2017 Annual Report

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.

The Bank has received approval from the Supervisor of Banks to publish its annual financial statement on a consolidated basis only.
Note 36 to the financial statements provides a summary of the Bank's solo financial statements.
A brochure providing Bank information is available on demand and on the Bank's website:
www.mizrahi-tefahot.co.il >> about the bank >> investor relations >> financial statements.

Message from the Chairman of the Board of Directors

In the name of the Bank's Board of Directors, I am honored to present you with Mizrahi Tefahot's 2017 financial statements.

The Bank's growth trend in recent years is reflected, in this year as well, in various areas: Revenues reached a record NIS 6 billion; proper growth was posted in most balance sheet items, including loans to the public, deposits from the public, shareholder equity and total assets; net profit rose by 6.4% compared to 2016, reflecting double-digit return on equity at 10.2%.

Concurrently, the Bank has achieved all of the required regulatory targets: Ratio of Tier I capital to risk elements increased to 10.20%, leverage ratio reached 5.48% and liquidity coverage ratio in the fourth quarter was at 118%.

After extended negotiations between management and the Employee Union, late this year the parties signed a new collective bargaining agreement for 2016-2021, ensuring complete calm labor relations throughout the term of the agreement and employee support for achievement of the strategic plan objectives and for the merger with Bank Igud.

This transaction, should it be receive regulatory approval, would help Mizrahi-Tefahot in establishing itself as the third largest banking group in Israel, while concurrently increasing competition in the banking system. This would be achieved by improving the Bank's competitiveness and its capacity to compete with the larger banks and to offer attractive value propositions to all clients, and in particular to business clients.

The Bank's success in continued market share growth, in net profit growth and in maintaining double-digit return on equity, is especially outstanding given the effect of the agreement reached with employees and the fact that the macro-economic environment still retains near-zero interest and inflation rates.

Further to the trend in 2016, in 2017, too, mortgage business declined, with the Government efforts focused on the "Buyer price" program, with second home buyers and investors awaiting clarity on the efficacy of Government action in this area. Mizrahi Tefahot continued to be the dominant, leading player in the market, with average monthly market share of 35%, adapting its pricing to the regulatory environment with strict adherence to quality underwriting processes and maintaining the portfolio's low risk profile.

Streamlining measures by competing banks, including massive branch closures, continued in 2017 and further differentiated Mizrahi-Tefahot and its human, personal service concept. In 2017, the Bank continued to open new branches and at year end, Mizrahi Tefahot Group had 187 branches and affiliates, compared to 184 at end of 2016. As noted, in conformity with the strategic plan, the Bank intends to reach 200 branches by end of 2021.

Along with intensifying the personal relations of branch bankers and clients, the Bank continued development of advanced tools and activity channels that provide real added value to clients, improving service and the "client experience". Thus, *inter alia*, the Bank recently incorporated multiple technological developments in mortgages, saving clients time, effort and money. Digital channels and tools are deployed as part of the banking service under Mizrahi Tefahot's unique Hybrid operating model, where technology complements and supports human service, rather than attempting to replace it.

This allowed the Bank, in 2017 as well. to recruit tens of thousands of new clients – both individuals and business owners.

This year, 2017, was the first in the Bank's multi-annual strategic plan, centered on maintaining the Bank's leadership position in the retail sector, including housing loans, with increased focus on business activities. In conformity with this plan, the Bank posted impressive 9% growth in loans and financing revenues from small, medium and large businesses.

Out of the commitment to all stake holders at the Bank, including investors and shareholders, the Board of Directors revised the Bank's dividend policy by resolving that as from the first quarter of 2018, dividends to be distributed to shareholders would be increased to up to 40% of net quarterly profit.

As a business organization whose activities and achievements depend on the community in which it operates, the Bank sees itself as obligated to show involvement in the community and to support populations with special needs.

As part of this effort, Bank branches and headquarters units conduct volunteer activities with various social organizations acting on behalf of children and youth in need. The Bank also conducts various endeavors to benefit populations in need. These activities are carried out with involvement of Bank employees, their families and even Bank clients.

The Bank continued to strictly maintain fair, transparent conduct vis-à-vis its clients and all stake holders, based on the Bank's values and Code of Ethics adopted as an integral part of our organizational culture.

I would like to take this opportunity to thank, myself and on behalf of all Board members, all stake holders at the Bank, primarily our loyal clients and to express our deep appreciation of Bank management and our thousands of dedicated, outstanding employees and managers for their tireless efforts, investment and significant contribution to the success of Mizrahi Tefahot.

Sincerely yours,

M. Vidman

Moshe Vidman
Chairman of the Board of
Mizrahi Tefahot

Report of the Board of Directors and management

Table of Contents

List of tables included on the Report of the Board of Directors and Management

Report of the Board of Directors and management Submitted to the General Meeting of Shareholders

At the meeting of the Board of Directors of Mizrahi Tefahot Bank held on February 26, 2018, it was resolved to approve and publish the Report of the Board of Directors and Management, the Risk Management Report and Other Supervisory Disclosures and the consolidated financial statements of Mizrahi Tefahot Bank Ltd. and its subsidiaries as of December 31, 2017.

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 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, the Supervisor of Banks' directives are based on generally acceptable accounting principles for US banks (see also Note 1 to these financial statements).

The Report of the Board of Directors and Management and the 2017 Financial Statements are prepared in conformity with the format stipulated by the Supervisor of Banks. After the Notes to the financial statements is a chapter on corporate governance, audit, other information about the Bank and its management and addendums to the annual financial statements.

Additional information to the financial statements is provided on the Bank website:

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

This additional information includes:

- Detailed Risks Report in conformity with disclosure requirements of Basel Pillar 3 and in conformity with additional recommendations by the Financial Stability Board (FSB).
- Notes to the financial statements for the Bank solo, on demand.

The Bank website also includes additional supervisory information with details of 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 the Bank, its lines of business, performance, risks to which it is exposed as well as its targets and strategy.

Condensed financial information and key performance indicators for the Bank Group

(NIS in millions)

	For the year ended December 31, 2017	For the year ended December 31, 2016	For the year ended December 31, 2015	For the year ended December 31, 2014	For the year ended December 31, 2013
Statement of profit and loss – highlights					
Interest revenues, net	4,347	3,778	3,534	3,375	3,464
Non-interest financing revenues	136	295	358	173	14
Commissions and other revenues	1,517	1,567	1,500	1,439	1,485
Total revenues	6,000	5,640	5,392	4,987	4,963
Expenses with respect to credit losses	192	200	211	173	288
Operating and other expenses	3,611	3,299	3,226	3,039	2,951
Of which: Payroll and associated expenses	2,326	2,071	1,944	1,866	1,823
Pre-tax profit	2,197	2,141	1,955	1,775	1,724
Provision for taxes on profit	806	833	761	657	593
Net profit(1)	1,347	1,266	1,134	1,092	1,083

Net profit for the Group in 2017 amounted to NIS 1,347 million, compared to NIS 1,266 million in the previous year – an increase by 6.4%.

According to the Bank's current dividends policy (as of earnings for 2017), dividends of 30% would be distributed with respect to earnings of the most recent quarter (NIS 110 million). Thus, dividends with respect to 2017 earnings amounted to NIS 404 million, compared with NIS 190 million distributed for 2016.

On February 26, 2018, the Bank Board of Directors resolved to change the rate of dividends distributed out of net profit to 40% for 2018-2021.

The following key factors affected Group profit in 2017, compared to 2016:

- Total revenues increased in 2017 by 6.3% compared to 2016.
  The higher revenues were primarily due to business and margin growth, despite the effects of the low interest and inflation environment and various regulatory provisions, primarily with regard to commissions.
- Increase in operating and other expenses:

In December 2017, a collective bargaining agreement was signed with the Employee Union, including a commitment to avoid labor unrest in 2018-2021, fixed and variable pay increases and persistence and engagement bonuses, which also refer to the merger with Bank Igud, reduction of the seniority pay increase, voluntary retirement plan and other understandings(2).

The effect of the collective bargaining agreement is mostly reflected in expenses amounting to NIS 160 million, recognized on the financial statements for the third quarter of 2017, after the memorandum of understandings was reached with the Employee Union and in advance of signing the collective bargaining agreement.

For more information about the increase in payroll expenses, including the effect of the employee stock option plan and for explanation of the increase in other operating expense components, see below.

Multi-period profit data shows:

- Continuous, constant growth in Bank revenues.
- Control over operating expenses, with 2017 affected by the collective bargaining agreement, as noted above.
- Stable credit losses, despite an increase in net loans to the public by an average 7.1% over the five-year period.
- Consistent growth in Bank net profit year over year.

(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) For further details, see Note 22.A.6. to the financial statements.

Condensed financial information and key performance indicators for the Bank Group – Cont.

(NIS in millions)

	As of December 31 2017	As of December 31 2016	As of December 31 2015	As of December 31 2014	As of December 31 2013
Balance sheet – key items					
Balance sheet total	239,572	230,455	209,158	198,513	179,545
Loans to the public, net	181,118	171,341	159,204	147,569	138,565
Cash and deposits with banks	41,130	41,725	30,489	26,798	26,060
Securities	10,133	10,262	11,845	14,259	7,000
Deposits from the public	183,573	178,252	162,380	152,379	141,244
Debentures and subordinated notes	29,923	27,034	23,719	20,580	16,443
Deposits from banks	1,125	1,537	1,166	1,258	2,041
Shareholders' equity(1)	13,685	12,714	11,847	10,797	9,681

Data from the multi-period balance sheet show constant growth in Bank operations.

Average annual growth between 2013-2017:

Total assets	8.1%
Loans to the public, net	7.1%
Deposits from the public	7.5%
Shareholder equity	9.4%

(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)

	2017	2016	2015	2014	2013
Key performance benchmarks					
Net profit return on equity(1)	10.2	10.2	10.0	10.6	11.8
Net profit return on risk assets(2)	0.99	0.97	0.89	0.91	0.98
Return on average assets	0.57	0.58	0.56	0.58	0.64
Deposits from the public to loans to the public, net	101.4	104.0	102.0	103.3	101.9
Ratio of Tier I capital to risk elements(3)	10.20	10.10	9.50	9.05	8.94
Leverage ratio(4)	5.48	5.27	5.32	–	–
(Quarterly) liquidity coverage ratio(5)	118	117	91	–	–
Ratio of revenues(6) to average assets	2.55	2.56	2.66	2.66	2.92
Cost income ratio(7)	60.2	58.5	59.8	60.9	59.5
Basic earnings per share (in NIS)	5.80	5.46	4.90	4.74	4.74
Key credit quality benchmarks					
Ratio of provision for credit losses to total loans to the public	0.81	0.83	0.87	0.90	0.94
Ratio of impaired debts or debts in arrears 90 days or longer to total loans to the public	1.02	0.98	1.14	1.20	1.70
Ratio of net accounting write-offs to average loans to the public	0.09	0.11	0.10	0.10	(9)0.42
Additional information					
Share price (in NIS) as of December 31	64.19	56.35	46.50	40.90	45.44
Dividends per share (in Agorot)(8)	144	80	37	–	33
Average number of employees for the Group	6,190	6,103	5,961	5,820	5,742
Ratio of net interest revenues to average assets	1.84	1.72	1.74	1.80	2.03
Ratio of commissions to average assets	0.64	0.71	0.74	0.77	0.87

Financial ratios indicate:

- Net profit return on equity, presented over the past 5 years, is in double figures, despite the continued growth of capital.
- The Bank is compliant with regulatory targets required for capital adequacy, liquidity coverage and leverage.
- Over years, the Bank presents a high-quality cost-income ratio which is up to outstanding international standards.
- Credit quality benchmarks continue to improve, showing a low level of problematic debt and credit losses.
- The amount of dividends per share has been rising due to improved profitability and increase in percentage of earnings distributed.
- The number of Bank employees is constantly growing. This is in line with the Bank's growth strategy with emphasis on the human factor in banking service.

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, in chapter "Explanation and analysis of results and business standing" and in chapter "Risks overview", as the case may be.

(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) Net profit to average risk assets.
(3) Calculated in conformity with Basel III directives as from 2014.
(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 most recent reported quarter.
(6) Net interest revenues and non-interest revenues
(7) Total operating and other expenses to total operating and financing revenues before expenses with respect to credit losses.
(8) The rate of dividends is calculated based on the amount of the dividends actually distributed in the reported year.
(9) Includes balance of provision for credit losses, amounting to NIS 281 million, with respect to housing loans fully provided for and written off.

Bank Group and its lines of business

Mizrahi-Tefahot Bank Ltd. ("the Bank") was among the first banks established in the State of Israel. The Bank was associated as a public company on June 6, 1923, under the name Mizrahi Bank Ltd., and it was issued the license to commence business on May 13, 1924. The Bank was founded at the initiative of the World Mizrahi Center, in order to facilitate the financing of settlement, construction, manufacturing, labor and commercial activities of the new settlers in the Land of Israel. In 1969, upon the merger of the businesses of the Bank with the businesses of Hapoel Hamizrahi Bank Ltd., the Bank's name was changed to United Mizrahi Bank Ltd. In 1983, within the framework of the arrangement formulated between the Israeli Government and the Banks, the shares of the Bank were transferred to the control of the State through a securities company that was established for this purpose. In the years 1995 and 1997, the Bank was privatized in two stages, and was transferred to control of the present controlling shareholders. Following the merger between United Mizrahi Bank Ltd and "Tefahot" Israel Mortgage Bank Ltd. ("Tefahot"), the merged bank's name was changed on November 7, 2005 to its present name, Mizrahi-Tefahot Bank Ltd.

For more information about the controlling shareholders of the Bank, see chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" (Controlling shareholders) on these financial statements.

The Bank Group operates in Israel and overseas. The Bank Group is engaged in commercial banking (business and retail) as well as mortgage activities in Israel, through a nation-wide network of 187 branches and business centers. Furthermore, business clients are supported by business centers and professional departments at Bank headquarters, which specialize by sector. The Bank's overseas operations are conducted via 3 bank affiliates (two branches and a subsidiary) and representative offices in Europe and in Latin America.

In addition to its banking activities, the Bank Group is engaged in various activities related to the capital market, including: Consultancy for capital market activities, distribution of mutual funds, management of securities portfolios for clients, pension advisory service, trust services, provision of registration services for securities listed on the stock exchange in Israel, operation of provident funds and insurance incidental to mortgages. The Bank Group also engages in credit operations and participates in syndication deals.

The Bank is one of the five largest bank groups in Israel. Below is the Bank Group share out of the Top 5 groups (based on financial statements as of September 30, 2017):

Loans to the public	18.8%
Deposits from the public(1)	15.9%
Total assets	16.2%
Shareholders' equity	12.8%

(1) The Bank Group's share of deposits from the public, among the five top bank groups, excluding deposits from institutional investors, as of September 30, 2017 was 15.1%, compared to 14.7% as of December 31, 2016.

Major risks

Below are definitions of the major risks to which the Bank is exposed in conjunction with its operations:

Credit risk – the risk that a borrower or counter-party of the Bank would not fulfill its obligations towards the Bank. Credit concentration risk is due to over-exposure to a borrower / borrower group and to economic sectors.

Market risk – This is the risk of loss in 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 risk – The risk to Bank profit (change in revenues) or to Bank capital, primarily due to fluctuations in interest rates, fluctuations of various curves used by the Bank in its business operations 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. Changes in interest rates impact Bank profits (change in revenues) and the value of Bank assets (change in fair value).

Liquidity risk – The risk to profit and stability of the banking corporation, due to its inability to satisfy its liquidity requirements.

Operating risk – The risk of loss due to inappropriateness or failure of internal processes, people and systems or due to external events. This risk is inherent in all products, activities, processes and systems. The framework for addressing operating risk includes information security and cyber risk, IT risk and legal risk, as set forth below:

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 – the risk of failure in the Bank's information and/or IT and operating systems.

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).

Compliance and regulatory risk – The risk of imposition of legal or regulatory sanctions, material financial loss or damage to reputation, which the Bank may incur due to its failure to comply with compliance provisions (such as: statutory provisions, regulation, standards and conduct commonly expected from a corporation). The Bank is also exposed to business implications of changes to regulatory provisions. Compliance risk includes conduct risk, which is the risk of impact to Bank trustworthiness in the eyes of its clients, investors, suppliers and all other stake holders, which may also impact public trust in the banking system as a whole. This risk is across the Bank and is based on application of basic values, such as fairness, trustworthiness and transparency.

Cross-border risk – 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 damage to reputation, arising from the Bank's failure to comply with statutory provisions originating in other countries – whether provisions are 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.

AML risk – 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-compliance with AML and terror financing provisions.

Reputation risk – the risk to corporate profit, stability or capacity to achieve its objectives, due to impact to reputation which may arise from practices applied by the corporation, its financial standing or negative publicity (whether true or false).

Strategic business risk – 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.

For more information about an investigation by the US Department of Justice concerning Bank Group business with its US clients, see Note 26.C.12 to the financial statements.

For more information about major and emerging risks, see chapter "Risk Events" below.

For more information see chapter "Risks overview" and the detailed Risk Management Report on the Bank website.

Business goals and strategy

The strategic plan

On November 21, 2016 the Bank's Board of Directors approved a new strategic plan for 2017-2021 (hereinafter: "the new strategic plan"). The new strategic plan is designed to achieve the following targets:

- Achieve in 2021, net return on profit attributable to equity holders of 11.5% on average and double-digit return over the term of the new strategic plan; these rates are based on the ratio of Tier I capital to risk elements for the Bank at the minimum set by the Supervisor of Banks plus appropriate margin;
- Further organic growth of core Bank operations, at a higher rate than for the Israeli banking system, so as to increase the Bank's market share in the Israeli banking system.
  The Bank's growth engines are aimed to grow Bank profitability due, inter alia, to average annual revenue growth rate of 8% (though not in linear fashion), while maintaining expenses at a moderate annual growth rate of 6% (also not in linear fashion).
- Maintain high operating efficiency – achieve a cost-income ratio (total expenses to total revenues) lower than 60% over the plan term and even attempt to improve it to below 55% in 2021.

For more information about the Bank's guiding principles for achievement of the strategic plan goals, see chapter "Business goals and strategy" of the 2016 Report of the Board of Directors and Management.

On February 26, 2018, the Bank Board of Directors resolved to update the Bank's dividends policy for 2018 through 2021, after monitoring the execution of the aforementioned strategic plan.

The Bank's revised 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 Bank has received approval from the Supervisor of Banks for the outline of the aforementioned dividends policies.

The revised dividends policy is subject to the Bank achieving a ratio of Tier I capital to risk elements as required by the Supervisor of Banks and maintaining appropriate safety margins.

For more information about the dividend policy in 2017 and dividend distribution, see chapter "Analysis of development of assets, liabilities, capital and capital adequacy" below.

The Bank's Board of Directors will monitor execution of the new strategic plan, and may make changes to this plan from time to time, as required, including due to changes in factors which may affect the plan, as described above.

In conformity with the resolution by the Bank Board of Directors dated November 27, 2017, the Bank signed an agreement with Bank Igud shareholders to acquire a 100% interest in Bank Igud and to merge it with the Bank by way of exchange of shares. Closing of this transaction would allow Mizrahi Tefahot Group to better compete with the major banks, without requiring additional capital to be raised. This merger is in line with the Group's strategic plan and objectives and offers significant potential for market share growth, with a significant increase in the business segments, as well as potential for growth in the return on capital targets compared to the strategic plan. Closing of the acquisition transaction is subject to preconditions.

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.

Plan to relocate Bank headquarters units

On June 19, 2017, the Bank's Board of Directors resolved to take action in order to locate, in as much as possible, the Bank's headquarters units in a single site, in Lod. For information about this contract, its effect on the financial statements and capital relief authorized by the Supervisor of Banks with regard to streamlining in the real estate sector, see Note 25 to the financial statements.

Significant developments in business activities

Business in the mortgage market was more moderate in 2017, with housing loan origination in the banking system lower compared to 2016 and 2015, but similar to the volume in 2014 and 2013. The Bank is acting to reinforce its leadership position in the mortgage market in terms of market share and in perception and further reinforce the expertise of mortgage bankers. Over the past year, the Bank successfully retained its leadership position in the mortgage sector, while maintaining low risk attributes for LTV and repayment ratio out of borrower income.

The household segment is in the midst of growing competition, both from the banking system and from insurance companies and credit card companies – along with increased regulatory effects. On January 27, 2017, the Increased Competition and Reduced Concentration in Israeli Banking Act was enacted. The objective of this Act is to increase competition in retail banking services, with reference to both supply (adding new players) and demand (increasing consumer capacity to compare the costs of financial services). The Committee's vision of competition is defined by creating a more efficient market along with cost cutting for the economy, simplified competition for consumers and more diverse sources of credit and financial services offered to consumers. In December 2017, the Ministry of Finance and the Bank of Israel announced a reform designed to allow for easier client transition between banks, by creating an automated system for account portability.

The Bank's target is to increase its market share in the household segment, by expanding the client base with a focus on high-quality target audiences. Regulatory steps to increase competition in the household segment and to remove barriers to account transfer between banks – are an opportunity for increased client recruitment, based on the unique, high-quality personal service provided by the Bank. In this context, the Bank used hybrid banking platform and the LIVE branches to recruit new clients and improve service to current clients, while expanding the value proposition.

The mortgage client base at the Bank offers potential for increase of the client base for commercial activities. The Bank also strives to expand in specific client segments, including the Arab and Jewish Orthodox segments. Bank Yahav bolsters the Group's retail segment operations, by expanding and intensifying its operations with salaried employees, while leveraging the capabilities of its new core banking system.

The Bank is focusing its effort on getting deposits from retail clients and from business clients, in order to improve the Bank's liquidity coverage ratio and in order to reduce the cost of sources required for its operations, leading to improved profitability. These efforts resulted in the Bank continuing to significantly increase the scope of retail deposits in 2017, with an improved liquidity coverage ratio.

The Bank's business strategy emphasizes significant expansion of the client base and increase of the Bank's market share among small to medium business clients, with regular risk assessment at client level, at sector level and for the economy as a whole. The Bank addresses growing competition in these operating segments by increased marketing activities with clients, with client segmentation by type of occupation and needs and an overall view of their activities, as well as by expanding Bank activity in the State fund for small and medium businesses. In order to expand activity in the commercial banking segment, the Bank reorganized this activity under three business hubs and increased the number of branches focused on providing banking services to the business segments. This infrastructure would support further expansion of operations in this segment in coming years.

Competition for provision of banking and financial services to the business banking segment has been affected in recent years by expanded operations of credit card issuers and institutional investors focused on providing large-scale credit for long terms. The Bank is facing competition in this segment by relying on the advantages of its human resources and on their knowledge and experience in providing professional service and in adapting banking solutions for client needs. The Bank's business strategy in this segment is directed toward maximizing the economic potential of the capital by focusing on activities having high profitability relative to the capital needed for them, Concurrently, the Bank is acting to leverage its professional advantage by increased cooperation in consortiums with other entities.

In order to maximize the economic potential of capital, in 2017 the Bank sold loan portfolios to various institutional investors. For more information see chapter "Significant developments in management of Bank business" below.

The Bank continues to maintain high operating efficiency through, *inter alia*, reorganization of assets and optimization of the branch network, including opening new branches in locations with potential for business growth – along with streamlining the existing branch network.

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.

Developments in capital structure

Investments in Bank Capital and Transactions in Bank Shares

- 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.
- On February 1, 2018, the Bank applied to the Supervisor of Banks for approval of a potential buy-back of 5 million Bank shares. Buy-back of Bank shares is tantamount to a distribution of dividends. See Note 24 to the financial statements for additional information.
- For more information about changes to the control structure at the Bank, see chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" (Controlling shareholders) on these 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 13.4%.

Developments in financing sources

Group financing sources include deposits from the public and from other banks, issuance 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 deposit types by size, client type, individual depositor, number of clients, product and average deposit term. The Bank reviews, on daily basis, the depositor concentration level and in this regard, the Board of Directors and management have set restrictions and guidelines for concentration risk and have defined qualitative and quantitative indicators for on-going monitoring and estimation of the change to concentration risk, as part of the liquidity risk management system.
Total deposits from the public for the Group as of December 31, 2017 amounted to NIS 183.6 billion, compared to NIS 178.3 billion at end of 2016, an increase by 3.0%. Deposits from the public in the NIS-denominated, non-CPI linked segment increased in 2017 by 8.6%; deposits in the CPI-linked segment decreased by 8.0%; and deposits denominated in or linked to foreign currency decreased by 10.1%. For more information see chapter "Analysis of composition of assets, liabilities, capital and capital adequacy" below.

Bank of Israel

The Bank of Israel serves as a key party for the short-term financing and absorption of money for the entire banking system, and for the Bank in particular. It should be noted that a bank that borrows money from the Bank of Israel must provide collateral, and the Bank takes this parameter into account in its day-to-day management of liquidity.

Another source for raising short-term funds is the inter-bank money market. In 2017, the banking system and the Bank had high excess liquidity and therefore use of this tool was negligible.

Among the factors influencing the scope and types of deposits in the banking system is the monetary policies of the Bank of Israel.

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 25.7 billion in total par value (as of December 31, 2016: NIS 22.6 billion), of which NIS 0.5 billion in subordinated notes (included in Tier II capital for maintaining minimum capital ratio and gradually reduced subject to transition provisions) and NIS 0.7 billion in contingent subordinated notes (Contingent Convertibles – CoCo) with loss-absorption provisions through principal write-off (compliant with Basel III provisions and recognized by the supervisor of Banks as Tier II capital).

In 2017, Tefahot Issuance issued debenture and CoCo contingent subordinated notes, amounting to NIS 6.8 billion par value, for consideration of NIS 6.9 billion, as follows:

On April 2, 2017, Tefahot Issue issued debentures (Series 40 and 41) by way of public offering and extension of outstanding series, with total par value of NIS 2,579 million, for consideration of NIS 2,703 million.

On September 28, 2017, Tefahot Issuance issued debentures (Series 42) by way of public offering and extension of an outstanding series, as well as debentures (Series 45 and 46) first offered to the public, with total par value of NIS 3,529 million, for consideration of NIS 3,527 million.

On December 19, 2017, Tefahot Issuance first issued to the public contingent subordinated notes (Contingent Convertibles – CoCo) (Series 47) 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 total par value of NIS 679 million for consideration of NIS 679 million.

In addition to Tefahot Issuance operations, the Bank itself has a shelf prospectus in effect since September 25, 2016 (dated September 26, 2016). In 2017, the Bank did not issue any securities pursuant to this prospectus.

Complex capital instruments

For more information about issue of CoCo contingent subordinated notes by Tefahot Issuance on December 19, 2017, see above.

Standard & Poor's Ma'alot rated the contingent subordinated notes ilAA-.

In August 2017, Bank Yahav issued contingent subordinated notes (Contingent Convertibles – Coco) with loss-absorption provisions through principal write-off, amounting to NIS 120 million. These notes qualify for recognition as Tier II equity pursuant to Basel III provisions.

The revalued balance of CoCo contingent subordinated notes as of December 31, 2017 was NIS 1.4 billion, compared to NIS 0.8 billion as of December 31, 2016.

The Bank also has subordinated capital notes 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.

As of December 31, 2017, the Bank's complex capital instruments amounted to NIS 29.9 billion.

Significant developments in management of business operations

Branch deployment

Group branches are primarily aimed at providing professional, high-quality service to clients of all banking segments, close to the location where the service is required (residence, place of business). To this end, branches manage day-to-day client activities and offer to clients and the public at large advanced financial products and services, including advisory services for capital market activity and pension advisory service.

Group branches are located nationwide, consisting of 187 business centers, branches and affiliates, including 46 Bank Yahav branches – as of December 31, 2017.

The Bank continues to expand its branch network in accordance with its strategic plan, with location selection based on considerations such as providing optimal service to clients, economic viability considerations etc.

In 2017, the Bank Group opened 3 new points of sale and relocated several others to better geographic locations, following the mapping of bank client needs and in order to improve service to clients and expand future recruitment activity. In 2018, the Bank is expected to open 4 more points of service and sale.

The Bank operates 6 LIVE branches – which are branches providing full personalized service during extended business hours using a range of communication channels between clients and bankers (via telephone, fax, internet, email, SMS, video conferencing).

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.

Direct channels

The policy applied by the Direct Banking sector concerning direct channels is as follows:

– Apply a multi-channel strategy, at the center of which stands the branch, and direct banking services constitute an integral part thereof.
– Develop the hybrid banking service as a primary channel for communication with the banker.
– Expand the range and diversity of services offered through direct banking channels.

Direct channels offered to Bank clients include:

Hybrid Banking services

Hybrid Banking is about integrating personal service accessible to clients with technology.

Hybrid Banking services are provided by Bank branches and banking centers, as follows:

– Bank branches – phone calls, emails and SMS messages from identified clients are directly routed to that client's banker and are answered by the banker or by the backup staff at the branch.
– The branch team at the banking center provides backup to branch bankers, assisting with transactions and providing information to Bank clients, as part of the integrated Hybrid service offered to clients. Service is provided 24 hours a day (on weekdays).

  In 2017, the Bank extended its Hybrid Banking service to business clients at the banking center, through a dedicated team at the banking center.
– In 2018, the Bank intends to expand the chat service to clients in mortgages, sales and investments.

On line, cell phone, notification box, IVR and fax services

On line service – allows clients to receive banking information and execute transactions in your account for a range of banking products available to Bank clients at a reduced cost.

In 2017, these services were extended to business clients.

In 2018, the Bank intends to expand its services for business clients – a new website for international operations, a new deposit arena, a new account management application, fingerprint authentication, expanded foreign securities in the capital market arena.

Self-service at branches

- The Bank plans to expand its services to clients through self-service machines.
- Service stations – The Bank provides clients with service stations, allowing them to conduct transactions such as: Taking out a loan, depositing checks and obtaining information about their commercial and mortgage accounts independently, 24 hours a day - even when the branch is closed. Some of the service stations also offer immediate checkbook printing.
- In 2018, the Bank intends to start deployment of a cash deposit service using self-service machines at branches.
- ATMs – The Bank owns 205 cash withdrawal machines, some in Bank branches and some are "remote ATMs".

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Expansion of business operations

For more information about the Bank's strategic plan, see chapter "Business goals and strategy" above.

Agreement with Bank Igud shareholders

On November 27, 2017, the Bank signed an agreement, highlighted below, with shareholders of Bank Igud LeIsrael Ltd. (hereinafter: "Igud"), who jointly hold 47.63% of Igud's issued and paid-in share capital (hereinafter: "the controlling shareholders" and "shares of the controlling shareholders", respectively). 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"), accepting the tender offer. Should the alternative transaction take place (as defined below), in conformity with provisions of the agreement, and the alternative transaction be subject to approval by the General Meeting of Igud shareholders, the other shareholder committed to support and apply their votes at the General Meeting of Igud shareholders in support of the alternative transaction.

According to this agreement, subject to fulfillment of suspensive conditions highlighted in the agreement, the Bank would issue a full exchange tender offer (hereinafter: "tender offer") to purchase Bank Igud shares and, conversely, the controlling shareholders and the other shareholder committed to accept the tender offer, to be completed subject to suspensive conditions set forth in the agreement.

The tender offer to be issued subject to fulfillment of the suspensive conditions, would be addressed to all Igud shareholders and completion thereof would be contingent, *inter alia*, on achieving the required acceptance rate for acceptance of a full tender offer, in conformity with provisions of Section 337 of the Companies Law (hereinafter: "the minimum acceptance rate"), so as to allow the purchase of all Igud issued and paid-in shares by the Bank, so that after completion of the tender offer, Igud would become a private company, as defined in the Companies Law and wholly owned by the Bank.

In conformity with the agreement, upon closing of the tender offer, the Bank would acquire all issued and paid-in share capital of Igud, including the shares of the controlling shareholders, as-is with no right to indemnification whatsoever, without any representations and free and un-encumbered.

Should the tender offer be issued and should it close, then soon after Igud would be turned into a private company, the Bank intends to act to merge Igud as "target entity" with and into the Bank, as "receiving entity" (as these terms are defined in the Companies Law) (hereinafter: "the planned merger").

The consideration pursuant to the tender offer would be payable in Bank shares, to be issued in such number as to reflect the ratio of an amount equal to 60% of total Igud capital, based on Igud's financial statements for the period ended June 30, 2017, net of the allowed distribution amount, as defined in the agreement, to the average adjusted closing price of Bank shares during the 90 trading days prior to June 30, 2017 (hereinafter: "the consideration shares"). The calculation method for the consideration shares was agreed by the parties to the agreement by negotiation.

In conformity with the agreement, certain events have been specified which, should they occur in the period from signing the agreement to closing of the tender offer or of the alternative transaction (hereinafter "the interim period"), the number of consideration shares would be adjusted so as to reflect the economic implications of such actions.

The agreement includes a precondition, whereby should the Bank Board of Directors resolve, at its absolute sole discretion, that the valuation, to be obtained by the Bank after signing the agreement, does not support the consideration stated in the agreement, the Bank may, at its absolute sole discretion, inform the controlling shareholders, no later than January 23, 2018 (which deadline may, upon request from the Bank, be extended through February 7, 2018), that the agreement is null and void and the controlling shareholders shall have no claim with regard to this matter. On February 7, 2018, the Bank's Board of Directors resolved not to give notice to the controlling shareholders with regard to fulfillment of the precondition.

The aforementioned resolution by the Board of Directors relied on valuations received by the Board of Directors, prepared by PwC Advisory Israel Ltd. an independent external appraiser, whose conclusions supported the consideration stipulated in the agreement, including as basis for the number of consideration shares.

In conformity with the agreement, should the transaction in the form of tender offer not close, the Bank and the controlling shareholders would act to conduct the transaction by way of statutory merger, which would be subject to approval by the qualified organs of the Bank and of Igud, with Igud as the "target entity" and the Bank as the "receiving entity", as these terms are defined in the Companies Law (hereinafter: "the alternative transaction"). In this regard, the agreement stipulates that should the alternative transaction not be approved by the qualified organs of the Bank or of Igud, the agreement would be terminated.

The agreement includes a provision whereby the parties would take all actions required to have the consideration shares listed for trading on the Tel Aviv Stock Exchange Ltd. (hereinafter: "the stock exchange") and not be subject to any blocking provisions, other than a commitment by each of the controlling shareholders, included in the agreement, to avoid selling the consideration shares for six months, except for sale off the stock exchange (subject to conditions specified in the agreement) and/or for pledge (subject to conditions stated in the agreement).

As soon as practicable after closing of the purchase offer and turning Igud into a private company, the Bank intends to conduct the planned merger. The Bank intends to merge Igud business into the Bank business, at the Bank's discretion, while implementing streamlining measures in management of its resources, including the branch network, human resources and IT. The Bank estimates the expected post-acquisition cost at several hundreds of millions of NIS, mostly expended over a three-year period, as estimated by the Bank.

The aforementioned estimates by the Bank and the Bank plans with regard to Igud, as specified above, constitutes forward-looking information, as defined in the Securities Law, 1968 based, *inter alia*, on information and assumptions available to Bank management at this time, including information available to the Bank with regard to Igud. Such estimates and/or plans may fail to materialize, in whole or in part, or may materialize differently than expected, due to events which may not be under the Bank's control and/or due to changes in circumstances known to the Bank at this time, including with regard to Igud, including changes to legislation and regulation, supervisory directives, changes to working assumptions in view if information received about Igud and its business after the acquisition, geo-political changes and other changes, which may result in the assumptions failing to materialize and/or in changes to the aforementioned plans.

Closing of the transaction which is the subject to the agreement is subject, *inter alia*, to various conditions, including some which are not under the Bank's control, including approvals to be obtained from third parties and regulators. The Bank is acting to obtain the required approvals. Consequently, the closing of the transaction subject of the agreement is uncertain.

For more information about the agreement with controlling shareholders of Igud, see Immediate Report dated November 28, 2017 (reference no. 2017-01-110619) and Immediate Report dated December 28, 2017 (reference no. 2017-01-110631) and dated February 7, 2018 (reference no. 2018-01-011076), included here by way of reference.

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.

Sale of assets and liabilities in mortgage portfolio

On March 28, 2017, the Bank and institutional investors signed an agreement for sale of 80% of assets and liabilities in a housing loan portfolio valued in total at NIS 912 million. The loan portfolio consists of housing loans extended by the Bank from January 1, 2013 through June 30, 2014. The loan portfolio sold includes loans with LTV ratios ranging below 60%.

On September 26, 2017, the Bank and institutional investors signed an agreement for sale of 80% of assets and liabilities in a housing loan portfolio valued in total at NIS 683 million. The loan portfolio consists of housing loans extended by the Bank from July 01, 2014 through October 31, 2015. The loan portfolio sold includes loans with LTV ratios ranging below 60%.

On December 26, 2017, the Bank and institutional investors signed an agreement for sale of 80% of assets and liabilities in a housing loan portfolio valued in total at NIS 1,315 million. The loan portfolio consists of housing loans extended by the Bank from March 01, 2015 through April 30, 2016. The loan portfolio sold includes loans with LTV ratios ranging below 60%.

In total, the housing loan portfolios sold in 2017 amount to NIS 2,910 million.

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

According to management agreements signed by the parties, the Bank will manage and operate, on behalf of the buyer, the portion of the loan portfolio 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.

Strategic cooperations

In 2017, the Bank continued to conduct transactions to sell off and share credit risk with institutional investors and financial institutions in Israel and overseas. Further cooperation with institutional investors is part of the Bank's strategic plan for 2017-2021.

As part of this activity, the Bank has expanded the providing of service for operating financial assets, including management and operation of housing loans purchased from the Bank.

For more information about sale of assets and liabilities in the mortgage portfolio (80% of a housing loan portfolio valued at NIS 2,910 million), see above.

For more information about business results of the various operating segments, see chapter "Supervisory operating segments" below.

Significant developments in human resources and administration

Developments in labor relations

For more information about developments in labor relations with the Employee Union, see Note 22.A.6 to the financial statements.

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 have started in order to sign a new labor agreement for the coming years.

Labor and payroll agreements at Bank Yahav

Bank Yahav has a collective bargaining agreement with employee representation which governs labor and remuneration at Bank Yahav for 2013-2016. This agreement has been extended.

Plan to relocate Bank headquarters units

For more information about sale and lease-back of the interest in the building currently housing offices of the Bank headquarters, see Note 25M to the financial statements.

Streamlining plan

On December 27, 2016, the Bank's Board of Directors approved the streamlining program recommended by Bank management, whereby early retirement would be possible for 300 employees in 2017-2021, at improved conditions. For more information see Notes 22 and 25 to the financial statements.

Streamlining program at Bank Yahav

On June 13, 2017, the Board of Directors of Bank Yahav approved streamlining measures, including a voluntary retirement program and reduction of real estate areas. See Note 25 to the financial statements for details.

Developments in logistics, administration and streamlining

In 2017, the Bank continued the trend of streamlining and utilizing existing resources as follows:

- Streamlining of space usage.
- Better deployment of the branch network.
- Further leveraging of infrastructure through temporary leasing to third parties space used by the Bank as reserve for future growth.
- Complete making Bank branches accessible, in conformity with the new accessibility regulations; obtain a temporary waiver from the Supervisor of Equal Rights to Disabled Persons for properties where an accessibility solution has been found, but have yet to be made accessible (e.g. branch relocated to an alternative property, where the alternative property has yet to be delivered).

The activities and trends described above are expected to continue in 2018.

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 human resources at the Bank, organizational structure and senior officers of the Bank, see chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" of these financial statements.

Significant developments in IT

Computer services for Bank Yahav

In 2008, Bank Mizrahi-Tefahot acquired a controlling interest in Bank Yahav (50% of shares) from Bank HaPoalim Ltd. (hereinafter: "Bank HaPoalim"). Through December 31, 2016, Bank Yahav received computer and operating services from Bank HaPoalim. These services were provided to Bank Yahav in conformity with approval by the Supervisor of Banks and by the Anti-Trust Supervisor.
On January 1, 2017, Bank Yahav transitioned to a new core banking system provided by a TATA Group company. The transition to the core system was successfully completed after completion of data conversion and internal and external correctness tests (with third parties).

