018

The Insolvency and Financial Rehabilitation Act, 2018 (hereinafter: "the Act") was officially published on March 15, 2018. The Act shall be effective 18 months after publication.

The Act provides a codification of insolvency laws and comprehensively encompasses all insolvency laws for individuals and corporations, eliminating the old ordinances and arrangements provided for in the Companies Law.

The Act has three major goals:

- Financial rehabilitation of the debtor. Regard credit default and insolvency as a financial mishap, rather than a moral flaw.
- Increase in debt percentage to be repaid to creditors.
- Increase certainty and stability of the Law, through shorter proceedings and reduced bureaucratic burden.

The Act stipulates changes to various matters, such as: Threshold for launch of insolvency proceedings, duration of insolvency proceedings, linkage and interest, floating lien, mutual debt offsetting, the position of a financing provider for operations of a company under stay of proceedings, liability of Board members and managers and negotiations of debt re-structuring.

The Bank believes that the Act would affect the extension of credit and the repayment rate upon default. The Bank is preparing to implement provisions of the Act.

Prevention of Proliferation and Financing of Weapons of Mass Destruction, 2018

The Act was made public on March 11, 2018 and became effective as from said date. The Act is designed to prevent proliferation and financing of weapons of mass destruction, including by way of sanctions imposed by the Security Council on entities involved in proliferation, financing or assisting the proliferation and financing of weapons of mass destruction. New violations were specified, which are also violations of the AML Act.

The Act imposes duties and prohibitions on banks as well and imposes criminal sanctions for violation. The duties include: prohibition of any economic transactions with any proclaimed or affiliated entity (as these terms are defined in the Act) and mandatory reporting of any such activity discovered. The Act imposes personal liability on officers of the company, including the officer responsible for implementation of AML duties, who is also tasked with implementation of the Act. The Bank applies the Act.

Economic Plan Act (Legislation Amendments to Implement Economic Policy for 2019 Budget Year), 2018

On March 22, 2018, the Act was made public, including multiple legislative amendments. These include amendment of the Banking Act (Customer Service), 1981. The amendment to the Act involves client transition from one bank to another, and would become effective on March 22, 2021 unless postponed (two allowed six-month postponements).
According to the amendment to the Act, should a client (individual or corporation of the type specified in regulations by the Governor of the Bank of Israel) wish to transition to another bank, the client's original bank and the receiving bank shall take all required actions to allow the client to transition their financial activity to the receiving bank through an online, convenient, reliable, secure process at no cost to the client for such transfer of their financial activity, within seven business days or by another date specified by the Governor of the Bank of Israel with consent of the Minister of Finance.
Transitional provision (for the period from publication of the amendment to the Act through its effective start date): Should a client ask to close their account with their bank, the bank shall not rescind, merely due to the closing request, any benefits and discounts to which the client was eligible in managing their account, sooner than prescribed in an agreement between the bank and the client and, unless otherwise stipulated, for at least three months.
Application of the amendment to the Act is not expected to have any material impact on the Bank's financial statements.

Anti-Trust Rules (Class exemption for syndicated loan arrangements) (Interim directive), 2018

On May 9, 2018, the Anti-Trust Supervisor issued the following rules, which exempt any syndicated loan arrangement one of the parties to which is a banking corporation, institutional investor or settlement provider, as defined in the rules, or similar entities incorporated outside Israel, from the requirement to obtain approval of the arrangement by the Anti-Trust Court, upon fulfilling various conditions, including the following: The syndication agent approached other lenders with prior written consent of the borrower; the borrower may negotiate with the other lenders the terms and conditions of credit in the syndicated loan, other than through the syndication agent; one of the following conditions has been fulfilled: There is at least one potential syndication agent that is not party to the arrangement; all potential syndication agents are party to the arrangement but unless they all participate, the borrower may not obtain credit terms similar to those offered in the arrangement; all potential syndication agents are party to the arrangement but the aggregate share of lenders who are potential syndication agents is less than 20%; one of the following conditions has been fulfilled: The arrangement includes up to one major lender (defined as a lender whose share of credit extended to the business sector in Israel exceeds 20%); the arrangement includes more than one major lender, but up to one major lender serves as syndication agent, and unless they all participate, the borrower may not obtain credit terms similar to those offered in the arrangement; the arrangement includes more than one major lender, but the syndication agent is not a major lender and the aggregate share of major lenders is less than 20%; the syndicated loan arrangement is not essentially designed to reduce or avoid competition; the syndicated loan arrangement includes no restrictions that are not required for realizing the essence thereof.

The rules are effective for three years after publication.

Note that the rules rescind the letter by the Anti-Trust Supervisor dated December 28, 2017, to managers of banking corporations and institutional investors, about consortium arrangements and about the Anti-Trust Supervisor not enforcing provisions of the Anti-Trust Act, 1988 on any credit consortium that complies with conditions listed in the letter, including documentation of all meetings and contacts between the parties to the arrangement prior to joining and reporting of such documentation to the Anti-Trust Supervisor at the end of every year.
Application of these rules has no material impact on the Bank's financial statements.

Publication by the Anti-Trust Authority – transition to daily credit card settlement

In April 2018, the Anti-Trust Authority announced that credit card companies would be required to transition to daily credit card settlement as from July 2021. This is in conjunction with conditions for approval of the restrictive agreement for cross-settlement between credit card companies.