In 2017, Bank Yahav followed the work plan in order to complete development according to the schedule agreed during system development – and make additional developments as planned.

For more information about investments and expenses with respect to IT, see chapter "Analysis of composition of assets, liabilities, capital and capital adequacy" below.

For more information about fixed assets and installations see chapter "Corporate Governance, Audit, Other Information about the Bank and its Management of these annual financial statements.

Developments in international geographic deployment

The international operations segment of the Bank Group includes business operations and private banking services via subsidiaries, branches and affiliates in Israel and overseas. Bank Group international operations are primarily focused on private banking and on providing financial services to foreign residents, foreign trade finance, local credit and participation in syndicated loans. In addition, provision of banking services to Israeli clients who have activities outside of Israel. The Bank has affiliates in several countries, as stated below.

International operations, in Israel and overseas, report to the Private Banking and International Operations sector in the Bank's Financial Division. In addition, control of affiliate operations is conducted by the Risk Control Division.

Each overseas affiliate operates subject to local laws and regulations, and is regularly assisted by local legal counsel who specialize in banking operations applicable for each affiliate.

International operations also involve cross-border risk, for more information see chapter "Risks overview" below.

In 2017, the Bank closed its representative office in Uruguay; as of the end of 2017, the Bank operates representative offices in Mexico and in Germany.

For more information about the various affiliates and their business, see chapter "Corporate Governance, Audit, Other Information about the Bank and its Management (Operating results of overseas operations)" in this annual report.

Other matters

Significant Agreements

For more information about material agreements, see chapter "Corporate Governance, Audit, Other Information about the Bank and its Management " of these annual financial statements.

Stock options to officers and other managers at the Bank and its subsidiaries t

On August 31, 2017, the Bank's Board of Directors approved, after approval by the Bank's Remuneration Committee, an option offering to Bank officers and to other managers at the Bank and at its subsidiaries. See Note 23 to the financial statements for additional information.

Social involvement and charitable donations

For more information see the Bank's Corporate Social Responsibility Report on the Bank website: www.mizrahi-tefahot.co.il >> about the bank >> investor relations

Changes in legal structure and incorporation of the Bank

In 2017 there was no change to the legal structure and manner of incorporation of the Bank

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 as well as analysis of developments in assets, liabilities, capital and capital adequacy. 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

Plan to relocate Bank headquarters units

On June 19, 2017, the Bank's Board of Directors resolved to take action in order to locate, in as much as possible, the Bank's headquarters units in a single site, in Lod. For information about this contract, its effect on the financial statements and capital relief authorized by the Supervisor of Banks with regard to streamlining in the real estate sector, see Note 25 to the financial statements.

Developments in labor relations

On December 3, 2017, a new collective bargaining agreement was signed by management and by the Employee Union. For more information see Note 22.A.6 to the financial statements.

Obtaining a 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 insurance policy covers 80% of the guarantees amounting to NIS 15.5 billion and is effective as from December 31, 2016.

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.

Obtaining this insurance coverage resulted in a 0.25% decrease in the Bank's Tier I capital ratio as of December 31, 2016.

In the fourth quarter of 2017, the Bank changed the composition of reinsurers, with new reinsurers having a higher international rating.

The change in composition of reinsurers in the portfolio of Sales Act guarantees resulted in an increase by 0.08% in the Bank's Tier I capital ratio as of December 31, 2017.

Transaction to acquire Bank Igud LeIsrael

For more information about the transaction to acquire Bank Igud LeIsrael, see chapter "Significant developments in management of business operations" above.

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

Major developments in the banking industry in Israel and overseas

The banking system has been facing several key challenges in recent years:

- Moderate economic activity, with a low interest rate and inflation environment over time, which impairs bank profitability.
- More moderate global growth results in a trend of transition from global multi-national banking to local banking.
- Rapid development of digital banking based on Internet platforms and increased use of mobile devices, accompanied by regulatory relief from the Bank of Israel, designed to promote digital banking activities. Along with these developments, use of digital channels by households is constantly growing. Furthermore, the growing digital trends allows technology companies to enter the financial brokerage market, in co-operation with the banking system.
- Competition in the household segment and in the small and medium business segments has increased in recent years, given the focus of the banking system on these segments, along with increased new entries from institutional investors and credit card companies. These effects are accompanied by increased regulation in the following areas: Supervision of prices of banking services; elimination of barriers to account transfer between banks; promotion of the Credit Information Act and creation of a banking ID for increased transparency for consumers and for reducing information gaps; increased competition in the banking sector by encouraging entry of new competitors – credit associations and cooperative banks.
- Further to the trend of growing regulatory directives, various initiatives to increase competition in the financial system were formulated:
- On January 27, 2017, the Increased Competition and Reduced Concentration in Israeli Banking Act was passed, following the final recommendations made by the Shtrum Committee. The objective of this Act is to increase competition in retail banking services, with reference to both supply (adding new players) and demand (increasing consumer power). Below are key provisions of the Act:
- Separation of control and ownership by large banks (banks with total balance sheet assets, on consolidated basis, exceeding 20% of total balance sheet assets for the Israeli banking system) from credit card companies.
- Imposing restrictions on large banks with regard to issue and distribution of credit cards.
- Launching a technology interface for viewing financial information (Read Only), to make it easier for consumers to choose between various financial alternatives.
- Financial institutions may acquire IT services from banks.
- Credit card settlement – Existing clearing houses would be required to contract with a new clearing house, so as to allow them to provide settlement services to merchants.
- In order to review competition in the credit market, a committee was established, headed by the Director General of the Ministry of Finance and the Manager, Research Division at the Bank of Israel. The committee is tasked with monitoring the implementation of the Act and recommending further steps to increase competition in the credit market.
- On December 13, 2017, the Ministry of Finance and the Bank of Israel announced a reform designed to allow for easier client transition between banks, by creating an automated system for account mobility.
- On January 16, 2018, the Bank of Israel announced its intention to reduce the cross commission in deferred charge transactions, from 0.7% of transaction amount to 0.5%, in three steps in 2019-2024. The final decision as to the commission would be issued after review of public comments.
- On September 28, 2014, the Supervisor of Banks issued a directive, requiring banks to increase the capital buffer against their housing loan portfolio. The directive stipulates, in addition to targets specified by the Supervisor of Banks for Tier I capital ratios for the banking corporations, that banking corporations would be required to increase their Tier I capital ratio by a rate equivalent to 1% of the balance of their housing loan portfolio. The directive was implemented gradually through January 1, 2017.

- Stricter requirements with regard to maintaining liquidity coverage ratio and leverage ratio, in order to improve stability of the banking system. On the other hand, the Supervisor of Banks allowed Israeli banks to issue debentures with a loss-absorption provision, as is common around the world (contingent conversion debentures – CoCo). Such debentures contribute to stability of the issuing bank and to reduced support required from the Government should the bank be in trouble. For more information about issue of contingent subordinated notes (Contingent Convertibles – CoCo), see chapter "Developments in financing sources" above.
- Stricter international regulation is characterized by increased, cross-border enforcement as well as by local taxation issues.
- Increased consumer awareness due, inter alia, to increased use of social networks and to technology which allows for easier access to information and to comparison of financial alternatives. Consequently, the banking world is becoming focused on identifying client needs.

Developments in Israel's Economy and in the global economy in 2017

Israeli economy

Real Developments

According to preliminary estimates by the Central Bureau of Statistics for the first half of 2017, GDP growth in 2017 was at 3.3%, compared to 4.0% in the previous year and compared to 2.6% in 2015. The GDP growth rate was more moderate due to the following effects: Decline in consumption of durable goods, after excessive growth in this item last year, due to increased purchasing of vehicles following changes to green taxation rules and more moderate growth in investments in the economy and in residential construction.

According to estimates by the Bank of Israel, the labor market indicates a high level of activity with near-full employment. The average unemployment rate in 2017 was 4.2%, compared to 4.8% in 2016. The average participation rate decreased slightly to 64.0%.

Inflation and exchange rates

In 2017, the Consumer Price Index increased by 0.4%, following a decrease by 0.2% in the previous year. The index was impacted in 2017 mostly by higher prices of: Housing (rent), home maintenance and healthcare, which contributed 0.8% to the overall CPI. Conversely, prices of the following declined: Transportation and communications, clothing and footwear and household furniture and equipment, which on aggregate contributed a reduction of 0.5% to the overall CPI.

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

	December 31, 2017	December 31, 2016	Change in %
Exchange rate of:			
USD (in NIS)	3.467	3.845	(9.8)
EUR (in NIS)	4.153	4.044	2.7

On February 16, 2018, the USD/NIS exchange rate was 3.501 – a 1.0% devaluation since December 31, 2017. The EUR/NIS exchange rate on this date was 4.313 – a devaluation of 3.9% since December 31, 2017.

Monetary policy

In 2017, the Bank of Israel interest rate remained unchanged at 0.1%. The Bank of Israel monetary policy year to date was affected, *inter alia*, by the constantly stronger NIS against the currency basket, continued weakness in exports of goods, moderate inflationary expectations and continuing expansive monetary policy in major world economies, against the backdrop of further slow growth in major world economies.

Fiscal policy

In 2017, the government budget recorded a NIS 24.8 billion cumulative budget deficit, compared to a NIS 25.5 billion cumulative deficit last year. The deficit rate in relation to the GDP for 2017 was 2.0%, similar to 2.1% for all of 2016. Note that the deficit target for 2017 was 2.9%. In 2017, expenditure by Government ministries increased by 8.1% compared to 2016, with expenditure by non-defense ministries increased by 8.8% and expenditure by defense ministries increase by 5.5%. Total tax collection in the past year increased by a nominal 8.4% compared to the previous year. Note that excluding non-recurring effects, tax collection increased by 4.0%.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, in 2017 demand for new apartments (apartments sold and apartments constructed not for sale) in 2017 was 41.3 thousand apartments, a decrease by 17% over the previous year and 19% over 2015. The decrease is due, *inter alia*, to a decrease in demand for apartments from investors. In 2017, housing loans given to the public amounted to NIS 53.8 billion, compared to NIS 59.1 billion last year and NIS 65.0 billion in 2015 – a decrease by 9.0% and 17.2%, respectively.

According to data from the Central Bureau of Statistics, owned housing prices increased in 2017 by 2.0%, compared to an increase by 6.7% in 2016 and by 7.8% in 2015.

Capital market

Global equity market were positive in 2017, led by the US stock exchanges and by the equity market in Israel.

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

CPI	All of 2017	All of 2016	All of 2015
Tel-Aviv 35	2.7	(3.8)	4.3
Tel-Aviv 125	6.4	(2.5)	2.0
Tel-Aviv 90	21.2	17.3	(5.4)

Average daily trading volume in equities and convertible securities in 2017 was NIS 1.40 billion, up 11% from NIS 1.27 billion daily average for the previous year.

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

CPI	All of 2017	All of 2016	All of 2015
General debentures	4.7	2.2	2.0
CPI-indexed Government debentures	3.4	0.8	(0.2)
Non-linked Government debentures	3.7	1.2	2.7
Tel Bond 20	7.1	3.2	(0.6)
Tel Bond 40	4.4	1.8	0.6

Global economy

In 2017, the US economy grew by 2.3%, compared to 1.5% growth in 2016 and to 2.9% in 2015. In 2017, 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 average number of jobs added in the US economy was mostly higher than expected and unemployment continued to improve, along with a slight decrease in the labor market participation rate towards the end of the year. The growth rate of real wages accelerated in the second half of the year. Following positive labor market data, the Fed raised its interest rates three times in 2017, from 0.5%-0.75% at year start to 1.25%-1.5% at year end.

The GDP growth rate in the Euro Zone in 2017 was 2.5%, compared to 1.8% in 2016 and to 2.0% in 2015. In 2017, growth of the industrial output index improved significantly, along with a moderate improvement in the retail commerce index. The purchasing manager index continues to indicate economic growth and expectation benchmarks remain at their highest level in recent years. Unemployment continued to decline this year, to 8.7% in December 2017.

China's GDP grew by 6.9% in 2017, compared to 6.7% in 2016. The Industrial Production Index and the retail commerce index grew at a rate similar to that of 2016 and the purchasing manager index continued to indicate expansion of economic activity.

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

CPI	All of 2017	All of 2016	All of 2015
Dow Jones	25.1	13.4	(2.2)
S&P 500	19.4	9.6	(0.8)
NASDAQ 100	31.5	5.9	8.4
DAX	12.5	6.9	9.6
FTSE 100	7.6	14.4	(4.9)

Risk events

In 2017, there were no material loss events nor any events with a potential for material loss.
Assessment of the effect of the aforementioned risk factors takes into account the risk associated with the US DOJ inquiry as well as all action taken by the Bank to defend its position with regard to the inquiry.
For more information about the US DOJ inquiry with regard to Bank Group business with its US clients and for more information about a motion for approval of a derivative claim and motion for approval of a class action lawsuit on this matter, see Note 26.C sections 12, 11.a) and 10.i) to the financial statements.

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, reputation risk as well as compliance and regulatory risks. 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, 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

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

Independent Auditors’ reports

The Independent Auditor has drawn attention in their report to Note 22, section 6 and to Note 26.C, sections 11.a) and 10.i) to the financial statements, with regard to contingent liabilities of the Bank, including lawsuits filed against the Bank and motions for class action status, as well as to Note 26.C.12 with regard to the US DOJ inquiry with regard to Bank Group business with its US clients.

Events after the date of the financial statements

For more information about a distribution of dividends with respect to earnings of the fourth quarter of 2017 and the Board of Directors' resolution to revise the Bank's dividend policy for 2018-2021, see chapter "Analysis of developments in assets, liabilities, equity and capital adequacy" below and the statement of changes to shareholder equity and Note 35 "Events after the balance sheet date" of the financial statements.

Changes to critical accounting policies and to critical accounting estimates

The financial statements are prepared in accordance with generally accepted accounting policies in Israel (Israeli GAAP) and in accordance with directives and guidance from the Supervisor of Banks. The significant accounting policies are detailed in Note 1 to the financial statements.

Below are changes to critical accounting policies and to critical accounting estimates which impact the operating results in the reported periods:

Deferred taxes

In conformity with the directives of the Supervisor of Banks, the Bank applied as from January 1, 2017 the US GAAP with regard to taxes on income. In conformity with the new rules, the Bank recognizes deferred tax liabilities with respect to undistributed earnings of investees.

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

For further details, see Note 1.C. 1) to the financial statements.

Impaired debt, credit risk and provision for credit losses

On February 20, 2017, the Supervisor of Banks issued a Q&A file concerning implementation of Public Reporting Regulations with regard to impaired debts, credit risk and provision for credit losses
The file includes clarifications with regard to definition of primary repayment source, with regard to classification of problematic debt and clarification of the treatment of leveraged loans. These changes apply as from July 1, 2017.

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

For further details, see Note 1.C. 4) to the financial statements.

Liabilities with respect to employee rights

In 2017, the Bank revised the remuneration growth rate, which is one of the parameters in the actuarial model for calculation of liability with respect to employee rights. For more information, see chapter "Policies and critical accounting estimates" below and Note 22 to the financial statements.

Material developments in revenues, expenses and other comprehensive income

Net profit for the Group in 2017 amounted to NIS 1,347 million, compared to NIS 1,266 million in the previous year – an increase by 6.4%. This reflects a return on equity at 10.2%, identical to return on equity last year.

Group net profit in the fourth quarter of 2017 amounted to NIS 365 million, compared to NIS 265 million in the corresponding period last year – an increase by 37.7%. This reflects a return on equity at 11.2%, compared to 8.6% in the corresponding period last year.

Analysis of developments in revenues, expenses and other comprehensive income

Net interest revenues and non-interest financing revenues[1] from current operations in 2017 amounted to NIS 4,363 million, as described below, compared to NIS 3,876 million in 2016, an increase by 12.6%.

Net interest revenues and non-interest financing revenues [1] from current operations in the fourth quarter of 2017 amounted to NIS 1,140 million, as described below, compared to NIS 1,018 million in the corresponding period last year, an increase by 12.0%.

Net interest revenues and non-interest financing revenues[1] in 2017 amounted to NIS 4,483 million, as described on these financial statements, compared to NIS 4,073 million in 2016, an increase by 10.1%.

Net interest revenues and non-interest financing revenues[1] in the fourth quarter of 2017 amounted to NIS 1,191 million, as described on these financial statements, compared to NIS 1,067 million in the corresponding period last year, an increase by 11.6%.

(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.

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

	All of 2017	All of 2016	Change in %
Interest revenues, net	4,347	3,778	
Non-interest financing revenues[(1)]	136	295	
Total financing revenues	4,483	4,073	10.1
Less:			
Effect of CPI	32	(48)	
Revenues from collection of interest on problematic debts	43	40	
Gain from realized debentures and from debentures held for trade, net	43	72	
Effect of accounting treatment of derivatives at fair value and others[(2)]	2	133	
Total effects other than current operations	120	197	
Total financing revenues from current operations	4,363	3,876	12.6

(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:

- Following the decrease in early mortgage repayment, in 2017, revenues decreased by NIS 64 million compared to the corresponding period last year.
- The effect of Bank coverage against tax exposure with respect to overseas investments, by allocating excess financing sources against such investments.

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

	2017 Fourth Quarter	2017 Third Quarter	2017 Second Quarter	2017 First Quarter	2016 Fourth Quarter	2016 Third Quarter	2016 Second Quarter	2016 First Quarter	Change in % Fourth quarter of 2017 to fourth quarter of 2016
Interest revenues, net	1,136	1,011	1,173	1,027	948	1,056	1,014	760	
Non-interest financing revenues (expenses) [(1)]	55	61	21	(1)	119	40	69	67	
Total financing revenues	1,191	1,072	1,194	1,026	1,067	1,096	1,083	827	11.6
Less:									
Effect of CPI	10	(62)	105	(21)	(29)	43	57	(119)	
Revenues from collection of interest on problematic debts	10	11	9	13	7	13	10	10	
Gain from realized debentures and from debentures held for trade, net	2	16	18	7	1	17	23	31	
Effect of accounting treatment of derivatives at fair value and others[(2)]	29	2	(9)	(20)	70	33	47	(17)	
Total effects other than current operations	51	(33)	123	(21)	49	106	137	(95)	
Total financing revenues from current operations	1,140	1,105	1,071	1,047	1,018	990	946	922	12.0

(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 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):

Operating segment	For the year ended December 31,2017	For the year ended December 31, 2016	Change amount	Change rate (In %)
Individuals:				
Households – housing loans	1,311	1,100	211	19.2
Households – other	1,143	1,015	128	12.6
Private banking	59	50	9	18.0
Total – individuals	2,513	2,165	348	16.1
Business operations:				
Small and micro businesses	895	796	99	12.4
Medium businesses	206	187	19	10.2
Large businesses	463	455	8	1.8
Institutional investors	111	96	15	15.6
Total – business operations	1,675	1,534	141	9.2
Financial management	126	216	(90)	(41.7)
Total activity in Israel	4,314	3,915	399	10.2
Overseas operations	169	158	11	7.0
Total	4,483	4,073	410	10.1

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 and chapter "Other Information about the Bank and its Management "on the Financial Statements.

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

Linkage segment	For the year ended December 31, 2017	For the year ended December 31, 2016	Change in %
Israeli currency – non-linked	153,835	138,152	11.4
Israeli currency – linked to the CPI	50,996	50,921	0.1
Foreign currency (including Israeli currency linked to foreign currency)	12,550	11,941	5.1
Total	217,381	201,014	8.1

Change in average balances of interest-bearing assets in the various segments is primarily due to growth in loans to the public, primarily in the NIS-denominated segment. The increase in average foreign currency balances is due to higher cash balances and deposits in foreign currency, as part of the Bank's asset and liability management.

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:

Linkage segment	For the year ended 31, 2017	For the year ended December 31, 2016	For the quarter ended December 31, 2017	For the quarter ended December 31, 2016
Israeli currency – non-linked	1.95	1.99	2.02	1.99
Israeli currency – linked to the CPI	0.84	0.52	0.89	0.51
Foreign currency	1.48	1.33	1.57	1.60
Total	1.65	1.57	1.73	1.58

(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 non-linked NIS-denominated segment, there was no significant change in spread in 2017, given the increase in credit spreads vis-à-vis a decrease in early repayment commissions.

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 – the lower interest spread in the fourth quarter is due to the higher FED interest rate. In view of the structure of sources and uses at the Bank, corresponding revenues are included in derivatives operations, so that in total there is no decrease in the overall interest spread in foreign currency.

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 annual financial statements.

Expenses with respect to credit losses for the Group in 2017 amounted to NIS 192 million, or 0.11% of total loans to the public, net compared to NIS 200 million in 2016, or 0.12% of total loans to the public, net), for a total decrease of NIS 8 million.

Expenses with respect to credit losses for the Group amounted to NIS 60 million in the fourth quarter of 2017, or an annualized rate of 0.13% of total loans to the public, net, compared with NIS 81 million in the corresponding period last year – an annualized rate of 0.19% of total loans to the public, net in the corresponding period last year – a decrease by NIS 21 million in total.

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

	For the year ended 31, 2017	For the year ended December 31, 2016	For the quarter ended December 31, 2017	For the quarter ended December 31, 2016
Provision for credit losses on individual basis (including accounting write-offs)	121	150	47	67
Provision for credit losses on Group basis:				
By extent of arrears	4	(20)	3	(2)
Other	67	70	10	16
Total expenses with respect to credit losses	192	200	60	81
Rate of the expenses with respect to credit losses as percentage of total loans to the public, net (annualized)	0.11%	0.12%	0.13%	0.19%
Of which: With respect to commercial loans other than housing loans	0.27%	0.33%	0.35%	0.53%
Of which: With respect to housing loans	0.02%	0.01%	0.02%	0.02%

The provision for credit losses by extent of arrears in 2016 was affected by significant arrears collection.

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

Operating segments	For the year ended 31, 2017	For the year ended December 31, 2016	For the quarter ended December 31, 2017	For the quarter ended December 31, 2016
Individuals:				
Households – housing loans	24	13	6	5
Households – other	122	91	30	31
Private banking	1	1	–	–
Total – individuals	147	105	36	36
Business operations:				
Small and micro businesses	149	114	42	18
Medium businesses	7	11	23	12
Large businesses	(89)	(29)	(36)	14
Institutional investors	(22)	(1)	(3)	(3)
Total – business operations	45	95	26	41
Financial management	(1)	(1)	(1)	1
Total activity in Israel	191	199	61	78
Overseas activity	1	1	(1)	3
Total	192	200	60	81

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 and chapter "Other Information about the Bank and its Management" on the Financial Statements.

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 "Risks overview" below and the detailed Risks Management Report on the Bank website.

Non-interest revenues amounted to NIS 1,653 million in 2017, compared with NIS 1,862 million in 2016, a decrease by NIS 209 million. See explanation below.

Non-interest revenues in the fourth quarter of 2017 amounted to NIS 464 million, compared to NIS 489 million in the corresponding period last year, a decrease by NIS 25 million – see explanation below.

Non-interest financing revenues include, inter alia, the effect of fair value, gains (losses) from transactions in debentures 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. For analysis of evolution of financing revenues from current operations, see above.

Commission revenues amounted to NIS 1,423 million in 2017, compared with NIS 1,433 million in 2016, a decrease by NIS 10 million.

Commission revenues in the fourth quarter of 2017, amounted to NIS 367 million compared with NIS 356 million in the corresponding period last year – an increase by NIS 11 million.

Current growth in commission items was offset by a decrease in revenues from Sales Act guarantee commissions, due to sale of the risk by insurance policies obtained for such guarantees.

Other revenues in 2017 amounted to NIS 94 million, compared with NIS 134 million in 2016, a decrease by NIS 40 million.

Other revenues in the fourth quarter of 2017, amounted to NIS 42 million, compared with NIS 14 million in the corresponding period last year – an increase by NIS 28 million.

In 2017 and in the fourth quarter of 2017, capital gain amounting to NIS 47 million and NIS 30 million before tax, respectively, from realization of assets was included in conjunction with asset reorganization and streamlining of the Bank's branch network, compared to NIS 92 million and NIS 5 million in the corresponding periods last year.

Operating and other expenses amounted to NIS 3,611 million in 2017, compared with NIS 3,299 million in 2016, an increase by 9.5%.

Operating and other expenses amounted to NIS 939 million in the fourth quarter of 2017, compared with NIS 869 million in the corresponding period last year – an increase by 8.1%.

Operating and other expenses in 2017 include expenses with respect to a collective bargaining agreement signed with the Employee Union(1), amounting to NIS 160 million (after tax: NIS 104 million) recognized on the financial statements for the third quarter of 2017, as well as increase in expenses with respect to the employee stock option plan, primarily in the fourth quarter of 2017.

Operating and other expenses in 2017 were also affected by higher expenses in respect of the implementation of a new core banking system at Bank Yahav as from January 1, 2017.

See also detailed explanation below, by operating expense component.

Payroll and associated expenses amounted to NIS 2,326 million in 2017, compared with NIS 2,071 million in 2016, an increase by NIS 255 million which includes, as noted above, expenses with respect to a collective bargaining agreement signed with the Employee Union, amounting to NIS 160 million and recognized on the financial statements for the third quarter of 2017, as well as increase in expenses with respect to the new employee stock option plan.

Payroll and associated expenses amounted to NIS 610 million in the fourth quarter of 2017, compared with NIS 566 million in the corresponding period last year – an increase by NIS 44 million, primarily due to expenses with respect to the employee stock option plan and current effect of the collective bargaining agreement.

Maintenance and depreciation expenses for buildings and equipment in 2017 amounted to NIS 742 million, compared with NIS 693 million in 2016, an increase by NIS 49 million.

Maintenance and depreciation expenses for buildings and equipment amounted to NIS 188 million in the fourth quarter of 2017, compared with NIS 171 million in the corresponding period last year – an increase by NIS 17 million.

The increase is primarily due to deployment of a new core banking system at Bank Yahav as from January 1, 2017. Excluding the effect of increased expenses at Bank Yahav, there were no significant changes to Maintenance and depreciation expenses for buildings and equipment.

For more information about expenses with respect to IT, see chapter "Composition and development of assets, liabilities, capital and capital adequacy" below.

Other expenses in 2017 amounted to NIS 543 million, compared with NIS 535 million in 2016, an increase by NIS 8 million.

Other expenses in the fourth quarter of 2017, amounted to NIS 141 million compared with NIS 132 million in the corresponding period last year – an increase by NIS 9 million.

Other expenses were also impacted by deployment of the new core banking system at Bank Yahav, as described above.

Cost-Income ratio information is as follows(2) (in percent):

	2017 Fourth Quarter	2017 Third Quarter	2017 Second Quarter	2017 First Quarter	2016 Fourth Quarter	2016 Third Quarter	2016 Second Quarter	2016 First Quarter
Cost-income ratio	58.7	67.2(3)	56.3	59.0	60.5	55.2	57.8	60.8

	For the year ended December 31, 2017	For the year ended December 31, 2016
Cost-income ratio	60.2	58.5

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

(3) Expenses in respect of the memorandum of understanding with the Employee Union and in respect of the negative known CPI resulted in an increase in the cost-income ratio in the third quarter of 2017, by 13.4% (absolute).

(1) For more information see Note 22 to the financial statements.

Group profit before taxes amounted to NIS 2,197 million in 2017, compared with NIS 2,141 million in 2016, an increase by 2.6%.

Pre-tax profit for the Group in the fourth quarter of 2017 amounted to NIS 601 million, compared to NIS 487 million in the corresponding period last year – an increase by 23.4%. See detailed explanation above.

The provision rate for taxes on profit in 2017 was 36.7%, compared to 38.9% in 2016.

The provision rate for taxes on profit in the fourth quarter of 2017 was 36.9% – compared to 43.5% in the corresponding period last year.

In 2016, this included expenses amounting to NIS 70 million due to decrease in the deferred tax balance, following the revision of tax rates, of which an expense amounting to NIS 40 million in the fourth quarter of 2016.

See Note 8 to the financial statements for additional information.

Bank share of after-tax profit of associates – in 2017 there was no profit with respect to associates, similar to 2016.

In the fourth quarter of 2017, no profits were recorded in respect of affiliated companies, compared with the same period last year, in which a loss of NIS 1 million were recorded in respect of associates.

The share of non-controlling interest in net results of subsidiaries attributable to Bank Yahav in 2017 amounted to NIS 44 million, compared to NIS 42 million in 2016.

The share of the non-controlling interests in net results of subsidiaries attributable to Bank Yahav in the fourth quarter of 2017 amounted to NIS 14 million, compared to NIS 9 million in the corresponding period last year.

Net profit attributable to shareholders of the Bank amounted to NIS 1,347 million in 2017, compared with NIS 1,266 million in 2016, an increase by 6.4%.

Net profit attributable to shareholders of the Bank amounted to NIS 365 million in the fourth quarter of 2017, compared with NIS 265 million in the corresponding period last year – an increase by 37.7%.

Other comprehensive income attributable to shareholders of the Bank primarily includes changes in adjustments for presentation of securities available for sale at fair value, changes in cash flows hedges and changes in adjustments with respect to employee benefits.
In 2017 and in the fourth quarter of 2017, other comprehensive income attributable to shareholders of the Bank increased by NIS 154 million and NIS 203 million, respectively, compared to the corresponding period last year. The change is primarily due to adjustments in respect of employee benefits and to adjustments in respect of presentation of securities available for sale at fair value. See Note 10 to the financial statements for details.

For more information about results of the Bank Group for the interim period, see multi-quarter information for the past two years in Addendums to the financial statements.

Below is the development of Group return(1) on equity(2) and ratio of Tier I capital(3) to risk elements, liquidity coverage ratio(4) and leverage ratio at the end of the quarter(5) (in %):

	2017 Fourth Quarter	2017 Third Quarter	2017 Second Quarter	2017 First Quarter	2016 Fourth Quarter	2016 Third Quarter	2016 Second Quarter	2016 First Quarter
Net return on equity	11.2	(6)8.0	12.7	10.4	8.6	12.4	11.6	10.0
Ratio of Tier I capital to risk elements at end of quarter	10.20	10.16	10.15	10.12	10.10	9.85	9.72	9.65
(Quarterly) liquidity coverage ratio	118	117	122	118	117	105	99	97
Leverage ratio at end of quarter	5.48	5.36	5.42	5.27	5.27	5.31	5.33	5.23

	For the year ended December 31, 2017	For the year ended December 31, 2016	For the year ended December 31, 2015
Net return on equity	10.2	10.2	10.0

(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) For more information about Proper Banking Conduct of Directive329 concerning "Restrictions on provision of housing loans" on Tier I capital as from January 1, 2015, see Note 25.D to the financial statements.
(4) 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.
(5) 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
(6) Expenses in respect of the memorandum of understanding with the Employee Union and in respect of the negative known CPI resulted in a decrease in the rate of return in the third quarter of 2017, by 4.6% (absolute).

Earnings per share

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

	2017				2016			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Basic earnings per share	1.58	1.12	1.72	1.38	1.14	1.61	1.47	1.24
Diluted earnings per share	1.57	1.11	1.71	1.37	1.14	1.61	1.47	1.24
Dividends per share (in Agorot)	33.67	51.63	41.45	17.10	24.12	21.99	18.62	15.50

	For the year ended December 31, 2017	For the year ended December 31, 2016	For the year ended December 31, 2015
Basic earnings per share	5.80	5.46	4.90
Diluted earnings per share	5.76	5.46	4.89
Dividends per share (in Agorot)	143.91	80.26	37.22

Analysis of composition of assets, liabilities, capital and capital adequacy

Assets and liabilities

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

	December 31, 2017	December 31, 2016	Change in %
Balance sheet total	239,572	230,455	4.0
Cash and deposits with banks	41,130	41,725	(1.4)
Loans to the public, net	181,118	171,341	5.7
Securities	10,133	10,262	(1.3)
Buildings and equipment	1,403	1,585	(11.5)
Deposits from the public	183,573	178,252	3.0
Deposits from banks	1,125	1,537	(26.8)
Debentures and subordinated notes	29,923	27,034	10.7
Shareholders' equity	13,685	12,714	7.6

Cash and deposits with banks – the balance of cash and deposits with banks decreased in 2017 by NIS 0.6 billion. The decrease in cash balance is part of on-going management of Bank liquidity.

Loans to the public, net – loans to the public, net on the consolidated balance sheet as of December 31, 2017 accounted for 76% of total assets, compared to 74% at the end of 2016. Loans to the public, net for the Group increased in 2017 by NIS 9.8 billion, an increase by 5.7%.

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:

	Balance as of December 31 2017	Balance as of December 31 2016	Change in %	Percentage of total loans to the public, net as of December 31 2017	Percentage of total loans to the public, net as of December 31 2016
Israeli currency					
Non-linked	120,730	111,144	8.6	66.7	64.9
CPI-linked	50,293	49,369	1.9	27.8	28.8
Foreign currency and foreign currency linked	10,095	10,828	(6.8)	5.5	6.3
Total	181,118	171,341	5.7	100.0	100.0

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

	December 31, 2017	December 31, 2016	Change in %
Individuals:			
Households – housing loans	119,557	114,076	4.8
Households – other	19,824	18,598	6.6
Private banking	119	81	46.9
Total – individuals	139,500	132,755	5.1
Business operations:			
Small and micro businesses	16,716	15,122	10.5
Medium businesses	5,779	4,785	20.8
Large businesses	14,847	13,922	6.6
Institutional investors	1,160	1,534	(24.4)
Total – business operations	38,502	35,363	8.9
Overseas operations	3,116	3,223	(3.3)
Total	181,118	171,341	5.7

For definition of supervisory operating segments and differences between supervisory operating segments and operating segments based on management approach – see chapter "Supervisory operating segments" below and chapter "Other Information about the Bank and Management thereof" on the Financial Statements.

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 loss:

Reported amounts (NIS in millions)	As of December 31, 2017 Credit risk[(1)] On balance sheet	As of December 31, 2017 Credit risk[(1)] Off balance sheet	As of December 31, 2017 Total	As of December 31, 2016 Credit risk[(1)] On balance sheet	As of December 31, 2016 Credit risk[(1)] Off balance sheet	As of December 31, 2016 Total
1. Problematic credit risk						
Impaired credit risk	723	165	888	681	212	893
Inferior credit risk	315	–	315	428	–	428
Credit risk under special supervision[(2)]	1,499	30	1,529	1,381	229	1,610
Total problematic credit risk	2,537	195	2,732	2,490	441	2,931
Of which: Non-impaired debts in arrears 90 days or longer[(2)]	1,136			958		
2. Non-performing assets[(3)]	697			653		

(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 1,072 million (as of December 31, 2016 – NIS 853 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".

For more information see Notes 13 and 30 to the financial statements.

Development of Group credit risk distribution by size of borrower (in %) is as follows:

Credit risk per borrower (NIS in thousands)	2017 Share of total Group credit risk	2017 Share of total Group number of borrowers	2016 Share of total Group credit risk	2016 Share of total Group number of borrowers
Up to 150	10.0	71.6	10.3	72.2
150-600	22.7	18.0	23.1	17.9
600-2,000	35.3	9.6	34.6	9.2
Above 2,000	32.0	0.8	32.0	0.7

Credit risk by major industrial sectors[(1)] with respect to borrower operations in Israel (NIS in millions):

Sector	2017 On-balance sheet credit risk[(1)]	2017 Percentage of total balance-sheet credit risk	2016 On-balance sheet credit risk[(1)]	2016 Percentage of total balance-sheet credit risk
Private individuals (includes mortgages)	139,030	77.3	132,270	77.8
Construction and real estate	14,802	8.2	12,250	7.2
Financial services	4,197	2.3	4,484	2.6
Industry	5,031	2.8	5,231	3.1
Commerce	7,549	4.2	7,911	4.7
Other	9,318	5.2	7,969	4.6
Total	179,927	100.0	170,115	100.0

(1) Includes credit and investments in debentures by the public, and other assets with respect to derivatives of the public.

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, derivatives 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 for the Bank Group as of December 31, 2017 amounted to NIS 235 billion, compared to NIS 227 billion in 2016: an increase by 3.5%.

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

	December 31, 2017	December 31, 2016	Change in % over December 31, 2016
Off balance sheet financial instruments other than derivatives[(1)]:			
Unutilized debitory account and other credit facilities in accounts available on demand	15,045	16,688	(9.8)
Guarantees to home buyers	10,795	12,461	(13.4)
Irrevocable commitments for loans approved but not yet granted	12,044	10,651	13.1
Unutilized revolving credit card facilities	6,801	7,559	(10.0)
Commitments to issue guarantees	5,981	5,797	3.2
Guarantees and other liabilities	5,677	4,869	16.6
Loan guarantees	2,283	2,606	(12.4)
Documentary credit	201	384	(47.7)
Financial derivatives[(2)]:			
Total par value of derivative financial instruments	220,633	233,901	(5.7)
(On-balance sheet) assets with respect to derivatives	3,421	3,584	(4.5)
(On-balance sheet) liabilities with respect to derivatives	3,082	3,566	(13.6)

(1) Contractual balances or their stated amounts at the end of the period, before effect of provision for credit losses. For more information see Note 30.E to the financial statements.
(2) Includes forward transactions, swaps, options and credit derivatives.

Securities – investment in securities decreased in 2017 by NIS 0.1 billion. The decrease in total investment in securities is in the context of asset and liability management.

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

December 31, 2017

	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	3,267	3,267	75	–	3,342
Securities available for sale	6,657	6,678	[(2)]24	[(2)](45)	6,657
Securities held for trade	209	209	–	–	209
Total securities	10,133	10,154	99	(45)	10,208

December 31, 2016

	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	3,236	3,236	75	–	3,311
Securities available for sale	6,678	6,724	[(2)]30	[(2)]76	6,678
Securities held for trade	348	347	[(3)]1	–	348
Total securities	10,262	10,307	106	(76)	10,337

(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:

Linkage segment	Balance as of December 31 2017	Balance as of December 31 2016	Change (in %)
Israeli currency			
Non-linked	3,859	5,981	(35.5)
CPI-linked	753	146	–
Foreign currency (including foreign currency linked)	5,422	4,035	34.4
Non-monetary items	99	100	(1.0)
Total	10,133	10,262	(1.3)

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

	Carrying amount as of December 31, 2017	Carrying amount as of December 31, 2016
Government debentures:		
Government of Israel	7,612	8,586
Government of USA	2,233	1,479
Government of Germany	173	–
South Korea Government	–	59
Total government debentures	10,018	10,124
Debentures of banks in developed nations:		
USA	–	19
Total debentures of banks in developed nations	–	19
Corporate debentures (composition by sector):		
Public and community services	10	11
Financial services	6	8
Total corporate debentures	16	19
Shares	99	100
Total securities	10,133	10,262

For more information about investment in securities and impairment of a temporary nature of securities available for sale, listing the duration of impairment and its share out of the amortized cost, see Note 12 to the financial statements.

Buildings and equipment – The balance of buildings and equipment decreased in 2017 by NIS 0.2 million. The decrease is due to sale of interest in the headquarters building in Ramat Gan. For more information see Note 25.M to the financial statements.

Investments and expenses with respect to IT

Below is information about investments and expenses for the Bank with respect to IT.

IT-related expenses, as listed on the statement of profit and loss (NIS in millions):

	For the year ended December 31 (reported amounts) 2017 Software	For the year ended December 31 (reported amounts) 2017 Hardware	For the year ended December 31 (reported amounts) 2017 Other	For the year ended December 31 (reported amounts) 2017 Total	For the year ended December 31 (reported amounts) 2016 Software	For the year ended December 31 (reported amounts) 2016 Hardware	For the year ended December 31 (reported amounts) 2016 Other	For the year ended December 31 (reported amounts) 2016 Total
Payroll and associated expenses(1)	221	40	30	291	196	34	28	258
Usage license expenses not capitalized to assets(2)	106	14	2	122	106	11	2	119
Outsourcing expenses(3)	(6)133	6	8	147	(6)106	2	5	113
Depreciation expenses(4)	161	35	1	196	142	39	2	183
Other expenses(5)	12	2	31	44	10	1	35	46
Total expenses	633	97	72	801	560	87	72	719

Total cost with respect to IT recognized as assets on the financial statements in the reported period

Additional IT-related assets not expensed (NIS in millions):

	For the year ended December 31 (reported amounts) 2017 Software	For the year ended December 31 (reported amounts) 2017 Hardware	For the year ended December 31 (reported amounts) 2017 Other	For the year ended December 31 (reported amounts) 2017 Total	For the year ended December 31 (reported amounts) 2016 Software	For the year ended December 31 (reported amounts) 2016 Hardware	For the year ended December 31 (reported amounts) 2016 Other	For the year ended December 31 (reported amounts) 2016 Total
Payroll and associated expenses(1)	17	–	–	17	31	–	–	31
Cost of acquisition of usage licenses(2)	53	31	1	85	56	28	–	84
Outsourcing expenses(3)	73	4	–	77	88	5	–	93
Total	143	35	1	179	175	33	–	208

Balance of IT-related assets at the end of the reported period

Balance of IT-related assets (NIS in millions):

	For the year ended December 31 (reported amounts) 2017 Software	For the year ended December 31 (reported amounts) 2017 Hardware	For the year ended December 31 (reported amounts) 2017 Other	For the year ended December 31 (reported amounts) 2017 Total	For the year ended December 31 (reported amounts) 2016 Software	For the year ended December 31 (reported amounts) 2016 Hardware	For the year ended December 31 (reported amounts) 2016 Other	For the year ended December 31 (reported amounts) 2016 Total
Total depreciated balance	476	70	3	549	468	71	7	545
Of which: Payroll and associated expenses	38	–	–	38	61	–	–	61

(1) Includes payroll of hardware and software professionals as well as payroll of other IT staff, such as: administrative staff, maintenance staff and operations staff. Payroll costs added to assets include labor costs for development of software for the Bank's own use, capitalized to assets in accordance with generally accepted accounting principles.

(2) These expenses primarily consist of current software maintenance. These expenses are included on the financial statements under "Maintenance and depreciation expenses for buildings and equipment". Additions to assets are with respect to usage licenses and software purchases.

(3) These expenses are with respect to hardware and software maintenance by external employees. These expenses are included on the financial statements under "Maintenance and depreciation expenses for buildings and equipment". Additions to assets with respect to outsourcing include cost of external employees employed by the Bank to develop software for the Bank's own use.

(4) For more information about accounting policies with regard to depreciation expenses, see Notes 1.D.8 and 16 to the financial statements.

(5) Includes expenses with respect to rent and taxes, communication and general & administrative expenses.

(6) As from January 1, 2017, Bank Yahav receives IT and operating services from an international Tata Group company. 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. The cost of service in 2017 amounted to NIS 95 million. In 2016, includes NIS 54 million which constitutes payments to banks providing IT services to Bank Yahav.

Deposits from the public – these account for 77% of total consolidated balance sheet as of December 31, 2017, similar to the rate at the end of 2016. In 2017, deposits from the public for the Bank Group increased by NIS 5.3 billion, an increase by 3.0%. Deposits from the public include deposits from retail clients, corporations, financial entities and others.

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

Linkage segment	Balance as of December 31 2017	Balance as of December 31 2016	Change in %	Share of total deposits from the public as of December 31 (in percent) 2017	Share of total deposits from the public as of December 31 (in percent) 2016
Israeli currency					
Non-linked	133,194	122,611	8.6	72.6	68.8
CPI-linked	15,681	17,039	(8.0)	8.5	9.6
Foreign currency and foreign currency linked	34,698	38,602	(10.1)	18.9	21.6
Total	183,573	178,252	3.0	100.0	100.0

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

	As of December 31 2017	As of December 31 2016	Change rate (In %)
Individuals:			
Households – other	75,008	71,334	5.2
Private banking	12,448	11,167	11.5
Total – individuals	87,456	82,501	6.0
Business operations:			
Small and micro businesses	18,942	15,738	20.4
Medium businesses	7,138	7,378	(3.3)
Large businesses	26,284	32,101	(18.1)
Institutional investors	38,881	35,261	10.3
Total – business operations	91,245	90,478	0.8
Overseas operations	4,872	5,273	(7.6)
Total	183,573	178,252	3.0

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

	2017	2016
Maximum deposit		
Up to 1	63,493	59,606
Over 1 to 10	41,125	38,805
Over 10 to 100	26,906	25,042
Over 100 to 500	23,911	24,120
Above 500	28,138	30,679
Total	183,573	178,252

Deposits from banks – The balance of deposits from banks decreased in 2017 by NIS 0.4 billion.

For more information on the evolution of the composition of deposits from the public and the evolution of the composition of deposits from banks, see Notes 18 and 19 to the financial statements.

Debentures and subordinated notes – The balance of debentures and subordinated notes increased in 2017 by NIS 2.9 billion. See also chapter "Developments in financing sources" above.

For more information about balances of assets and liabilities for the Bank Group for interim periods, see multi-period and multi-quarter information for the past two years in Addendums to the annual financial statements.

Capital, capital adequacy and leverage

Shareholder equity attributable to shareholders of the Bank – Shareholder equity attributable to shareholders of the Bank increased in 2017 by NIS 1.0 billion, to NIS 13.7 billion.

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

	As of December 31 2017	As of December 31 2016	Rate of change (In %)
Share capital and premium[1]	2,180	2,239	(2.6)
Capital reserve from benefit from share-based payment transactions	65	58	12.1
Treasury shares	–	(76)	–
Cumulative other comprehensive income (loss)[2][3]	(383)	(317)	20.8
Retained earnings[4]	11,823	10,810	9.4
Total	13,685	12,714	7.6

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

(2) For more information about other comprehensive income (loss), see Note 10 to the financial statements.

(3) Other comprehensive income (loss) as of December 31, 2017 and as of December 31, 2016 includes adjustments with respect to employee 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 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" above.

The ratio of shareholders' equity to total assets for the Group as of December 31, 2017 was 5.71%, compared to 5.52% as of the end of 2016.

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, operating 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 interest, 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 December 31, 2017, 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). For more information about issue of debentures and contingent subordinated notes (Contingent Convertibles – CoCo) in 2017, see chapter "Developments in financing sources" above.

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 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, dividend 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. The outcome of the Bank's most recent capital planning indicates that the capital absorption buffer is sufficient. 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):

	As of December 31 2017	As of December 31 2016
Capital for purpose of calculating minimum capital ratio		
Tier I shareholders' equity	14,333	13,318
Tier I capital	14,333	13,318
Tier II capital	5,251	4,888
Total capital	19,584	18,206
Weighted risk asset balances		
Credit risk	130,525	122,605
Market risks	1,605	1,184
Operating risk	8,394	8,113
Total weighted risk asset balances(1)	140,524	131,902

Ratio of capital to risk elements

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 elements 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 elements.

An additional capital requirement was added to these ratios at 1% of the housing loan balance as of the report date. 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 9.86% and 13.36%, respectively. See Note 25 to the financial statements for additional information.

(1) Capital ratios required by the Supervisor of Banks as from January 1, 2015. As from January 1, 2015, an additional capital requirement was added to these ratios at 1% of the housing loan balance as of the reporting date. This requirement was gradually implemented through January 1, 2017.

For more information about the Board of Directors resolutions with regard to capital to risk elements ratio and to dividend distribution policy, see Note 25 to the financial statements and chapter "Analysis of composition of assets, liabilities, capital and capital adequacy" (Dividend distribution policy) below.

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

	December 31, 2017	December 31, 2016
Ratio of Tier I capital to risk elements	10.20	10.10
Ratio of total capital to risk elements	13.94	13.80
Minimum Tier I capital ratio required by Supervisor of Banks[(1)]	9.86	9.76
Total minimum capital ratio required by the directives of the Supervisor of Banks[(1)]	13.36	13.26

(1) Capital ratios required by the Supervisor of Banks as from January 1, 2015. As from January 1, 2015, an additional capital requirement was added to these ratios at 1% of the housing loan balance as of the reporting date. This requirement was gradually implemented through January 1, 2017.

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

Exposure group	As of December 31, 2017 Weighted risk asset balances	As of December 31, 2017 Capital requirement[(1)]	As of December 31, 2016 Weighted risk asset balances	As of December 31, 2016 Capital requirement[(2)]
Sovereign debts	688	92	549	73
Public sector entity debts	766	102	640	85
Banking corporation debts	927	124	770	101
Corporate debts	37,362	4,992	35,119	4,657
Debts secured by commercial real estate	2,459	328	2,312	307
Retail exposure to individuals	14,217	1,899	13,180	1,748
Loans to small businesses	6,858	916	6,307	836
Residential mortgages	62,265	8,319	58,597	7,770
Other assets	4,454	595	4,495	596
Total	129,996	17,367	121,969	16,173

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

(2) The capital requirement was calculated at 13.26% of risk asset balances.

Risk assets and capital requirements with respect to CVA risk[(4)] and operating risk are as follows (NIS in millions):

	As of December 31, 2017 Weighted risk asset balances	As of December 31, 2017 Capital requirement[(1)]	As of December 31, 2016 Weighted risk asset balances	As of December 31, 2016 Capital requirement[(2)]
Market risk	1,605	214	1,184	157
CVA risk with respect to derivatives[(3)]	529	71	636	84
Operating Risk[(4)]	8,394	1,121	8,113	1,076
Total	10,528	1,406	9,933	1,317
Total risk assets	140,524	18,773	131,902	17,490

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

(2) The capital requirement was calculated at 13.26% of risk asset balances.

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

(4) Capital allocation with respect to operating 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 shall maintain a leverage ratio of 5% or higher on a consolidated basis, as from January 1, 2018. Banking corporations which comply with the requirement upon publication of the directive may not drop below the threshold stated in the regulation. Any banking corporation which does not meet the requirements of this directive is required to increase its leverage ratio at fixed quarterly steps by January 1, 2018.

Below is the Bank's leverage ratio[1] (in %):

	For the year ended December 31, 2017	For the year ended December 31, 2016	For the year ended December 31, 2015
Leverage ratio	5.48	5.27	5.32

(1) The minimum leverage ratio required by the Supervisor of Banks is 5%.

For more information see Note 25 to the financial statements and the Detailed Risk Management Report on the Bank website.

Dividends

Dividend distribution policies

On November 21, 2016, the Bank's Board of Directors approved a new five-year strategic plan for 2017-2021 and resolved to approve a dividends policy as from 2017.

The Bank's dividends policy in 2017 is to distribute dividends with respect to quarterly earnings, at 30% of net profit attributable to equity holders of the Bank.

The Bank has received approval from the Supervisor of Banks for this outline.

In conformity with a resolution dated November 21, 2016, The Bank's Board of Directors will monitor execution of the new strategic plan in order to consider the possibility of increase of the aforementioned dividends rate by a further step as from 2018. This would be subject to approval by the Supervisor of Banks.

On February 26, 2018, the Bank Board of Directors resolved to update the Bank's dividends policy for 2018 through 2021, after monitoring the execution of the aforementioned strategic plan.

The Bank's revised 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 Bank has received approval from the Supervisor of Banks for the outline of the aforementioned dividends policies.

The revised dividends policy is subject to the Bank achieving a ratio of Tier I capital to risk elements as required by the Supervisor of Banks and maintaining appropriate safety margins.

The Board of Directors would monitor performance of the new dividends policy and may make changes to this policy from time to time, as needed, at the Board's discretion.

For more information about the summary of previous resolutions by the Board of Directors with regard to the dividend distribution policy, see Note 24 to the financial statements.

Dividend distribution

Below are details of dividends distributed by the Bank since 2015 (in reported amounts):

Declaration date	Payment date	Dividends per share (Agorot)	Dividends as percent of profit	Total dividends paid (NIS in millions)
May 18, 2015	June 14, 2015	15.84	0.15	36.6
August 16, 2015	September 17, 2015	21.35	0.15	49.5
Total dividends distributed in 2015(1)				86.1
February 24, 2016	March 21, 2016	15.52	0.15	36.0
May 18, 2016	June 21, 2016	18.62	0.15	43.2
August 10, 2016	September 11, 2016	21.99	0.15	51.0
November 14, 2016	December 12, 2016	24.12	0.15	56.0
Total dividends distributed in 2016(2)				186.2
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(3)				334.4

(1) Total dividends distributed with respect to 2015 earnings – NIS 122.1 million.
(2) Total dividends distributed with respect to 2016 earnings – NIS 190.0 million.
(3) Total dividends distributed with respect to 2017 earnings – NIS 404.1 million.

Dividends declared with respect to earnings in the fourth quarter of 2017

On February 26, 2018, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 109.5 million, or 30% of earnings in the fourth quarter of 2017.

The dividend s are is 470.3% of issued share capital, i.e. NIS 0.4703 per NIS 0.1 par value share. The effective date for dividends payment is March 14, 2018 and the payment date is March 26, 2018. The final dividends per share is subject to changes due to realized convertible securities of the Bank.

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):

	As of December 31 2017	As of December 31 2016	Change rate (In %)
Securities(1)	222,623	217,310	2.4
Assets of provident funds for which the Group provides operating services	76,893	75,515	1.8
Assets held in trust by the Bank Group	80,258	71,564	12.1
Assets of mutual funds for which the Bank provides operating services	16,246	13,896	16.9
Other assets under management(2)	12,571	11,055	13.7

(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 revenues or commissions. – Other loans managed by the Bank, including housing loans managed and operated by the Bank on behalf of others.

Description of Businesses of the Bank Group by Supervisory Operating Segment

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

For more information and detailed description of the segments, see chapter "Corporate Governance" of these financial statements.

Financial results using "management approach" are presented in Note 29 to the financial statements.

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

	Net profit For the year ended December 31, 2017	Net profit For the year ended December 31, 2016	Share of total net profit (in %) For the year ended December 31, 2017	Share of total net profit (in %) For the year ended December 31, 2016
Individuals:				
Households – housing loans	527	447	38.8	35.0
Households – other	(10)	(13)	–	–
Private banking	9	9	0.7	0.7
Total – individuals	526	443	39.5	35.7
Business operations:				
Small and micro businesses	266	272	19.6	21.3
Medium businesses	107	97	7.9	7.6
Large businesses	327	306	24.1	23.9
Institutional investors	33	13	2.4	1.0
Total – business operations	733	688	54.0	53.8
Financial management	8	65	0.6	5.1
Total activity in Israel	1,267	1,196	94.1	94.5
Overseas operations	80	70	5.9	5.5
Total	1,347	1,266	100.0	100.0

For more information about operating results in conformity with the management approach, see Note 29 to the financial statements.

Household segment

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.

Brief description of segment attributes (using the "management approach")

The household segment mainly consists of individual clients, with low levels of indebtedness and relatively small-scale financial activity. Segment clients include those with individual accounts, joint accounts for spouses etc. as well as mortgage borrowers. The segment is highly diversified, and is handled by the Bank's Retail Division.

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.

Developments in the household segment during the reported period

- In 2017, public moves continued, designed to encourage non-bank entities to enter the competition in the household segment and to increase competition in consumer credit. In January 2017, the Knesset enacted the Increased Competition and Reduced Concentration in Israeli Banking Act. This legislation includes separation of control over credit card companies by the two top banks, including provisions and fledgling protection for the credit card companies to be separated; provisions with regard to creating IT infrastructure and mandatory sale of IT services and operations, as well as leasing of real estate used for IT services and operations used primarily by the bank; provisions whereby a clearing house would be required to allow settlement by a guest clearing house, in conformity with rules to be specified by the Governor of the Bank of

Israel with consent of the Minister of Finance and provisions with regard to guest clearing house and bundled clearing house. Additional provisions enacted relate to a service for comparison of financial costs.

- In 2017, branch closures and elimination of teller positions at branches of some banks continued, with clients referred to digital solutions. Consequently and in conformity with legislation dated August 2016 of the Banking Act (Licensing) (Amendment no. 22), 2016, any banking corporation seeking to close a permanent branch is required to obtain permission from the Supervisor of Banks after filing a written justification and application to do so.
- Savings account for every child – On August 5, 2015, the Government adopted a resolution on "Change in composition of child allowance and launch of long-term savings for every child". On September 26, 2016, the Comptroller General Division of the Ministry of Finance issued a call for proposals to select banks and provident funds to manage these savings accounts. The Bank submitted its proposal and on November 9, 2016, the Bank was informed that it was selected to be one of the financial institutions which in future would manage these long-term savings accounts. In early 2017, the Bank launched the operation and started receiving deposited funds for clients who had chosen the Bank.
- In January 2018, a draft bill was issued, governing transfer of accounts between banks, in conjunction with the Arrangements Act. Pursuant to the draft bill, within three months it would be possible for any bank client to transfer the financial activity in their bank account from the bank currently handling such financial activity to another bank, within seven days of receipt of such request.

For more information and detailed description of products and services, key markets and distribution channels, business strategy and layout of competition in this segment and changes there to, see chapter "Corporate Governance" of these financial statements.

Analysis of operating results in the household segment (NIS in millions)

	For the year ended December 31, 2017 Other	For the year ended December 31, 2017 Housing loans	For the year ended December 31, 2017 Total	For the year ended December 31, 2016 Other	For the year ended December 31, 2016 Housing loans	For the year ended December 31, 2016 Total
Profit and profitability						
Total interest revenues, net	1,143	1,311	2,454	1,015	1,100	2,115
Non-interest financing revenues	–	–	–	–	–	–
Commissions and other revenues	502	145	647	511	152	663
Total revenues	1,645	1,456	3,101	1,526	1,252	2,778
Expenses with respect to credit losses	122	24	146	91	13	104
Operating and other expenses	1,506	600	2,106	1,413	507	1,920
Profit before provision for taxes	17	832	849	22	732	754
Provision for taxes	6	305	311	8	285	293
After-tax profit	11	527	538	14	447	461
Net profit:						
Attributable to non-controlling interests	(21)	–	(21)	(27)	–	(27)
Attributable to shareholders of the banking corporation	(10)	527	517	(13)	447	434
Balance sheet – key items:						
Loans to the public (end balance)	20,058	120,187	140,245	18,795	114,691	133,486
Loans to the public, net (end balance)	19,824	119,557	139,381	18,598	114,076	132,674
Deposits from the public (end balance)	75,008	–	75,008	71,334	–	71,334
Average balance of loans to the public	18,866	118,042	136,908	17,837	110,612	128,449
Average balance of deposits from the public	73,505	–	73,505	69,137	–	69,137
Average balance of risk assets	16,675	65,085	81,760	15,464	60,850	76,314
Credit margins and deposit margins:						
Margin from credit granting operations	744	1,268	2,012	684	1,073	1,757
Margin from activities of receiving deposits	396	–	396	329	–	329
Other	3	43	46	2	27	29
Total interest revenues, net	1,143	1,311	2,454	1,015	1,100	2,115

Contribution of the household segment (in conformity with supervisory definitions) to Group profit in 2017 amounted to NIS 517 million, compared to NIS 434 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 2017 amounted to NIS 527 million, compared to NIS 447 million in the corresponding period last year. Interest revenues, net amounted to NIS 1,311 million, compared to NIS 1,100 million in the corresponding period last year – an increase by 19.2%, attributed to increase in lending and in lending margin. In the current period, expenses with respect to credit losses amounted to expenses of NIS 24 million, compared to a provision of NIS 13 million in the corresponding period last year. The provision for credit losses by extent of arrears in 2017 was affected by significant arrears collection from clients. Operating expenses amounted to NIS 600 million, compared to NIS 507 million in the corresponding period last year – an increase by 18.3%, lower than the 16.3% increase in total revenues.
The increase in operating expenses is due to the memorandum of understandings reached with the Employees' Association, which increased payroll and associated expenses attributed to the segment. See Note 22 to the financial statements for additional information.
Contribution of households – other operations (other than housing loans) in 2017 amounted to a loss of NIS 10 million, primarily due to higher group-based provision for individuals and higher operating expenses, as explained below. Interest revenues, net increased by NIS 128 million. The increase is due to increase in lending margins and to increase in margin from deposit operations, due to higher volumes of both lending and deposits. Commissions and other revenues amounted to NIS 502 million, compared to NIS 511 million in the corresponding period last year.
Expenses with respect to credit losses increased by NIS 31 million. Given the risk attributes of this segment, the Bank increases its qualitative group-based provision for individuals, as directed by the Supervisor of Banks.
Moreover, the increase in expenses with respect to credit losses is due, *inter alia*, to the impact of legislation which reduces debt repayment by individual clients who are in difficulties. For more information about credit risk to individuals, see chapter "Risks" below for detailed analysis of risk evolution.
Operating expenses amounted to NIS 1,506 million, compared to NIS 1,413 million in the corresponding period last year, an increase by 6.6%. This is due to the memorandum of understandings reached with the Employees' Association, which increased payroll and associated expenses attributed to the segment, and due to expenses with respect to deployment of a new core banking system at Bank Yahav as from January 1, 2017. See also chapter "Explanation and analysis of results and business standing".
For more details and extensive information about results of this segment and operating results in conformity with management's approach - see Note 29 to the financial statements.

Private Banking Segment

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.

Brief description of segment attributes (using the "management approach")

The private banking segment provides banking services in Israel to both Israeli clients and foreign resident clients. Private banking is the concept of banking services geared to clients with high financial wealth, with a considerable part of their activity executed in the management of financial assets. Private banking segment clients are individual clients with liquid deposits and investments in securities in excess of NIS 3 million.

Financial consulting, which is part of the service offered to this operating segment, is provided to the clients of the segments who have signed consulting agreements. A response is also provided for other financial needs of these clients, while providing high-quality personal service and offering a range of advanced products.

This segment has potential for expanding business relationships with clients from a high socio-economic standing, who demand personal, professional service which is highly available.

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 "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.

Developments in the private banking segment during the reported period

Over the past year there were no material market developments nor material changes in client attributes in the private banking segment.
For more information and detailed description of products and services, key markets and distribution channels and layout of competition in this segment and changes there to, see chapter "Corporate Governance" of these financial statements.

Analysis of operating results of the private banking segment (NIS in millions)

	For the year ended December 31, 2017	For the year ended December 31, 2016
Profit and profitability		
Total interest revenues, net	59	50
Non-interest financing revenues	–	–
Commissions and other revenues	10	10
Total revenues	69	60
Expenses with respect to credit losses	1	1
Operating and other expenses	53	44
Profit before provision for taxes	15	15
Provision for taxes	6	6
Net profit	9	9
Balance sheet – key items:		
Loans to the public (end balance)	121	82
Loans to the public, net (end balance)	119	81
Deposits from the public (end balance)	12,448	11,167
Average balance of loans to the public	86	73
Average balance of deposits from the public	11,563	10,637
Average balance of risk assets	28	27
Credit margins and deposit margins:		
Margin from credit granting operations	1	1
Margin from activities of receiving deposits	58	49
Other	–	–
Total interest revenues, net	59	50

Contribution of the private banking segment (in conformity with supervisory definitions) to Group profit in 2017 amounted to NIS 9 million, similar to the corresponding period last year.

Total interest revenues, net increased by NIS 9 million, due to increase in deposits from the public. 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 29 to the financial statements.

For more information about the effect of attribution of expenses related to the US DOJ inquiry on this segment, see Note 29.D to the financial statements.

Micro and Small Business Segment

Supervisory definition

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

Brief description of segment attributes (using the "management approach")

The micro and small business segment operates within the retail division, and mainly includes small companies and small business clients with relatively low turnover and total indebtedness of up to NIS 6 million.

This segment is characterized by large client diversification. In view of the fact that the availability of data and their quality regarding the clients of this segment is relatively lower than for major business clients, there is a need for professional service and appropriate means of control, in order to assess the quality of the client for the purpose of issuing credit. Additionally, this segment is characterized by a high percentage of collateral required from the clients to ensure credit repayment.

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 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.

Developments in the micro and small business segment during the reported period

Growing competition among banks in the small business segment continued to accelerate over the past year. In addition, public actions were taken to encourage entry of non-bank entities into the market for credit to small business.

In May 2016, Bank Mizrahi Tefahot launched its financial partnership with HaPhoenix and with Altshuler Shacham, selected as one of the winning bidders in a tender to provide loans to small and medium businesses, guaranteed by the State, by providing loans in a range of tracks under this heading.

Changes to client attributes in this segment

During the year, there was no significant change in attributes of segment clients – this segment is highly diversified as for clients, with strong collateral requirements from clients to secure repayment of credit.

For more information and detailed description of products and services, key markets and distribution channels, business strategy and layout of competition in this segment and changes there to, see chapter "Corporate Governance" of these financial statements.

Analysis of operating results of micro and small business segment (NIS in millions)

	For the year ended December 31, 2017	For the year ended December 31, 2016
Profit and profitability		
Total interest revenues, net	895	796
Non-interest financing revenues	–	–
Commissions and other revenues	335	319
Total revenues	1,230	1,115
Expenses with respect to credit losses	149	114
Operating and other expenses	659	554
Profit before provision for taxes	422	447
Provision for taxes	155	174
After-tax profit	267	273
Net profit attributed to non-controlling interests	(1)	(1)
Net profit attributable to shareholders of the banking corporation	266	272
Balance sheet – key items:		
Loans to the public (end balance)	17,044	15,387
Loans to the public, net (end balance)	16,716	15,122
Deposits from the public (end balance)	18,942	15,738
Average balance of loans to the public	16,190	14,772
Average balance of deposits from the public	18,284	14,955
Average balance of risk assets	15,484	13,816
Credit margins and deposit margins:		
Margin from credit granting operations	786	724
Margin from activities of receiving deposits	84	54
Other	25	18
Total interest revenues, net	895	796

Contribution of the micro and small business segment (in conformity with supervisory definitions) to Group profit in 2017 amounted to NIS 266 million, compared to NIS 272 million in the corresponding period last year.
Below are key changes in segment results:
Interest revenues, net amounted to NIS 895 million, compared to NIS 796 million in the corresponding period last year – an increase by 12.4%, primarily due to increase in lending and deposit business.
Commissions and other revenues amounted to NIS 335 million, compared to NIS 319 million in the corresponding period last year.
Expenses with respect to credit losses amounted to NIS 149 million, compared to NIS 114 million in the corresponding period last year – an increase due to higher loans to the public.
Operating expenses amounted to NIS 659 million, compared with NIS 554 million in the corresponding period last year, an increase by NIS 105 million, primarily due to the memorandum of understandings reached with the Employee Union, which increased payroll and associated expenses attributed to the segment . See Note 22 to the financial statements for additional information.
For more details and extensive information about results of this segment and operating results in conformity with management's approach - see Note 29 to the financial statements.

Medium business segment

Supervisory definition

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

Brief description of segment attributes (using the "management approach")

The medium business segment primarily includes medium-sized private and public companies (Middle Market), with turnover between NIS 30 and 120 million.

Clients in this segment are primarily served by the Bank's Business Division, primarily by the Business Sector, operating three business centers nation-wide.

Segment clients primarily 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.

Clients in this segment use a range of banking services, associated with a relatively high ratio of required collateral compared to Business Banking segment clients.

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 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.

Developments in the medium business segment during the reported period

In 2017 there was no material change to markets and to segment attributes.

For more information and detailed description of products and services, key markets and distribution channels, business strategy and layout of competition in this segment and changes there to, see chapter "Corporate Governance" of these financial statements.

Analysis of operating results in the medium business segment (NIS in millions)

	For the year ended December 31, 2017	For the year ended December 31, 2016
Profit and profitability		
Total interest revenues, net	206	187
Non-interest financing revenues	–	–
Commissions and other revenues	76	72
Total revenues	282	259
Expenses with respect to credit losses	7	11
Operating and other expenses	106	90
Profit before provision for taxes	169	158
Provision for taxes	62	61
Net profit	107	97
Balance sheet – key items:		
Loans to the public (end balance)	5,854	4,869
Loans to the public, net (end balance)	5,779	4,785
Deposits from the public (end balance)	7,138	7,378
Average balance of loans to the public	5,704	4,862
Average balance of deposits from the public	6,470	6,549
Average balance of risk assets	6,484	6,306
Credit margins and deposit margins:		
Margin from credit granting operations	176	161
Margin from activities of receiving deposits	25	23
Other	5	3
Total interest revenues, net	206	187

Contribution of the medium business segment (in conformity with supervisory definitions) to Group profit in 2017 amounted to NIS 107 million, compared to NIS 97 million in the corresponding period last year.
Below are key factors affecting the change in segment contribution:
Interest revenues, net increased by NIS 19 million, primarily due to increase in credit volumes in this segment.
Commission and other revenues increased by NIS 4 million compared to the corresponding period last year.
Expenses with respect to credit losses amounted to NIS 7 million, compared to NIS 11 million in the corresponding period last year.

Operating expenses amounted to NIS 106 million, compared to NIS 90 million in the corresponding period last year – an increase by NIS 16 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 29 to the financial statements.

Large business segment

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

Brief description of segment attributes (using the "management approach")
This segment provides all banking and financial services to the largest companies in the market, operating in diverse sectors.
Segment clients are served under responsibility of the Bank's Business Division, primarily by the Large Corporation Sector.
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.
In its activities in this segment, the Bank emphasizes expansion of the current client base and improved profitability through expansion of activity in financing areas with very high profitability relative to capital, such as trading room transactions, including transactions in derivatives and other products provided to clients by the trading room.

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.
- For more information and detailed description of products and services, key markets and distribution channels, business strategy and layout of competition in this segment and changes there to, see chapter "Corporate Governance" of these financial statements.

For more information and detailed description of products and services, key markets and distribution channels, business strategy and layout of competition in this segment and changes there to, see chapter "Corporate Governance" of these financial statements.

Analysis of operating results in the large business segment (NIS in millions)

	For the year ended December 31, 2017	For the year ended December 31, 2016
Profit and profitability		
Total interest revenues, net	464	455
Non-interest financing revenues	(1)	–
Commissions and other revenues	134	150
Total revenues	597	605
Expenses with respect to credit losses	(89)	(29)
Operating and other expenses	170	133
Profit before provision for taxes	516	501
Provision for taxes	189	195
Net profit	327	306
Balance sheet – key items:		
Loans to the public (end balance)	15,012	14,128
Loans to the public, net (end balance)	14,847	13,922
Deposits from the public (end balance)	26,284	32,101
Average balance of loans to the public	14,642	14,531
Average balance of deposits from the public	27,864	28,728
Average balance of risk assets	20,887	23,131
Credit margins and deposit margins:		
Margin from credit granting operations	393	387
Margin from activities of receiving deposits	60	57
Other	11	11
Total interest revenues, net	464	455

Contribution of the large business segment (in conformity with supervisory definitions) to Group profit in 2017 amounted to NIS 327 million, compared to NIS 306 million in the corresponding period last year.
Below are key factors affecting the change in segment contribution:
Total interest revenues, net amounted to NIS 464 million, compared to NIS 455 million in the corresponding period last year, due to the higher lending spread.
Commissions and other revenues were impacted by the decrease in revenues from Sales Act guarantee commissions, due to insurance policies acquired for such guarantees.
Expenses with respect to credit losses were impacted by significant debt collection from clients previously written off and by the group-based provision.
For more information about directives of the Supervisor of Banks, see analysis of expenses with respect to credit losses above in chapter "Explanation and analysis of results and business standing".
Operating expenses amounted to NIS 170 million, compared with NIS 133 million in the corresponding period last year, an increase by NIS 37 million, primarily due to the memorandum of understandings reached with the Employee Union, which increased payroll and associated expenses attributed to the segment . See Note 22 to the financial statements for additional information.
For more details and extensive information about results of this segment and operating results in conformity with management's approach - see Note 29 to the financial statements.

Institutional investor segment

Supervisory definition

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

Brief description of segment attributes (using the "management approach")

This segment provides service to financial asset managers, incorporating activities involving providing services to financial asset managers:

insurance companies, managers of provident funds, study funds and pension funds, managers of mutual funds and ETFs, stock exchange members and investment portfolio managers.

Segment operations includes operating these financial assets and providing banking services to their managers.

Services include: asset valuation, generating control reports, reporting to authorities, accounting, administration of accounts and rights of provident fund members and calculation of returns.

Banking services also include credit of various types and transactions involving derivatives.

The Bank has agreements in place to provide operating services to provident fund management companies, some of which are associated with the sale of provident funds previously owned by the Bank. As for mutual funds, the Bank has agreements in place to provide services to mutual fund management companies.

The segment also provides comprehensive service to management companies of provident funds and mutual funds.

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.

For more information and detailed description of products and services, key markets and distribution channels, business strategy and layout of competition in this segment and changes there to, see chapter "Corporate Governance" of these financial statements.

Analysis of operating results of institutional investor segment (NIS in millions)

	For the year ended December 31, 2017	For the year ended December 31, 2016
Profit and profitability		
Total interest revenues, net	112	96
Non-interest financing revenues	(1)	–
Commissions and other revenues	44	52
Total revenues	155	148
Expenses with respect to credit losses	(22)	(1)
Operating and other expenses	125	127
Profit before provision for taxes	52	22
Provision for taxes	19	9
Net profit	33	13
Balance sheet – key items:		
Loans to the public (end balance)	1,175	1,577
Loans to the public, net (end balance)	1,160	1,534
Deposits from the public (end balance)	38,881	35,261
Average balance of loans to the public	1,413	1,583
Average balance of deposits from the public	38,748	34,669
Average balance of risk assets	2,334	2,564
Credit margins and deposit margins:		
Margin from credit granting operations	34	37
Margin from activities of receiving deposits	76	59
Other	2	–
Total interest revenues, net	112	96

Contribution of the institutional Investor segment (in conformity with supervisory definitions) to Group profit in 2017 amounted to NIS 33 million, compared to NIS 13 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Interest revenues, net amounted to NIS 112 million, compared to NIS 96 million in the corresponding period last year – an increase by NIS 16 million, primarily due to increase in total deposits.

Expenses with respect to credit losses posted a decrease in expenses amounting to NIS 22 million, due to the effect of a group-based provision in this segment.

For more details and extensive information about results of this segment and operating results in conformity with management's approach - see Note 29 to the financial statements.

Financial Management Segment

Supervisory definition

The financial management segment includes trading operations, asset and liability management and non-banking investments.

Trade operations – Investment in securities held for trade, market making operations for securities, operations involving derivatives 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 derivatives, 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.

Brief description of segment attributes (using the "management approach")

Financial management at the Bank is conducted by the Finance Division. The financial management segment segment operates in Israel and overseas in several key areas: Management of Bank assets and liabilities, management of the debenture portfolio, management of exposure to market risk and liquidity management as well as trading room operations in the financial and capital markets, in conformity with management's viewpoint as to management of these activities.

Asset and liability management operations are managed by the Financial Management Sector, including management of sources and uses, exposures to market risk – including management of liquidity, basis and interest risk, management of transfer prices ("shadow prices"), pricing of special financial transactions and management of the debenture portfolio.

Trading operations are carried out by the Trading Room, including the Bank's activity in foreign currency, options, interest derivatives, securities in Israel and overseas and financial assets, with local and overseas entities as counter-parties.

The Division also includes a unit dedicated to managing relations with financial institutions and investors. This unit is in charge of all activities with overseas banks, including management of correspondent accounts, obtaining and providing service and developing activities in support of Bank client needs.

Business in this segment is subject to the relevant risk management policy and to restrictions imposed by the Board of Directors and by management on various exposure levels.

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.

Developments in the financial management segment during the reported period

In 2017, operations in this segment were affected by:

- Growing competition in the banking sector, along with a downward trend in commissions and spreads.
- Regulatory changes in the global and local markets.
- Lower trading volumes on the Tel Aviv Stock Exchange.

For more information and detailed description of products and services, key markets and distribution channels, business strategy and layout of competition in this segment and changes there to, see chapter "Corporate Governance" of these financial statements.

Analysis of operating results of the financial management segment (NIS in millions)

	For the year ended December 31, 2017	For the year ended December 31, 2016
Profit and profitability		
Total interest expenses, net	(5)	(75)
Non-interest financing revenues	131	291
Commissions and other revenues	242	270
Total revenues	368	486
Expenses with respect to credit losses	(1)	(1)
Operating and other expenses	321	357
Profit before provision for taxes	48	130
Provision for taxes	18	51
After-tax profit	30	79
Share of banking corporation in earnings of associate companies	–	–
Net profit before attribution to non-controlling interests	30	79
Net profit attributed to non-controlling interests	(22)	(14)
Net profit attributable to shareholders of the banking corporation	8	65
Balance sheet – key items:		
Average balance of risk assets	5,872	5,414
Credit margins and deposit margins:		
Margin from credit granting operations	–	–
Margin from activities of receiving deposits	–	–
Other	(5)	(75)
Total interest expenses, net	(5)	(75)

Contribution of the financial management segment (in conformity with supervisory definitions) to Group profit in 2017 amounted to NIS 8 million, compared to NIS 65 million in the corresponding period last year.
Below are key factors affecting the change in segment contribution:
Results of financing operations (net interest expenses and non-interest financing revenues) decreased by NIS 90 million compared to the corresponding period last year, primarily due to fair value and other effects. See also analysis of evolution of financing revenues in chapter "Material developments in revenues, expenses and other comprehensive income".

Commissions and other revenues amounted to NIS 242 million, compared to NIS 270 million in the corresponding period last year. In 2017, capital gain amounting to NIS 47 million before tax, from realization of assets was included in conjunction with asset reorganization and streamlining of the Bank's branch network, compared to NIS 92 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 29 to the financial statements.
For more information about the effect of attribution of expenses related to the US DOJ inquiry on this segment, see Note 29.D to the financial statements.

Operating results of overseas operations

Supervisory definition

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

Brief description of segment attributes (using the "management approach")
The Bank Group's international operations include providing banking services to businesses and private banking services to individuals, through subsidiaries and branches overseas. The Group's international operations include: private banking services, foreign trade financing; local credit for purchase of real estate; commercial financing and participation in syndicated lending. International operations, in Israel and overseas, report to the Private Banking and International Operations sector in the Bank's Financial Division.

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.

Products and services
Services offered to clients of the overseas operations segment are:

- Private banking services for clients with high financial wealth. These services include management of client deposits and provision of financial advice on management of clients' securities portfolios.
- Credit solutions for needs of individual and business clients, both local and Israeli clients operating overseas.

Developments in the overseas operations segment during the reported period
In recent years, competition with affiliates of Israeli banks overseas has diminished. Furthermore, global regulatory changes have resulted in a change in business focus and changes to client preferences.
For more information and detailed description of products and services, key markets and distribution channels, business strategy and layout of competition in this segment and changes there to, see chapter "Corporate Governance" of these financial statements.

Analysis of operating results of overseas operations (NIS in millions)

	For the year ended December 31, 2017	For the year ended December 31, 2016
Profit and profitability		
Total interest revenues, net	162	154
Non-interest financing revenues	7	4
Commissions and other revenues	29	31
Total revenues	198	189
Expenses with respect to credit losses	1	1
Operating and other expenses	71	74
Profit before provision for taxes	126	114
Provision for taxes	46	44
Net profit	80	70
Balance sheet – key items:		
Loans to the public (end balance)	3,151	3,250
Loans to the public, net (end balance)	3,116	3,223
Deposits from the public (end balance)	4,872	5,273
Average balance of loans to the public	3,031	3,195
Average balance of deposits from the public	5,102	4,794
Average balance of risk assets	3,495	3,594
Credit margins and deposit margins:		
Margin from credit granting operations	93	92
Margin from activities of receiving deposits	12	11
Other	57	51
Total interest revenues, net	162	154

Contribution of overseas operations to Group profit in 2017 amounted to NIS 80 million, compared to NIS 70 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Interest revenues, net, amounted to NIS 162 million, compared to NIS 154 million in the corresponding period last year. Commission revenues for current operations were essentially unchanged.

In the current period, a provision for credit losses was recorded, amounting to NIS 1 million, similar to the corresponding period last year.

Operating expenses decreased by NIS 3 million compared to 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 29 to the financial statements.

For more information about the effect of attribution of expenses related to the US DOJ inquiry on overseas operations, see Note 29.D to the financial statements.

Major Investees

The contribution of investees to net operating profit in 2017 amounted to NIS 122 million, compared with NIS 132 million last year. These data include impact of changes in exchange rates on the balance of investment in overseas investees, covered by the Bank's own sources.