Application of this requirement is not expected to have any material impact on the Bank's financial statements.

The Sheltered Housing Act (Amendment), 2018

On July 25, 2018, an amendment to the Sheltered Housing Act was published, concerning several matters:
– Amendment of sections securing deposits paid by tenants in sheltered housing to the licensed operator;
– Additional requirements for financial stability of the holder of a sheltered housing operating license, as a condition for being licensed.
– Creation of a fund for financing expenses in case of insolvency of the license holder.

Key changes made to how deposits are secured are as follows:
– The collateral section was made cogent and may not be waived nor made conditional.
– Stipulating that during construction, the only collateral permitted is bank guarantee or insurance policy.
– Added collateral - option to record a warning notice for a two-year period.
– Recording of collateral in favor of the Trustee and provisions governing this matter.

Application of this requirement is not expected to have any material impact on the Bank's financial statements.

Amendment 28 to the Mutual Investment Act, 1994

On August 3, 2017, Amendment 28 to the Mutual Investment Act, 1994 was officially published (hereinafter: "Mutual Investment Act") and became effective, along with regulations based there upon, in early October 2018.

The Amendment will become gradually effective in multiple steps through December 20, 2018. Amendment 28 is designed to regulate ETFs under the Mutual Investment Act, whereby ETNs would become a mutual fund that is a closed tracking mutual fund – ETF. The Amendment defines an ETF as a tracking fund (a fund designed, by its investment policy, to achieve results based on the change in prices of an index or commodity), that is a closed fund and specified to be an ETF in the Fund Agreement.

This legislation included new regulations issued, existing regulations amended and adjustments to the stock exchange bylaws.

In conjunction with Amendment 28, ETFs are subject to various restrictions on investment rate and holding of various assets, hence this Amendment has material impact on the mix of bank deposits of such entities.

The Bank is preparing to address these effects in timely manner and applies a well-ordered work plan to reinforce and maintain liquidity ratios.

Supervisor of Banks

Circulars and Public Reporting Regulations

Debt collection proceedings

On February 1, 2017, the Bank of Israel issued Proper Banking Conduct Directive 450 "Debt collection proceedings", designed to govern the actions to be taken in order to increase fairness and transparency in debt collection from clients who fail to repay their loan on time and when handling debt collection prior to and during any legal proceedings. The effective start date of this directive is one year after its issue date. The Bank applies the directive as from February 1, 2018.

Prohibition of money laundering

On January 1, 2018, Proper Banking Conduct Directive 411 "AML and Terror Financing Risk Management" became effective, which integrates supervisory circulars and letters on this matter issued since the most recent extensive revision of this directive. The directive was expanded and compiled as a risks management directive, including identification, assessment and operative mitigation steps. The key amendments to the directive include: Explanation of the risk-based approach, clarification of definitions, expanded description of the roles of corporate governance functions, details of items on which the bank is to rely when preparing the risk assessment and details of the information database to be gathered by the bank from internal and external sources in order to formulate the risk assessment. The Bank is applying this directive.

Reduced cross commission in deferred and immediate charge transactions using credit cards

On February 25, 2018, the Bank of Israel issued an outline designed to reduce the cross commission in deferred charge transactions using charge cards by 30%, from 0.7% of transaction amount today, to 0.5% in January 2023. This change will take place in 5 stages: First in January 2019 (0.6%); second in January 2020 (0.575%); third in January 2021 (0.55%); fourth in January 2022 (0.525%); and final in January 2023.

The Bank of Israel also decided to reduce the cross commission for immediate charge transactions using credit cards, from 0.3% to 0.25% in January 2023. This change will take place in 2 stages: First in January 2021 (0.275%) and second in January 2023.

Application of the reduced commission is not expected to have any material impact on the Bank's financial statements.

Capital measurement and adequacy

On March 15, 2018, the Supervisor of Banks issued a circular revising Proper Banking Conduct Directive 203 "Measurement and capital adequacy – Credit risk" with regard to risk weighting of loans with LTV ratio higher than 60%. The circular stipulated that loans with LTV ratio higher than 60% would be assigned a 60% risk weighting, compared to 75% prior to this revision.

The revision is designed to provide relief to young couples and second home buyers who purchase apartments with a high LTV ratio.

The revision is effective as from the circular issue date. The Bank is applying this directive.

Application of this directive reduces risk assets due to origination of new housing loans with LTV ratio higher than 60%, originated as from the circular issue date.

Banking corporation operations with clients who are regulated financial service providers and offering coordinators

On April 15, 2018, the Bank of Israel issued a circular designed to specify guidelines to allow banking corporations to provide service and manage risk associated with their operations with regulated financial entities (entities supervised by the Capital Market Authority, in conformity with the Supervision Act). This is further to the Financial Services Supervision Act (Regulated Financial Services), 2016 which is designed to provide for comprehensive and coherent regulation, in as much as possible, of the entire financial services market and entities operating in this market.

In conformity with the circular, the Bank must specify policy and procedures for opening and management of accounts for regulated financial entities so as to reflect, *inter alia*, a risk-based approach.

The Bank is preparing to implement the circular.

Application of this circular has no effect on the Bank's financial statements.

Management of cyber risk in the supply chain

In April 2018, the Bank of Israel issued Proper Banking Conduct Directive 363 "Management of cyber risk in the supply chain", designed to clarify the bank's responsibility for maintaining secure work procedures with material external suppliers and the bank's obligations to appropriately manage cyber risk in operations of such suppliers in their premises, in bank premises and in bank – supplier interfaces. Key provisions of the directive shall become effective 6 months after its publication.

The Bank is applying this directive.

Application of this directive has no effect on the Bank's financial statements.

Transactions to acquire debtor debt from commercial clients

On May 28, 2018, the Bank of Israel issued a letter about transactions to acquire debtor debt from commercial clients, which lists highlights and bank commitment to map and to manage the risk due to each debt acquisition transaction and to address aspects of credit management, financial reporting and compliance arising from terms and conditions of such transaction. The Bank is required to conduct a comprehensive Internal Audit with regard to appropriate handling and must provide the audit report to the Supervisor no later than the end of June 2019.

Application of this directive has no material impact on the Bank's financial statements.

Debit cards

On July 2, 2018, the Bank of Israel issued an update circular to Proper Banking Conduct Directive 470 concerning "Debit cards". According to this circular, as from February 1, 2019, banks would transfer to the debit card issuer operator any funds with respect to transactions in cards issued by it on the date when the operator is required to transfer these funds to the settlement provider, regardless of the client debit date or the identity of the settlement provider. It was further stipulated that new operating agreements between issuer and operator, or similar agreements materially amended and signed by January 2022, would be sent to the Supervisor.

The Bank is preparing to implement the circular.

Application of this circular has no material impact on the Bank's financial statements.

Restrictions on indebtedness of borrower and borrower group

On August 1, 2018, the Bank of Israel issued an update to Proper Banking Conduct Directive 313. In conformity with this update, the exposure of a banking corporation to any "borrower group – credit card issuer", net of the amounts allowed by the directive, may not exceed 15% of the banking corporation's capital, similar to the restriction applicable to "borrower group – banking".

Moreover, the indebtedness of any "borrower group – credit card issuer" shall be included in the aggregate restriction for major borrowers (borrowers whose indebtedness exceeds 10% of the banking corporation's capital. Furthermore, the exception for indebtedness of any "group of borrowers – banking" to a credit card company with regard to the aggregate restriction for major borrowers has been eliminated.

For five years after the publication date of the update to this directive, indebtedness of any "group of borrowers – banking to a credit card company" shall not be subject to the restriction for "group of borrowers – banking" and shall be excluded from the aggregate restriction for major borrowers. All other updates to the directive are effective as from the issue date of the directive.

Application of the update has no material impact on the financial statements.

Streamlining operations of the banking system in Israel – extension of validity of the Supervisor's letters

On September 16, 2018, the Supervisor of Banks issued a letter with regard to streamlining operations of the banking system in Israel - extension of validity of the Supervisor's letters. According to the letter, in order to allow banking corporations to implement further streamlining plans, the validity of the letters dated January 12, 2016 and June 13, 2017 would be extended through December 31, 2017.

For more information about the streamlining plans approved by the Bank Board of Directors on December 27, 2016 and on June 19, 2017 see Notes 22 and 25 to the 2017 financial statements.

Draft Proper Banking Conduct Directive 203 with regard to capital adequacy

On November 1, 2018, the Supervisor of Banks issued a draft amendment of Proper Banking Conduct Directive 203 "Capital Adequacy".

The draft includes a revision of the Credit Conversion Factor (CCF) applied to guarantees to secure investments by apartment buyers pursuant to the Sale Act. According to this revision, the CCF for Sales Act guarantees with respect to apartments yet to be delivered would be 30% (instead of 50% currently). The Bank is preparing to apply this revised directive.

Implementation of this directive will be reflected in the financial statements for 2018.

The Bank believes that application of this directive would result in a decrease in risk assets amounting to NIS 950 million (an increase by 0.07% in Tier I capital ratio).

Bank's credit rating

On January 21, 2018, S&P GLOBAL RATINGS MAALOT LTD (hereinafter: "Ma'alot") confirmed the Bank's issuer rating of ilAAA with a Stable rating outlook.
The rating of subordinated notes issued by Tefahot Issuance is one rank below the issuer rating, i.e. rated ilAA+. These subordinated notes qualify as Tier II capital under transitional provisions of Basel III.
The Bank's subordinated capital notes, which qualify as Tier II equity in conformity with transitional provisions of Basel III, are rated ilA+.
The contingent subordinated notes with contractual loss-absorption provisions (CoCo), which qualify as Tier II equity in conformity with provisions of Basel III, are rated ilAA- with Stable rating outlook.
On September 6, 2018, Midroog Ltd. (created in partnership with Moody's International, which owns a 51% equity stake) (hereinafter: "Midroog") confirmed the Bank's ratings. Long-term deposits and senior debt of the Bank are rated Aaa.il / Stable outlook. Subordinated notes (Lower Tier II capital) are rated Aa1.il / Stable outlook and subordinated capital notes (Upper Tier II capital) are rated Aa2.il / Stable outlook.
contingent subordinated notes with contractual loss-absorption provisions (CoCo), which qualify as Tier II equity in conformity with provisions of Basel III, are rated Aa3.il / Stable outlook.

On June 30, 2015, Moody's rating agency confirmed the Bank's long-term deposit rating at A2 and raised the outlook from Negative to Stable.

Operating segments

For more information about supervisory operating segments, see chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" of the 2017 financial statements.