Excluding the aforementioned effect of exchange rates, contribution of investees amounted to NIS 145 million, compared to NIS 142 million in the corresponding period last year – see explanation under Investees 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. On January 28, 2009, the replacement license for the Bank's previous license dated January 11, 2005, was received which allows the Bank to do business with government and public sector employees. In accordance with the replacement license, Bank Yahav may engage in new operations and may expand its client base, subject to advance permission by the Supervisor of Banks.

Concurrently with receiving the replacement license, Bank Yahav received approval from the Supervisor of Banks to provide services to individual clients (such as salaried employees, self employed and households) and to corporations, provided that credit granted to corporations shall not exceed the specified limit. Bank Yahav operates in accordance with the replacement license, subject to policies of the Bank Yahav Board of Directors on this matter.

Bank Yahav's contribution to Group net profit in 2017 amounted to NIS 44 million, compared with NIS 42 million in 2016. Net profit return on equity for Bank Yahav amounted in 2017 to 7.1%, compared to 7.2% in 2016. Bank Yahav's balance sheet total as of December 31, 2017 amounted to NIS 24,782 million, compared to NIS 23,854 million as of December 31, 2016, an increase by 3.9%. The balance of loans to the public, net as of December 31, 2017 amounted to NIS 9,569 million, compared to NIS 8,931 million as of December 31, 2016, an increase by 7.2%. The balance of deposits from the public as of December 31, 2017 amounted to NIS 20,908 million, compared to NIS 20,273 million as of December 31, 2016, an increase by 3.1%.

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. Tefahot Insurance's contribution to Group net profit in 2017 amounted to NIS 73 million, compared with NIS 72 million in 2016.

Net return on equity amounted to 7.6% in 2017, compared to 8.2% in 2016.

Other investees operating in Israel

Other investees operating in Israel, wholly controlled by the Bank and supported by Bank infrastructure, contributed NIS 27 million to the Bank's profit in 2017, net, compared with net profit of NIS 23 million in 2016. Of this, NIS 13 million (compared to NIS 11 million in 2016) 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 2017 amounted to CHF 0.7 million, compared to CHF 1.0 million in 2016. Mizrahi Bank Switzerland's balance sheet total as of December 31, 2017 amounted to CHF 174 million, compared to CHF 193 million as of December 31, 2016.

Interest revenues and net interest revenues in 2017 amounted to CHF 1.9 million, similar to 2016. Income before tax in 2017 amounted to CHF 1.0 million, compared to CHF 1.4 million in 2016. Income before tax net of exchange rate effects in 2017 amounted to CHF 3.4 million, compared to CHF 5.4 million in 2016.

The balance of loans to the public as of December 31, 2017 amounted to CHF 72 million, compared to CHF 69 million as of December 31, 2016. Deposits with banks as of December 31, 2017 amounted to CHF 100 million, compared to CHF 121 million as of December 31, 2016. Deposits from the public as of December 31, 2017 amounted to CHF 111 million, compared to CHF 131 million as of December 31, 2016.

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.

The contribution of Mizrahi Overseas Holdings to Group net profit in 2017, net of exchange rate effects, amounted to net profit of NIS 3 million, compared with NIS 4 million in 2016.

Actual net profit results of Mizrahi Overseas Holdings include the effect of changes in exchange rates, which is covered by the Bank's own resources.

For more information about an investigation by the US Department of Justice concerning Bank Group business with its US clients, see Note 26.C.12 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 were acquired for the purpose of earning capital gains, and 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 December 31, 2017 amounted to NIS 97 million, compared to NIS 102 million as of December 31, 2016, as follows:

	For the year ended December 31, 2017 NIS in millions	For the year ended December 31, 2016 NIS in millions
Under "securities available for sale"		
Participation units in equity funds	63	63
Negotiable investments	1	3
Investments in corporations presented on cost basis	1	1
Total under "securities available for sale"	65	67
Under "investment in associates":		
Investment in Psagot Jerusalem(1)	19	19
Investments in mezzanine funds(2)	11	14
Investment in Rosario Capital(3)	2	2
Total investment in associates	32	35
Total investment in non-banking corporations	97	102

(1) Psagot Jerusalem is a private company which acquired land in the Jerusalem area to be developed for residential construction. The carrying amount of Bank investments as of December 31, 2017 amounted to NIS 35 million, (same as of end of 2016). For more information about investment in Psagot Jerusalem, see Note 15 to the financial statements.

(2) A mezzanine fund is a fund for interim financing, providing companies in various sectors with financing complementary to bank credit. This financing is typically extended in return for interest, stock options and other equity instruments.

(3) Rosario Capital is a private company engaged in underwriting, assistance and advisory services for private and public issuances, mergers and acquisitions, investment in securities and distribution of securities.

Bank net gain from investments in non-banking corporations, after provision for impairment, in 2017 amounted to NIS 12 million, compared with gain amounting to NIS 9 million in 2016.

Risks overview

Overview of risks and manner of managing them

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, is designated to support achievement of the Group's business goals while limiting exposure to such risks.

The Bank maintained a low risk profile in 2017. In 2017, There were no deviations from the risk appetite specified by the Bank's Board of Directors for various risks. Risk benchmarks are within a reasonable distance from restrictions specified and in line with the strategic plan outline and with current work plans. Key financial ratios and profitability benchmarks show stable profit and capital for the Bank. The Bank has sufficient capital buffers to achieve its capital objectives under normal business conditions as well as under stress conditions.

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. Bank operations are subject to various risks: Credit risk, financial risk, compliance and regulatory risk, operating risk, business risk and reputation risk.

The Bank has in place a structured process for mapping and identification of specific risk associated with Bank operations, determined based on a materiality threshold, in accordance with the potential damage which the Bank may incur under scenarios of varying intensity. Materiality is considered before putting into use the risk mitigation measures, including: Management and control. Guidelines for handling the various material risks, as identified and mapped, including: risk appetite, measurement method, on-going monitoring of the Bank's risk profile, given the risk appetite specified by the Board of Directors, management and mitigation of any risk are included in specific policy documents.

The risks management framework policy, including mapping of material risks and specific policy documents, are approved annually by the Board of Directors. The Bank also specified the reporting required under normal conditions and in case of emergency.

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.

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 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.

The end of 2016 marked the end of the transition period for implementation of minimum liquidity coverage ratio (LCR) at 100%. As from the end of 2016, 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.

Non-financial risk is a material part of the Bank's risk map, requiring strict and structured risk management, evolving concurrently with global technological and regulatory evolution.

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 operating risks, IT risks and information and cyber security risks.

Compliance and regulatory risk reflect the risk of imposition of financial sanctions and enforcement procedures, which may be applied by competent authorities, as well as of claims against the Bank and implications for reputation risk.

Conduct risk is included under compliance risk – the Bank acts in this area to maintain a fair relationship with Bank clients and other stake holders and to reduce exposure to materialization of risk and failure events in this area. Fairness is a basic value in the Bank's Code of Ethics.

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.

Risk appetite and risks management

The Bank's risk appetite is determined for all material risks, using quantitative and qualitative restrictions; risks are reviewed under normal market conditions as well as under stress conditions. 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.

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. Moreover, the Tier I capital ratio for each year of the scenario is not lower than 6.5% (capital ratio restriction for threat condition, a test conducted under strict instructions with regard to potential impact to the Bank).

Stress testing

Stress testing is used by the Bank to estimate current risk exposure and from a forward-looking viewpoint which assumes uncertainty. Stress tests are a complementary tool for risk assessment models. The Bank has a range of calculation methodologies for conducting stress testing. The primary uses of stress testing and guidelines for setting them are included on the risk management policy document. The Bank extensively uses the stress testing results 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 tests at various severity levels. Furthermore, the Bank applies a Uniform Stress Scenario, a stress test based on macro-economic conditions specified by the Bank of Israel for the banking system. The results of this scenario indicate that the potential impact on Bank performance under such scenario is low relative to the Bank's capital and annual profit.

Risks Document

The risks document is the primary tool available to the Board of Directors to aid in discharging their role in risk management and control. The document presents, clearly and concisely, 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 specified by the Board of Directors.

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

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 operating 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	Low-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	Manager, Marketing, Promotion and Business Development Division
Strategic-business risk	Low-medium	President & CEO

(1) Assessment of the effect of the aforementioned risk factors takes into account the risks associated with the US DOJ inquiry as well as all action taken by the Bank to defend its position with regard to that inquiry. For more information about the US DOJ inquiry with regard to Bank Group business with its US clients and for more information about a motion for approval of a derivative claim and motion for approval of a class action lawsuit on this matter, see Note 26.C sections 12, 11.a) and 10.i) to the financial statements.

(2) The risk of impairment of the Bank's results due to negative reports about the Bank.

The risk level for each of the risks is assessed based on the outcome of monitoring the various quantitative risk benchmarks specified by the Bank, as well as based on a qualitative assessment of risk management and control processes and the effectiveness of control circles, in line with the ICAAP process conducted by the Bank and its results. A process including self-assessment of risk levels, quality of risk management and control processes, including the risk direction for the coming year and alignment with work plans of the various departments. These results are extensively discussed by management and by the Board of Directors.

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

Credit risk

Risk description

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 operating 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.

Description of risk appetite and risk management guidelines

Credit risk management at the Bank is carried out in conformity with Directive 311 "Credit risk management" of the Bank of Israel.

The Bank's Board of Directors has set credit policy, based upon the Bank's objectives and business strategy, emphasizing macro-economic changes in Israel and overseas and their implications on credit risk. The credit policies includes other policy documents which discuss the relevant risks to the Bank's credit operations, including: Credit concentration policy, which ensures that the credit concentration level at the Bank is regularly managed and monitored; derivatives policy, which stipulates the principles for management and monitoring of Bank clients with derivatives activity; collateral policy, which stipulates the principles required for management of client collateral, safety factors required by transaction type and risk factors; and the environmental risks policy.

Risk appetite consists of a long list of benchmarks and risk factors relevant to the Bank's credit operations, including: Economic sectors, borrower groups, risk factors in the mortgage portfolio, unique activity types, quality of credit portfolio, overseas operations etc. and other risk factors relevant for the Bank's credit risk profile and its business operations. Credit risk is also monitored using a range of stress tests, which estimate the potential impact of stress events on the Bank's credit portfolio. This is done, *inter alia*, in order to review Bank resilience to various stress events and as part of the ICAAP process.

Monitoring of the risk profile, in view of the specified risk appetite, is made at the frequency specified under the credit policies, and compliance with these limitations is reported to Bank's Board of Directors and management. The Bank's credit policies prescribe principles and rules for making credit available and for the management and control over the loan portfolio, in order to preserve its quality and reduce the inherent risk. These principles and rules enable controlled management of the risk involved in granting loans to borrowers, at the level of the individual borrower, group of borrowers and the level of economic and business sectors. The credit policies are reviewed during the year, in view of developments in the business environment in which the Bank and Bank clients operate and the policy is revised as needed.

The three lines of defense for credit risk are defined as follows:

First line of defense – credit-related business lines at the Bank

The structure of lines of business with regard to credit is based on three divisions, reporting to the President & CEO, as follows:

Retail Division

This division consolidates most of the bank credit activity of individual clients, including mortgages and the activity of small business clients. Bank branches and business centers operate under this division in eight geographic regions.

Business Banking Division

This division handles most banking activity of business clients (including from the real estate and construction sector) of medium to large business operations.

Finance Division

With regard to credit, the Finance Division serves private banking and international operations through private banking units in Israel and through overseas subsidiaries and affiliates.

For more information about client attributes in each segment, see chapter "Explanation and analysis of results and business standing" (Description of Bank Group business by operating segment) above.

The professional units in each of these client segments are responsible for regularly verification, monitoring and control of exposure to clients and operating segments for which they are responsible. This line of defense includes specific control units, such as division controllers and other control functions. These operations are incorporated in specific procedures, which ensure implementation of the specified principles for risk management.

Second line of defense – Risks Control – The Risks Control Division acts as the Bank's independent risks management function, thus serving as the second line of defense within corporate governance for risk management. Its activities include *post-factum* assessment, independent of Bank entities which approve credit, of borrower quality and quality of the Bank's credit portfolio, as well as producing an independent opinion for credit to material clients, as part of the credit approval process.

Second line of defense – Chief Accountant – The Chief Accountant is responsible for credit classification, for determination of provisions for credit losses, as well as for challenging the discovery and dissemination processes of problematic debt.

Third line of defense – Internal Audit – Internal Audit serves as the third line of defense within corporate governance for risks management, operating in line with the work plan for auditing the Bank's credit operations.

The Bank operates on multiple levels to monitor and mitigate credit risk in as much as possible, from the credit approval stage, emphasizing the required collateral and financial covenants specified in accordance with procedures, authorization and diversification policies specified by the Bank, through to regular control by business units and dedicated control units operating within the lines of business. This is done with constant effort invested in improving the professional expertise of those involved with credit, by means of banking courses and training, as well as professional seminars at all levels. Concurrently, the Bank invests extensive resources in improving its control mechanisms and IT systems available to decision makers in the credit sector.

On July 6, 2017, the Supervisor of Banks sent a letter to the Bank and to the rest of the banking system, requesting credit risks analysis for the "automobile trading" sector and for consumer credit for automobile purchase, under various stress scenarios. Based on the results, the Bank is required to consider adjustments to its business operations and associated controls

The Bank's Risks Control conducted a comprehensive review of this issue, which was discussed in depth by administrative forums, including a discussion 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.

For more information about key processes involved in management and control of credit risk at the Bank, see the Detailed Risks Report on the Bank website.

Handling of non-performing loans and collection of debts – The handling of problem loans requires special focus and professionalism, other than the level that approved or processed the credit extended and collateral received. Initial identification is typically computer-based by designated departments for identification and control. Identified clients are handled by the Special Client Sector of the Business Division.

In order to identify credit risk materializing, or which may materialize, at the Bank, the Bank regularly conducts a process to review and identify debts, based on specified criteria. Some of these criteria require debt to be classified as problematic debt, while others provide a warning and allow the professional entity to exercise discretion. Debts are reviewed by a ranking of authorizations specified in Bank procedures. This authorization ranking includes individual authorizations, from branch and headquarters staff, to authorizations at higher levels with regard to classifications and provisions granted to regional management and to special headquarter units, to conduct a structured, independent control process. The Chief Accountant forms a second line in the classification and provision setting process; he is responsible, in conformity with Proper Banking Conduct Directive 311, for being the independent factor in charge of classification and setting the provision for credit losses.

A computer system which supports application of measurement and disclosure provisions for impaired debts, credit risk and provision for credit losses, including in identification and control processes, carries out logical, criteria-based testing and determines defaults for debts classification as debts under special supervision, inferior debt, impaired debt or debt in restructuring, as required.

Identification of housing loans (mortgages) with risk attributes is automated by identifying criteria for arrears and other qualitative criteria. In early stages of arrears, the Bank mostly applies automated collection processes. Later on, the Bank applies proactive processes, both internal and external, including legal proceedings, if needed.

For more information about impaired debts, credit risk and provision for credit losses, see Note 1.D.6) to the financial statements and the detailed Risks Report on the Bank website.

Analysis of 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 Regulation 313).

As of December 31, 2017, the Bank had no borrower group which meets the aforementioned criteria.

Bank business with major borrower groups is conducted subject to several guidelines designed to mitigate risk associated with such activity:

- Activity with borrower groups is primarily done with established, leading public companies.
- Credit is mostly provided for short- and medium term, to be used in current operations of these companies.
- Credit is diversified among Group companies operating in different segments and economic sectors.
- Credit is provided, in as much as possible, to companies which are not mutually dependent or which are subject to mutual covenants or guarantees.

The Bank takes the following steps in order to manage exposure to groups of borrowers:

- Set financial covenants as needed.
- Provide credit against collateral, in as much as possible, and closely monitor exposure not secured by collateral.
- Closely monitor company operations and financial results.
- Closely monitor compliance of borrower group companies with financial covenants, if and when specified.

Major borrowers

Below is the sector composition of the top 6 borrowers for the Group as of December 31, 2017 (NIS in millions):

Borrower no.	Sector	On-balance sheet credit risk(1)	Off balance sheet credit risk(1)	Total credit risk(1)
1.	Construction	190	805	995
2.	Construction	73	544	617
3.	Construction	240	368	608
4.	Transport and storage	600	4	604
5.	Construction	–	602	602
6.	Construction	290	309	599

(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 employee stock ownership 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 other 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):

Economic sector of acquired company	December 31, 2017 Balance sheet credit risk	December 31, 2017 Off-balance sheet credit risk	December 31, 2017 Total credit risk	December 31, 2017 Individual provision for credit losses	December 31, 2016 Balance sheet credit risk	December 31, 2016 Off-balance sheet credit risk	December 31, 2016 Total credit risk	December 31, 2016 Individual provision for credit losses
Commerce	–	–	–	–	81	15	96	–
Total	–	–	–	–	81	15	96	–

Credit to leveraged companies (NIS in millions):

Economic sector of borrower	December 31, 2017 Balance sheet credit risk	December 31, 2017 Off-balance sheet credit risk	December 31, 2017 Total credit risk	December 31, 2017 Individual provision for credit losses	December 31, 2016 Balance sheet credit risk	December 31, 2016 Off-balance sheet credit risk	December 31, 2016 Total credit risk	December 31, 2016 Individual provision for credit losses
Construction and real estate	–	–	–	–	64	210	274	–
Commerce	108	16	124	–	404	161	565	–
Financial services	183	–	183	–	309	–	309	–
Information and communications	40	90	130	–	–	95	95	–
Total	331	106	437	–	777	466	1,243	–

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):

Troubled credit risk:	Total credit risk December 31, 2017	Total credit risk December 31, 2016
Impaired credit risk	888	893
Inferior credit risk	315	428
Credit risk under special supervision – housing	1,072	853
Credit risk under special supervision – other	457	757
Total problematic credit risk	2,732	2,931

The decrease in inferior credit risk is due to repayment of client loans.
The increase in housing credit under special supervision risk is due to increase in the total mortgage portfolio.
The decrease in credit under special supervision risk is due to improved classification of several individual clients.

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

	December 31, 2017	December 31, 2016
Ratio of impaired loans to the public to total loans to the public	0.4	0.4
Ratio of impaired loans to the public to total non-housing loans	1.2	1.2
Ratio of problematic loans to the public to total non-housing loans	2.3	2.8
Ratio of housing loans in arrears 90 days or longer to total loans to the public (1)(2)	0.6	0.5
Ratio of problematic credit risk to total credit risk with respect to the public	1.2	1.3

(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.

Below is a summary of impaired debt under restructuring made or in default (NIS in millions):

	December 31, 2017 Recorded debt balance before restructuring	December 31, 2017 Recorded debt balance after restructuring	December 31, 2016 Recorded debt balance before restructuring	December 31, 2016 Recorded debt balance after restructuring
Restructurings made	177	116	52	48

	December 31, 2017 Recorded debt balance	December 31, 2016 Recorded debt balance
Restructurings made which are in default	4	5

For more information see Note 30.B.2.C to the financial statements.

Analysis of change to impaired debts

Movement in impaired debts and impaired debt under restructuring (NIS in millions):

	Impaired debts not under restructuring Commercial	Impaired debts not under restructuring Housing	Impaired debts not under restructuring Individual – other	Impaired debts not under restructuring Total	Impaired debts under restructuring Commercial	Impaired debts under restructuring Housing	Impaired debts under restructuring Individual – other	Impaired debts under restructuring Total
Balance of impaired debts as of December 31, 2016	482	27	24	533	102	–	46	148
Debts classified as impaired during the year	296	10	10	316	35	–	29	64
Debts re-classified as non-impaired during the year	(27)	–	(2)	(29)	(8)	–	(1)	(9)
Accounting write-offs	(101)	(4)	(5)	(110)	(7)	–	(8)	(15)
Recovery of debts written off for accounting purposes in previous years	13	–	7	20	102	–	4	106
Other changes	(148)	–	(14)	(162)	(119)	–	(20)	(139)
Balance of impaired debts as of December 31, 2017	515	33	20	568	105	–	50	155

	Impaired debts not under restructuring Commercial	Impaired debts not under restructuring Housing	Impaired debts not under restructuring Individual – other	Impaired debts not under restructuring Total	Impaired debts under restructuring Commercial	Impaired debts under restructuring Housing	Impaired debts under restructuring Individual – other	Impaired debts under restructuring Total
Balance of impaired debts as of December 31, 2015	537	24	27	588	175	–	54	229
Debts classified as impaired during the year	238	3	10	251	13	–	8	21
Debts re-classified as non-impaired during the year	(26)	–	(3)	(29)	(14)	–	(1)	(15)
Accounting write-offs	(44)	–	(5)	(49)	(6)	–	(5)	(11)
Recovery of debts written off for accounting purposes in previous years	19	–	4	23	4		4	8
Other changes	(242)	–	(9)	(251)	(70)	–	(14)	(84)
Balance of impaired debts as of December 31, 2016	482	27	24	533	102	–	46	148

For more information about problematic credit risk, see Notes 13 and 30 to the financial statements.

Analysis of provision for credit losses

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

	Commercial	Housing	Individual - other	Total	Banks and govern-ments	Total
Balance of provision as of December 31, 2016	724	615	208	1,547	2	1,549
Expenses with respect to credit losses	46	24	123	193	(1)	192
Accounting write-offs	(245)	(9)	(145)	(399)	–	(399)
Recovery of debts written off for accounting purposes in previous years	174	–	59	233	–	233
Net accounting write-offs	(71)	(9)	(86)	(166)	–	(166)
Balance of provision as of December 31, 2017	699	630	245	1,574	1	1,575

	Commercial	Housing	Individual – other	Total	Banks and govern-ments	Total
Balance of provision as of December 31, 2015	700	614	192	1,506	3	1,509
Expenses with respect to credit losses	96	13	92	201	(1)	200
Accounting write-offs	(191)	(12)	(133)	(336)	–	(336)
Recovery of debts written off for accounting purposes in previous years	119	–	57	176	–	176
Net accounting write-offs	(72)	(12)	(76)	(160)	–	(160)
Balance of provision as of December 31, 2016	724	615	208	1,547	2	1,549

For more information about provision for credit losses see Notes 13 and 30 to the financial statements.

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

	December 31, 2017	December 31, 2016
Ratio of provision for credit losses to total loans to the public	0.9	0.9
Ratio of provision for credit losses to total credit risk with respect to the public	0.7	0.7
Ratio of expenses with respect to credit losses to average balance of loans to the public, gross	0.1	0.1
Ratio of net write-offs to average balance of loans to the public, gross	0.1	0.1
Ratio of expenses with respect to credit losses to average balance of loans to the public, net	0.1	0.1
Of which: With respect to commercial loans other than housing loans[1]	0.3	0.3
Ratio of net write-offs to average balance of loans to the public, net	0.1	0.1

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

For more information about changes to components of the provision for credit losses, see chapter "Material developments in revenues, expenses and other comprehensive income" above.

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 un-encumbered savings, knowledge of the client and past experience working with the client.

(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.

Credit pricing for the client is based on the client risk assessment, that includes the aforementioned parameters.
More than 65% of debt balance of individuals as of December 31, 2017 is with respect to clients with regular income in their account higher than NIS 10 thousand (similar rate to December 31, 2016). The rate of debt in accounts with no regular income is negligible.
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 as of December 31 (NIS in millions):

	December 31, 2017	December 31, 2016
Debts		
Checking balances	2,176	2,140
Utilized credit card balances	3,623	3,456
Auto loans(3) – adjustable interest	1,366	1,430
Auto loans(3)(4) – fixed interest	738	458
Other loans and credit – adjustable interest	10,677	9,856
Other loans and credit – fixed interest	232	225
Total debt (on-balance sheet credit)	18,812	17,565
Unutilized facilities, guarantees and other commitments		
Checking accounts – unutilized facilities	3,780	3,563
Credit cards – unutilized facilities	5,661	6,534
Guarantees	187	195
Other liabilities	67	61
Total unutilized facilities, guarantees and other commitments (off-balance sheet credit)	9,695	10,353
Total credit risk to individuals	28,507	27,918
Of which:		
Part of loans maturing in over 5 years(5)	2,400	1,920
Bullet / balloon loans(6)	647	608
Financial asset portfolio and other collateral against credit risk(7)		
Financial assets portfolio:		
Deposits	2,457	2,537
Securities	362	392
Other monetary assets	463	513
Other collateral(8)	1,098	1,200
Total financial assets portfolio and other collateral against credit risk	4,380	4,642

(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) The increase is primarily due to transactions involving assignment of loan portfolios acquired by the Bank.
(5) 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.
(6) Loans with a grace period for principal longer than one year.
(7) Amounts presented are the financial assets portfolio and other collateral, only up to client debt amount.
(8) Collateral is after applying the safety factor, in conformity with Bank factors accounted for when extending credit.

Below is composition by size of borrower indebtedness(1):

Loan ceiling and credit risk (NIS in thousands)		As of December 31, 2017 Number of Borrowers	As of December 31, 2017 Balance sheet credit risk	As of December 31, 2017 Off-balance sheet credit risk	As of December 31, 2017 Total credit risk	As of December 31, 2016 Number of Borrowers	As of December 31, 2016 Balance sheet credit risk	As of December 31, 2016 Off-balance sheet credit risk	As of December 31, 2016 Total credit risk
Up to 10		272,958	219	366	585	251,540	240	319	559
Above 10	Up to 20	83,861	513	709	1,222	77,707	478	651	1,129
Above 20	Up to 40	113,015	1,488	1,839	3,327	111,644	1,420	1,947	3,367
Above 40	Up to 80	113,264	3,630	2,993	6,623	115,108	3,386	3,224	6,610
Above 80	Up to 150	70,832	5,664	2,294	7,958	70,635	5,320	2,517	7,837
Above 150	Up to 300	33,591	6,017	1,194	7,211	32,140	5,483	1,367	6,850
Above 300		3,712	1,281	300	1,581	3,824	1,238	328	1,566
Total		691,233	18,812	9,695	28,507	662,598	17,565	10,353	27,918

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

Troubled credit risk before provision for credit losses (NIS in millions):

	As of December 31, 2017 Credit risk(1) On balance sheet	As of December 31, 2017 Credit risk(1) Off balance sheet	As of December 31, 2017 Credit risk(1) Total	As of December 31, 2016 Credit risk(1) On balance sheet	As of December 31, 2016 Credit risk(1) Off balance sheet	As of December 31, 2016 Credit risk(1) Total
Balance of problematic credit risk	218	3	221	183	3	186
Problematic credit risk rate(2)	1.16%	0.03%	0.78%	1.04%	0.03%	0.66%

(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)

	For the year ended December 31, 2017	For the year ended December 31, 2016
Expense with respect to credit losses as percentage of total loans to the public to individuals	0.65%	0.52%

Data for credit risk to individuals show that:

- Total debts by individuals (on-balance sheet credit) increased by 7.1% compared to December 31, 2016, primarily due to increase in loans and other credit.
- There was no significant change to composition of debts by individuals in 2017.

As of December 31, 2017:	
Checking balances	12%
Utilized credit card balances	19%
Auto loans	11%
Other loans and credit	58%

- 23% of total debt (on-balance sheet credit) as of December 31, 2017, is secured by financial assets and other collateral in the client's account (essentially similar to rates as of December 31, 2016).

  Given the risk attributes of this segment, the Bank increased its qualitative group-based provision for individuals, as directed by the Supervisor of Banks.

  Moreover, the increase in expenses with respect to credit losses is due, *inter alia*, to the impact of legislation which reduces debt repayment by individual clients who are in difficulties.

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, purchase groups, National Zoning Plan 38 etc. In 2017, units were established in the Business Division and in the Retail Division, aimed at providing a response to smaller-scale projects.

For more information about the Bank acquiring an insurance policy for guarantees, see chapter "Significant events in the Bank Group's business".

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

December 31, 2017

	Credit risk On balance sheet(2)	Credit risk Off balance sheet(3)	Credit risk Total	Total problematic credit risk Impaired	Total problematic credit risk Other problematic(4)	Balance of provision for credit losses Balance sheet credit risk	Balance of provision for credit losses Off-balance sheet credit risk
Secured by real estate in Israel:							
Housing	7,383	13,993	21,376	138	4	60	30
Commercial and industrial	4,330	774	5,104	48	7	57	2
Total secured by real estate in Israel:	11,713	14,767	26,480	186	11	117	32
Not secured by real estate in Israel	3,089	3,157	6,246	132	73	51	9
Total for construction and real estate economic sector in Israel	14,802	17,924	32,726	318	84	168	41
Of which: Designated for project assistance	7,613	13,047	20,660	13	3	61	28

December 31, 2016

	Credit risk On balance sheet(2)	Credit risk Off balance sheet(3)	Credit risk Total	Total problematic credit risk Impaired	Total problematic credit risk Other problematic(4)	Balance of provision for credit losses Balance sheet credit risk	Balance of provision for credit losses Off-balance sheet credit risk
Secured by real estate in Israel:							
Housing	6,144	14,449	20,593	170	211	48	32
Commercial and industrial	3,667	977	4,644	63	8	60	4
Total secured by real estate in Israel:	9,811	15,426	25,237	233	219	108	36
Not secured by real estate in Israel	2,439	2,322	4,761	159	39	42	13
Total for construction and real estate economic sector in Israel	12,250	17,748	29,998	392	258	150	49
Of which: Designated for project assistance	5,740	13,309	19,049	78	193	48	33

(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 derivatives 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):

	December 31, 2017 Credit risk[(1)] On balance sheet	December 31, 2017 Credit risk[(1)] Off balance sheet	December 31, 2017 Credit risk[(1)] Total	December 31, 2016 Credit risk[(1)] On balance sheet	December 31, 2016 Credit risk[(1)] Off balance sheet	December 31, 2016 Credit risk[(1)] Total
Real estate collateral in Israel						
Real estate yet to be completely constructed:						
Raw land	6,069	3,538	9,607	3,860	1,074	4,934
Real estate under construction	3,947	10,854	14,801	3,870	13,832	17,702
Real estate completely constructed	1,697	375	2,072	2,081	520	2,601
Total credit secured by real estate in Israel	11,713	14,767	26,480	9,811	15,426	25,237
Not secured by real estate in Israel	3,089	3,157	6,246	2,439	2,322	4,761
Total credit risk for construction and real estate	14,802	17,924	32,726	12,250	17,748	29,998

(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.

Credit risk data for the construction and real estate clients sector as of December 31, 2017 show that 51% of the on-balance sheet credit risk and 73% 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 December 31, 2017, as presented in chapter "Risks" below (Credit Risk by Economic Sector) is 14.3%. 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 12.74% (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 December 31, 2017

Reported amounts (NIS in millions)

	Total	Total credit risk[1] Credit performance rating[5]	Total credit risk[1] Problematic[6]	Off balance sheet debts[2] and credit risk (other than derivatives)[3] Total	Off balance sheet debts[2] and credit risk (other than derivatives)[3] Debts	Off balance sheet debts[2] and credit risk (other than derivatives)[3] Problematic[6]	Off balance sheet debts[2] and credit risk (other than derivatives)[3] Impaired	Off balance sheet debts[2] and credit risk (other than derivatives)[3] Credit losses[4] Expenses with respect to credit losses	Off balance sheet debts[2] and credit risk (other than derivatives)[3] Credit losses[4] Net accounting write-offs	Off balance sheet debts[2] and credit risk (other than derivatives)[3] Credit losses[4] 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 derivatives (NIS in millions): Debts[2] – 185,145; debentures – 10,034; securities borrowed or acquired in conjunction with resale agreements – 76; Assets with respect to derivatives – 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 derivatives.

(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.

Credit Risk by Economic Sector – Consolidated – continued

As of December 31, 2016

Reported amounts (NIS in millions)

	Total	Total credit risk[1] Credit performance rating[5]	Total credit risk[1] Problematic[6]	Off balance sheet debts[2] and credit risk (other than derivatives)[3] Total	Off balance sheet debts[2] and credit risk (other than derivatives)[3] Debts	Off balance sheet debts[2] and credit risk (other than derivatives)[3] Problematic[6]	Off balance sheet debts[2] and credit risk (other than derivatives)[3] Impaired	Off balance sheet debts[2] and credit risk (other than derivatives)[3] Credit losses[4] Expenses with respect to credit losses	Off balance sheet debts[2] and credit risk (other than derivatives)[3] Credit losses[4] Net accounting write-offs	Off balance sheet debts[2] and credit risk (other than derivatives)[3] Credit losses[4] Balance of provision for credit losses
Borrower activity in Israel										
Public – commercial										
Agriculture, forestry and fishing	778	767	11	778	594	11	7	4	2	8
Mining and excavation	615	615	–	588	336	–	–	(2)	–	4
Industry and production	8,416	8,228	188	8,203	5,153	188	91	20	15	92
Construction and real estate – construction[7]	27,553	26,984	569	27,550	10,150	569	314	7	11	140
Construction and real estate – real estate operations	2,445	2,364	81	2,440	2,096	81	78	(19)	–	59
Electricity and water delivery	1,508	1,503	5	1,082	524	5	3	3	2	4
Commerce	10,260	9,725	535	10,145	7,848	535	211	61	21	200
Hotels, dining and food services	1,036	1,011	25	1,036	807	25	11	9	7	19
Transport and storage	1,827	1,810	17	1,817	1,107	17	11	7	4	9
Information and communications	1,084	1,075	9	1,080	502	9	3	(15)	1	7
Financial services	[8]12,332	[8]12,003	329	[8]10,161	[8]3,832	329	17	(4)	(16)	96
Other business services	3,537	3,468	69	3,472	2,369	69	27	23	15	41
Public and community services	1,790	1,767	23	1,741	1,356	23	18	6	8	8
Total commercial	73,181	71,320	1,861	70,093	36,674	1,861	791	100	70	687
Private individuals – housing loans	120,350	119,470	880	120,350	114,691	880	27	13	12	614
Private individuals – other	[8]27,969	[8]27,545	186	[8]27,918	[8]17,565	186	71	92	76	208
Total public – activity in Israel	221,500	218,335	2,927	218,361	168,930	2,927	889	205	158	1,509
Banks in Israel	1,493	1,493	–	393	275	–	–	–	–	1
Government of Israel	9,037	9,037	–	–	–	–	–	–	–	–
Total activity in Israel	232,030	228,865	2,927	218,754	169,205	2,927	889	205	158	1,510
Borrower activity overseas										
Total public – activity overseas	5,404	5,400	4	5,220	3,849	4	4	(4)	2	38
Overseas banks	4,366	4,366	–	2,397	2,234	–	–	(1)	–	1
Overseas governments	1,426	1,426	–	330	330	–	–	–	–	–
Total activity overseas	11,196	11,192	4	7,947	6,413	4	4	(5)	2	39
Total	243,226	240,057	2,931	226,701	175,618	2,931	893	200	160	1,549

(1) On- and off-balance sheet credit risk, including with respect to derivatives (NIS in millions): Debts[2] – 175,618; debentures – 10,162; securities borrowed or acquired in conjunction with resale agreements – 9; Assets with respect to derivatives – 3,584; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 53,853.

(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 derivatives.

(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 1,544 million and off-balance sheet credit risk amounting to NIS 1,646 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 6,111 million for which insurance has been acquired to cover the Sales Act guarantee portfolio from international re-insurers.

(8) Reclassified.

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:

Country	Balance sheet exposure[2] Cross-border balance sheet exposure To governments[4]	Balance sheet exposure[2] To banks	To others	Balance sheet exposure of Bank affiliates in foreign country to local residents Balance sheet exposure before deduction of local liabilities	Balance sheet exposure of Bank affiliates in foreign country to local residents Deduction with respect to local liabilities	Balance sheet exposure of Bank affiliates in foreign country to local residents Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	On-balance sheet problematic credit risk	Impaired debts	Off-balance sheet exposure[2][3][6] Total off-balance sheet exposure	Off-balance sheet exposure[2][3][6] Of which: Off-balance sheet problematic credit risk	Cross-border balance sheet exposure Maturing in under 1 year	Cross-border balance sheet exposure Maturing in over 1 year
As of December 31, 2017													
USA	3,231	336	1,239	368	368	–	4,806	15	–	654	–	1,532	3,274
France	–	142	1,295	–	–	–	1,437	21	–	2,565	–	210	1,227
Germany	172	61	98	–	–	–	331	–	–	2,999	–	106	225
Others [5]	54	338	2,325	1,201	482	719	3,436	23	–	1,661	–	930	1,787
Total exposure to foreign countries	3,457	877	4,957	1,569	850	719	10,010	59	–	7,879	–	2,778	6,513
Of which: Total exposure to LDC countries	11	–	535	–	–	–	546	6	–	149	–	125	421
Of which: Total exposure to Greece, Portugal, Spain, Italy and Ireland	–	3	43	–	–	–	46	1	–	66	–	14	32
As of December 31, 2016													
USA	2,660	413	1,208	405	405	–	4,281	9	–	1,268	–	1,646	2,635
UK	–	159	422	978	551	427	1,008	6	–	3,411	–	201	380
France	–	126	1,304	–	–	–	1,430	19	–	916	–	200	1,230
Others [5]	121	515	2,122	–	–	–	2,758	4	–	3,054		1,248	1,510
Total exposure to foreign countries	2,781	1,213	5,056	1,383	956	427	9,477	38	–	8,649	–	3,295	5,755
Of which: Total exposure to LDC countries	–	1	509	–	–	–	510	1	–	151	–	147	363
Of which: Total exposure to Greece, Portugal, Spain, Italy and Ireland	–	2	51	–	–	–	53	–	–	837[6]	–	14	39

(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 Bank closely monitors events in the financial markets which started after the balance sheet date and adjusts its current operations as required. The Bank informs the Supervisor of Banks of its exposure to foreign financial institutions and of steps taken to mitigate the risk associated with its operations.

(6) The balance of off-balance sheet exposure includes NIS 5,237 million with respect to acquiring insurance from international re-insurers for the portfolio of Sales Act guarantees for borrowers in the real estate sector in Israel. (As of December 31, 2016: NIS 6,111 million, of which NIS 767 million to international reinsurers from Ireland rated A).

The exposure presented above represents, in accordance with directives of the Supervisor of Banks, exposure based on final risk. The party bearing the final risk is an individual, business, institution or instrument which provides "credit reinforcement" to the Bank, such as guarantees, collateral, insurance contracts or credit derivatives. When no "credit reinforcement" exists, the party bearing the final risk is the debtor.

The row "Total exposure to LDC countries" includes total exposure to countries classified as "Less Developed Countries" (LDC) in Proper Conduct of Bank Businesses Directive 315 "Supplementary provision for doubtful debts".

Balance sheet exposure to such country includes cross-border balance sheet exposure and balance sheet exposure of affiliates of the banking corporation in foreign country to local residents. Cross-border balance sheet exposure includes balance sheet exposure of Israeli offices of the banking corporation to residents of the foreign country and balance sheet exposure of overseas affiliates of the banking corporation to non-residents of the country where the affiliate is located.

Balance sheet exposure of affiliates of the banking corporation in a foreign country to local residents includes balance sheet exposure of affiliates of the banking corporation in that foreign country to local residents, less liabilities of these affiliates (deducted up to the exposure amount).

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:

	December 31, 2017 Balance sheet exposure	December 31, 2017 Off-balance sheet exposure	December 31, 2016 Balance sheet exposure	December 31, 2016 Off-balance sheet exposure
UK	1,343	687	–	–

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]
As of 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 December 31, 2016					
AAA to AA-	597	409	1,698	2,295	2,107
A+ to A-	628	419	5,425	6,053	5,844
BBB+ to BBB-	25	7	–	25	7
BB+ to B-	–	–	18	18	18
Lower than B-	–	–	–	–	–
Unrated	1	1	–	1	1
Total credit exposure to foreign financial institutions	1,251	836	7,141	8,392	7,977

As of December 31, 2017 and December 31, 2016 there was no problematic commercial 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 derivatives.

(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 5,237 million as of December 31, 2017 (as of December 31, 2016: NIS 6,111 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 derivatives for counter-parties which have signed master netting agreements.

(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 further information with regard to credit exposure composition with respect to derivatives vis-à-vis banks and dealers/brokers (domestic and foreign), see Note 28.C 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 derivatives. 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.

Ratings – Bank activity with overseas entities generates exposure to sovereigns and to financial institutions. The Bank has set policies with regard to review and routing of risk arising from this exposure. For credit risk exposure management, as stated above, the Bank uses ratings by independent rating agencies, primarily: Fitch, Standard & Poor's, and Moody's. These ratings are accounted for as part of the considerations in setting limits on the Bank's exposure to nations and banks, intended primarily for derivatives operations, financing and guarantees for foreign trade and various investments. External ratings form a basis for in-house analysis of a country or counter-party, conducted by the Bank. Other data from various sources used for this analysis are also taken into account. The Bank's assessment of the counter-party may differ from that of the rating agency.

The Bank acquires the ratings, and analysis underlying such ratings, from Fitch and Moody's. Ratings and analysis are periodically updated by the rating agencies and the Bank uses the most current information available when setting facilities or when reviewing a counter-party.

Housing credit risk

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 tests to review the impact of macro-economic factors on portfolio risk – primarily the impact of unemployment 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 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 December 2017) was 54.1% (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 significantly lower than the original LTV ratio due to the constantly higher housing prices. 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) 2017	Loans granted (NIS in millions) 2016	Loans granted (NIS in millions) 2015	Change in % 2016-2017	Change in % 2015-2016
Mortgages issued (for housing and any purpose) out of Bank funds	19,897	23,627	23,804	(15.8)	(0.7)
From funds of the Finance Ministry					
Directed loans	228	103	65	121.4	58.5
Standing loans and grants	73	116	125	(37.1)	(7.2)
Total new loans	20,198	23,846	23,994	(15.3)	(0.6)
Refinanced loans	1,556	2,103	4,795	(26.0)	(56.1)
Total loans originated	21,754	25,949	28,789	(16.2)	(9.9)
Number of borrowers (includes refinanced loans)	41,605	48,450	59,468	(14.1)	(18.5)

Below are details of various risk attributes of the housing loan portfolio(1) as of December 31, 2017 (NIS in millions):

Loan age(2) (time elapsed since loan grant)

LTV ratio	Repayment ratio out of regular income	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%	2,638	8,367	11,320	20,677	15,829	4,592	63,423
	35%-50%	283	1,155	1,756	4,090	4,301	956	12,541
	50%-80%	–	–	1	413	1,421	354	2,189
	Over 80%	–	–	–	48	122	66	236
60%-75%	Up to 35%	950	3,074	6,726	13,276	7,175	1,054	32,255
	35%-50%	95	364	903	1,834	1,796	287	5,279
	50%-80%	–	–	–	89	512	112	713
	Over 80%	–	–	–	2	40	15	57
Over 75%	Up to 35%	54	144	182	389	1,819	1,169	3,757
	35%-50%	4	25	16	73	397	394	909
	50%-80%	–	–	–	4	74	124	202
	Over 80%	–	–	–	1	8	28	37
Total		4,024	13,129	20,904	40,896	33,494	9,151	121,598

Of which:	Up to 3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Loans granted with original amount over NIS 2 million	229	923	1,199	1,919	1,463	109	5,842
Percentage of total housing loans	5.7%	7.0%	5.7%	4.7%	4.4%	1.2%	4.8%
Loans bearing variable interest:							
Non-linked, at prime lending rate	1,011	3,261	5,513	11,680	12,611	2,447	36,523
CPI-linked(3)	11	23	21	229	4,005	1,556	5,845
In foreign currency(3)	122	415	408	1,279	1,410	268	3,902
Total	1,144	3,699	5,942	13,188	18,026	4,271	46,270
Non-linked loans at prime lending rate, as percentage of total housing loans	25.1%	24.8%	26.4%	28.6%	37.7%	26.7%	30.0%
CPI-linked loans bearing variable interest as percentage of total housing loans	0.3%	0.2%	0.1%	0.6%	12.0%	17.0%	4.8%
Loans with LTV over 75% as percentage of total housing loans	1.4%	1.3%	0.9%	1.1%	6.9%	18.7%	4.0%

(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 up to 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 December 31, 2017).

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 December 31, 2017 was 54.1%, compared to 54.7% on December 31, 2016 and to 55.0% on December 31, 2015. Out of the total loan portfolio of the Bank, amounting to NIS 121.6 million, some 96% 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 significantly lower than the historical LTV ratio. Total loans granted at LTV ratios over 75% in the past two years amounted to NIS 0.4 billion, or only 0.3% of the total housing loan portfolio.

Note, in this regard, that the Bank's average LTV ratio as of December 31, 2017, 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 18%; for all loans in total – by 10%.

The percentage of loans granted with a high LTV ratio (over 75%) out of total housing loan portfolio of the Bank to 0.9% for loans granted 1-2 years ago, 1.3% for loans granted 3-12 months ago and 1.4% for loans granted in the fourth quarter of 2017.

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 27.1%. Some 81.6% of the Bank's mortgage portfolio were granted to borrowers with a repayment ratio under 35% (the average repayment ratio for these borrowers is 23.5%). Some 15.5% of the mortgage portfolio were granted to borrowers with a repayment ratio of 35% to 50% (the average repayment ratio for these borrowers is 39.6%). Some 2.6% of mortgages were granted to borrowers with a repayment ratio of 50% to 80% (the average repayment ratio for these borrowers is 59.6%), and only 0.3% were granted to borrowers with a repayment ratio over 80% (the average repayment ratio for these borrowers is 92.3%).

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 9.8 billion, or only 8.0% 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 5.8 billion on December 31, 2017, or only 4.8% 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 the appendix to Proper Banking Conduct Directive 314, as of December 31, 2017 (NIS in millions):

Extent of arrears

	In arrears 30 to 89 days(1)	In arrears 90 days or longer 90 days to 6 months	In arrears 90 days or longer 6-15 months	In arrears 90 days or longer 15-33 months	In arrears 90 days or longer Over 33 months	Total over 90 days	Balance with respect to refinanced loans in arrears(2)	Total
Amount in arrears	6	15	14	10	209	248	47	301
Of which: Balance of provision for interest(3)	–	–	–	–	108	108	6	114
Recorded debt balance	390	536	226	68	131	961	112	1,463
Balance of provision for credit losses (4)	–	–	31	32	95	158	54	212
Debt balance, net	390	536	195	36	36	803	58	1,251

(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.

Means for risk management in housing loans

Means for risk management in housing loans include:

- Underwriting process – Housing loans are reviewed and approved based on the following criteria:
  - Loan approval criteria include: Accumulated experience at the Bank with regard to housing loans; Results of current credit reviews; Review of loan portfolios carried out by a special-purpose nation-wide review center; Assessment of credit risks in different areas of the country; Borrower quality and repayment capacity; Proposed property collateral and guarantors; Nature of the transaction.
  - Credit authorization – Specification of the party authorized to approve a loan is based on data in the credit application and the risk associated there with.
  - Model for determination of differential risk premium – This model was developed by the Bank, based on past empirical data, for rating transaction risk.
  - Built-in controls in loan origination system – These controls include: Ensure information completeness; Control over transactions based on authorizations; Work flow process.
- Mortgage-related training – The Bank's Training Center delivers courses for training, development and improvement of all those involved in provision of housing loans.
- Professional conferences – In these conferences, extensive reviews of developments in the mortgage market are presented, along with steps to be taken to handle the risks associated with such developments.
- Regular monitoring of borrower condition and of the housing loan portfolio – At the individual loan level, the Bank acts to identify as early as possible any symptoms indicating a decline in borrower repayment capacity, in order to identify as soon as possible any credit failure situation. The Bank applies multiple control types, including regular internal controls at branches, regions and headquarters.

Entities participating in risk management and control for housing loans

- Mortgage Management Department of the Retail Division – This department handles different events which occur during the loan term.
- The National Review Center of the Retail Division – Loan files are sent to this Center prior to origination. These files are reviewed by the Center, in order to verify that the branch did carry out the actions required according to Bank procedures, regulations and instructions of the loan approver.
- Collection Department – Handles debts collection from borrowers in arrears and realization of properties.
- Arrears Forum – The Forum specifies targets for debts processing and for reducing arrears.
- Legal Division – As part of the underwriting process, collateral for non-standard loans and for high-value loans are reviewed.
- Risks Control Division – The Risks Control Division monitors the quality of the Bank's loan portfolio and the evolution of the Bank portfolio's risk profile, in view of the specified risk appetite. The division is responsible for regularly performing stress testing of the Bank's mortgage portfolio.
- Credit risks and credit concentration monitoring forum – The Bank operates a forum for monitoring credit risks, headed by the Manager, Risks Control Division, which promotes issues such as: review of credit policy and, in particular, changes to the risk appetite specified there, analysis of credit portfolio risk level, application of advanced modeling approaches, supervision of design and application process of stress testing, and monitoring of the risk profile of the Bank's loan portfolio.
- Internal Audit – The work plan for Internal Audit with regard to loans includes, inter alia, reference to review of entities involved in loan approval, origination, administration and control.

Tools for risk mitigation in housing loans

- Collateral – In accordance with Bank procedures for mortgages, loans are only provided if secured by property collateral. In some cases, the Bank demands guarantors for the debt, in addition to property collateral.
- Insurance – According to Bank procedures, all properties serving as collateral must be insured under property insurance. In addition, the borrowers are insured by life insurance assigned to the Bank in case of death prior to complete repayment of the loan. For some loans (usually loans with LTV ratio higher than 75%), the Bank contracted with EMI Corp., which provides credit insurance in case the proceeds from realization of the property collateral for the loan should fail to cover the outstanding loan amount. This credit insurance process is a key risk mitigator.
- Loan To Value Ratio – The maximum LTV ratio approved by the Bank is determined by the credit policies and is periodically reviewed. Generally, the Bank requires borrowers to contribute part of the financing for the acquisition. This self-equity payment forms a safety cushion in case the property is realized during a down-turn in the real estate market.

For more information about operations of these entities, see the Detailed Risks Report on the Bank website.

Environmental risks

For more information about environmental risks, see Other Risks below and the detailed Risks Management Report on the Bank website.

Market risk and interest risk

Risk description

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 book 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.

Overview of market and interest risk and guidelines for management thereof

The Bank has no exposure to commodities and its exposure to equities is not material; thus, the Bank's major exposure to market risk is due to basis risk – which is due to Bank assets and liabilities being denominated in different currencies or linkage segments – and to interest risk in the banking book. Changes in interest rates impact Bank profits (change in revenues) and the value of Bank assets (change in fair value). The Bank manages its market risk and interest risk in an integrated fashion, under the same organizational structure and using similar tools, data structures, methodology and systems.

Market risk and interest risk form an integral part of banking business and of management of Bank assets and liabilities. However, excessive market risk and/or interest risk may expose the Bank to loss and may pose a threat to Bank capital. Therefore, the Bank's Board of Directors and management have specified, in the Bank's structured process for risks mapping and identification, that market risk and interest risk are material risks and that management of these risks is critical for stability of the Bank, especially in view of the low interest rate environment and the potential for change in market interest trend. Management of these risks is designed to maintain a reasonable risk level, in conformity with the exposure caps, i.e. the risk appetite specified for these risks, while taking advantage of opportunities and constant monitoring of the risk profile, so that the Bank would not be exposed to significant losses.

Management of market risk and interest risk at the Bank consists of two main risk focus points: the bank portfolio and the negotiable portfolio. The negotiable portfolio is small relative to activity in the bank portfolio and is associated with low risk. The bank portfolio, which accounts for most of the Bank's operations, is primarily exposed to interest risk.

Market risk and interest risk are managed at Group level, including the Bank's overseas affiliates and subsidiaries. Operations vis-à-vis Bank Yahav are regularly coordinated, in particular for setting the Group risk appetite, which requires monitoring of the Group-level risk profile. Policy principles were specified in line with Bank strategy and with regulatory requirements, i.e. Proper Banking Conduct Directives of the Bank of Israel, relevant Basel Committee directives and in line with globally accepted best practice.

As part of risk management, the Bank is required to allocate capital, as part of Basel II, Pillar 1, against risk in the negotiable portfolio, in conformity with Proper Banking Conduct Directive 208 "Capital measurement and adequacy – market risk" which includes the Basel II directives with regard to definition, management and revaluation of the negotiable portfolio.

Overall market risk is categorized as Low-Medium. 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 continuing decrease in early mortgage repayment rates. Assessment of Bank exposure to interest risks in the fourth quarter of 2017 remains Medium. Note that in 2017, the Bank revised the method of risk measurement due to implementation of the Basel position paper dated April 2016 with regard to interest risk management. Exposure is monitored using various benchmarks in the normal course of business and under stress conditions. Following the updates to interest risk models, the limitations in terms of the EVE and VaR models were updated in the policy document.

The bank portfolio includes the positions not classified as negotiable positions in the negotiable portfolio. The Bank handles interest risk in the bank portfolio and overall additional capital allocation with respect there to, in conformity with Basel Pillar 2. Capital allocation in conformity with Basel Pillar 2 is reviewed both under scenarios which reflect the normal life state and under stress scenarios, including systemic scenarios and threat scenarios. This is done as part of the ICAAP process, as described in chapter "Capital adequacy".

The Bank structure, which is weighted towards the mortgage portfolio, produces long-term uses for which the Bank requires sources. Due to incomplete alignment of the average duration of uses and the average duration of sources, the Bank's economic value is exposed to increase in interest rate curves.

This risk is monitored on a regular basis, both in managing interest risk for the overall portfolio in VaR terms, and in EVE (Economic Value of Equity) terms, as well as another range of scenarios which mostly reflect stress conditions. The risk level was set at low-medium, reflecting the Bank's policy and actions to raise sources of relatively long durations, both in negotiable issues and in deposits from the public – unique deposits which provide a solution for client needs and provide sources for medium and long terms to hedge interest rate exposure.

For more information about these models, their use and their limitations, see the Detailed Risk Report on the Bank website.

Means of supervision over and implementation of the policy

The Bank has put in place an organizational structure for management of market risks and interest risks in the bank portfolio, which includes the Board of Directors, management and the three lines of defense. This structure is supported by special committees and forums, created for such risks management and in order to create an internal controls system, designed to prevent deviation from Bank policy in its activity in the negotiable portfolio and in the bank portfolio.

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

Hedging and risks mitigation policy

A major tool for management and mitigation of interest risk is setting shadow prices at the Bank (transfer pricing). Shadow prices at the Bank are determined daily by the Asset and Liability Management Department (hereinafter: "ALM") of the Financial Management Sector and reflect the needs for management of various exposures under the policy on risk / reward management.

Another tool is buying / selling government debentures. The Asset and Liability Management Department o the Financial Management Sector also manages the interest and/or basis position through forward contracts, swap transactions and options. The advantages of using these tools stem from the ability of rapid execution at large amounts, which allows for dynamic, effective management of market and interest exposures for asset and liability management by the Bank, within a reasonable time frame. In addition, these transactions are unfunded, are highly liquid and are conducted through the Bank's trading room.

Derivatives transactions, which are identified as hedging balance sheet positions in accordance with accounting rules, are to be specified as hedge accounting transactions, in accordance with the Bank's hedging procedure. Hedge effectiveness is the degree of correlation between changes in fair value or between cash flows of the hedged item and of the hedging derivative. The hedge is considered highly effective if the changes in fair value or cash flows of the hedged item, are nearly fully set off by changes in fair value or cash flows of the hedged instrument. Hedge effectiveness is tested quarterly.

At least once a year, the Bank reviews the underlying assumptions of models used to manage market and interest risks, including behavioral assumptions made in order to determine forecasting of certain instruments.

The Bank reviews the concentration of interest risk by linkage segment and by major instrument type. The concentration map is discussed annually by risks management committees.

The Bank constantly acts to increase awareness of market and interest risks in the bank portfolio at Group level, both at headquarter units, at branches and at overseas units of the Bank, through operating procedures, training and seminars on this topic. Furthermore, constant contact is maintained with all relevant units for management of market and interest risk. Coordination between units is designed to achieve a uniform methodology for management of market and interest risks in the bank portfolio.

Measurement of market and credit risks exposure and their management using models for risks management

Measurement of market and interest risks is supported by a wide range of information systems, models, processes, risk benchmarks and stress tests. The information systems involved in the calculation are regularly reviewed, through internal controls processes at the Bank, including specific surveys for monitoring activities and information and continuous validation processes, in order to ensure completeness and accuracy of data and calculations.

The Bank has two major models for managing its market and interest risks: The VaR model and the EVE model. The Bank calculates these benchmarks, as well as other benchmarks used for management of such risks, at least once per day.

The VAR model is a statistical model that estimates the loss expected for the Bank in a certain investment period and at a predetermined statistical level of assurance. This model measures risk level in terms of money, where the Bank aligns the investment horizon for the portfolios reviewed using this benchmark. The Bank uses a combination of multiple methods for VaR calculation, commonly used around the world. The VaR calculation is in addition to a back testing calculation, designed to review the quality of its calculation estimates, i.e. review the model forecast, compared to actual results. The Bank has specified a risk appetite in VaR terms, for the entire Bank portfolio and for its activities in various options portfolios (for various underlying assets). VaR calculations for the Bank's overall portfolio are made daily, while calculations for the option portfolios are made hourly.

EVE (Economic Value of Equity) is a model which reflects the economic value approach. This is the Bank's main model for estimating interest risk in the bank portfolio, which reviews changes in economic value of the portfolio under various assumptions of changes to interest rate curves, under normal conditions and under stress conditions, including a concurrent increase / decrease in the interest rate curve. In addition, the Bank has various stress tests at different severity levels, designed to review its risk profile under stress conditions, in view of the risk appetite determined by the Board of Directors. The Bank also applies innovative methods to review interest risk in the bank portfolio under emergency conditions, including under stress scenarios of an economic outline.

This scenario is based on the Bank's understanding as to development under stress conditions of macro-economic conditions relevant for these risks. The Bank also performs a scenario where the interest rate curve moves in non-parallel fashion. Such scenario complements the EVE approach, which is based on parallel move of interest rate curves.

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

	All of 2017	All of 2016
At end of period	533	386
Maximum value during period	781 (APR)	386 (Dec.)
Minimum value during period	388 (FEB)	235 (JAN)

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 deviation, of a small amount, was primarily due to an increase in the NIS-denominated curve (for longer terms). 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 impact of a parallel shift of the curve by 2% on the economic value of the Bank's portfolio in EVE terms (NIS in millions):

December 31, 2017 - Change in fair value

	Israeli currency Non-linked	Israeli currency Linked to CPI	Foreign currency Dollar	Foreign currency EUR	Foreign currency Other	Total
2% increase	(714)	(1,112)	26	(47)	(1)	(1,848)
Decrease of 2%	1,285	1,408	(5)	53	2	2,743

December 31, 2016 - Change in fair value

	Israeli currency Non-linked	Israeli currency Linked to CPI	Foreign currency Dollar	Foreign currency EUR	Foreign currency Other	Total
2% increase	(1,221)	421	(55)	(25)	5	(875)
Decrease of 2%	1,710	(574)	75	29	(5)	1,235

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.

The higher risk values are primarily due to how interest risk is measured, to mortgage performance and to continued decrease in early repayment rate of mortgages. This increase was partially offset by deposits raised, issuance of debentures and sale of mortgage portfolios.

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

Reported amounts (NIS in millions)

	As of December 31, 2017 On Call to 1 month	As of December 31, 2017 Over 1 month to 3 months	As of December 31, 2017 Over 3 months to 1 year	As of December 31, 2017 Over 1-3 years	As of December 31, 2017 Over 3-5 years	As of December 31, 2017 Over 5-10 years	As of December 31, 2017 10-20 years	As of December 31, 2017 Over 20 years	As of December 31, 2017 Without maturity	As of December 31, 2017 Total fair value	As of December 31, 2017 Internal rate of return In %	As of December 31, 2017 Average effective duration(2) in years	As of December 31, 2016 Total fair value	As of December 31, 2016 Internal rate of return In %	As of December 31, 2016 Average effective duration(2) in years
Israeli currency – non-linked															
Financial assets, amounts receivable with respect to derivatives and to complex financial assets															
Financial assets(1)	126,527	1,976	5,108	11,311	7,952	6,771	3,805	389	426	164,265	3.67	1.31	157,045	3.99	1.25
Financial derivatives (other than options)	9,524	6,441	22,522	8,766	7,071	6,388	19	–	–	60,731		0.97	67,969		1.06
Options (in terms of underlying asset)	684	1,091	1,547	647	167	19	–	–	–	4,155		1.36	3,466		1.56
Total fair value	136,735	9,508	29,177	20,724	15,190	13,178	3,824	389	426	229,151		1.22	228,480		1.20
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities															
Financial liabilities(1)	80,895	10,812	18,611	19,034	11,145	7,542	786	20	–	148,845	0.87	1.10	134,532	0.93	0.90
Financial derivatives (other than options)	19,883	18,520	15,002	8,002	7,136	6,457	–	–	–	75,000		0.90	85,522		0.90
Options (in terms of underlying asset)	880	603	1,797	415	108	11	–	–	–	3,814		1.10	3,104		1.39
Total fair value	101,658	29,935	35,410	27,451	18,389	14,010	786	20	–	227,659		1.03	223,158		0.91
Financial instruments, net															
Exposure to interest rate fluctuations in the sector	35,077	(20,427)	(6,233)	(6,727)	(3,199)	(832)	3,038	369	426	1,492			5,322		
Cumulative exposure in sector	35,077	14,650	8,417	1,690	(1,509)	(2,341)	697	1,066	1,492	1,492					

Israeli currency – linked to the CPI

	As of December 31, 2017 On Call to 1 month	As of December 31, 2017 Over 1 month to 3 months	As of December 31, 2017 Over 3 months to 1 year	As of December 31, 2017 Over 1-3 years	As of December 31, 2017 Over 3-5 years	As of December 31, 2017 Over 5-10 years	As of December 31, 2017 10-20 years	As of December 31, 2017 Over 20 years	As of December 31, 2017 Without maturity	As of December 31, 2017 Total fair value	As of December 31, 2017 Internal rate of return In %	As of December 31, 2017 Average effective duration(2) in years	As of December 31, 2016 Total fair value	As of December 31, 2016 Internal rate of return In %	As of December 31, 2016 Average effective duration(2) in years
Financial assets, amounts receivable with respect to derivatives and to complex financial assets															
Financial assets(1)	1,515	2,676	11,622	16,326	12,442	3,988	2,073	270	14	50,926	2.78	3.03	48,935	2.80	2.35
Financial derivatives (other than options)	14	44	910	1,691	559	395	–	–	–	3,613		2.29	3,569		2.75
Total fair value	1,529	2,720	12,532	18,017	13,001	4,383	2,073	270	14	54,539		2.98	52,504		2.38
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities															
Financial liabilities(1)	724	1,207	4,851	13,050	9,236	7,150	2,594	–	2	38,814	1.30	3.67	40,185	1.33	3.58
Financial derivatives (other than options)	711	756	2,452	2,027	676	319	22	–	–	6,963		1.51	8,995		1.80
Total fair value	1,435	1,963	7,303	15,077	9,912	7,469	2,616	–	2	45,777		3.34	49,180		3.25
Financial instruments, net															
Exposure to interest rate fluctuations in the sector	94	757	5,229	2,940	3,089	(3,086)	(543)	270	12	8,762			3,324		
Cumulative exposure in sector	94	851	6,080	9,020	12,109	9,023	8,480	8,750	8,762	8,762					

Specific remarks:

(1) Excludes balance sheet balances of financial derivatives, 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.

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

Reported amounts (NIS in millions)

	As of December 31, 2017 On Call to 1 month	As of December 31, 2017 Over 1 month to 3 months	As of December 31, 2017 Over 3 months to 1 year	As of December 31, 2017 Over 1-3 years	As of December 31, 2017 Over 3-5 years	As of December 31, 2017 Over 5-10 years	As of December 31, 2017 10-20 years	As of December 31, 2017 Over 20 years	As of December 31, 2017 Without maturity	As of December 31, 2017 Total fair value	As of December 31, 2017 Internal rate of return In %	As of December 31, 2017 Average effective duration[2] in years	As of December 31, 2016 Total fair value	As of December 31, 2016 Internal rate of return In %	As of December 31, 2016 Average effective duration[2] in years
Foreign currency[1]															
Financial assets, amounts receivable with respect to derivatives and to complex financial assets															
Financial assets[2]	7,698	4,894	1,321	1,128	1,935	1,069	27	–	59	18,131	2.14	0.97	17,487	1.20	1.23
Financial derivatives (other than options)	27,272	22,323	17,828	8,033	2,615	2,012	–	–	–	80,083		0.45	91,892		0.41
Options (in terms of underlying asset)	1,068	779	1,906	373	93	9	–	–	–	4,228		0.06	3,671		0.08
Total fair value	36,038	27,996	21,055	9,534	4,643	3,090	27	–	59	102,442		0.53	113,050		0.53
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities															
Financial liabilities[2]	20,393	7,253	7,224	680	178	16	–	–	–	35,744	1.17	0.29	39,907	0.68	0.32
Financial derivatives (other than options)	15,996	9,732	23,488	8,444	2,504	2,027	–	–	–	62,191		0.65	68,991		0.59
Options (in terms of underlying asset)	947	1,136	1,664	606	135	15	–	–	–	4,503		0.11	3,937		0.32
Total fair value	37,336	18,121	32,376	9,730	2,817	2,058	–	–	–	102,438		0.50	112,835		0.49
Financial instruments, net															
Exposure to interest rate fluctuations in the sector	(1,298)	9,875	(11,321)	(196)	1,826	1,032	27	–	59	4			215		
Cumulative exposure in sector	(1,298)	8,577	(2,744)	(2,940)	(1,114)	(82)	(55)	(55)	4	4					
Total exposure to interest rate fluctuations															
Financial assets, amounts receivable with respect to derivatives and to complex financial assets															
Financial assets[1]	135,740	9,546	18,051	28,765	22,329	11,828	5,905	659	499	233,322	3.25	1.66	223,467	3.40	1.49

	As of December 31, 2017 On Call to 1 month	As of December 31, 2017 Over 1 month to 3 months	As of December 31, 2017 Over 3 months to 1 year	As of December 31, 2017 Over 1-3 years	As of December 31, 2017 Over 3-5 years	As of December 31, 2017 Over 5-10 years	As of December 31, 2017 10-20 years	As of December 31, 2017 Over 20 years	As of December 31, 2017 Without maturity	As of December 31, 2017 Total fair value	As of December 31, 2017 Internal rate of return In %	As of December 31, 2017 Average effective duration[2] in years	As of December 31, 2016 Total fair value	As of December 31, 2016 Internal rate of return In %	As of December 31, 2016 Average effective duration[2] in years
Financial derivatives (other than options)	36,810	28,808	41,260	18,490	10,245	8,795	19	–	–	144,427		0.71	163,430		0.73
Options (in terms of underlying asset)	1,752	1,870	3,453	1,020	260	28	–	–	–	8,383		0.70	7,137		0.80
Total fair value	174,302	40,224	62,764	48,275	32,834	20,651	5,924	659	499	386,132		1.29	394,034		1.16
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities															
Financial liabilities[1]	102,012	19,272	30,686	32,764	20,559	14,708	3,380	20	2	223,403	1.07	1.41	214,623	1.13	1.29
Financial derivatives (other than options)	36,590	29,008	40,942	18,473	10,316	8,803	22	–	–	144,154		0.83	163,508		0.82
Options (in terms of underlying asset)	1,827	1,739	3,461	1,021	243	26	–	–	–	8,317		0.56	7,041		0.80
Total fair value	140,429	50,019	75,089	52,258	31,118	23,537	3,402	20	2	375,874		1.17	385,172		1.08
Financial instruments, net															
Total exposure to interest rate fluctuations	33,873	(9,795)	(12,325)	(3,983)	1,716	(2,886)	2,522	639	497	10,258			8,861		
Total cumulative exposure	33,873	24,078	11,753	7,770	9,486	6,600	9,122	9,761	10,258	10,258					

Specific remarks:

(1) Includes Israeli currency linked to foreign currency.

(2) Excludes balance sheet balances of financial derivatives, 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.

General remarks:

- In this table, data by term represents the present value of future cash flows from each financial instrument, discounted using the interest rate which discounts them to the fair value recognized for the financial instruments in Note 33.2) 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 33.3) 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 derivatives 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.

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Below is the average effective duration of assets and liabilities as of December 31, 2017:

	Including early repayment assumptions(1) Assets Average effective duration	Including early repayment assumptions(1) Assets Fair value	Including early repayment assumptions(1) Liabilities Average effective-duration	Including early repayment assumptions(1) Liabilities Fair value	Including early repayment assumptions(1) Average effective duration difference	Excluding early repayment assumptions Assets Average effective duration	Excluding early repayment assumptions Assets Fair value	Excluding early repayment assumptions Liabilities Average effective duration	Excluding early repayment assumptions Liabilities Fair value	Excluding early repayment assumptions Average effective duration difference
Non-linked	1.22	229,151	1.03	227,659	0.19	1.40	230,313	1.03	227,331	0.37
Linked to CPI	2.98	54,539	3.34	45,777	(0.36)	3.56	53,299	3.35	46,276	0.21
Foreign currency and linked to foreign currency	0.53	102,442	0.50	102,438	0.03	0.53	102,513	0.50	102,439	0.03
Total	1.29	386,132	1.17	375,874	0.12	1.47	386,125	1.17	376,046	0.30

(1) For details about fair value calculations and early maturity assumptions, see Note 33 to the financial statements.

In the non-linked NIS segment, the effective duration of assets exceeds that of liabilities by 0.19 years. The effective duration calculation is based on early mortgage repayment assumptions and on deposit withdrawals prior to final maturity at exit points, in conformity with terms of the different deposits. Excluding these early maturity assumptions, the effective duration of assets exceeds that of liabilities by 0.37 years.

The difference between the internal rate of return (hereinafter: "IRR") of financial assets and the IRR of financial liabilities is 2.80%. Excluding these early maturity assumptions, the IRR for financial assets exceeds the IRR for financial liabilities by 3.00%.

In the CPI-linked segment, the effective duration of liabilities exceeds that of assets by 0.36 years. The effective duration calculation is based on early mortgage repayment assumptions and on deposit withdrawals prior to final maturity at exit points, in conformity with terms of the different deposits. Excluding these assumptions, the effective duration of liabilities exceeds that of assets by 0.21 years.

The difference between IRR of financial assets and IRR of financial liabilities is 1.89%. Excluding the early maturity assumptions, the difference is 1.40%.

In the foreign currency sector, the duration to maturity of assets exceeds that of liabilities by 0.03 of a year. In this sector, most of the activity is in variable interest, linked to the LIBOR rate, and, therefore the duration to maturity in this sector is low. The assumption concerning early redemption of deposits and loans in this sector has no effect on differences in duration or internal rate of return.

The difference between IRR of financial assets and IRR of financial liabilities is 0.97%.

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 Non-linked	Israeli currency Linked to CPI	Foreign currency[2] Dollar	Foreign currency[2] EUR	Foreign currency[2] Other	Total
December 31, 2017						
Financial assets[1]	164,265	50,926	13,070	3,172	1,889	233,322
Amounts receivable with respect to financial derivatives[3]	64,886	3,613	68,750	10,741	4,820	152,810
Financial liabilities[1]	(148,845)	(38,814)	(28,725)	(4,643)	(2,376)	(223,403)
Amounts payable with respect to financial derivatives[3]	(78,814)	(6,963)	(52,978)	(9,320)	(4,396)	(152,471)
Total	1,492	8,762	117	(50)	(63)	10,258
December 31, 2016						
Financial assets[1]	157,045	48,935	12,728	2,877	1,882	223,467
Amounts receivable with respect to financial derivatives[3]	71,435	3,569	76,490	13,753	5,320	170,567
Financial liabilities[1]	(134,531)	(40,185)	(29,860)	(7,376)	(2,671)	(214,623)
Amounts payable with respect to financial derivatives[3]	(88,626)	(8,995)	(59,188)	(9,217)	(4,523)	(170,549)
Total	5,323	3,324	170	37	8	8,862

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

	Israeli currency Non-linked	Israeli currency Linked to CPI	Israeli currency Dollar	Foreign currency[2] EUR	Foreign currency[2] Other	Foreign currency[2] Total	Change in fair value NIS in millions	Change in fair value In %
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	0.0
Concurrent immediate decrease of 1%	1,421	8,739	185	(6)	(60)	10,279	21	0.2
December 31, 2016								
Change in interest rates:								
Concurrent immediate increase of 1%	5,021	4,033	(88)	(145)	–	8,821	(41)	(0.5)
Concurrent immediate increase of 0.1%	5,290	3,686	142	27	7	9,152	290	3.3
Concurrent immediate decrease of 1%	5,670	3,210	495	155	16	9,546	684	7.7

(1) Includes Israeli currency linked to foreign currency.

(2) Includes complex financial instruments. Excludes balance sheet balances of financial derivatives and fair value of off-balance sheet financial instruments. Note that in calculation of the fair value of financial instruments, as stated in Note 10 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.

(3) Amounts receivable (and payable) with respect to financial derivatives, 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 33 to the financial statements.

CPI and exchange rate

Overview of inflation and currency risks and guidelines for management thereof

Inflation exposure – The risk appetite varies with expected profit from holding a position and the Bank's capacity to reduce the exposure within a reasonable time frame. This exposure is included among the risk appetite benchmarks and models applied by the Bank to all market risks.

Currency exposures – It is Bank policy to maintain minimal (operating) currency positions, except for specific strategic positions approved by the different committees and/or Trading Room positions, in conformity with approved risk restrictions. Foreign currency strategic positions are capped by a Stop Loss mechanism to restrict and reduce risk.

Derivatives in the bank portfolio used for economic hedging of balance sheet activity, or which cannot be defined as an accounting hedge, impact accounting profit and loss. The gap derives from difference in accounting treatment between balance sheet items and derivatives other than accounting hedges. This effect is regularly monitored and managed subject to guidelines specified by management, by the Financial Management Sector and is reported and discussed by various risk management committees.

Presented below are major data reflecting CPI and exchange rate exposures, as reflected in the financial statements, while relating to the difference between the accounting presentation and measurement of economic exposure:

Financial capital – As of December 31, 2017, the Group capital exceeded its non-monetary items by NIS 12,881 million. Group free capital, which includes financial capital, was used in 2017 to finance uses in the CPI-linked NIS segment, in line with current policies on resource and use management in the bank portfolio.

Linkage status – Details on the assets and liabilities in the various linkage segments at December 31, 2017 and 2016 are presented in Note 31 to the financial statements. However, the extent of the Bank’s economic exposure is not fully reflected in the positions included in this note because of differences between the accounting approach and the economic approach with regard to capital items, non-monetary items and investments in investees, as explained below.

Surplus CPI-linked assets of the Group, which include balance sheet and off-balance-sheet items as of December 31, 2017 as presented in Note 31 to the financial statements, amounts to NIS 10.0 billion, representing the economic exposure. In December 2016, excess assets in this segment amounted to NIS 4.9 billion.

Excess assets in foreign currency for the Group as of December 31, 2017 amounted to NIS 84 million. After adjustment of the economic reference to deposits used to cover investments in overseas subsidiaries, which are presented as non-monetary items, and to temporary impairment of investments in securities, the position in this segment amounts to surplus sources of NIS 15 million. As of December 31, 2016, the foreign currency position for the Group, after the aforementioned adjustments and after attribution of the general and supplementary provision for doubtful debts to free capital, amounted to surplus resources amounting to NIS 53 million.

The position in the non-linked NIS segment balances the open economic positions in the CPI-linked and foreign currency segments.

The Bank has CPI-linked uses due to current operations in the mortgage portfolio linked to the CPI, for which the Bank raises CPI-linked sources, including debenture issues and deposits from the public. The Bank uses financial derivatives to actively manage this exposure, in line with the specified exposure policy.

The Report of the Board of Directors and Management presents the Group's exposure to interest on a consolidated basis is presented in terms of average effective duration and in terms of fair value. Cash flows used in calculating exposure are based on assumptions with regard to withdrawal rates at exit points for deposits and early mortgage repayment rates. The percentage of withdrawals is based on empirical data.

For further details of assumptions used in calculation of cash flows and fair value of financial instruments, see Note 33 to the financial statements.

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 December 31, 2017, capital increase (erosion) (NIS in millions):

	Scenarios 10% increase	Scenarios 5% increase	Scenarios 5% decrease	Scenarios 10% decrease	Historical stress scenario(1) Maximum increase	Historical stress scenario(1) Maximum decrease
CPI(2)	1,072.2	546.0	(608.4)	(1,216.8)	173.6	(93.9)
Dollar	25.2	2.2	(1.4)	(1.5)	(0.9)	(0.3)
Pound Sterling	3.4	1.1	(0.7)	(3.0)	0.6	(1.3)
Yen	1.3	0.1	0.4	0.2	0.1	0.5
EUR	6.6	1.6	1.1	1.2	1.1	0.2
Swiss Franc	0.1	–	–	(0.1)	0.1	(0.1)

(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 335.5 million and NIS (365.1) million, respectively.

Share price risk

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

For more information about equity investments in the bank portfolio, see chapter "Major investees" above, the Detailed Risk Report on the Bank website and Notes 12 and 15.A to the financial statements.

Operating risk

Risk description

Operating 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 operating 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 operating risk management culture at the Bank.

The Bank actively handles operating 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 operating risk.

Operating risk includes information security and cyber risk, IT risk and legal risk.

Overview of operating risk and guidelines for management thereof

With the developments in global markets and the higher complexity of financial activity and supporting technological infrastructure, an understanding has emerged, that Bank exposure to potential loss due to failures in regular operating activity may impact the business activity. Operating failure events which occurred at financial institutions in recent years have increased legislator awareness and financial institutions' awareness of operating failure events, to the large potential for damage which may be caused by such operating risk event and to their main attributes, as follows:

Operating events may occur throughout the organization and are inherent to financial institution operations.

Operating risk may potentially impact earnings, revenues, value and reputation of the Bank.

Operating risk has inter-relationships with other risks, such as market risk, credit risk, liquidity risk, reputation risk and other risks. Thus, for example, an operating risk event may cause reputation risk to materialize, after which the Bank may face a liquidity event.

A significant share of operating failures has very low probability but relatively large damage potential – which may even threaten Bank stability.

Operating risk has diverse instances, from human error, malfunction in technological systems, fraud, embezzlement, war, fire, robbery etc.

Operating events sometimes occur which are not under control of the financial institution, and may develop as a result of external events, some of which are unforeseen, with chances of occurring which cannot be estimated in advance, such as: natural disaster (earthquake, flooding) or security event.

Bank management and the Board of Directors attach great importance to managing operating risk, due to its materiality, as part of the Bank's overall framework for risk management and control. The Board of Directors and management have determined that management of operating risk requires creation of an appropriate culture within the organization, by means of training, dissemination of related content and application of elevated standards of internal control at all levels.

The Bank has a special policies document for addressing operating risk. The operating Risk Manager at the Bank is the Manager, Risks Control Division – who is also the Bank's Chief Risks Officer. The framework stipulated also includes the framework required for handling fraud and embezzlement, which are part of the operating risk categories according to Bank of Israel directives. Recently, the Bank has deployed a framework for addressing operating risk which is not only defensive, i.e. acting only to minimize potential loss due to operating risk events, but also actively strives to regulate aspects of operating risk in systems, processes and controls applied by the Bank, in order to support achievement of its business targets.

Bank policies specify the Bank's operating risk appetite at 1% of the Bank's core capital. This appetite is constantly monitored by follow up on any default events which caused a loss, managed by category of operating risk, in conformity with Bank of Israel directives and also includes loss due to legal risk, information security and cyber risk, including fraud and embezzlement. The policies also stipulate the risk appetite for potential loss upon occurrence of a stress event. The Bank acts to specify a high-quality risk appetite, primarily by creating forward-looking risk indicators which can indicate a potential for development of operating risk, in addition to collection of actual losses, i.e. losses which have already occurred.

The Bank allocates capital with respect to operating risk using the standard approach. According to this approach, the Bank was segmented into eight lines of business, as stipulated by the Bank of Israel, with a standard risk weighting assigned to each line of business, reflecting its sensitivity to loss with respect to operating risk. This segmentation and addressing the required capital allocation are incorporated in a specific policies document which governs the aspects required for capital allocation using the standard approach and, in particular, specified the lines of business in Bank operations.