Addendums to condensed quarterly financial statements

Addendum I – Interest Revenue and Expense Rates – of the Bank and its Subsidiaries[(1)]

Reported amounts (NIS in millions)

A. Average balances and interest rates – assets

	For the three months ended September 30, 2018			For the three months ended September 30, 2017		
	Average balance[(2)]	Interest revenues	Revenues rate	Average balance[(2)]	Interest revenues	Revenues rate
			In %			In %
Interest-bearing assets						
Loans to the public[(3)]						
In Israel	184,261	[(7)]1,686	3.71	172,943	[(7)]1,190	2.78
Outside of Israel	3,298	57	7.09	3,107	45	5.92
Total	187,559	1,743	3.77	176,050	1,235	2.84
Loans to the Government						
In Israel	169	1	2.39	201	1	2.00
Outside of Israel	301	7	9.63	128	2	6.40
Total	470	8	6.98	329	3	3.70
Deposits with banks						
In Israel	1,253	1	0.32	982	5	2.05
Outside of Israel	144	1	2.81	325	1	1.24
Total	1,397	2	0.57	1,307	6	1.85
Deposits with central banks						
In Israel	34,435	7	0.08	34,768	7	0.08
Outside of Israel	5,055	25	1.99	4,812	15	1.25
Total	39,490	32	0.32	39,580	22	0.22
Securities loaned or purchased in resale agreements						
In Israel	142	-	-	22	-	-
Outside of Israel	-	-	-	-	-	-
Total	142	-	-	22	-	-
Debentures held to maturity and available for sale[(4)]						
In Israel	8,800	39	1.78	8,802	28	1.28
Outside of Israel	868	6	2.79	1,048	5	1.92
Total	9,668	45	1.87	9,850	33	1.35
Debentures held for trading[(5)]						
In Israel	252	2	3.21	178	1	2.27
Outside of Israel	-	-	-	-	-	-
Total	252	2	3.21	178	1	2.27
Total interest-bearing assets	238,978	1,832	3.10	227,316	1,300	2.31
Receivables for credit card operations	3,533			3,299		
Other non-interest bearing assets[(6)]	5,097			5,555		
Total assets	247,608			236,170		
Total interest-bearing assets attributable to operations outside of Israel	9,666	96	4.03	9,420	68	2.92

Interest Revenues and Expenses Rates - of the Bank and its Subsidiaries[1] – Continued

Reported amounts (NIS in millions)

A. Average balances and interest rates – assets

	For the nine months ended September 30, 2018			For the nine months ended September 30, 2017		
	Average balance[2]	Interest revenues	Revenue rate	Average balance[2]	Interest revenues	Revenues rate
			In %			In %
Interest-bearing assets						
Loans to the public[3]						
In Israel	180,416	[7]5,130	3.81	170,273	[7]4,272	3.36
Outside of Israel	3,267	152	6.25	3,055	118	5.18
Total	183,683	5,282	3.85	173,328	4,390	3.39
Loans to the Government						
In Israel	189	3	2.12	194	3	2.07
Outside of Israel	285	15	7.08	130	6	6.20
Total	474	18	5.10	324	9	3.72
Deposits with banks						
In Israel	1,058	3	0.38	857	7	1.09
Outside of Israel	228	2	1.17	339	4	1.58
Total	1,286	5	0.52	1,196	11	1.23
Deposits with central banks						
In Israel	36,478	22	0.08	35,017	23	0.09
Outside of Israel	3,605	49	1.82	4,316	33	1.02
Total	40,083	71	0.24	39,333	56	0.19
Securities loaned or purchased in resale agreements						
In Israel	88	-	-	55	-	-
Outside of Israel	-	-	-	-	-	-
Total	88	-	-	55	-	-
Debentures held to maturity and available for sale[4]						
In Israel	8,112	123	2.03	9,540	89	1.25
Outside of Israel	869	16	2.46	1,057	13	1.64
Total	8,981	139	2.07	10,597	102	1.29
Debentures held for trading[5]						
In Israel	406	3	0.99	122	3	3.29
Outside of Israel	-	-	-	-	-	-
Total	406	3	0.99	122	3	3.29
Total interest-bearing assets	235,001	5,518	3.14	224,955	4,571	2.72
Receivables for credit card operations	3,448			3,206		
Other non-interest bearing assets[6]	4,856			5,337		
Total assets	243,305			233,498		
Total interest-bearing assets attributable to operations outside of Israel	8,254	234	3.80	8,897	174	2.62

Interest Revenues and Expenses Rates – of the Bank and its Subsidiaries[1] – continued

Reported amounts (NIS in millions)