The Bank framework for handling operating risk is reviewed quarterly, as part of the Bank's Risks Document. The risk profile is presented in this context, i.e. the actual loss level, in view of the risk appetite and the most material events which occurred during the quarter are also presented and analyzed.

The Bank is prepared to put in place comprehensive infrastructure for addressing fraud and embezzlement risk. As part of this effort, the Bank operates a range of laws designed to identify anomalies. Handling of fraud and embezzlement is in conformity with a specific policies document, using a framework which integrates several entities at the Bank: Risks Controls, information security and cyber, human resources and the Technology Division.

Operating risk mitigation

Due to the significance of operating risk, the Bank takes different steps to mitigate this risk. The most important step is to instill a corporate culture which promotes strong awareness of operating risk, and of deployment of risk-mitigating processes. The internal controls trustees, across the entire organization, are the long arm of the operating Risks Manager in this process. The Bank initiates delivery of in-person and technology-based training about operating risk to new employees and to units and populations within such units which were identified as being associated with high operating risk.

One of the tools used by the Bank is debriefing and lesson learning flowing internal and/or external events. Conclusions formulated by this process are incorporated into work processes, systems, training content and procedures – and are also disseminated using the operating risk system to internal controls trustees for deployment at their units.

The Bank has established policies and operating plans for case of emergency, for backup, recovery and business continuity in case of physical damage to Bank infrastructure. This plan, supported by emergency procedures and pre-appointed officers, is exercised annually and the conclusions from such exercises is incorporated into the action plan.

Mitigating operating risk via insurance – the Bank is insured under a banking insurance policies, against damage which may be incurred in the course of normal operations, as a result of human error, fraud, embezzlement etc. The Bank acquires an officers' insurance policies, which applies to all officers at the Bank and at the different Bank Group companies, which provides insurance coverage for personal claims which may be filed against officers with respect to their actions in the course of their position with Group companies. Obtaining such an officer liability insurance policy is subject to approval by the General Meeting of Bank shareholders.

The Bank has obtained specific insurance policies for property damage and liability, which provide insurance coverage of Bank property and liability. The Bank has a specific policies document which governs insurance aspects related to Bank operations.

The Bank applies Proper Banking Conduct Directive 355 concerning "Management of business continuity". In the fourth quarter of 2017, a comprehensive DRP (computer backup site) exercise took place, including multiple systems and key operating processes, in which full end-to-end services were tested, as well as testing of the actual systems. The exercise was concluded successfully and the conclusions there from were reported to management. In this quarter, too, the Bank refreshed the emergency staff lists and revised the Bank's exercise file for 2018-2022, including reference to exercise type and frequency.

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.

As from 2017, direct banking systems at the Bank include authentication processes and tools in conformity with Proper Banking Conduct Directive 367.

In 2017 there were no significant cyber-related events impacted the Bank.

In 2017, a special steering committee was established for cyber and information security risk, advising the Chief Risks Officer with regard to cyber and information security and conducting managerial control over the implementation of cyber and information security at the Bank. Prior to creation of this committee, these matters were discussed by a joint steering committee with operating risk.

During the third quarter of the year, Bank Yahav received a demand for a ransom payment in return for the non-publication and sale of Bank Yahav customer data. Bank Yahav has informed the Bank of Israel and the National Cybercrime Authority of this matter and has contacted the Police Cybercrime Unit. Police operations resulted in arrest and indictment of a suspect. The Bank incurred no damage.

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.

The Technology Division Manager is responsible for management of IT assets and the management framework is specified in a special policies document, in line with principles specified in policy documents on risks management and control at the Bank. The IT asset management policy is in line with requirements of the Supervisor of Banks and, in particular, with the principles stipulated in Proper Banking Conduct Directive 357 "IT management"; Proper Banking Conduct Directive 350 "Operating risk management"; Proper Banking Conduct Directive 355 "Business continuity management" and Proper Banking Conduct Directive 361 "Cyber security management". The Bank has minimal risk appetite for this risk, which is included, as noted above, under management of risk appetite under routine conditions and under stress conditions, for operating risk.

Given current developments in the financial market, the age of current Bank systems and transition of Bank Yahav to a new platform, the Bank started considering the feasibility of transition of the Bank's capital market system to the capital market module of TATA's BANCS platform.

For more information about the project to replace the core banking system at Bank Yahav, see chapter "Significant developments in IT" above.

Legal risk

Proper Banking Conduct Directive no. 350 concerning "Operating 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. For more information about an investigation by the US Department of Justice concerning Bank Group business with its US clients, see Note 26.C.12 to the financial statements.

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

Liquidity and financing risk

Risk description

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.

Overview of liquidity risk and guidelines for management

Liquidity risk is managed in conjunction with Proper Banking Conduct Directive 310 "Risks management", Directive 342 "Liquidity risk management" and Directive 221 "Liquidity coverage ratio". The risk is managed subject to the limitations of the Board of Directors and Executive 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.

Liquidity risk management is governed by a policies document submitted annually or more frequently for approval by the Board of Directors. The policies document covers how risk is managed, including roles and responsibilities of the various organs, the regular management of liquidity risk, all parameters used for risk measurement in the normal course of business and under various stress scenarios, restrictions specified by the Board of Directors and by management, including restrictions on source concentration and composition, as well as a detailed emergency plan for handling a liquidity crisis, including various states of alert for liquidity risk management and potential means under each scenario type and the estimated time for execution.

The Bank's Board of Directors sets strategy for liquidity risk management and the risk appetite in conformity with regulatory requirements, using a range of restrictions on three risk dimensions: Normal course of business, scenarios (liquidity coverage ratio and minimum liquidity ratio – internal model) and concentration. Bank management has specified a further set of restrictions to serve as management guidelines – beyond those specified by the Board of Directors. In 2017 there were no recorded deviations from the Board of Directors' restrictions.

The Bank applies tools for monitoring liquidity risk using endogenous and exogenous indicators, which may point to an increase in risk up to crisis status. The Bank developed an integrated benchmark for monitoring financial markets in Israel, in order to identify any instability in the financial system in Israel – this benchmark is a decision-support tool for declaring a state of alert due to systemic failure.

There were no unusual events observed in 2017. Note that in August, the Bank raised its state of alert to Elevated Alert, due to work disruptions. In practice, no events and/or indications were observed which would indicate realization of a liquidity event.

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

Overview of financing risk and guidelines for its management

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.

Concentration of financing sources is monitored through a wide range of restrictions set by the Board of Directors, management as well as by key risk indicators, classified into several sub-categories: Size, client type, individual depositor, number of clients, product and average deposit term. A "super-benchmark" was defined, which averages all indicators related to concentration of financing sources. Current management of source composition includes setting policy on source diversification and financing terms as well as setting specific targets for risk benchmarks. Concentration is monitored daily and is regularly managed and reported.

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 2017, concentration risk for financing sources remained low.

Furthermore, exposure to derivatives is regularly managed, in line with the exposure to each counter-party, counter-party collateral is immediately increased or collateral is immediately demanded from the counter-party.

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

As from April 1, 2015, the Bank applies Directive 221 "Liquidity coverage ratio" which became effective on that date. This Directive stipulates minimum liquidity ratios for a one-month term (regulatory LCR), calculated based on uniform multipliers for the banking system, specified by the Bank of Israel based on Basel III directives. At the end of 2016, the transition period for implementation of the minimum liquidity coverage ratio ended – and as from January 1, 2017, the minimum required 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; hence the target liquidity coverage ratio for the Bank and the Group 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.

As from early 2018, the Bank applies Directive 221 with regard to identification and handling of operational deposits.

The average (consolidated) liquidity coverage ratio for the fourth quarter of 2017 was 118%. As noted above, in 2017 there were no recorded deviations from these restrictions.

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

As of December 31, 2017, the balance of the three largest depositor groups at the Bank Group amounted to NIS 9.2 billion.

Term to maturity – Below is evolution of Bank cash flow by term to maturity, as presented in detail in Note 32 to the financial statements.

The Bank consistently acts, as part of its strategy on resource and use management, to raise long-term sources.

The Bank's NIS-denominated balance sheet sources for terms longer than 1 month, as percentage of total NIS-denominated sources as of December 31, 2017, was 52% (as of December 31, 2016: 51%), of which balance sheet sources for terms longer than 1 year – 46% (as of December 31, 2016: 49%).

Most of the Bank's balance sheet sources in foreign currency as of December 31, 2017 are for terms of up to 1 year, constituting 87% of total foreign currency-denominated sources (as of December 31, 2016: 97%), of which 12% are sources for terms longer than 3 months (as of December 31, 2016: 21%).

The NIS-denominated sources have longer terms than foreign currency-denominated sources, in line with the longer term use of NIS-denominated funds, primarily for mortgages denominated in NIS.

The Bank also conducts a significant volume of futures transactions to divert excess liquidity between NIS and foreign currency and by term, as part of dynamic management of sources and uses.

Soliciting sources and Bank liquidity status – During 2017, there was an increase in the Bank’s balance of deposits from the public. The balance of deposits from the public rose from NIS 178.3 billion on December 31, 2016 to NIS 183.6 billion on December 31, 2017, an increase by 3.0%.

In the non-linked segment, total deposits from the public amounted to NIS 133.2 billion, an increase by 8.6% compared to end of 2016. In the CPI-linked sector, deposits from the public amounted to NIS 15.7 billion, a decrease by 8.0%, and in the foreign currency sector – to NIS 34.7 billion, a decrease by 10.1% compared to end of 2016.

Other risks

Compliance and regulatory risk

Risk description

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 conduct risk and cross-border risk, presented separately below.

Overview of compliance and regulatory risk and guidelines for management thereof

As from January 1, 2016, when the new Proper Banking Conduct Directive 308 became effective, the scope of responsibility within compliance risk management was expanded; therefore, the compliance provisions include laws, rules and regulations (including positions stated by the Supervisor of Banks in conjunction with handling public inquiries), internal procedures and the Code of Ethics which apply to banking operations at the Bank.

The Bank has minimal risk appetite for compliance and regulatory risk, with regard to compliance with statutory provisions applicable to the Bank. Therefore, the Bank has specified that any faults discovered in compliance with statutory provisions would be addressed by Bank units as a top priority. The Bank has specified a multi-annual work plan for the Compliance Function, which includes qualitative targets for reducing compliance risk across the Bank.

The compliance and regulatory Risk Manager for the Bank is the Manager, Risks Control Division. The Compliance Officer is responsible for continuous management of this risk.

The Bank operates in conformity with policies on compliance and regulation risk management, approved by the Bank's Board of Directors. The Compliance Officer acts in conformity with a letter of appointment approved by the Board of Directors, to deploy a compliance culture at the Bank, its subsidiaries and overseas affiliates by implementing a Group policy and supervising the implementation of appropriate compliance processes at subsidiaries and affiliates. Compliance risk is managed by identification, documentation and assessment of compliance risk associated with business operations of the Bank, including developments related to new products, business conduct, lines of business or new clients, or to material changes to any of the above, through various measurement methods.

The Bank deals fairly with all stake holders. The value of fairness is enterprise-wide and is based on application of basic values: integrity, fairness and transparency. The Bank strives to maintain a fair relationship with its clients and with other stake holders, places the client at the center of its business operations and strictly adheres to business fairness in all its operations. Fairness is a basic value in the Bank's Code of Ethics. The inherent compliance risk is not low, due to increased regulation and new directives issued with high frequency.

However, the Bank believes that compliance and regulatory risk was on a downward trend in 2017. The decrease is due to continued addressing of risk classified as High, to continued reinforcement of control in both First Line and Second Line units, to system improvements and to increased organizational awareness.

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

Cross-border and AML risk

Risk description

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 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. For more information about FATCA, see chapter "Legislation and Supervision of Bank Group Operations" under the chapter "Corporate Governance" on these financial statements.

AML risk is the risk of financial loss and impact to reputation, which the Bank may incur due to breach of various statutory provisions regarding the Bank's obligations with regard to AML and terror financing.

Overview of cross-border risk and guidelines for management thereof

The Bank has zero appetite for cross-border risk. Therefore, the Bank has specified that any faults discovered with regard to cross-border risk would be addressed by Bank units as a top priority. The Bank has specified a multi-annual work plan for the Compliance Function, which includes required action for reducing compliance risk across the Bank.

The Bank has trained 15 branches specialized in management of foreign-resident client accounts and only allows foreign residents to open accounts in these branches. Current foreign-resident clients with a significant balance were relocated from other Bank branches to these specialized branches.

Cross-border risk decreased moderately in 2017 compared to the previous year, due to further action taken to manage such risk.

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

Overview of AML risk and guidelines for management thereof

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

The AML Risk Owner for the Bank is the Manager, Risks Control Division.

The Bank regards itself as partner in the international AML and terror financing effort and takes part in the international effort against bribery and corruption, acting to identify, monitor and follow up on activities and clients that may be exposed to bribery and corruption. The Bank also avoids any activities opposed to the international sanctions regime of OFAC (of the US Department of Treasury) and of the European Union.

The Bank applies on a Group basis, with required changes, its policies in this area as well as statutory provisions, at its subsidiaries and branches in Israel and overseas.

When opening an account, as well as during normal business operations, the Bank acts to identify clients who may be exposed to offering, accepting or brokering bribes.

In early 2018, Proper Conduct of Banking Business Directive 411 "AML and Terror Financing Risk Management" became effective. The Bank implements this directive, which introduced significant changes to definitions, Know Your Client, setting risk levels and other changes, with emphasis on risk-based management.

AML risk remained unchanged in 2017. The increase in risk due to new regulations was reduced by general preparedness, by expansion of control processes, deployment and current operations at business units.

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

Reputation risk

Risk description

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 operating 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.

Overview of reputation risk and guidelines for management thereof

The Bank has defined its risk appetite for reputation risk as minimal. In recent years, the Bank took action to put in place a framework for handling reputation risk. The Bank considers that this risk should be addressed based on similar principles to those used to address other risks, such as credit risk or market risk – even though this risk is considered harder to quantify.

The Reputation Risk Manager is the Manager, Marketing, Promotion and Business Development Division at the Bank.

Reputation risk is managed in conformity with the policy on three levels: In advance (under normal conditions), in real time (alert condition) and in retrospect.
During the labor disruption at the Bank in the first half of August, the Bank continuously monitored the reputation benchmarks and the Reputation Risk Committee held multiple special sessions.

During this period there was a non-significant decrease in image-related parameters among those aware of the dispute and in particular among Bank clients, with the general public's awareness of the dispute being not very high. Once the disruptions have ended, the parameters measured quickly recovered and returned to their high level.
For more information see the Detailed Risks Report on the Bank website.

Strategic risk

Risk description

Strategic 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.

Overview of strategic risk and guidelines for its management

The Bank operates in conformity with the outline of a five-year strategic plan, most recently approved by the Bank Board of Directors in November 2016, whose principles have been made public. Material deviation from Bank strategy is subject to approval by the Bank’s Board of Directors. This risk is monitored by the Planning, Operations and Client Asset Division (hereinafter: "the Planning and Operations Division") and is challenged by the Risks Control Division.
The Strategic Risk Owner is the President & CEO; based on their guidance, management periodically reviews the implementation of the strategy, monitoring of regulatory, economic or technology developments which affect the strategy and initiating annual work plans derived from and in conformity with the strategic plan.
Realization of the Igud acquisition transaction 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.
For more information see the Detailed Risks Report on the Bank website.

Environmental risks

Environmental risk to the Bank is the risk of loss which may be incurred due to deterioration in the borrower's financial position due to high costs incurred as a result of environmental hazard and regulation concerning environmental protection, or due to impairment of collateral exposed to environmental risk or to the Bank being indirectly liable for an environmental hazard caused by a project funded by the Bank. Environmental risk also includes other risks derived from this risk (goodwill, third party liability etc.) In recent years, global awareness of the potential financial exposure arising from regulations related to environmental protection has grown.
The Bank has a structured methodology for identification, assessment and handling of environmental risk and acts to incorporate management of exposure to environmental risk within all risks at the Bank, including specification of work processes for identification of significant risk when granting credit and inclusion of risk assessment, if any, within periodic assessment of quality of credit extended.
For more information see the Bank's Corporate Social Responsibility Report on the Bank website:
www.mizrahi-tefahot.co.il >> about the bank >> investor relations

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 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.

The following were used in assumptions, assessments and estimates:

Provision for credit losses

- Individual provision – The Bank regularly reviews the forecasted expected credit losses, based on actual cash flows, and adjusts the individual provision to the current forecast.
- Group provision – based on historical loss rates in various economic sectors, divided into problematic and non-problematic debt, for the period from January 1, 2011 through the report date. The Bank also accounts for relevant environmental factors, including trends in credit volume for each sector as well as sector condition, macro-economic data, general quality assessment of credit to each economic sector, changes in volume and in trend of balances in arrears and impaired balances and the effect of changes in credit concentration. Furthermore, the rate of adjustment with respect to relevant environmental factors for group provision for credit losses with respect to individuals is not less than 0.75% of the non-impaired consumer credit balance (excluding credit due to receivables for bank credit cards without interest charge).
- Housing loans – A minimum provision with respect to housing loans is calculated based on the formula stipulated by the Supervisor of Banks, by extent of arrears, such that the provision rate is higher the longer the arrears. This directive applies to all housing loans, other than loans not repaid by periodic installments and loans used to finance activity of a business nature. The group-based provision for credit losses with respect to housing loans shall be at least 0.35% of the balance of such loans as of the report date.
- Off-balance sheet credit – The provision is based on provision rates specified for total credit exposure (as stated above), accounting for expected credit realization rate for the off-balance sheet credit risk.

For more information, see Note 1.D. 6) to the financial statements.

Derivatives

Instruments measured at fair value are divided into 3 levels:

Level 1 – fair value measured using prices quoted for identical instruments on an active market accessible by the Bank upon the measurement date.

Level 2 – fair value measured using observed data, either direct or indirect, which are not quoted prices as set forth under Level 1. Level 2 data include quoted market data on active markets, or on non-active markets, if they exist, or data derived from or based upon such observed market data.

Level 3 – fair value measured by using non-observed data.

The Bank estimates credit risk for derivatives using a model based on indications of credit quality of the counter-party, derived from prices of debt instruments of the counter-party traded on an active market, and from prices of credit derivatives based on the counter-party's credit quality. In the absence of such indications, the Bank calculates the adjustments based on internal ratings. The Bank reviews the materiality of the credit risk element compared to fair value as a whole, in conjunction with review of instrument classification under fair value ranking levels.

Fair value measurement of a derivative instrument, when no quoted prices, liquid collateral or offset agreements exist which adequately secure the derivative's credit quality, and when no market information exists as to the credit quality of the counter-party (such as CDS or negotiable debentures of the counter-party) – shall be classified as a Level 3 fair value measurement.

For more information, see Note 1.D. 16) to the financial statements. For details of derivatives measured at fair value by different fair value levels – see Note 33 to the financial statements.

Securities

Securities in the portfolio held for trading and in the portfolio available for sale are presented at fair value. Securities classified in the portfolio held to maturity are measured at amortized cost. The fair value of the securities is determined based on quoted market prices in active markets for the securities or for securities with similar terms, i.e. stock market price, quotes from recognized data services, such as Bloomberg, or quotes from banks acceptable to the Bank. The Bank uses internal models for reviewing the fair value of financial instruments for which there is no quote on a stock exchange, and does not rely entirely on prices obtained from counter-parties or from quoting firms.

The financial statements as of December 31, 2017 include critical estimates with regard to other-then-temporary impairment of investment in securities, with a total original investment cost of USD 25 million (NIS 87 million). Total impairment recognized as other-than-temporary in nature as amounted to USD 25 million (NIS 87 million). For estimating such impairment, the fair value of investment was calculated based on market prices quoted on the major market. In conformity with regulations and directives of the Supervisor of Banks, the Bank periodically reviews whether impairment of the fair value of such securities is other-than-temporary in nature. It is assumed that impairment compared to deviation of the original investment is not of a temporary nature, primarily in view of the significant decrease, the duration in which the quoted value has not increased, and the erosion of investment's safety cushions. The investment has been fully written-off on the financial statements as of December 31, 2017. The actual investment value may turn out in future to be materially different from the aforementioned estimate. The future effect on the financial statements may result in recognition of revenues amounting to USD 25 million (NIS 87 million), should it emerge that the impairment is temporary in whole.

For more information, see Note 1.D. 5) to the financial statements. For details of securities measured at fair value by different fair value levels – see Note 33 to the financial statements.

Liabilities with respect to employee rights

are calculated using actuarial models, based on a discount rate determined based on the yield of Government debentures in Israel plus the average yield spread for corporate debentures rated AA (international rating scale) or higher upon the report date. For practical reasons, the spread would be determined by the difference between yields to maturity, by term to maturity, for corporate debentures rated AA or higher in the USA – and yields to maturity, for the same term to maturity, for US government debentures, all as of the report date. The actuarial models include assumptions related to the mortality tables, disability rates, departure rates and wage hike rates. A change in any of the parameters could lead to a change in the amount of the Bank's liabilities for employee rights.

Group liabilities for employee rights calculated based on an actuarial model amount to NIS 1,347 million. (Including provision for employee retirement at beneficial terms).

The Bank has revised the underlying assumptions of actuarial estimates with regard to liabilities with respect to employee rights. For more information about the streamlining plan and revised assumptions with regard to employee rights, see Note 22 to the financial statements.

The following is a sensitivity analysis of total provision for employee rights to changes in key assumptions used as basis for the actuarial estimate, as of the transition date (NIS in millions):

	1% increase in discount rate	1% change in annual payroll increase Increase	1% change in annual payroll increase Decrease	1% change in departure rate before retirement age Increase	1% change in departure rate before retirement age Decrease
Severance pay provision	(81)	85	(70)	76	(100)
Budgetary pension	(6)	–	–	–	–
Bonuses	(25)	1	(1)	(7)	6

For more information, see Note 1.D. 13) to the financial statements.

Share-based payment transactions

The financial statements include the benefit value of the stock option plan for the Bank President & CEO and for Bank managers, estimated based on the opinion of an expert external consultant, using generally accepted models, including the Black & Scholes model, the binomial model and the Monte Carlo model, based on various assumptions, mainly with regard to expected exercise date of the options and standard deviation of Bank share price. Changes in the price of the Bank's share, the standard deviation for the Bank's shares and other factors which could affect the economic value of the benefit.

The benefit value is recognized by the Bank over the vesting term of the options using accelerated amortization.

Some of the Bank's stock option plans include multiple lots which vest on specified dates. The number of options which the offerees may actually exercise, will be primarily based on the net operating profit return on the Bank's average shareholders' equity, up to an annual rate of return equal to 13%, as well as on other parameters (for more information see Note 23 to the financial statements), based on the exercise eligibility formula, as stated in the option plan. As of December 31, 2017, the number of options which each offeree may exercise have been adjusted based on actual parameters for each year of the plan.

As of December 31, 2016, the option plans have been fully amortized, hence there is no effect due to changes in management estimates or actual return on equity or other such parameters on the number of options to be awarded.

For more information, see Note 1.D. 14) and Note 23 to the financial statements.

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.

See Note 26.C for disclosure of material claims (whose amount, excluding interest and expenses, is over 1% of equity attributable to equity holders of the Bank).

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 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. For more information about an investigation by the US Department of Justice concerning Bank Group business with its US clients, see Note 26.C.12 to the financial statements.

For more information about an economic arbitration process ("arbitration") between the Bank and the Mizrahi Tefahot Employees' Union ("Employees' Union"), to discuss demands made by the Employees' Union for 2005-2015, see Note 22 to the financial statements.

Provision for impairment of non-financial assets

Provision for impairment, if needed, is based on assessor valuations updated by the assessor or valuator as required.

For more information, see Note 1.D. 11) to the financial statements.

Deferred taxes

Deferred taxes are recognized with respect to temporary difference between the carrying amount of asset and liabilities for the purpose of financial reporting, and their value for tax purposes.

Deferred taxes are measured so as to reflect the tax implications expected to arise from the manner in which the Bank, at the end of the reported period, anticipates recovering or discharging the carrying amount of assets and liabilities.

Deferred taxes are measured using tax rates expected to apply to temporary differences when realized, based on statutes enacted, or essentially enacted, as of the balance sheet date.

Deferred tax assets are recognized with respect to carry-forward loss, tax credits and deductible temporary differences, when taxable revenue is more likely than not in future, which may enable utilization of these deferred tax assets.

For more information, see Note 1.D. 17) to the financial statements.

Uncertain tax positions

The Bank only recognizes the effect of tax positions if it is more likely than not that those positions would be accepted by the Tax Authority or by the Court. Tax positions recognized are measured at the maximum amount whose likelihood of realization exceeds 50%. Changes in recognition or measurement are reflected in the period in which a change in circumstances resulted in a change in judgment.

The consolidated balance sheet as of December 31, 2017 includes deferred taxes, net amounting to NIS 1,039 million (excludes deferred taxes with respect to securities, which do not affect the provision for taxes). an increase by 1% in tax rates would cause a decrease by NIS 30 million in the provision for taxes.

For more information, see Note 1.D. 17) to the financial statements.

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.

Controls and procedures with regard to disclosure

At the end of the period covered by this Report, the Bank's 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. Based on this evaluation, the Bank President & CEO and Chief Accountant of the Bank concluded that at the end of this period, the disclosure controls and procedures are effective for recording, processing, summarizing and reporting the information that the Bank is required to disclose in the annual report, in accordance with the Public Reporting Directives of the Supervisor of Banks, on the date stipulated in these Directives.

Developments in internal controls

In the quarter ended December 31, 2017, no change occurred in the Bank's internal controls over financial reporting that had a material effect, or can reasonably be expected to have an effect on the Bank's internal controls over financial reporting.

In accordance with the directive by the Supervisor of Banks with regard to adoption of provisions of Section 404 of the Sarbanes-Oxley Act, starting with financial statements as of December 31, 2008, this report includes a declaration concerning the responsibility of management and the Board of Directors for setting and maintaining proper internal controls over financial reporting and management's assessment of the effectiveness of internal controls over financial reporting as of the date of the financial statements. Concurrently, the opinion of the Bank's independent auditors with regard to appropriateness of the Bank's internal controls over financial reporting in accordance with the applicable standards of the Public Company Accounting Oversight Board (PCAOB) is also provided.

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

Approval date:

Ramat Gan, February 26, 2018

Certification

I, ELDAD FRESHER, certify that:

1. I have reviewed the annual report of Bank Mizrahi Tefahot Ltd. ("the Bank") for 2017 ("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 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 have presented in this report 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 the fourth 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 Committee 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

Eldad Fresher
President & CEO

Ramat Gan, February 26, 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 annual report of Bank Mizrahi Tefahot Ltd. ("the Bank") for 2017 ("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 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 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 have presented in this report 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 the fourth 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 Committee 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

Ramat Gan, February 26, 2018

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

Report of the Board of Directors and Management as to Internal Controls over Financial Reporting

The Board of Directors and Management of Mizrahi Tefahot Bank Ltd. (hereinafter: "the Bank") are responsible for establishing and maintaining proper internal controls over financial reporting (as defined in Public Reporting Directives with regard to "Report of the Board of Directors and Management"). The Bank's internal controls system has been designed to provide the Bank's Board of Directors and management a reasonable degree of certainty as to proper preparation and presentation of financial statements published in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks. Regardless of the quality of the design there of, all internal controls systems have inherent limitations. Therefore, even should it be determined that these systems are effective, they may only provide a reasonable degree of certainty with regard to preparation and presentation of financial statements.

The management, under supervision of the Board of Directors, maintains a comprehensive system of controls intended to ensure that transactions are executed in line with management authorization, that assets are protected, and that accounting records are reliable. Furthermore, management under supervision of the Board of Directors, takes steps to ensure that information and communication channels are effective and monitor execution, including execution of internal control procedures.

The Bank's management, under supervision of the Board of Directors, has evaluated the effectiveness of the Bank's internal controls system over financial reporting as of December 31, 2017 based on criteria stipulated in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the aforementioned evaluation, management believes that as of December 31, 2017, the Bank's internal controls over financial reporting are effective.

The effectiveness of the Bank's internal controls over financial reporting as of December 31, 2017 was audited by the Bank's independent auditors, Brightman Almagor Zohar & Co. 112 בעמודas noted in their report, ., which includes their unqualified opinion as to the effectiveness of the Bank's internal controls over financial reporting as of December 31, 2017.

Moshe Vidman	**Eldad Fresher**	**Menahem Aviv**
Chairman of the Board of Directors	President & CEO	Vice-president, Chief Accountant

Approval date:
Ramat Gan, February 26, 2018

Independent Auditors' Report to Shareholders of Bank Mizrahi-Tefahot Limited Pursuant to Public Reporting Directives of the Supervisor of Banks Concerning nternal Controls over financial Reporting

We have audited the internal controls over financial reporting at Bank Mizrahi Tefahot Ltd. and subsidiaries (hereinafter jointly: "the Bank") as of December 31, 2017, based on criteria stipulated by the integrated framework for internal controls (1992) published by the Committee of Sponsoring Organizations of the Tread way Commission (hereinafter: "COSO"). The Bank's Board of Directors and management are responsible for maintaining effective internal controls over financial reporting, and for evaluating the effectiveness of said internal controls over financial reporting which is included in the attached enclosed report of the Board of Directors and management with regard to internal controls over financial reporting. We are responsible for our opinion on the Bank's internal controls over financial reporting, based on our audit.

We have not audited the effectiveness of internal controls over financial reporting at subsidiaries whose assets and whose net interest revenues before provision for credit losses included in consolidation account for 6.21% and 9.20%, respectively of the related amounts on the consolidated financial statements as of December 31, 2017 and for the year then ended. The effectiveness of internal controls over financial reporting at these companies was audited by other independent auditors whose reports have been provided to us and our opinion, in as much as it refers to effectiveness of internal controls over financial reporting at these companies, Is based on the reports of these other independent auditors.

We have conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (PCAOB) in the USA with regard to audit of internal controls over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel. In accordance with these standards, we are required to plan and perform the audit and obtain a reasonable degree of assurance as to the maintenance of effective internal controls over financial reporting, in all material aspects. Our audit included: obtaining an understanding of the internal controls over financial reporting, assessing the risk of existence of a material weakness, and also testing and evaluating of the design and operating effectiveness of internal controls based on the assessed risk. Our audit also included performing such other procedures which we considered necessary under the circumstances. We believe that our audits and the reports of the other independent auditors provide a reasonable basis for our opinion.

A bank's internal controls over financial reporting is a process designed to provide a reasonable degree of certainty as to the reliability of financial reporting and preparation of financial statements for external use in accordance with Israeli GAAP, directives and guidelines of the Supervisor of Banks. A bank's internal controls over financial reporting include policies and procedures which: (1) refer to record keeping which, with reasonable detail, accurately and properly reflects transactions and transfers of Bank assets (including their removal from Bank ownership); (2) provide a reasonable degree of certainty that transactions are properly recorded so as to allow for preparation of financial statements in accordance with Israeli GAAP and directives and guidelines of the Supervisor of Banks, and that the Bank's receipts and expenditures are made exclusively in line with authorizations of the Bank's management and Board members; and (3) provide a reasonable degree of certainty with regard to avoidance or timely discovery of any unauthorized acquisition, use or transfer of Bank assets (including removal from Bank ownership) which may materially impact the financial statements.

Due to structural limitations, internal controls over financial reporting may not prevent or disclose misleading presentation. Also, reaching conclusions about the future on the basis of any current assessment of effectiveness is exposed to the risk that controls will become unsuitable due to changes in circumstances or that the extent of observance of the policies or procedures will change adversely

In our opinion, the Bank maintained, in all material aspects, effective internal controls over financial reporting as of December 31, 2017 based on criteria stipulated in the integrated framework for internal controls (1992) published by COSO.

We have also audited, in accordance with generally accepted auditing standards in Israel and certain audit standards whose application to audits of banking corporations was stipulated in directives of and guidance from the Supervisor of Banks, the Bank's consolidated balance sheet as of December 31, 2017 and 2016 and the consolidated statements of profit and loss, consolidated statements of comprehensive income, consolidated statements of changes to equity and consolidates statements of cash flows for each of the three years ended December 31, 2017, and our report dated February 26, 2018 includes an unqualified opinion on the aforementioned financial statements, based upon our audit and on the reports of other independent auditors, as well as drawing of attention to contingent liabilities of the Bank, including claims filed against the Bank and its subsidiary and motions to approve them as class actions and with regard to the US Department of Justice investigation concerning Bank Group business with its US clients.

Brightman Almagor Zohar & Co.

Brightman Almagor Zohar & Co.
Certified Public Accountants

Ramat Gan, February 26, 2018

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

We have audited the accompanying consolidated balance sheets of Mizrahi Tefahot Limited and its subsidiaries ("the Bank") as of December 31, 2017 and 2016, and the statements of profit and loss, consolidated statements of comprehensive income, consolidated statements of changes to equity and consolidated statements of cash flows – for each of the three years in the period ended December 31, 2017. The Bank's Board of Directors and management are responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We have not audited the financial statements of subsidiaries whose assets included in consolidation account for 6.21% and 6.87% of total consolidated assets as of December 31, 2017 and 2016, respectively and whose net interest revenues before expenses with respect to credit losses, included in the consolidated statements of profit and loss, account for 9.20%, 8.46% and 8.74%, respectively of total consolidated net interest revenues before expenses with respect to credit losses for the years ended December 31, 2017, 2016 and 2015, respectively. Furthermore, we have not audited the financial statements of an associate, the investment in which amounts to NIS 19 million as of December 31, 2017 and 2016. The financial statements of these companies were audited by other auditors, whose reports were furnished to us, and our opinion, insofar as it relates to amounts included with respect to these companies, is based on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the above financial statements present fairly, in all material respects, the financial position – of the Bank – as of December 31, 2017 and 2016, and the results of operations, changes in shareholders' equity and cash flows – of the Bank and on a consolidated basis – for each of the three years in the period ended December 31, 2017, in conformity with generally accepted accounting principles in Israel (Israeli GAAP). Also, in our opinion, the financial statements have been prepared in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our aforementioned opinion, we draw your attention to:

A. Note 22, section 6 and Note 26.C sections 11.a) and 10.i). with regard to contingent liabilities of the Bank, including claims filed against the Bank and its subsidiary motions to approve them as lass actions

B. Note 26.C Section 12 with regard to an investigation by the US Department of Justice concerning Bank Group business with its US clients

We have also audited in accordance with PCAOB standards in the USA with regard to audit of internal controls over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the internal controls over financial reporting at the Bank as of December 31, 2017, based on criteria specified in the integrated framework for internal controls published by COSO, and our report dated February 26, 2018 included an unqualified opinion of the effectiveness of internal controls over financial reporting at the Bank.

Brightman Almagor Zohar & Co.
Certified Public Accountants

Ramat Gan, February 26, 2018

Annual financial statements

Table of Contents

Consolidated statement of profit and loss

For the year ended December 31,

Reported amounts (NIS in millions)

	Note	2017	2016	2015
Interest revenues	2	6,222	5,311	4,906
Interest expenses	2	1,875	1,533	1,372
Interest revenues, net		4,347	3,778	3,534
Expenses with respect to credit losses	13,30	192	200	211
Interest revenues, net after expenses with respect to credit losses		4,155	3,578	3,323
Non-interest revenues				
Non-interest financing revenues	3	136	295	358
Commissions	4	1,423	1,433	1,426
Other revenues	5	94	134	74
Total non-interest revenues		1,653	1,862	1,858
Operating and other expenses				
Payroll and associated expenses	6	2,326	2,071	1,944
Maintenance and depreciation of buildings and equipment	16	742	693	692
Other expenses	7	543	535	590
Total operating and other expenses		3,611	3,299	3,226
Pre-tax profit		2,197	2,141	1,955
Provision for taxes on profit	8	806	833	761
After-tax profit		1,391	1,308	1,194
Share in profits of associated companies, after tax effect	15	–	–	–
Net profit:				
Before attribution to non-controlling interests		1,391	1,308	1,194
Attributable to non-controlling interests		(44)	(42)	(60)
Attributable to shareholders of the Bank		1,347	1,266	1,134
Diluted earnings per share[(1)] (in NIS)	9			
Basic earnings per share				
Net profit attributable to shareholders of the Bank		5.80	5.46	4.90
Diluted earnings per share				
Net profit attributable to shareholders of the Bank		5.76	5.46	4.89

(1) Share of NIS 0.1 par value.

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

Moshe Vidman
Chairman of the Board of Directors

Eldad Fresher
President & CEO

Menahem Aviv
Vice-president, Chief Accountant

Approval date:
Ramat Gan, February 26, 2018

Consolidated statement of comprehensive income

For the year ended December 31,

Reported amounts (NIS in millions)

	2017	2016	2015
Net profit:			
Before attribution to non-controlling interests	1,391	1,308	1,194
Attributable to non-controlling interests	(44)	(42)	(60)
Net profit attributable to shareholders of the Bank	1,347	1,266	1,134
Other comprehensive income (loss) before taxes			
Adjustments for presentation of available-for-sale securities at fair value, net	22	(26)	(27)
Adjustments from translation of financial statements of investments in associates(1)	(4)	1	(1)
Net gains (losses) with respect to cash flows hedging	(8)	(9)	(6)
Adjustment of liabilities with respect to employees' benefits(2)	(4)(132)	(3)(294)	(3)
Total other comprehensive income (loss), before tax	(122)	(328)	(37)
Related tax effect	44	108	13
Other comprehensive income (loss) after taxes(5)			
Other comprehensive income (loss), before attribution to non-controlling interests	(78)	(3)(220)	(24)
Less other comprehensive income (loss) attributed to non-controlling interests	12	–	(1)
Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes	(66)	(220)	(25)
Comprehensive income:			
Before attribution to non-controlling interests	1,313	1,088	1,170
Attributable to non-controlling interests	(32)	(42)	(61)
Comprehensive income attributable to shareholders of the Bank	1,281	1,046	1,109

(1) Adjustments from translation of financial statements of associates.

(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 cost of update to the actuarial liability with respect to the streamlining plan, amounting to NIS 286 million; the cost net of tax, amounting to NIS 188 million, was charged to shareholders' equity.

(4) Includes: The effect of update to the assumption of salary cost and update to the remuneration increase rate in the second quarter of 2017, 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. See Note 22 to the financial statements for additional information.

(5) For more information see Note 10 to the financial statements – Cumulative Other Comprehensive Income (Loss).

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

Consolidated balance sheet

As of December 31

Reported amounts (NIS in millions)

	Note	2017	2016
Assets			
Cash and deposits with banks	11	41,130	41,725
Securities(1)(2)	12	10,133	10,262
Securities loaned or purchased in resale agreements	27	76	9
Loans to the public	13,30	182,602	172,779
Provision for credit losses	13,30	(1,484)	(1,438)
Loans to the public, net		181,118	171,341
Loans to Governments	14	456	330
Investments in associated companies	15	32	34
Buildings and equipment	16	1,403	1,585
Intangible assets and goodwill	15.D	87	87
Assets with respect to derivatives	28	3,421	3,584
Other assets	17	1,716	1,498
Total assets		239,572	230,455
Liabilities and Equity			
Deposits from the public	18	183,573	178,252
Deposits from banks	19	1,125	1,537
Deposits from the Government		51	50
Debentures and subordinated notes	20	29,923	27,034
Liabilities with respect to derivatives	28	3,082	3,566
Other liabilities (3)	30.E, 21	7,491	6,692
Total liabilities		225,245	217,131
Shareholders' equity attributable to shareholders of the Bank		13,685	12,714
Non-controlling interests		642	610
Total equity	24	14,327	13,324
Total liabilities and equity		239,572	230,455

(1) Of which: NIS 6,768 million at fair value (December 31, 2016: NIS 6,928 million).
(2) For more information with regard to securities pledged to lenders, see Note 27 to the financial statements.
(3) Of which: Provision for credit losses with respect to off balance sheet credit instruments amounting to NIS 90 million (on December 31, 2016: NIS 109 million).