A. Average balances and interest rates – liabilities and equity

	For the three months ended September 30, 2018			For the three months ended September 30, 2017		
	Average balance[2]	Interest expenses	Expense rate	Average balance[2]	Interest expenses	Expense rate
			In %			In %
Interest-bearing liabilities						
Deposits from the public						
In Israel						
On-call	21,887	16	0.29	20,901	1	0.02
Term deposits	119,109	372	1.26	117,343	219	0.75
Outside of Israel						
On-call	564	-	-	514	-	-
Term deposits	5,072	24	1.91	4,570	13	1.14
Total	146,632	412	1.13	143,328	233	0.65
Deposits from the Government						
In Israel	46	-	-	58	-	-
Outside of Israel	-	-	-	-	-	-
Total	46	-	-	58	-	-
Deposits from banks						
In Israel	1,149	3	1.05	1,515	3	0.79
Outside of Israel	2	-	-	-	-	-
Total	1,151	3	1.05	1,515	3	0.79
Securities loaned or sold in conjunction with repurchase agreements						
In Israel	-	-	-	-	-	-
Outside of Israel	-	-	-	-	-	-
Total	-	-	-	-	-	-
Debentures and subordinated notes						
In Israel	30,151	180	2.41	27,995	53	0.76
Outside of Israel	-	-	-	-	-	-
Total	30,151	180	2.41	27,995	53	0.76
Other liabilities						
In Israel	187	1	2.16	56	-	-
Outside of Israel	-	-	-	-	-	-
Total	187	1	2.16	56	-	-
Total interest-bearing liabilities	178,167	596	1.34	172,952	289	0.67
Non-interest bearing deposits from the public	44,855			40,066		
Payables for credit card transactions	3,533			3,299		
Other non-interest bearing liabilities[8]	6,057			5,842		
Total liabilities	232,612			222,159		
Total equity resources	14,996			14,011		
Total liabilities and equity resources	247,608			236,170		
Interest margin			1.76			1.64
Net return[9] on interest-bearing assets						
In Israel	229,312	1,164	2.05	217,896	956	1.77
Outside of Israel	9,666	72	3.01	9,420	55	2.36
Total	238,978	1,236	2.08	227,316	1,011	1.79
Total interest-bearing liabilities attributable to operations outside of Israel	5,638	24	1.71	5,084	13	1.03

See remarks below.

Interest Revenues and Expenses Rates – of the Bank and its Subsidiaries[1] – continued

Reported amounts (NIS in millions)

A. Average balances and interest rates – liabilities and equity

	For the nine months ended September 30, 2018			For the nine months ended September 30, 2017		
	Average balance[2]	Interest expenses	Expense rate	Average balance[2]	Interest expenses	Expense rate
			In %			In %
Interest-bearing liabilities						
Deposits from the public						
In Israel						
On-call	21,887	37	0.23	20,044	3	0.02
Term deposits	115,045	1,120	1.30	114,747	873	1.02
Outside of Israel						
On-call	564	-	-	595	-	-
Term deposits	4,856	59	1.62	4,509	33	0.98
Total	142,352	1,216	1.14	139,895	909	0.87
Deposits from the Government						
In Israel	49	-	-	55	-	-
Outside of Israel	-	-	-	-	-	-
Total	49	-	-	55	-	-
Deposits from banks						
In Israel	1,241	7	0.75	1,513	9	0.79
Outside of Israel	1	-	-	2	-	-
Total	1,242	7	0.75	1,515	9	0.79
Securities loaned or sold in conjunction with repurchase agreements						
In Israel	-	-	-	-	-	-
Outside of Israel	-	-	-	-	-	-
Total	-	-	-	-	-	-
Debentures and subordinated notes						
In Israel	30,114	631	2.80	27,865	440	2.11
Outside of Israel	-	-	-	-	-	-
Total	30,114	631	2.80	27,865	440	2.11
Other liabilities						
In Israel	112	2	2.39	89	2	3.01
Outside of Israel	-	-	-	-	-	-
Total	112	2	2.39	89	2	3.01
Total interest-bearing liabilities	173,869	1,856	1.43	169,419	1,360	1.07
Non-interest bearing deposits from the public	45,442			41,016		
Payables for credit card transactions	3,448			3,206		
Other non-interest bearing liabilities[8]	5,797			6,120		
Total liabilities	228,556			219,761		
Total equity resources	14,749			13,737		
Total liabilities and equity resources	243,305			233,498		
Interest margin			1.65			1.07
Net return[9] on interest-bearing assets						
In Israel	226,747	3,487	2.06	216,058	3,070	1.90
Outside of Israel	8,254	175	2.84	8,897	141	2.12
Total	235,001	3,662	2.08	224,955	3,211	1.91
Total interest-bearing liabilities attributable to operations outside of Israel	5,421	59	1.45	5,106	33	0.86

Interest Revenues and Expenses Rates – of the Bank and its Subsidiaries[(1)] – continued

Reported amounts (NIS in millions)

B. Average balances and interest rates – additional information about interest-bearing assets and liabilities attributed to operations in Israel

	For the three months ended September 30, 2018			For the three months ended September 30, 2017		
	Average balance[(2)]	Interest revenues (expenses)	Revenue (expense) rate	Average balance[(2)]	Interest revenues (expenses)	Revenue (expense) rate
			In %			In %
Israeli currency – non-linked						
Total interest-bearing assets	161,296	1,143	2.86	152,657	1,040	2.75
Total interest-bearing liabilities	120,160	(272)	(0.91)	113,258	(222)	(0.79)
Interest margin			1.95			1.96
Israeli currency – linked to the CPI						
Total interest-bearing assets	52,852	470	3.60	51,722	106	0.82
Total interest-bearing liabilities	35,501	(207)	(2.35)	36,745	6	0.07
Interest margin			1.25			0.89
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	15,164	123	3.28	13,517	86	2.57
Total interest-bearing liabilities	16,868	(93)	(2.22)	17,865	(60)	(1.35)
Interest margin			1.06			1.22
Total – operations in Israel						
Total interest-bearing assets	229,312	1,736	3.06	217,896	1,232	2.28
Total interest-bearing liabilities	172,529	(572)	(1.33)	167,868	(276)	(0.66)
Interest margin			1.73			1.62

See remarks below.

Interest Revenues and Expenses Rates – of the Bank and its Subsidiaries[1] – continued

Reported amounts (NIS in millions)

B. Average balances and interest rates – additional information about interest-bearing assets and liabilities attributed to operations in Israel

	For the nine months ended September 30, 2018			For the nine months ended September 30, 2017		
	Average balance[2]	Interest revenues (expenses)	Revenue (expense) rate	Average balance[2]	Interest revenues (expenses)	Revenue (expense) rate
			In %			In %
Israeli currency – non-linked						
Total interest-bearing assets	160,884	3,292	2.74	152,728	3,022	2.65
Total interest-bearing liabilities	116,583	(710)	(0.81)	108,815	(569)	(0.70)
Interest margin			1.93			1.95
Israeli currency – linked to the CPI						
Total interest-bearing assets	52,222	1,665	4.27	50,849	1,130	2.97
Total interest-bearing liabilities	35,868	(845)	(3.15)	37,964	(608)	(2.14)
Interest margin			1.12			0.83
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	13,641	327	3.21	12,481	245	2.63
Total interest-bearing liabilities	15,997	(242)	(2.02)	17,534	(150)	(1.14)
Interest margin			1.19			1.49
Total – operations in Israel						
Total interest-bearing assets	226,747	5,284	3.12	216,058	4,397	2.72
Total interest-bearing liabilities	168,448	(1,797)	(1.42)	164,313	(1,327)	(1.08)
Interest margin			1.70			1.64

Interest Revenues and Expenses Rates – of the Bank and its Subsidiaries[1] – continued

Reported amounts (NIS in millions)

C. Analysis of change in interest revenues and expenses

	For the three months ended September 30, 2018 compared to the three months ended September 30, 2017 Increase (decrease) due to change[10]			For the nine months ended September 30, 2018 – compared to the nine months ended September 30, 2017 Increase (decrease) due to change[10]		
	Quantity	Price	Net change	Quantity	Price	Net change
Interest-bearing assets						
Loans to the public						
In Israel	104	392	496	288	570	858
Outside of Israel	3	9	12	10	24	34
Total	107	401	508	298	594	892
Other interest-bearing assets						
In Israel	-	8	8	2	27	29
Outside of Israel	-	16	16	(14)	40	26
Total	-	24	24	(12)	67	55
Total interest revenues	107	425	532	286	661	947
Interest-bearing liabilities						
Deposits from the public						
In Israel	8	160	168	18	263	281
Outside of Israel	2	9	11	3	23	26
Total	10	169	179	21	286	307
Other interest-bearing liabilities						
In Israel	11	117	128	40	149	189
Outside of Israel	-	-	-	-	-	-
Total	11	117	128	40	149	189
Total interest expenses	21	286	307	61	435	496

(1) Information in these tables is after effect of hedging l derivative instruments.
(2) Based on balances at start of the months (in Israeli currency, non-linked segment – based on daily balances).
(3) Before deduction of average balance sheet balance of provisions for credit losses. Includes impaired debt not accruing interest revenues.
(4) From (to) the average balance of debentures available for sale, for the three-month periods ended September 30, 2018 and September 30, 2017, and for the nine-month periods ended September 30, 2018 and September 30, 2017, we deducted (added) the average balance of unrealized gains (losses) from adjustment to fair value of debentures available for sale, included in equity under Cumulative Other Comprehensive Income, under "Adjustments with respect to presentation of securities available for sale at fair value", amounting to NIS (104) million, NIS 5 million, NIS (78) million and NIS (16) million, , respectively.
(5) From the average balance of debentures held for trading, for the three-month periods ended September 30, 2018 and September 30, 2017, and for the nine-month periods ended September 30, 2018 and September 30, 2017, we deducted / added the average balance of unrealized gain from adjustment to fair value of debentures held for trading amounting to NIS (4) million, NIS (1) million, NIS (3) million and NIS (1) million, respectively.
(6) Includes derivative instruments, other non-interest bearing assets, net of provision for credit losses.
(7) Commissions amounting to NIS 75 million, NIS 61 million, NIS 202 million and NIS 166 million were included in interest revenues for the three-month periods ended September 30, 2018 and September 30, 2017 and for the nine-month periods ended September 30, 2018 and September 30, 2017, respectively.
(8) Includes derivative instruments.
(9) Net return – net interest revenues divided into total interest-bearing assets.
(10) The change attributed to change in quantity was calculated by multiplying the new price by the change in quantity. The change attributed to change in price was calculated by multiplying the old quantity by the change in price.