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

Statement of Changes in Shareholders' Equity

For the year ended December 31,

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	Cumulative other comprehensive income (loss)[(3)]	Retained earnings[(4)]	Total shareholder equity	Non-controlling interests	Total equity
Balance as of December 31, 2014	2,197	66	(76)	2,187	(72)	8,682	10,797	507	11,304
Net income for the period	–	–	–	–	–	1,134	1,134	60	1,194
Dividends paid	–	–	–	–	–	(86)	(86)	–	(86)
Benefit from share-based payment transactions	–	20	–	20	–	–	20	–	20
Related tax effect	–	7	–	7	–	–	7	–	7
Realization of share-based payment transactions[(2)]	25	(25)	–	–	–	–	–	–	–
Other comprehensive income (loss), net, after tax	–	–	–	–	(25)	–	(25)	1	(24)
Balance as of December 31, 2015	2,222	68	(76)	2,214	(97)	9,730	11,847	568	12,415
Net income for the period	–	–	–	–	–	1,266	1,266	42	1,308
Dividends paid	–	–	–	–	–	(186)	(186)	–	(186)
Benefit from share-based payment transactions	–	8	–	8	–	–	8	–	8
Related tax effect	–	(1)	–	(1)	–	–	(1)	–	(1)
Realization of share-based payment transactions[(2)]	17	(17)	–	–	–	–	–	–	–
Other comprehensive income (loss), net, after tax	–	–	–	–	[(7)](220)	–	(220)	–	(220)
Balance as of December 31, 2016	2,239	58	(76)	2,221	(317)	10,810	12,714	610	13,324
Net income for the period	–	–	–	–	–	1,347	1,347	44	1,391
Dividends paid[(5)]	–	–	–	–	–	(334)	(334)	–	(334)
Benefit from share-based payment transactions	–	24	–	24	–	–	24	–	24
Related tax effect	–	–	–	–	–	–	–	–	–
Realization of share-based payment transactions[(2)]	17	(17)	–	–	–	–	–	–	–
Cancellation of treasury shares[(8)]	(76)	–	76	–	–	–	–	–	–
Other comprehensive income (loss), net, after tax	–	–	–	–	[(6)](66)	–	(66)	(12)	(78)
Balance as of December 31, 2017	2,180	65	–	2,245	(383)	11,823	13,685	642	14,327

(1) Share premium generated prior to March 31, 1986.
(2) In 2017, the Bank issued 553,719 ordinary shares of NIS 0.1 par value each, for exercise of options pursuant to the Employees' Stock Option Plan, and issued to the President 9,137 ordinary shares of NIS 0.1 par value each. In 2016, the Bank issued 157,119 ordinary shares of NIS 0.1 par value each, for exercise of options pursuant to the Employees' Stock Option Plan, and issued to the President 31,065 ordinary shares of NIS 0.1 par value each. In 2015, the Bank issued 1,086,264 ordinary shares of NIS 0.1 par value each, for exercise of options pursuant to the Employees' Stock Option Plan, and issued to the President 74,647 ordinary shares of NIS 0.1 par value each.
(3) For more information see Note 10 – Cumulative Other Comprehensive Income (Loss).
(4) For more information about various limitations on dividend distributions, see Note 24 to the financial statements.
(5) On February 26, 2018, after the balance sheet date, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 110 million, or 30% of earnings in the fourth quarter of 2017. According to accounting rules, this amount will be deducted from retained earnings in the first quarter of 2018.
(6) Includes: The effect of update to the assumption of salary cost and update to the remuneration increase rate in the second quarter of 2017, 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. See Note 22 to the financial statements for additional information.
(7) Includes cost of revision of actuarial liability, amounting to NIS 286 million, with respect to employees' retirement program. See also Notes 22 and 25 to the financial statements.
(8) 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.

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

Statement of cash flows – consolidated

For the year ended December 31,

Reported amounts (NIS in millions)

	2017	2016	2015
Cash flows provided by current operations			
Net profit	1,391	1,308	1,194
Adjustments			
Share of the Bank in undistributed earnings of associated companies	–	–	–
Depreciation of buildings and equipment	245	223	223
Expenses with respect to credit losses	192	200	211
Gain from sale of securities available for sale	(52)	(61)	(118)
Gain from sale of securities held to maturity(1)	–	–	(67)
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	1	(14)	5
Gain from sale of buildings and equipment	(55)	(92)	(36)
Expenses arising from share-based payment transactions	24	8	20
Deferred taxes, net	9	(3)	27
Change in employee provisions and liabilities	98	4	(10)
Effect of changes in exchange rate on cash balances	82	195	183
Proceeds from sale of loan portfolios	(4)	(45)	(1)
Net change in current assets			
Deposits with banks	(403)	(50)	2,967
Loans to the public	(11,835)	(14,670)	(12,453)
Loans to Governments	(126)	(14)	(9)
Securities loaned or purchased in resale agreements	(67)	62	36
Assets with respect to derivatives	155	(66)	2,069
Securities held for trade	138	(112)	807
Other assets, net	(74)	613	191
Net change in current liabilities			
Deposits from banks	(412)	371	(92)
Deposits from the public	5,321	15,872	10,001
Deposits from the Government	1	(8)	3
Securities loaned or sold in conjunction with repurchase agreements	–	–	(223)
Liabilities with respect to derivatives	(484)	(68)	(2,863)
Other liabilities	388	576	(464)
Accrual differences included with investment and financing operations	32	110	(399)
Net cash provided by current operations	(5,435)	4,339	1,202

(1) Proceeds from sale of debentures held to maturity at Bank Yahav.

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

Statement of cash flows – consolidated – continued

For the year ended December 31,

Reported amounts (NIS in millions)

	2017	2016	2015
Cash flows provided by investment activities			
Acquisition of debentures held to maturity	(111)	–	–
Proceeds from sale of debentures held to maturity(1)	–	–	1,917
Acquisition of securities available for sale	(4,501)	(6,902)	(10,497)
Proceeds from sale of securities available for sale	4,671	7,546	9,603
Proceeds from redemption of securities available for sale	–	1,083	761
Proceeds from sale of loan portfolios	2,554	2,662	590
Purchase of loan portfolios	(700)	(265)	–
Acquisition of buildings and equipment	(247)	(245)	(233)
Proceeds from sale of buildings and equipment	328	125	55
Proceeds from realized investment in associates	1	2	15
Net cash provided by investment activities	1,995	4,006	2,211
Cash flows provided by financing operations			
Issuance of debentures and subordinated notes	6,909	6,318	7,502
Redemption of debentures and subordinated notes	(4,051)	(3,096)	(3,988)
Dividends paid to shareholders	(334)	(186)	(86)
Net cash provided by financing operations	2,524	3,036	3,428
Increase (decrease) in cash	(916)	11,381	6,841
Cash balance at beginning of year	41,495	30,309	23,651
Effect of changes in exchange rate on cash balances	(82)	(195)	(183)
Cash balance at end of year	40,497	41,495	30,309
Interest and taxes paid / received			
Interest received	6,521	5,204	5,080
Interest paid	1,717	1,676	1,591
Dividends received	4	35	10
Income taxes received	64	81	69
Income taxes paid	780	800	738
Appendix A – Non-cash Transactions			
Acquisition of buildings and equipment	25	13	22

(1) Proceeds from sale of debentures held to maturity at Bank Yahav.

Notes to financial statements as of December 31, 2017

Note 1 – Reporting Principles and Accounting Policies

A. Overview

1) The Bank's Board of Directors authorized publication of these consolidated financial statements on February 26, 2018.

2) 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, 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.

3) In conformity with the Supervisor of Banks' Public Reporting Directives, the Bank may – under certain circumstances listed in the regulations – present annual financial statements on consolidated basis only.
In conformity with approval from the Supervisor of Banks, Bank presents its annual financial statements on consolidated basis only.
For more information about the condensed financial statements of the Bank solo, including balance sheet, statement of profit and loss and statement of cash flows, see Note 36 to the financial statements.
Data for the Bank solo is available on the Bank website:
www.mizrahi-tefahot.co.il >> about the bank >> investor relations >> financial statements.

4) Definitions
"Generally accepted accounting principles" – Accounting rules which US banks traded in the USA are required to apply. These principles are specified by banking supervisory authorities in the USA, the US SEC, the US Financial Accounting Standards Board and other US entities; they are applied in conformity with the hierarchy specified in (ASC 105) FAS 168 – Codification of accounting standards of the US Financial Accounting Standards Board and GAAP hierarchy. In addition, as stipulated by the Supervisor of Banks, notwithstanding the hierarchy specified in FAS 168, it has been clarified that any position made public by US banking supervision authorities or by the team thereof, with regard to application of generally accepted accounting principles in the USA, is a Generally Accepted Accounting Principle for Banks in the USA.
"International Financial Reporting Standards" – Standards and interpretations adopted by the International Accounting Standards Board (hereinafter: "IASB"), which include international financial reporting standards (hereinafter: "IFRS") and International Accounting Standards (hereinafter: "IAS"), including interpretations of these standards by the International Financial Reporting Interpretations Committee (IFRIC) or interpretations by the Standing Interpretations Committee (SIC), respectively.
"FASB" – Financial Accounting Standards Board in the USA.
"The Bank" – Bank Mizrahi-Tefahot Ltd.
"Subsidiaries" – entities whose financial statements are fully consolidated with those of the Bank, directly or indirectly.
"Bank Group" – The Bank and its subsidiaries.
"Associates" – Entities in which the Group has material influence over financial and operational policies, but over which it has no control. Investment in associates is included in the financial statements using the equity method.
"Investees" – Subsidiaries and associates.
"Overseas affiliates" – Representatives, branches or subsidiaries of the Bank outside Israel.

Note 1 – Reporting Principles and Accounting Policies (continued)

"Functional currency" – The currency in the primary economic environment in which the Bank operates. This is typically the currency of the environment in which the corporation generates and expends most of its cash.

"Presentation currency" – The currency in which the financial statements are presented.

"Adjusted amount" – Historical nominal amount, adjusted for changes in the economic purchase power of Israeli currency.

"Reported amount" – An amount adjusted as of December 31, 2003 (hereinafter: "the transition date"), plus amounts in nominal values that were added after the transition date, minus amounts deducted after the transition date.

"Cost" – Cost in reported amount.

"Related parties" and "Interested parties" – As defined in Section 80 of the Public Reporting Regulations.

B. Preparation basis of the financial statements

1) Principles of financial reporting

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. See above in section A.

2) Functional currency and reporting currency

The consolidated financial statements are presented in NIS, which is the Bank's functional currency, rounded to the nearest one million, unless otherwise indicated. NIS is the currency which reflects the primary economic environment in which the Bank does business. For information about the functional currency of overseas banking affiliates, see section 1.D. below.

3) Measurement basis

The financial statements were prepared based on historical cost, except for the following items:

- Financial derivatives and other financial instruments measured at fair value on the statement of profit and loss (such as: investments in securities in the held-for-trade portfolio or instruments for which the fair value option was selected);
- Financial instruments classified as available for sale;
- Share-based payments;
- Non-current assets held for sale and asset group held for sale;
- Deferred tax assets and liabilities
- Various provisions, such as provisions for credit losses and provision for legal claims;
- Assets and liabilities with respect to employee benefits;
- Investments in associates.

The value of non-monetary assets and capital items measured based on historical cost was adjusted for changes in the Consumer Price Index through December 31, 2003. Through this date, the Israeli economy was considered a hyper-inflationary economy. As from January 1, 2004, the Bank prepares its financial statements in reported amounts.

4) Use of estimates

In preparing the consolidated financial statements in accordance with Israeli GAAP and with directives and guidelines of the Supervisor of Banks, Bank management is required to use judgment, assessments, estimates and assumptions which impact policies implementation and amounts of assets and liabilities, revenues and expenses. Note that actual results may differ from these estimates.

When making accounting estimates during preparation of the financial statements, Bank management is required to make assumptions with regard to circumstances and events involving significant uncertainty. In exercising its judgment when making these estimates, Bank management relies on past experience, various facts, external factors and reasonable assumptions in accordance with the appropriate circumstances for each estimate.

These estimates and assumptions are regularly reviewed, and changes to accounting estimates are recognized in the period in which these estimates were revised and in any affected future period.

5) Change to estimates

In 2017, the Bank revised the remuneration growth rate, which is one of the parameters in the actuarial model for calculation of liability with respect to employee rights. For more information see Note 22 to the financial statements.

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

As from reporting periods starting on January 1, 2017 (unless otherwise noted), the Bank initially applies the following new accounting standards and directives:

1) Reporting by Israeli banking corporations in conformity with US GAAP with regard to income taxes
2) Reporting by banking corporations in Israel in conformity with US GAAP on these topics: foreign currency issues, accounting policies, changes in accounting estimates and errors and events subsequent to the balance sheet date
3) New updates to standards concerning share-based payment
4) Update to Q&A file concerning implementation of Public Reporting Regulations with regard to impaired debt, credit risk and provision for credit losses – as from July 1, 2017.
5) Relief with regard to capital adequacy with respect to implementation of a real estate streamlining program. For more information about directives by the Supervisor of Banks with regard to the Bank's contracting the sale and lease-back of interest in the headquarters building in Ramat Gan in the second quarter of 2017, see Note 25 "Capital adequacy, liquidity and leverage".

Below is a description of the substance of changes in accounting policies on the consolidated financial statements and description of the effect of their initial application, if any:

1) Reporting by Israeli banking corporations in conformity with US GAAP with regard to income taxes

On October 22, 2015, the Supervisor of Banks issued a circular containing amendments to Public Reporting Directives concerning reporting by banking corporations and credit card companies in Israel, in conformity with US GAAP with regard to income taxes.
According to this circular, banking corporations are required to adopt US GAAP with regard to taxes on income, including the presentation, measurement and disclosure rules stated in provisions of ASC 740 "Income Taxes" and in ASC 830-740 "Foreign Currency Matters – Income Taxes".
According to the circular, a banking corporation is not required to provide disclosure on financial statements in 2017 with regard to disallowed tax benefits, which are required by section 740-10-50-15 and section 740-10-50-15A of the codification.
The provisions listed in the circular would apply as from January 1, 2017.
On October 13, 2016, the Supervisor of Banks issued an update to how the new directives in the circular dated October 22, 2015 are to be initially applied, so that temporary differences with respect to prior periods would continue to be treated according to directives effective through December 31, 2016.

The following are the major changes due to implementation of the directives and clarifications in the memo:
- Required recognition of deferred tax liabilities with respect to undistributed earnings of investees.
- Interest revenues and expenses with respect to taxes on income would be classified under "Taxes on income".
- Fines payable to tax authorities would be classified under "Taxes on income".
- Laws would be deemed "legislated" only when officially published.
- The requirement to present a Note on information based on historical nominal data for tax purposes has been eliminated.

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

Note 1 – Reporting Principles and Accounting Policies (continued)

2) Implementation of reporting by banking corporations in Israel in conformity with US GAAP on these topics: foreign currency issues, accounting policies, changes in accounting estimates and errors and events subsequent to the balance sheet date

On March 21, 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 830 of the codification "Foreign currency matters".
- US GAAP with regard to accounting policies, changes in accounting estimates and errors, including topic 250 of the codification "Accounting changes and error corrections".
- US GAAP with regard to events after the balance sheet date in conformity with topic 855-10 of the codification "Subsequent events".

The provisions stipulated by the circular apply as from January 1, 2017. Upon initial application, action should be taken in conformity with transitional provisions included in US GAAP for these matters, mutatis mutandis, including retroactive amendment of comparative figures, if required by US GAAP for these matters. Note that when applying provisions of topic 830 of the codification "Foreign currency matters", banks would not include exchange rate differentials with regard to available-for-sale debentures as part of fair value adjustments of such debentures, but would continue to treat these as required by the Public Reporting Directives prior to adoption of this topic.
Furthermore, IAS 29 "Financial Reporting in Hyper inflationary Economies", as adopted in the Public Reporting Regulations, would not be applied as from the effective start date of the circular. Note that there is no change to the date of discontinuation of adjustment for inflation of financial statements of banking corporations, and the financial statements would be compiled based on reported amounts – unless otherwise provided for in the Public Reporting Regulations.

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

3) New updates to standards concerning share-based payment

On March 30, 2016, the US Financial Accounting Standards Board ("FASB") issued update 2016-09, which is a revision of ASC 718 concerning "Share-based Payment" (hereinafter: “the Amendment”).
According to the revision:

- All tax effects associated with share-based payment transactions should be recognized upon discharge (or expiration) through profit and loss. Prior to the Revision, excess tax benefits in excess of the expense recognized on the statement of profit and loss (known as "windfall") would be recognized in equity and any tax benefit shortfalls lower than the expense recognized on the statement of profit and loss (known as "shortfall") would be recognized in equity, up to elimination of any previous balances from excess tax benefits. In absence of such windfall, any shortfall would be recognized on the statement of profit and loss. The Revision is expected to increase volatility in income tax expenses.
  This change is applied prospectively.
- Excess tax benefits would be recognized when they occur, unlike the current provisions of US GAAP, whereby recognition of these task benefits was postponed until such date when they would have reduced taxable income.
- All cash flows associated with taxes with respect to share-based payment are classified under current operations on the statement of cash flows.
- Regarding the effect of forfeitures on recognition of expenses in respect of share-based payment awards, the Bank recognizes the effect of these forfeitures only when they occur. In accordance with provisions of the Standard, an alternative policy of estimating such forfeitures may be chosen. Any change in accounting policy on this matter would be applied retroactively with the cumulative effect charged to the opening balance of retained earnings.

These revised standard came into effect on January 1, 2017.

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

Note 1 – Reporting Principles and Accounting Policies (continued)

4) New updates to standards re equity-based accounting method and joint ventures

In March 2016, the US Financial Accounting Standards Board ("FASB") issued amendment ASU 2016-07 (hereinafter: "the amendment") with regard to simplified transition to equity-based accounting, which is an amendment to ASC 323 "Investments – Equity Method and Joint Ventures".
The amendment refers to initial application of equity-based accounting due to increase in holding stake or existence of material influence (without increase in holding stake).
In conformity with the amendment, the acquisition cost of the additional investment should be added to the current base of the previous investment and equity-based accounting should be applied when the buyer achieved material influence over their investment. Thus, there is no need for retrospective adjustment of the investment – but rather equity-based accounting is to applied prospectively.
Any gain or loss previously recognized under Other Comprehensive Income with respect to investments available for sale is to be re-classified to profit or loss upon transition to application of equity-based accounting.

These revised standard came into effect on January 1, 2017.
Application of this update has no material impact on the Bank's financial statements.

5) New updates to standards re impact of derivative contract novations on existing hedge accounting relationships

In March 2016, the US Financial Accounting Standards Board ("FASB") issued amendment ASU 2016-05 (hereinafter: "the amendment") with regard to impact of derivative contract novations on existing hedge relationships, which constitutes an amendment to Section 815 of the Codification of Derivatives and Hedge Accounting.
In conformity with the amendment, there may be different reasons for change of counter-party to a derivative designated for hedge accounting, including: existence of inter-company transactions, regulatory requirements (such as Dodd Frank), addressing internal credit restrictions etc.
Therefore, change of counter-party of a derivative designated for hedge accounting, pursuant to provisions of Section 815 of the Codification does not impact such designation per se, provided that all other criteria for hedge accounting are maintained.
These revised standard came into effect on January 1, 2017.
Application of this update has no material impact on the Bank's financial statements.

6) Update to Q&A file concerning implementation of Public Reporting Directives with regard to impaired debt, credit risk and provision for credit losses

On February 20, 2017, the Supervisor of Banks issued a Q&A file concerning implementation of Public Reporting Regulations with regard to impaired debts, credit risk and provision for credit losses
The file includes clarifications with regard to definition of primary repayment source, with regard to classification of problematic debt and clarification of the treatment of leveraged loans. The key clarifications are as follows:

- Primary repayment source is defined as a stable cash source over time, which must be controlled by the debtor and must be separated, explicitly or by nature, for debt service. Notwithstanding support from secondary and tertiary repayment sources, appropriate debt classification, through default or when default is highly likely, is based in general on the debtor's repayment capacity, i.e. expected robustness of the primary repayment source.
- Classification of leveraged loans:
- With leveraged loans, the primary repayment source is the debtor's capacity to generate sufficient cash flow. Secondary repayment sources may include collateral, sale of assets, refinancing and equity issuance. Clarification was given whereby debt refinancing, equity issuance and sale of assets may not be considered a primary repayment source (except for unusual circumstances).
- Loans with "Lenient financial covenants" should not be automatically classified as a problematic loan.
- A low ratio of debt to company valuation is not sufficient for avoiding classification as a problematic debt.

Note 1 – Reporting Principles and Accounting Policies (continued)

- Leveraged loans with debt to EBITDA ratio higher than 6 may require more stringent review, in order to assess the robustness of the capital structure and the borrower's repayment capacity.

These changes apply as from July 1, 2017.
Application of these clarifications to Q&A does not materially impact the financial statements.

D. Accounting policies applied in preparing the financial statements

1) Foreign currency and linkage:

The Bank applies the provisions of Section 830 of the Codification with regard to foreign currency issues, as from January 1, 2017. For more information see section C. 2) above.

A. Foreign currency transactions

Upon recognition of a foreign currency transaction, any asset, liability, revenue, expense, gain or loss from the transaction are translated, upon initial recognition, to the functional currency of the Bank and its affiliates (NIS), using the exchange rate as of the transaction date.

Upon each reporting date, monetary assets and liabilities denominated in foreign currency as of the reporting date are translated into the functional currency at the exchange rate as of that date.

Non-monetary assets and liabilities denominated in foreign currency and measured at fair value, are translated into the functional currency using the exchange rate as of the date on which the fair value is determined.

Non-monetary items denominated in foreign currency and measured at historical cost, are translated at the exchange rate as of the transaction date.

Any gain or loss from translation of foreign currency transactions due to currency fluctuations between the transaction date and the settlement date / the balance sheet date are recognized on profit & loss. as gain or loss from translation differences (non-interest financing revenues), except for:

The effective portion of gain or loss with respect to hedging instrument in cash flow hedge;

Exchange rate differentials with respect to items that are part of a net investment.

Subject to transition provisions, when applying provisions of Section 830 of the Codification "Foreign currency matters",for reported periods throught January 1, 2019 exchange rate differentials with regard to available-for-sale debentures should not be included as part of fair value adjustments of such debentures, but rather should continue to be treated as required by the Public Reporting Regulations prior to adoption of this topic.

B. Overseas banking affiliates

The Bank treats its overseas banking affiliates as operations whose functional currency is the same as the Bank's (NIS).

Assets and Liabilities linked to the CPI which are not measured at fair value, are included based on the linkage terms specified for each balance.

Below is information about major official exchange rates, the Consumer Price Index and changes there to:

	As of December 31 2017	As of December 31 2016	As of December 31 2015	Change in % 2017	Change in % 2016	Change in % 2015
Consumer Price Index:						
CPI for December (points)	106.5	106.1	106.3	0.4	(0.2)	(1.0)
Known CPI for November (points)	106.4	106.1	106.4	0.3	(0.3)	(0.9)
Exchange rate of:						
USD (in NIS)	3.467	3.845	3.902	(9.8)	(1.5)	0.3
EUR (in NIS)	4.153	4.044	4.247	2.7	(4.8)	(10.1)

Note 1 – Reporting Principles and Accounting Policies (continued)

2) Consolidation basis

A. Subsidiaries in which the Bank holds less than 50%

The Bank holds 50% of the issued and paid-in share capital of Bank Yahav for Government Employees Ltd. (hereinafter: "Bank Yahav"). The balance of the issued and paid-in share capital is held by a single shareholder and the Bank has no excess legal rights. The Supervisor of Banks has allowed the Bank to consolidate the financial statements of Bank Yahav under the circumstances concerning the Bank's influence over management of Bank Yahav business and in conformity with Section 9G of the Public Reporting Regulations.

For more information about the balance of investment in investees and contribution to net profit attributable to equity holders of the Bank, see Note 15 to the financial statements.

B. Subsidiaries

Financial statements of subsidiaries are included on the consolidated financial statements from the date control is achieved and through the date control is terminated.

C. Non-controlling interests

Non-controlling interests are any shareholders' equity in a subsidiary which is not attributable, directly or indirectly, to the parent company.

Attribution of Comprehensive Income to shareholders

Profit or loss and any Other Comprehensive Income item are attributed to the controlling shareholder of the Bank and to non-controlling interests. Total profit, loss and other comprehensive income is attributed to equity holders of the Bank and to non-controlling interests.

D. Investments in associates

In reviewing the existence of material influence, the assumption is that a holding stake of 20%-50% in an investee confers material influence.

Investment in associates is accounted for using the equity method and is initially recognized at cost. The investment cost includes transaction costs. The consolidated financial statements include the Group's share of revenues and expenses, profit or loss and other comprehensive income of equity-accounted investees. After required adjustments to align accounting policy with Group policy, from the date when material influence is achieved through the date when material influence is discontinued.

E. Transactions canceled upon consolidation

Mutual balances within the Group and unrealized revenues and expenses arising from inter-company transactions have been canceled in the course of preparing the consolidated financial statements.

3) Offset of assets and liabilities

The Bank applies the rules specified in the Supervisor of Banks' circular dated December 12, 2012.

In conformity with the directives, a banking corporation should offset assets and liabilities arising from the same counter-party and present their net balance on the balance sheet, when all of the following conditions are fulfilled:

- The banking corporation has an enforceable legal right to offset assets against liabilities with regard to said liabilities
- The banking corporation intends to repay the liabilities and realize the assets on net basis or concurrently;
- Both the banking corporation and the counter-party owe each other amounts which may be determined.

Note 1 – Reporting Principles and Accounting Policies (continued)

According to the directives, a banking corporation should offset assets and liabilities with two different counter-parties and present the net amount on the balance sheet when all of the aforementioned conditions are fulfilled, and provided that the three parties have an agreement which clearly stipulates the banking corporation's set-off rights with regard to those liabilities.

It was further stipulated that a banking corporation should offset deposits whose repayment to the depositor is contingent on the extent of collection of borrowing against those deposits, when the banking corporation has no risk of credit losses.

A banking corporation should not offset assets with respect to derivatives against liabilities with respect to derivatives, unless all of the aforementioned conditions are fulfilled. However, the directives stipulate that under certain conditions, a banking corporation may offset fair value amounts recognized with respect to derivatives and fair value amounts recognized with respect to the right to call cash collateral (receivables) or the commitment to reimburse cash collateral (payables) arising from derivatives transacted with the same counter-party in accordance with a master netting arrangement – even if there is no intention to repay on net basis or concurrently.

Moreover, a banking corporation may offset securities purchased in conjunction with repurchase agreements against securities sold in conjunction with repurchase agreements, if certain conditions specified in US GAAP on this matter are fulfilled.

However, the banking corporation may not offset amounts on the balance sheet without prior approval of the Supervisor of Banks.

Currently, it is Bank policy to present exposures with transactions on gross basis, except for deposits whose repayment to the depositor is contingent on the extent of collection of borrowing, as described above. Accordingly, designated deposits for which repayment to the depositor is contingent upon the collection of the loan (when the Bank Group is not at risk of credit loss) were set off against the loans issued out of these deposits. The interest margins from this activity are presented in the statement of profit and loss under "commissions".

4) Basis of recognition of revenues and expenses

A. Interest revenues and expenses are included on an accrual basis, except as follows:

1) Interest accrued on problematic debt classified as non-performing debt is recognized as revenue on a cash basis when there is no doubt about collection of the outstanding recorded balance of the non-performing debt. In such cases, the amount collected on account of interest to be recognized as interest revenues, is limited to the amount which would have accrued in the reported period for the outstanding recorded debt balance at the contractual interest rate. Interest revenues on cash basis are classified as interest revenues under the relevant item on the statement of profit and loss.

   When collection of the outstanding recorded balance is doubtful, all payments collected serve to decrease the loan principal, until such doubt has been eliminated. Moreover, interest on amounts in arrears with respect to housing loans are recognized in the statement of profit and loss based on actual collection.

   For more information about interest accrual for impaired debt under restructuring, see section 6)C. below.
2) Securities – see section 5 below.
3) Financial derivatives – see section 15 below.

B. Commissions revenues with respect to services rendered (such as: activities in securities and derivatives, credit cards, account management, handling of credit, conversion differences and foreign trade activities) are recognized in the statement of profit and loss when the Bank becomes eligible to receive them. Certain commissions, such as commissions with respect to guarantees and certain commissions with respect to project assistance, are recognized gradually over the transaction term.

C. Other revenues and expenses – are recognized on accrual basis.

D. Measuring interest revenues

As from January 1, 2014, the Bank applies the Supervisor of Banks' directives with regard to adoption of adoption of generally accepted accounting principles for banks in the USA with regard to measuring interest revenues (ACS 310-20). These principles stipulate that commissions from loan origination would not be recognized on the statement of profit and loss, but rather would be accounted for in calculating the effective interest for the loan.

Changes to terms and conditions of debt

In case of refinancing or restructuring of non-problematic debt, the Bank reviews whether a material change was made to terms and conditions of the loan. Accordingly, the Bank reviews whether the present value of cash flows under the new terms and conditions of the loan differs by at least 10% from the present value of remaining cash flows under the current terms and conditions (plus early repayment fee), or whether this involves a change in loan currency. In such cases, all unamortized commissions and early repayment commissions collected from the client with respect to changes to the terms and conditions of the loan are recognized in profit & loss. Otherwise, these commissions are included as part of net investment in the new loan and are recognized as adjustments to returns, as described above.

Early repayment commissions

Early repayment commissions charged with respect to early repayment made prior to January 1, 2014 and yet to be amortized, are recognized over a three-year period or the remaining term of the loan, whichever is shorter. Commissions charged with respect to early repayment made after January 1, 2014, are immediately recognized under Interest Revenues.

Given that initial application of the standard on a prospective basis started on January 1, 2014, in 2014, 2015 and 2016 the revenues from continued accounting under the accounting method applied prior to the new standard's start date are included concurrently with immediate revenues recognition with respect to collection of early repayment commissions, in conformity with the stipulated rules. In 2017, only current revenues would were included under "Revenues from early repayment commissions".

In 2016 and 2015, interest revenues amounting to NIS 37 million and NIS 78 million were recorded as interest revenues due to continued spreading of commissions, respectively.

5) Securities

A. Investments in securities were classified into three categories, as follows:

1) Debentures held to maturity – debentures that the Bank has the intention and ability to hold until maturity date. These debentures are presented at their amortized cost, i.e. at par value plus accrued interest and linkage or exchange rate differentials, plus or minus the discount or premium component generated upon acquisition and not yet amortized and minus loss with respect to other-than-temporary impairment. Income from debentures held to maturity is charged accordingly to the statement of profit and loss on the accrual basis.
2) Securities held for trade – securities acquired or held in order to be sold in the near term, or securities which the Bank has elected to measure at fair value through profit & loss using the fair value option, except for shares for which no fair value is available. These securities are included in the balance sheet at their fair value on the reporting date. Unrealized gains or losses from the adjustment to fair value are charged to the statement of profit and loss.

Note 1 – Reporting Principles and Accounting Policies (continued)

3) Securities available for sale – securities not classified as debentures held to maturity or as securities held for trade. Securities available for sale are presented on the balance sheet at fair value. Shares having no available fair value are presented at fair value as of the date they were received – which does not exceed their cost – and net of provision for impairment which is not of a temporary nature, which is charged to the statement of profit and loss, as are dividends received from investment in shares available for sale, originating from earnings of a company which are distributed after the investment date.

   Any unrealized gain or loss from adjustment to fair value is not included in the statement of profit and loss and is reported net of the appropriate tax reserve, under a separate equity item under Cumulative Other Comprehensive Income. For securities which include embedded derivatives – see section 15.C below.

B. For more information about realization of the debenture portfolio held to maturity by Bank Yahav 2015, see Note 25 to the 2016 financial statements.

C. Bank investments in other funds not accounted for using the equity method, are stated at cost net of any other-than-temporary impairment loss. Gain from these investments are recognized in the Statement of Profit and Loss upon realization of the investment. Dividends received from Bank investments in these funds are charged to profit & loss when the Bank has the right to receive them, up to the amount of retained earnings since this investment was acquired.

D. The cost of realized securities is calculated on FIFO basis, except for securities acquired as part of a hedge, or in conjunction with creating a strategic position or for any other specific purpose, which is separately identified.

E. With regard to calculation of fair value, see section 16 below.

F. Impairment:

   Pursuant to directives and guidelines of the Supervisor of Banks, the Bank periodically reviews whether impairment of the fair value of securities classified under the available-for-sale portfolio or the held-to-maturity portfolio, below their cost (or the amortized cost for debentures held to maturity), is of an other-than-temporary nature.

   To this end, the following indicators, inter alia, are reviewed:

- Intent and capacity of the Bank to hold the securities for a sufficient period which would allow the security to recover its original cost.
- The time period during which the value of the security was lower than its cost.
- The ratio of impairment to total cost.
- Adverse change in conditions of the issuer or of the economy as a whole.
- Review of conditions reflecting the financial standing of the issuer, including whether or not the impairment is due to individual reasons related to the issuer, or to any macro-economic conditions.

   Furthermore, in any of the following situations, the Bank recognizes other-than-temporary impairment:

- The security was sold prior to publication of the report to the public for that period.
- The Bank intends, as of the publication of the report to the public for that period, to sell the security within a short time.
- Debenture is significantly impaired between its rating upon acquisition by the Bank and its rating upon publication of the report to the public for that period.
- Debenture classified by the Bank as problematical after its acquisition.
- Debenture which is in payment default after its acquisition.
- Security where, in general, its fair value as of the end of the reported period and soon prior to publication of the financial statements, is significantly lower than its cost (amortized cost), or where any payment failure has occurred after its acquisition, unless proven with a high degree of confidence and based on objective evidence, that the impairment is merely of a temporary nature.

Note 1 – Reporting Principles and Accounting Policies (continued)

If the impairment of fair value is deemed to be other-than-temporary in nature, the cost of the security is written-off to its fair value, so that any loss amounts referring to securities classified as available for sale, accrued in equity under Other Comprehensive Income, would be classified upon impairment to the statement of profit and loss. This value would serve as the new cost basis. Appreciation in subsequent reported periods (for securities classified in the available-for-sale portfolio) are charged to a separate item under shareholders' equity under Cumulative Other Comprehensive Income, and are not recognized in the Statement of Profit and Loss.

6) Impaired debt, credit risk and provision for credit losses

A. Pursuant to the Supervisor of Banks' directive on measurement and disclosure of impaired debt, credit risk and provision for credit losses, the Bank applies as from January 1, 2011 the rules stipulated by codification of US accounting standards ASC 310 and the opinion of the US banking supervision authorities and of the US SEC, as adopted in the Public Reporting Directives, in position statements and directives of the Supervisor of Banks. Moreover, as from the aforementioned date, the Bank applies the Supervisor of Banks' directive with regard to treatment of problematic debt. Moreover, as from January 1, 2013, the Bank applies the Supervisor of Banks' directive with regard to updated disclosure of credit quality of debt and of provision for credit losses.

   Furthermore, the Supervisor of Banks revises from time to time the Public Reporting Regulations and the Q&A File with regard to implementation of the regulations with regard to impaired debt and provision for credit losses, in order to incorporate directives on this matter applicable to banks in the USA, including directives of US supervisory entities. As from 2016, the regulations were revised, inter alia, with regard to treatment of restructuring of troubled debt, regulations with regard to how debt is reviewed based on primary repayment source, as well as certain regulations with regard to how debt is reviewed.

B. Scope of the directives

   The regulation is applied for all debt balances, such as: deposits with banks, debentures, securities borrowed or purchased in resale agreements, loans to the public and loans to the government. Loans to the public and other debt balances for which no specific rules on measurement of provision for credit losses were specified in the Public Reporting Regulations (such as: loans to the government, deposits with banks and other assets) are reported in the Bank's accounts at their recorded debt balance.

   The recorded debt balance is defined as the debt balance after accounting write-offs but before deduction of the provision for credit losses for that debt. The recorded debt balance does not include any accrued interest not recognized, or previously recognized and then reversed.

   As for other debt balances, for which there are specific rules in place with regard to measurement and recognition of a provision for impairment (such as debentures), the Bank continues to apply the measurement rules as specified in section 5 above.

C. Identification and classification of problematic debt

   The Bank classifies all problematic debt and problematic off-balance sheet credit items under: special supervision, inferior or impaired. 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. 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.

Note 1 – Reporting Principles and Accounting Policies (continued)

In conformity with Bank policy, debt in excess of NIS 700 thousand is classified as impaired when, based on current information and events, it is expected that the Bank will be unable to collect all amounts due pursuant to contractual terms of the debt contract. In any case, debt in excess of NIS 700 thousand 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 debts as housing loans.

Debt under NIS 700 thousand in arrears 90 days is assessed on Group basis and in such case, is classified as inferior debt.

Decisions with regard to debt classification are made based, *inter alia*, on assessment of the borrower's financial standing and repayment capacity, assessment of the primary debt repayment source, any collateral and its status, the financial standing of guarantors, if any and their commitment to support the debt and the borrower's capacity to obtain financing from third parties.

For more information about implementation of Public Reporting Regulations with regard to impaired debt, credit risk and provision for credit losses with respect to primary repayment source, see section C. 4) above.

Debt restructuring and treatment of problematic debt in restructuring – In general, when it is possible to reach agreement on debt repayment with no impact to collateral available to the Bank and without any legal action, the Bank gives preference to reaching agreement on debt repayment.

In order to improve collection and to avoid, in as much as possible, debt collection default – the Bank makes attempts to reach agreements on debt repayment prior to taking legal action or even during and after taking such action, which may include: Delay of repayment, restructuring of debt repayment, reduced interest rates, changes to repayment schedule, changes to terms and conditions of the debt in order to align it with the borrower's financing structure, debt consolidation for the borrower, transfer of debt to other borrowers in a borrower group under joint control, review of financial covenants imposed on the borrower etc.

Debt which has been formally restructured as problematic debt 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).

In order to determine whether a debt arrangement executed by the Bank constitutes problematic debt restructuring, the Bank conducts a qualitative review of all terms of the arrangement and the circumstances under which it was made in order to determine whether: (1) the creditor is in financial duress; and (2) the Bank made a concession to the debtor in conjunction with the arrangement.

In order to determine whether the creditor is in financial duress, the Bank reviews for indications of the creditor being in financial duress at the time of the arrangement, or for reasonable likelihood that the borrower would be in financial duress if not for the restructuring. *Inter alia*, the Bank reviews the existence of one or more of the following circumstances:

- The debtor is currently in payment default for any of their debts. Moreover, the Bank estimates whether it is expected that the debtor would be in payment default for any of their debts in the foreseeable future, if the change is not made. This means that the Bank may conclude that the debtor is in financial difficulties, even if the debtor is not currently in payment default.
- The debtor has declared bankruptcy or is in Receivership or any in any other bankruptcy or Receivership proceedings.
- There is significant doubt about the debtor continuing as a going concern.
- The debtor has securities delisted, in the process of being delisted or being threatened with delisting from the stock exchange.

Note 1 – Reporting Principles and Accounting Policies (continued)

- According to estimates and projections which only include the debtor's current capabilities, the Bank expects specific cash flows for the debtor entity would be insufficient to service any of its debt (principal and interest) in conformity with contractual terms and conditions of the existing agreement in the foreseeable future.
- Without the existing change, the debtor would be unable to obtain cash from sources other than the current lenders, at effective interest rates equal to the prevailing market interest rates for similar debt of a non-problematic debtor.
- The Bank concludes that a concession was made to the creditor in conjunction with the restructuring, even if the contractual interest rate was increased in the restructuring – if one or more of the following exists: Due to the restructuring, the Bank does not expect to collect all debt amounts (including accrued interest pursuant to contractual terms); the current fair value of collateral, for debt contingent on collateral, does not cover the contractual debt balance and indicates inability to collect all debt amounts; the creditor is unable to raise funds at market rates for debt with similar terms and conditions to those of the restructured debt. If a the Bank does not perform such additional underwriting upon renewal of inferior debt, or if there is no change in debt pricing or if pricing has not been adjusted to align with the risk prior to renewal, or the debtor does not provide additional means to offset the increase in risk due to the borrower's financial difficulties, it is presumed that such renewal is restructuring of troubled debt.