Glossary and index of terms included on the financial statements

Below is a summary of terms included on the financial statements:

1. Terms with regard to risks management at the Bank and to capital adequacy

B	**Basel – Basel II / Basel III** – Framework for assessment of capital adequacy and risk management, issued by the Basel Committee on Bank Supervision.
C	**CVA** - Credit Valuation Adjustment – CVA is the component of the fair value of a derivative, which accounts for the credit risk of the counter-party to the transaction. CVA risk is the risk of loss due to mark-to-market with respect to expected counter-party risk for OTC derivatives. This means – loss due to impairment of fair value of derivatives, due to an increase in counter-party credit risk (such as: lower rating).
	Counter-party credit risk – The risk that the other party to a transaction would be in default before final settlement of cash flows in the transaction.
E	**EVE – Economic Value of Equity** – The economic value approach to analysis and estimation of the effect of changes in interest rates on the fair value of assets, liabilities and off-balance sheet positions of the Bank.
I	**ICAAP –** Internal Capital Adequacy Assessment Process by the Bank. This process includes, inter alia, setting capital targets, capital planning processes and review of capital status under various stress scenarios. This process is part of Pillar 2 of the Basel II directive.
L	**Loan To Value Ratio (LTV)** – The ratio between the approved facility when extended and the asset value.
M	**Minimum capital ratio** – This ratio reflects the minimum supervisory capital requirements which the Bank is required to maintain in conformity with Proper Banking Conduct Directive 201.
P	**Pillar 2** – The second pillar of the Basel II project, refers to the Supervisory Review Process. This part consists of the following basic principles: The Bank shall conduct the ICAAP process, as defined above. The Supervisor shall conduct a process to assess the ICAAP process conducted by the Bank, to review the Bank's capacity to monitor and achieve supervisory capital ratios. The Bank is expected to operate above the specified minimum capital ratios.
	Pillar 3 – The third pillar of the Basel II project, designed to promote market discipline by developing a set of disclosure requirements, which would allow market participants to assess the capital, risk exposure and risk assessment processes – and use these to assess the Bank's capital adequacy.
R	**Risks document –** A document which concisely presents the Bank's risk profile, in order to allow the Board of Directors to monitor action taken by management and to ensure that such action is in line with the risk appetite and with the risks management framework approved by the Board of Directors. The Risks Document is compiled and presented to the Board of Directors quarterly.
	Risk assets – These consist of credit risk, operational risk and market risk, calculated using the standard approach as stated in Proper Banking Conduct Directives 201-211.
S	**Standard approach –** An approach used to calculate the required capital with respect to credit risk, market risk or operational risk. Calculation of capital allocation is based on a formula, which is based on supervisory assessment components which have been specified by the Supervisor of Banks.
	Supervisory capital (total capital) – Supervisory capital consists of two tiers: Tier I capital, which includes Tier I shareholders' equity and additional Tier I capital. Tier II equity: As defined in Proper Banking Conduct Directive 202 "Measurement and capital adequacy – supervisory capital".
	Subordinated notes – Notes whose rights are subordinated to claims by other Bank creditors, except for other obligations of the same type.
	Stress tests – A title for various methods used to assess the financial standing of a banking corporation under a n extreme scenario.
V	**VAR** – A model used to estimate overall exposure to diverse market risk factors. The VaR (Value at Risk) obtained by the model is a statistical estimate of the maximum expected loss for the Bank due to materialization of market risks factors in a given time period at a pre-determined statistical confidence level.

2. Terms with regard to banking and finance

A	**Average effective duration** – The average term to maturity of debentures. Measured in years, by weighting principal and interest payments for the debenture over its term to final maturity. The average effective duration of a debenture reflects the financial instrument's sensitivity to changes in interest rates. Average effective duration is calculated as the ratio between the weighted average debenture payouts to its price.
	Active market – A market where transactions involving an asset or liability take place regularly and in sufficient volume, so as to regularly provide information about pricing of assets and liabilities.
D	**Debentures** – Securities which are obligations by the issuer to pay to the debenture holder the principal issued plus interest, on specified dates or upon realization of a specified condition.
	Debt whose collection is contingent on collateral – Impaired debt whose repayment is expected through realization of collateral provided to secure such debt.
	Debt under restructuring – Problematic debt under restructuring is defined as debt for which, for economic or legal reasons related to financial difficulties of the debtor, the Bank has made a concession by way of modification to terms and conditions of the debt, designed to make it easier for the debtor to make cash payments in the near term (reduction or postponement of cash payments due from the debtor), or by way of receiving other assets as debt repayment (in whole or in part).
	Debt under special supervision – Debt under special supervision is debt with potential weaknesses, which require special attention by Bank management. Should these weaknesses not be addressed, the likelihood of debt repayment may deteriorate.
	Derivatives – A financial instrument or contract whose value changes in response to changes in the price of the underlying asset (a financial instrument, physical asset, index, credit rating or other underlying asset), requires a small or minimal initial investment, compared to other contract types, and is expected to be settled on a future date.
F	**Financial instrument** – A contract that creates a financial asset for one entity and a financial liability or capital instrument for another entity.
I	**Indebtedness** – On- and off-balance sheet credit, as defined in Proper Banking Conduct Directive 313.
	Inferior debt – Inferior debt is debt insufficiently secured by collateral or by debtor repayment capacity, and for which the Bank may incur a loss if faults are not corrected, including debt over NIS 700 thousand which is 60-89 days in arrears.
	Impaired debt – Debt is classified as impaired when its principal or interest is in arrears over 90 days, unless the debt is well secured and is in collection proceedings. Further, any debt whose terms and conditions have been changed in conjunction with restructuring of problematic debt would be classified as impaired debt, unless prior to and following such restructuring, a provision for credit losses by extent of arrears was made with respect to the debt pursuant to the appendix to Proper Banking Conduct Directive 314 on problematic debt in housing loans.
O	**OTC – Over the Counter** – Transaction involving financial instruments which is conducted over the counter and not on a stock exchange.
	Off-balance sheet credit – Contracting for providing credit and guarantees (excluding derivative instruments).
P	**Problematic debt** – Debt classified under one of the following negative classifications: special supervision, inferior or impaired.
R	**Recorded debt balance** – The debt balance, including recognized accrued interest, premium or discount yet to be amortized, net deferred commissions or net deferred costs charged to the debt balance and yet to amortized, net of the debt amount subject to accounting write-off.
S	**Syndication** – A loan extended jointly by a group of lenders.

3. Terms with regard to regulatory directives

E	**EMIR** - European Market Infrastructure Regulation – EU regulations adopted in order to increase stability, transparency and efficiency of derivative markets.
F	**FATCA - Foreign Accounts Tax Compliance Act** – The US Foreign Accounts Tax Compliance Act stipulates mandatory reporting to the US tax authority (IRS) of accounts held by US persons with foreign financial institutions (outside the USA).
L	**LCR –** Liquidity Coverage Ratio is defines as the ratio of High Quality Liquid Assets and net cash outflow for the next 30 days, under a stress scenario. This ratio is a benchmark for the Bank's capacity to fulfill its liquidity needs for the coming month.

Index

www.mizrahi-tefahot.co.il

HEAD OFFICE

7 Jabotinsky Street,
P.O.Box 3450, Ramat Gan 5252007, Israel
Tel. 03-7559000, Fax. 03-7559210
BIC: MIZBILIT

International Activities & Private Banking Sector

7 Jabotinsky Street,
P.O.Box 3450, Ramat Gan 5252007, Israel
Tel. 03-7559200, Fax. 03-7559210

Trading in Financial Markets Sector

7 Jabotinsky Street,
P.O.Box 3450, Ramat Gan 5252007, Israel
Tel. 03-7559178, Fax. 03-7559029

Marketing & Business Development Division

7 Jabotinsky Street,
P.O.Box 3450, Ramat Gan 5252007, Israel
Tel. 03-7559260 Fax. 03-7559270

International Finance & Trade Sector

13 Abba Hillel Silver Street
Lod 7129463, Israel
Tel. 076-8043910, Fax. 08-9579484

Tel -Aviv Principal Business Center

105 Allenby Street,Tel Aviv 6513444
Tel. 03-5649300 Fax. 03-5642034
BIC: MIZBILITTLV

INTERNATIONAL PRIVATE BANKING CENTERS

Jerusalem:
9 Helene Hamalka Street
Jerusalem 9422105, Israel
Tel. 076-8041200, Fax. 02-6222146

Tel-Aviv:
32 Ben Yehuda Street
Tel-Aviv, 6380501, Israel
Tel. 076-8040780, Fax. 03-6213223

Ashdod:
12 Sderot Yerushalayim Street
Ashdod, 7752305, Israel
Tel. 076-8041020, Fax. 08-8654671

Netanya:
2 Benny Berman Street
Ir Yamim Mall, Netanya, 4249330, Israel
Tel.076-8041410, Fax. 09-8358800

BRANCHES ABROAD

London Branch:
Mizrahi Tefahot Bank Ltd.

30 Old Broad Street
London EC2N 1HQ, England
Tel. +44 (0) 20-7448-0600
Fax. +44 (0) 20-7448-0610
BIC: MIZBGB2L
www.umtb.co.uk

Los Angeles Branch:
Mizrahi Tefahot Bank Ltd.

800 Wilshire Blvd.
Los Angeles, CA. 90017, U.S.A.
Tel. +1-213-362-2999, Fax. +1-213-362-2987
BIC: MIZBUS6L
info@umtbusa.com
www.umtbusa.com

SUBSIDIARIES ABROAD

United Mizrahi Bank
(Switzerland) Ltd.

Nuschelerstrasse 31 CH-8021
Zurich, Switzerland
Tel. +41 (0) 44-226-8686
Fax. +41 (0) 44-226-8687
BIC: UMBLCHZZ
info@umbzh.ch
www.umbzh.ch

United Mizrahi Overseas Holding Company B.V.

Jachthavenweg 109h
1081 KM Amsterdam
The Netherlands

Germany Representative Office

Bockenheimer Landstr. 17,
60325 Frankfurt am Main, Germany
Tel. +49 (0) 69-710455225
Fax. +49 (0) 69-710456226

Mexico Representative Office

Corporativo Horizonte
Paseo de los Laureles #458 oficina 204
Col. Bosques de las Lomas
C.P.05120, Ciudad de México, CDMX-México
Tel. +52 (0) 55-5202-5607
Fax. +52 (0) 55-5202-5531

SUBSIDIARY COMPANIES IN ISRAEL

ETGAR Portfolio Management of Mizrahi Tefahot Bank Ltd.

123 Hashmonaim Street,
Tel Aviv 6713329, Israel
Tel. 03-5631520
Fax. 03-5631531

Technology Division of Mizrahi Tefahot Ltd.

15 Lincoln St.
Tel Aviv 6713407, Israel
Tel. 03-5634333
Fax. 03-5611342

Mizrahi Tefahot Trust Company Ltd.

123 Hashmonaim Street
Tel Aviv 6713329, Israel
Tel. 03-5630733
Fax. 03-5630752

מזרחי טפחות

MIZRAHI TEFAHOT

MIZRAHI TEFAHOT LTD.
Head office: 7 Jabotinsky st.
Ramat-Gan, 5252007
www.mizrahi-tefahot.co.il