The Bank does not classify debt as restructured problematic debt, if in conjunction with the arrangement, it granted to the creditor a delay in payments which is not material considering the payment frequency, the contractual term to maturity and the expected effective maturity of the original debt. For this matter, if multiple restructurings took place involving changes to debt terms, the Bank accounts for the accumulated effect of previous restructurings in order to determine whether the delay in payments is not material.

Handling of debt under restructuring and subsequent restructuring – restructured debt, including debt assessed on group basis prior to restructuring, shall be classified as impaired debt and shall be individually assessed for making a provision for credit losses. In general, reorganized problematic debt would continue to be measured and classified as impaired debt until fully repaid. However, under certain circumstances, when debt is restructured as problematic debt restructuring and later on, the Bank and the debtor have signed an additional restructuring agreement, the Bank is no longer required to treat the debt as restructured problematic debt if the following conditions are fulfilled:

- The debtor is no longer facing financial difficulties upon the date of the subsequent restructuring.
- According to terms of the subsequent restructuring, the banking corporation did not give the debtor any waiver.

Such debt which has been subsequently restructured and from which the Impaired classification has been removed, is to be evaluated on group basis in order to quantify the provision for credit losses and the recorded debt balance will not change during subsequent restructuring (unless cash has been received or paid).

If, in subsequent periods, such debt has been individually reviewed and it was found that impairment should be recognized with respect to it, or if it undergoes problematic debt restructuring, the Bank would reclassify it as Impaired Debt and would treat it as reorganization of problematic debt.

Reinstatement of impaired debt to non-impaired status – impaired debt is reclassified as non-impaired debt upon one of these conditions occurring:

- It includes no principal or interest components which are past due, and the Bank anticipates payment of the outstanding principal and interest in full according to contractual terms (includes amounts subject to accounting write-off or provision).
- When the debt has become well-secured and is in collection proceedings.

Rules governing reinstatement from the Impaired classification, as noted above, shall not apply to debt classified as impaired due to restructuring of problematic debt.

Note 1 – Reporting Principles and Accounting Policies (continued)

Reinstatement of impaired debt to impaired and accruing status – debt which has been formally restructured, such that after restructuring all of the following conditions are fulfilled::

- There is reasonable certainty that the debt would be repaid and will perform according to its new terms and conditions, based on a current, well-documented credit evaluation of the debtor's financial situation and repayment schedule according to its new terms and conditions.
- The debtor has made cash and cash equivalent payments over a reasonable period of at least six months for loans repaid (principal and interest) by monthly installments, or has repaid 20% of the restructured debt for loans with longer maturities.
- The loan, after restructuring, is not in arrears of 90 days or more.

D. Provision for credit losses

The Bank has put in place procedures for classification of credit and for measurement of provision for credit losses, in order to maintain an appropriate provision to cover expected credit losses with regard to the Bank's loan portfolio. Further, the Bank has put in place procedures to be followed, an appropriate provision to cover expected credit losses with regard to off-balance sheet credit instruments (such as: commitments to provide credit, unutilized credit facilities and guarantees).

The required provision to cover expected credit losses from the credit portfolio is estimated under one of the following tracks: "individual provision" or "group provision". Further, the Bank reviews the overall appropriateness of the provision for credit losses.

Such review of debts in order to determine the provision and debt handling is consistently applied to all debts in excess of NIS 700 thousand and in conformity with the Bank's credit management policy – and

no transition is made, during the debt term, between the individual review track and the group-based review track – unless in case of restructuring of problematic debt, as noted above.

Individual provision for credit losses – According to Bank policies, this is applied for any debts determined to be impaired, whose contractual balance (including accounting write-offs, unrecognized interest, provisions for credit losses and collateral) is NIS 700 thousand or higher.

Individual provision is also applied to any debt whose terms and conditions have been changed in conjunction with restructuring of problematic debt, unless this debt is subject to provision by extent of arrears. The individual provision for credit losses is estimated based on expected future cash flows, discounted using the effective interest rate of the original debt. When debt is contingent on collateral, or when the Bank has determined that seizure of an asset is expected, the individual provision for credit loss is evaluated based on the fair value of the collateral pledged to secure such debt, after application of consistent, conservative factors to reflect, *inter alia*, the volatility in fair value of such collateral, the time it would take until actual realization and the expected cost for selling the collateral. For this matter, the Bank defines debt as debt contingent upon collateral, when it is expected to be entirely repaid by pledged collateral, or when the Bank expects repayment from an asset even with no specific pledge on such asset, provided that the borrower has no other reliable sources available for repayment.

The Bank regularly reviews the forecasted expected credit losses, based on actual cash flows, and adjusts the individual provision to the current forecast. Actual credit losses may differ from the Bank's original estimates upon classification of the debt as impaired.

Group provision for credit losses – This is applied for large, homogeneous groups of small debts (whose balance is below NIS 700 thousand, according to Bank policy) (such as: credit card debts, housing loans and consumer debts repaid by installments) as well as for large, non-impaired debts. The provision for credit losses with respect to debts based on group estimate, other than housing loans for which the provision has been calculated based on a formula specified by the Supervisor of Banks based on extent of arrears, is calculated based on rules specified in FAS 5 (ASC 450) "Accounting treatment of contingencies" and in conformity with directives and guidance from the Supervisor of Banks. 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.

Note 1 – Reporting Principles and Accounting Policies (continued)

On February 20, 2017, the Supervisor of Banks issued a circular concerning provision for credit losses, whereby the "range of years" used as a component in determining the group-based provision for credit losses, should continue to include 2011 on the financial statements for 2016 and 2017. The Bank is implementing the directives.
In addition to calculating the average range of historic loss rates for various economic sectors, as per the above, for determining the appropriate rate of provision, the Bank also accounts for relevant environmental factors, including trends in credit volume for each sector as well as sector condition, macro-economic data, general quality assessment of credit to each economic sector, changes in volume and in trend of balances in arrears and impaired balances and the effect of changes in credit concentration.
In conformity with directives of the Supervisor of Banks, the Bank has formulated a methodology for measuring the group provision, which takes into account both past loss rates and adjustments with respect to relevant environmental factors.
Furthermore, in conformity with the Supervisor of Banks' directive, the rate of adjustment with respect to relevant environmental factors for group provision for credit losses with respect to individuals is 0.75% of the non-impaired consumer credit balance (excluding credit due to receivables for bank credit cards without interest charge). This is based on a specific directive by the Supervisor of Banks, dated January 19, 2015.
Pursuant to provisions stated in the interim directive, as from January 1, 2011 the Bank is not required to maintain general and supplementary provisions, but continues to calculate the supplementary provision and to verify that in any case, the amount of group provision at the end of each reporting period shall be no less than the sum of general and supplementary provisions which would have been calculated as of the same date, gross of tax. For more information, see section G. below.
For more information about the Supervisor of Banks' circular with regard to limit on sector indebtedness, which rescinds the additional provision and general provision mechanism, as from January 1, 2018, see section E.

Housing loans
A minimum provision with respect to housing loans is calculated based on the formula stipulated by the Supervisor of Banks, by extent of arrears, such that the provision rate is higher the longer the arrears. This directive applies to all housing loans, other than loans not repaid by periodic installments and loans used to finance activity of a business nature.
The Bank also applies Proper Banking Conduct Directive no. 329, as per the Supervisor of Banks' letter dated March 21, 2013 "Update to guidelines with regard to residential real estate".

In conformity with these directives, the Bank has set policies designed to ensure that the Bank would be in compliance with stipulations of this directive and that, as from June 30, 2013, the balance of group provision for credit losses with respect to housing loans shall be at least 0.35% of the outstanding balance of such loans as of the report date.

Off-balance sheet credit
The required provision with regard to off-balance sheet credit instruments is assessed as per rules stated in FAS 5. The provision estimated on group basis for off-balance sheet credit instruments is based on provision rates specified for total credit exposure (as stated above), accounting for expected credit realization rate for the off-balance sheet credit risk. The credit realization rate is calculated by the Bank based on credit conversion factors, as specified in Proper Banking Conduct Directive 203 "Measurement and capital adequacy – Credit risk – Standard approach" with certain adjustments.

Further, the Bank reviews the overall appropriateness of the provision for credit losses. Such assessment of appropriateness is based on management discretion, taking into account the inherent risk in the credit portfolio and in assessment methods applied by the Bank to determine the provision.

Note 1 – Reporting Principles and Accounting Policies (continued)

E. Revenue recognition

Upon classification of debt as impaired, the Bank classifies the debt as non-accruing debt and discontinues accrual of interest revenues with respect to it, except as stated above for certain restructured debt. Further, upon classification of debt as impaired, the Bank reverses all accrued and uncollected interest revenues recognized as income in profit and loss. The debt continues to be classified as non-accruing debt for as long as it is classified as impaired debt. For further information about revenue recognition on cash basis with respect to debt classified as impaired, see section 4 above.

For debt reviewed and provided for on group basis, the Bank discontinues accrual of interest revenues when conditions for accounting write-off of the debt are fulfilled, usually after 150 days in arrears, unless the debt is well-secured and in collection proceedings. Such debt is subject to assessment of provision for credit losses, which ensures that Bank profit is not skewed upwards.

F. Accounting write-off

The Bank makes accounting write-offs of any debt, or part of it, individually assessed as not collectible and of low value, so that maintaining it as an asset is not justified, or any debt which is subject to long-term collection effort by the Bank (typically defined as terms in excess of two years). For debt whose collection is contingent on collateral, the Bank immediately writes off the debt against the balance of the provision for credit losses amounting to the recorded debt balance in excess of the fair value of collateral. For debt assessed on group basis, write-off rules have been put in place based on extent of arrears (mostly – over 150 consecutive days in arrears) and on other problem parameters. Note that accounting write-offs do not involve any legal concession, and merely reduce the debt balance reported for accounting purposes, while creating a new cost basis for the debt in Bank accounts.

Debt which has been reviewed on group basis and classified as impaired due to restructuring of problematic debt, are subject to accounting write-off no later than the date when the debt is in arrears 60 days or longer, with regard to terms and conditions of such restructuring.

G. Policies on provision for doubtful debts prior to application of directives on impaired debt, credit risk and provision for credit losses.

Prior to January 1, 2011, the provision for doubtful debts was specifically determined, and a general provision and supplementary provision were also included, as per directives of the Supervisor of Banks.

The supplementary provision for doubtful debts is based on the quality of client indebtedness portfolio, based on risk attributes as defined in directives of the Supervisor of Banks. The supplementary provision for doubtful debts is calculated using percentages specified for each of these risk attributes. The general provision is in amounts adjusted for the end of 2004, an amount which constituted 1% of total indebtedness under responsibility of the Bank and banking investees as of December 31, 1991.

As from January 1, 2011 the Bank is not required to maintain general, supplementary and special provisions doubtful debts, but continues to calculate the supplementary provision and to verify that in any case, the amount of group provision at the end of each reporting period shall be no less than the sum of general and supplementary provisions which would have been calculated as of the same date, gross of tax.

For more information about the Supervisor of Banks' circular with regard to limit on sector indebtedness, which rescinds the additional provision and general provision mechanism, as from January 1, 2018, see section E.

Note 1 – Reporting Principles and Accounting Policies (continued)

7) Transfer and service of financial assets and discharge of liabilities

The Bank applies measurement and disclosure rules specified in US Accounting Standard FAS 140 (ASC 860-10), "Transfer and service of financial assets and discharge of liabilities", as amended by FAS 166, "Transfer and service of financial assets" (ASC 860-10), for handling the transfer of financial assets and discharge of liabilities.

Under these rules, the accounting treatment of transfer of a financial asset would only be deemed a sale if all of these conditions are fulfilled: (1) the transferred financial asset was separated from the transferring entity, even in case of bankruptcy or other form of Receivership; (2) any recipient may pledge or replace the assets (or the beneficiary interests) received, and there is no condition which limits the recipient from exercising their right to pledge or exchange the financial assets, and grants the transferor a non-trivial benefit; (3) the transferor, or subsidiaries consolidated with its financial statements , or their agents do not retain effective control over the financial assets or beneficiary interests related to these transferred assets.

In transactions involving transfer of financial assets, if it is determined that the transferor maintains effective control over transferred assets, the asset transfer shall be accounted for as secured debt. When all of the following conditions are satisfied, effective control over the asset is maintained:

- The assets repurchased or redeemed are identical or essentially identical to the transferred assets;
- The agreement is to repurchase or redeem them prior to maturity, at a fixed or fixable price.
- The agreement is made simultaneously with the transfer.

Moreover, for the transfer of part of a financial asset to be considered a sale, the transferred part must fulfill the definition of participatory rights. Participatory rights must fulfill the following criteria: the interest should represent an interest proportional to the complete financial asset; all cash flows received from the assets are divided among participatory interest pro-rata to their ownership stake; interests are not subordinated to other interests; there is no recourse to the transferor or to other holders of participatory interests (other than in case of breach of representation or obligation, current contractual obligations to service the financial asset as a whole and management of the transfer contract, and contractual obligations to share in offset of any benefits received by any holder of participatory interests); and the transferor and the holder of participatory interests have no right to pledge or replace the financial asset in whole, unless all holders of participatory interests agree to pledge or replace the financial asset in whole.

If the transaction fulfills the conditions for treating it as a sale, the transferred financial assets are removed from the Bank's balance sheet. If the sale conditions are not fulfilled, the transfer is considered as secured debt. Sale of part of a financial asset, other than a participatory right, is treated as secured debt – that is, the transferred assets remain on the Bank's balance sheet and proceeds from the sale are recognized as a Bank liability.

The Bank applies specific provisions specified in Public Reporting Directives for handling transactions to borrow or loan securities, in which lending is made against the borrower's general credit and collateral quality, where the borrower does not provide as collateral for the loaner any liquid instruments specifically related to the securities loaning transaction, which the loaner may sell or pledge.

Such loaning and borrowing are treated as credit or deposit, measured at fair value of the related security. Revenues on accrual basis with respect to such securities are recognized as interest income from credit and changes to fair value (in excess of changes to accrual basis) are recognized under Non-interest Financing Revenues in case of securities in the held-for-trade portfolio or under Other Comprehensive Income in case of securities available for sale.

The Bank only removes a liability if it has been settled, i.e. if one of the following conditions has been fulfilled: (a) the Bank has paid the lender and is no longer liable for said liability; or (b) the Bank was legally released from the liability by a judicial process or by consent of the lender, being the major party liable for said liability.

In conformity with revision of Bank of Israel directives with regard to improved usefulness of public reports by banking corporations for 2017 and 2018, the disclosure requirements with regard to syndication transactions have been revised. For details of syndication transactions, see Note 30 to the financial statements.

Note 1 – Reporting Principles and Accounting Policies (continued)

8) Buildings, equipment and software

This item includes investments by the Bank in fixed assets (including payments on account), assets leased by the Bank under a financing lease, and cost of software for its own use, recognized as an asset.

Buildings and equipment

Recognition

Fixed asset items are measured at cost net of accumulated depreciation and accumulated impairment loss, if any. Cost includes any cost directly attributable to acquisition of the asset. Cost of self-constructed assets includes the cost of materials and direct labor, as well as any additional cost directly attributable to bringing the asset to the required location and state so as to operate as intended by management.

When significant portions of fixed asset items have a different useful life, they are treated as separate fixed asset items.

Gain or loss from disposition of fixed asset items is determined by comparing the proceeds from asset disposition to its carrying amount and are recognized, net, under "Other revenues" in the statement of profit and loss.

Subsequent costs

Current maintenance costs of fixed asset items are charged to profit and loss when incurred.

Depreciation

Depreciation is methodical allocation of the depreciable amount of an asset over its useful life. Depreciable amount is the asset cost, or another amount which is a substitute for such cost, less the residual value of the asset.

Depreciation is charged to the statement of profit and loss using the straight line method over the estimated useful life of each part of the fixed asset items – since this method best reflects the anticipated consumption pattern of future economic benefits inherent in the asset. Leasehold improvements are depreciated over the lease term or the useful life, whichever is shorter. Owned land is not depreciated.

An asset is depreciated when available for use, i.e. when it has reached the location and state required for it to be put into operation as intended by management.

For more information about estimated useful life of buildings and equipment, as of December 31, 2016, see Note 16 to the financial statements.

For more information about application of US GAAP with regard to topics 360 and 360-10 of the codification concerning "Fixed assets" as from January , 2018, see section E.

Software

Recognition

The Bank applies US GAAP, including the presentation, measurement and disclosure rules specified in provisions of ASC 350 "Intangible assets – Goodwill" and others.

The Bank also applies the Bank of Israel directive concerning capitalization of in-house software development costs, as follows:

- Setting of a materiality threshold for each software development project; The materiality threshold specified by the Bank is NIS 450 thousand.
- Revision of the useful life of capitalized software costs, so as not to exceed 5 years.
- With respect to software development projects for which the total software cost which may be capitalized is higher than the specified materiality threshold, capitalization factors would be specified for work hours – factors which would take into account the potential for deviation in recording work hours and for economic inefficiency.

Note 1 – Reporting Principles and Accounting Policies (continued)

In conformity with Public Reporting Regulations, the Bank classifies under "Buildings and equipment" the cost of software assets acquired, or costs capitalized to an asset with respect to self-developed software for in-house use.
Software acquired by the Group is measured at cost, net of accumulated amortization and impairment loss. For more information about impairment, see section D. 11 below.
Cost associated with software development or adaptation for in-house use are capitalized only if the development cost may be reliably measured, the software is technically and commercially feasible, future economic benefits are expected and the Bank has the intention and sufficient resources to complete development and to use the software. Cost recognized as an intangible asset with respect to development activities includes direct cost of materials, services and direct payroll cost with respect to employees. Other costs associated with development activities and research costs are charged to the statement of profit and loss when incurred.
In subsequent periods, capitalized development cost is measured a t cost net of accumulated amortization and impairment loss.

Subsequent costs
Cost of upgrades and improvements to software for own use are only capitalized if the expenses incurred are expected to result in additional **functionality**. Other subsequent costs are expensed when incurred.

Amortization
Depreciation is methodical allocation of the depreciable amount of an asset over its useful life. Depreciable amount is the asset cost, or another amount which is a substitute for such cost, less the residual value of the asset.

9) Intangible assets and goodwill

The Bank applies US GAAP with regard to intangible assets including the presentation, measurement and disclosure rules specified in provisions of ASC 350 "Intangible assets – Goodwill and other".
Intangible assets of unspecified useful life are reviewed if there are indicators of impairment at the Asset Group level. An asset group is the smallest group of assets and liabilities which generates a separate cash flow. First is a review of whether the carrying amount of the asset group is higher than the non-discounted cash flow amount expected there from. If so, impairment is to be recognized equal to the difference between the carrying amount and the fair value of the asset group. Impairment is to be proportionately attributed to assets in the asset group, provided that the value of any individual asset does not drop below its fair value.
Assets of unspecified useful life are reviewed for impairment at least once per year. They are reviewed as to whether the carrying amount of the asset exceeds its fair value. If so, impairment is to be recognized, equal to the difference between the carrying amount and the fair value.
Goodwill is not systematically depreciated.
Development cost of acquired software or cost capitalized to an asset with respect to software developed in-house for in-house use, are classified under "Buildings and equipment".

10) Leases

Leases, including land leases from the Israel Land Administration ("ILA") or from third parties, where the Bank essentially bears all risk and reward associated with the property, are classified as financing leases. Upon initial recognition, leased assets are measured at their fair value or the present value of minimum future leasing fee, whichever is lower. Future payments for exercise of an option to extend the lease term with ILA are not recognized as part of the referring asset and liability, since they constitute contingent leasing fees, derived from the fair value of the land upon future renewal dates of the lease. Other leases are classified as operating leases, and the leased assets not recognized in the Bank's balance sheet.

Prepaid leasing fees paid to ILA with respect to land leases classified as operating leases are presented on the balance sheet as prepaid expenses, and are recognized in the statement of profit and loss over the lease term. The lease term and amortization amounts account for any option to extend the lease term, if upon contracting the lease it was reasonably certain that the option would be exercised.
In a lease for land and buildings, the land and building components are individually reviewed for the purpose of classifying such leases; the key consideration in classification of the land component is the fact that land typically has an unspecified useful life.
Payments for an operating lease are charged to the statement of profit and loss using the straight line method over the lease term. Lease incentives received are recognized as an integral part of all lease expenses using the straight line method over the lease term.
Minimum leasing fees payable for a financing lease are divided into financing expenses and reduction of the liability balance. Financing expenses are allocated for all periods in the lease term, so as to obtain a fixed periodic interest rate for the outstanding liability balance. Minimum leasing fees with respect to contingent leasing fees are updated when the contingency is resolved.
In case of sale and releasing, the type of lease (financing or operating) should be identified. For operating lease – the capital gain from the sale is deferred and attributed over time, if the sale price exceeds the fair value of the asset. For financing lease – the capital gain from the sale is deferred and attributed over time.

11) Impairment of non-financial assets

Timing of impairment review

The carrying amounts of the Group's non-financial assets, other than deferred tax assets and including equity-accounted investments, are reviewed upon each reporting date for existence of any indications of impairment. If such indications exist, the Bank estimates the recoverable amount of the asset. Once every year, on a set date for each cash-generating unit that includes goodwill or intangible assets of un-specified useful life, or which are not available for use, the Group estimates the recoverable amount – or more often in case of any indications of impairment.

Measuring the recoverable amount

The recoverable amount of an asset or cash-generating unit is the higher of its value in use and its fair value, net of selling expenses. When determining the value in use, the Group discounts the expected future cash flows using the discount rate for taxes, that reflects market views of the time value of money and the asset-specific risks, for which the expected cash flows from the asset have not been adjusted.

Recognition of impairment loss

Impairment loss is recognized when the carrying amount of the asset or of the cash-generating unit exceeds the recoverable amount (which is the higher of the fair value net of selling expenses of the asset (or cash-generating unit) or its value in use) – and is charged to the statement of profit and loss.

Allocation of impairment loss to non-controlling interest

Impairment loss is allocated to equity holders of the Bank and to non-controlling interests on the same basis as allocation of profit or loss.

Reversal of impairment loss

As for assets other than goodwill, for which impairment loss has been recognized in previous periods, on each report date a review is conducted as to any indications that such loss has decreased or has been eliminated. Impairment loss is reversed in case of change to estimates used to determine the recoverable amount – but only if the carrying amount of the asset, after reversal of impairment loss, does not exceed the carrying amount net of depreciation or amortization, which would have been determined if no impairment loss had been recognized.

Note 1 – Reporting Principles and Accounting Policies (continued)

Impairment of cost of in-house development of computer software

Impairment of such intangible assets is recognized and measured upon occurrence of any event or change in circumstances that indicate that the carrying amount of the asset may not be recovered.

Events or changes in circumstances which may indicate impairment are:

- It is not expected that the software would provide significant potential service;
- A significant change has occurred in the manner or scope of use or expected use of the software;
- A material modification to the software has been made or will be made;
- The cost of development or adaptation of software for in-house use significantly exceeds the anticipated amount;
- It is no longer expected that software development would be completed and that the software would be used.

If one or more such indications exist, a review for impairment should be conducted in conformity with the rules stipulated in IAS 36 "Impairment of Assets".

Investments in associated companies

Investment in associates is reviewed for impairment in each period, based on the fair value of such investment. If the Group is unable to measure the fair value, impairment is reviewed if an event occurs or circumstances change, which may have material negative impact on the fair value of such investment.

12) Contingent liabilities

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:

A. 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.

B. 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.

C. 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.

See Note 26.C.11 for disclosure of material claims (whose amount, excluding interest and expenses, is over 1% of equity attributable to equity holders of the Bank).

Likewise, disclosure is given to motions for recognition as class actions, when the amount claimed in them is material, and to appeals to the High Court of Justice when, in the estimation of the Bank's management, based on the opinion of its legal counsel, it is not possible at this stage 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 1 – Reporting Principles and Accounting Policies (continued)

13) Employee rights

The Bank applies the Supervisor's directives with regard to adoption of US GAAP concerning employees' rights. These principles were codified in the following codification sections (hereinafter: "the directives").

- ASC 710 – Compensation – General.
- ASC 712 – Compensation – Non retirement post employment benefits.
- ASC 715 – Compensation – Retirement benefits.
- ASC 718 – Compensation – Stock Compensation.
- ASC 420 – Exit or Disposal Cost Obligations.

According to the directives, banking corporations should classify employees' benefits according to groups listed in US GAAP, including setting of clear policies and procedures as to how different types of benefits may be distinguished. Employee benefits fall into the following categories:

- Benefits prior to termination.
- Benefits post termination and prior to retirement.
- Post-retirement benefits.

Furthermore, the principle set by the Supervisor of Banks whereby a liability should be included with respect to a material obligation – should be maintained. It is expected that in cases where the Bank expects payment of benefits beyond contractual terms, they would adjust these to situations where a material obligation exists.

According to the Supervisor of Banks' directives, the discount rate for employee benefits is calculated based on yields of government debentures in Israel plus the average spread for corporate debentures rated AA (international rating scale) or higher as of the reporting date. For practical reasons, the spread would be determined by the difference between yields to maturity, by terms to maturity, for corporate debentures rated AA or higher in the USA – and yields to maturity, for the same terms to maturity, for US government debentures, all as of the reporting date.

Below are details for benefit groups at the Bank:

Post-retirement benefits – pension, severance pay and other benefits – defined-benefit programs

The Bank recognizes amounts with regard to pension programs and other post-retirement programs based on calculations which include actuarial and other assumptions, including: discount rates, mortality rates, increase in remuneration and turnover.

The Bank regularly reviews the need to update actuarial assumptions used in the model.

Changes to assumptions are generally recognized, subject to provisions listed below, first in Cumulative Other Comprehensive Income and are amortized to Profit and Loss in subsequent periods, in conformity with the remaining average terms of service for employees expected to receive benefits.

The liability is accrued over the relevant period, determined in conformity with rules listed in Section 715 of the codification.

The Bank applies the Supervisor of Banks' regulations with regard to internal controls over financial reporting with regard to employee rights, including with regard to review of an "essential commitment" to award benefits to Bank employees with respect to increased severance pay and/or early retirement.

Other long-term benefits to active employees:

- The liability is accrued over the period of eligibility for this benefit.
- In calculating the liability, the Bank accounts for discount rates and for actuarial assumptions.
- All components of the benefit cost for the period, including actuarial gains and losses, are recorded to Profit and Loss.

Absence eligible for compensation – paid leave and sick leave:

The liability with respect to paid leave is measured on a current basis, without accounting for any discount rates or actuarial assumptions.

The Bank does not accrue a liability with respect to sick leave utilized during current service.

For more information about employee benefits, see Note 2 to the financial statements.

As for accounting treatment of actuarial gains / losses recognized under Other Comprehensive Income due to changes to discount rates:

Actuarial loss as of January 1, 2013, arising from the difference between the discount rate used for calculation of provisions to cover employee rights, linked to the Consumer Price Index, as stipulated by the interim directive in the Public Reporting Directives (4%) – and the discount rates as of that date for CPI-linked employee liabilities, determined based on the new rules as noted above (hereinafter: "the loss") is included under Accumulated Other Comprehensive Income.

Any actuarial gains recognized as from January 1, 2013, due to current changes in discount rates during the reported period, would be included under Accumulated Other Comprehensive Income and would decrease the loss balance recorded as noted above – down to zero.

Actuarial losses due to current changes in discount rates during the reported year and actuarial gains due to current changes in discount rates during the reported year after the loss balance has been decreased to zero as noted above, would be amortized using the straight line method over the remaining average terms of service for employees expected to receive benefits over the plan term.

Other actuarial gains and losses(not due to changes in discount rates) as of January 1, 2013 and in subsequent periods are to be included in cumulative other comprehensive income and would be amortized using the straight line method over the average remaining service period of employees expected to receive plan benefits.

In conformity with transition provisions specified in Proper Banking Conduct Directive no. 299, a cumulative other comprehensive loss balance and amounts directly charged to retained earnings as of January 1, 2013 with respect to remeasurement of net liabilities or net assets with respect to defined benefit to employees, would not be immediately taken into account for calculation of the capital requirements, but would rather be subject to transitional provisions, so that the impact would be applied at equal rates of 20%. At 40% as from January 1, 2015 and an additional 20% per year, until full application as from January 1, 2018

Principles of accounting treatment of the streamlining plan:

On December 27, 2016, the Bank’s Board of Directors approved the streamlining program recommended by Bank management, whereby early retirement would be possible for 300 employees in 2017-2021, at improved conditions.

The cost of update to the actuarial liability with respect to the streamlining program, recorded on the financial statements as of December 31, 2016, amounts to NIS 286 million; the cost net of tax, amounting to NIS 188 million, was charged to equity (under Other Comprehensive Income).

In subsequent periods, the Bank would amortize the plan costs to the statement of profit and loss, under "Actuarial gain and loss" using the straight line method over the average remaining service period for the employees, which is currently at 15 years.

If, in certain periods, total severance pay payments should exceed the cost of service and cost of interest recognized for that year and a settlement would take place (in conformity with US GAAP concerning employee rights), then the ratio of amortization of "actuarial gain and loss" would be adjusted for the settlement pace of the actuarial liability in that period, respectively.

In conformity with the Supervisor of Banks' letter dated January 12, 2016, with regard to operating streamlining of the Israeli banking system, the Supervisor of Banks allowed capital relief with respect to this plan. The Bank applies this capital relief so that supervisory capital used to calculate capital adequacy would be adjusted (increased) and the capital effect of the streamlining (a decrease by 0.14%) would be applied on a straight line basis as from 2017, over a five-year period.

See Notes 22 and 25 to the financial statements for further information.

Streamlining program at Bank Yahav

On June 13, 2017, the Board of Directors of Bank Yahav approved streamlining measures, including a voluntary retirement program. Bank Yahav was granted approval for this program by the Supervisor of Banks, as required in the streamlining directive.

Pursuant to the retirement program, early retirement would be allowed subject to criteria stated in the program. The costs of actuarial liability with respect to the retirement program at Bank Yahav were revised to NIS 36 million before tax (NIS 23 million after tax).

As directed by the Bank of Israel, supervisory capital used to calculate capital adequacy would be adjusted (increased) and the capital effect of the streamlining would be applied on a straight line basis over a five-year period.

14) **Share-based payment transactions (employee stock options)**

The Bank applies provisions of ASC 718 "Share-based payment transactions" with regard to options awarded to employees. In conformity with these provisions, the Bank recognizes payroll expenses due to the awarded options. Expenses are recognized based on fair value of the options on the award date, concurrently with increase in capital over the term of service for which the options are awarded.

When determining the fair value of options upon the award date, vesting restrictions due to market conditions (such as vesting contingent on share price) are taken into account. Other qualitative restrictions which do not concern market conditions (such as: discretionary component of benefit award) have no impact on determining fair value upon the award date and are reflected in current expensing of the benefit awarded. As allowed by the standard, the Bank treats each awarded lot as a separate award.

As for an award in the gain track, tax authorities in Israel allow an expense to be recognized upon option exercise, so that a tax benefit is expected and deferred taxes should be recognized. According to provisions of the standard, the tax benefit would be recognized based on the cumulative expense carrying amount, multiplied by the tax rate. Upon exercise of the options, when the allowed income tax expense exceeds the expense carried, the difference, multiplied by the tax rate, would be charged to profit and loss.

For more information about new updates to standards concerning share-based payment, see section C. 3) above.

For more information about update 2017-09 by the US Financial Accounting Standards Board ("FASB") concerning "Share-based Payment" as from January 1, 2018., see section E.

15) **derivatives and hedging activities**

A. The Bank trades in financial derivatives, including currency and interest contracts and credit derivatives. The currency contracts include forwards, futures, swaps and options. These trades are executed in all linkage sectors. The trades are executed with the public and with banks in Israel and overseas, as part of the Bank's day-to-day activities as a market maker, and as part of the overall strategy of managing the expedient level of exposure for the various market risk, including basis and interest risk – risk to which the Bank is exposed in its day-to-day activities.

B. Derivatives are stated at fair value on the Bank balance sheet, under Assets or Liabilities, as the case may be. Changes to fair value of derivatives, other than derivatives used as cash flow hedges, are recognized on the Statement of Profit and Loss.

C. It is possible that the Bank will enter into a contract, which by itself is not a derivative, but contains an embedded derivative. When an embedded derivative has economic characteristics that are not clearly and closely tied to the economic characteristics of the host contract, and a separate instrument with the same conditions as the embedded derivative would qualify as a derivative instrument, then the embedded derivative is detached from the host contract and is treated as a hedge by itself.

A detached embedded derivative is stated in the balance sheet together with the host contract. Change in fair value of detached embedded derivatives is immediately charged to profit and Loss.

Note 1 – Reporting Principles and Accounting Policies (continued)

D. In certain cases, in which the embedded derivative must be detached from the host contract, the Bank adopts a policies of measuring the entire contract according to its fair value, and records the changes in its fair value in the statement of profit and loss. This policies was adopted for structured securities in the available-for-sale portfolio.

E. The Bank designates certain derivatives as fair value hedges or as cash flow hedges. The Bank formally documents in writing all of the hedging relationships between the hedging financial derivatives and the hedged items, as well as the objective and strategy of the management of risk through the creating of a hedge transaction. The documentation includes identification of the asset designated as the hedged item and states the manner in which the hedging instrument is expected to hedge the risk related to the hedged item. The Bank estimates the effectiveness of the hedging relationship at the inception of the hedge and continuously, in accordance with its risks management policies. Based on the above, a determination is made as to whether the derivative qualifies as a hedge in accordance with Public Reporting Directives.

F. Changes in the fair value of an item hedged by a fair value hedge using a derivative that meets the above conditions, arising from changes in the specified risk factors, are recorded currently to the statement of profit and loss, concurrent with the changes in the fair value of the hedging derivative.

Changes in the fair value of a derivative which qualifies as a cash flow hedge, which arise from changes in the risk factor being hedged (which impacts the cash flows resulting from the hedged instrument), attributed to an anticipated transaction which is probable and may impact profit and loss, are charged to capital reserve from cash flow hedging, in Other Comprehensive Income, under Shareholders' Equity.

G. The Bank stops hedge accounting henceforth, when:

1) It is determined that a hedge is no longer effective for offsetting the changes in the fair value or cash flow of the hedged item, as the case may be.
2) The derivative expires, is sold, canceled or realized.
3) Management revokes the designation of the derivative as a hedging instrument.

When a fair value hedge is discontinued because it is determined that the hedge no longer qualifies as an effective fair value hedge, the derivative will continue to be recorded in the balance sheet at its fair value, but changes to fair value of the hedged asset or liability will no longer be regularly charged to profit and loss. When a cash flow hedge is discontinued because it is determined that the hedge no longer qualifies as an effective cash flow hedge, changes in the fair value of the derivative since the date of discontinuation of hedging are recorded in the statement of profit and loss. Profit or loss accumulated under Other Comprehensive Income and previously presented under Equity, remains under Equity until the anticipated transaction takes place or until it is beyond any reasonable doubt that the anticipated transaction would not take place. If it is beyond any reasonable doubt that the anticipated transaction would not take place, the accumulated profit or loss with respect to the hedging instrument, recognized under Other Comprehensive Income, would be reclassified to profit and loss.

For more information about implementation of US GAAP for derivatives and hedge accounting as from December 15, 2018, see section E.

16) Fair value

A. Fair value is defined as the price which would have been obtained upon sale of the asset, or the price which would have been paid upon transfer of the liability, in a normal transaction between market participants upon the measurement date. The standard requires, inter alia, for assessment of fair value, that maximum use be made of observed data and minimum use be made of non-observed data. Observed data reflects information available on the market, obtained from independent sources whereas non-observed data reflects assumptions by the Bank. FAS 157 (ASC 820-10) lists a hierarchy of measurement techniques, based on the source of data used to determine fair value. These data sources result in the following fair value ranking:

Note 1 – Reporting Principles and Accounting Policies (continued)

Level 1 – fair value measured using prices quoted for identical instruments on an active market accessible by the bank upon the measurement date.
Level 2 – fair value measured using observed data, either direct or indirect, which are not quoted prices as stipulated under Level 1. Level 2 data include use of quoted market data on active markets, or on non-active markets, if they exist, or data derived from or based upon such observed market data.
Level 3 – fair value measured by using non-observed data.

The standard stipulates that the Bank should reflect credit risk and non-performance risk in measuring the fair value of debt, including derivatives, issued there by and measured at fair value. Non-performance risk includes the Bank's credit risk, but is not limited to this risk alone.

The Bank assesses credit risk in derivatives as follows:

- When there is sufficient liquid collateral with respect to the exposure, which specifically secures the derivative, the Bank assumes that credit risk is zero, and does not adjust the fair value with respect to credit quality of the counter-party.
- In other cases, the Bank estimates the fair value based on indications from transactions on an active market of the credit quality of the counter party, if such indications are available at reasonable effort. The Bank derives these indications, inter alia, from prices of debt instruments of the counter-party traded on an active market, and from prices of credit derivatives based on the credit quality of the counter-party. In the absence of such indications, the Bank calculates the adjustments based on internal ratings.

When the counter-party exposure, on consolidated basis, is not material, the Bank calculates the aforementioned adjustment on group basis, using a benchmark for credit quality by groups of similar counter-parties, e.g. based on internal ratings.
Further, the Bank conducts reasonability testing of results obtained from internal assessment with regard to changes in market spreads, and makes the required adjustments, if any.
In order to adapt the Bank's valuation methods to the exit price principle and to provisions stated in the standard, the Bank is required to review the valuation methods applied there by for measuring fair value, taking into consideration the relevant circumstances of the various transactions, including recent transaction prices on the market, indicative prices from valuation services and results of back testing of similar transaction types.

In accordance with Bank of Israel directives, fair value measurement of a derivative instrument, when no quoted prices, liquid collateral or offset agreements exist which adequately secure the derivative's credit quality, and when no market information exists as to the credit quality of the counter-party (such as CDS or negotiable debentures of the counter-party) – shall be classified as a Level 3 fair value measurement.

How fair value is determined:

1) Securities
The fair value of securities held for trade and securities available for sale is determined based on quoted market prices on the major market. When there are multiple markets on which the security is traded, the estimate is based on the quoted market price on the most effective market. In such cases, the fair value of the Bank's investment in securities is the product of the number of units and the aforementioned quoted market price. If a quoted market price is not available, the fair value estimate is based on the best available information, with maximum use of observed data and taking into account the risk inherent in the financial instrument (market risk, credit risk, non-negotiability etc.)

Note 1 – Reporting Principles and Accounting Policies (continued)

2) Financial derivatives
Financial derivatives with an active market are valued based on market value, determined on the primary market, or in the absence of a primary market – using a quoted market price on the most effective market. Derivative financial derivatives not traded on an active market are valued using models which take into account the risk inherent in the derivative instrument (market risk, credit risk etc.)

3) Financial instruments other than derivatives
Most of the financial instruments in this category (such as: loans to the public and loans to the Government, deposits from the public and deposits with banks, non-negotiable subordinated notes and bonds) no "market price" is quotable, since there is no active market on which they are traded. Therefore, the fair value is estimated using acceptable pricing models, such as present value of future cash flows, discounted at an interest rate that reflects the level of risk inherent in the instrument.
To this end, the future cash flows for impaired and other debts have been calculated net of effects of accounting write-offs and provision for credit losses with respect to the debts.

For more information about principal methods and assumptions used in estimating fair value, see Note 33 to the financial statements.

B. Fair value option
FAS 159 (ASC 825-10) allows banking corporations to elect, upon specified election dates, to measure at fair value financial instruments and certain other items ("qualified items") which, according to Public Reporting Directives, are not required to be measured at fair value. Unrealized gain and loss due to changes in fair value of items for which the fair value option has been selected, are recognized in the statement of profit and loss at each subsequent reporting date. Furthermore, prepaid costs and commissions related to items for which the fair value option has been elected, are recognized in the statement of profit and loss as they are incurred. Election of the fair value option, as stated above, is made for each instrument individually, and may not be canceled.
Further, FAS 159 (ASC 825-10) stipulates presentation and disclosure requirements designed to assist in comparing banking corporations which elect different measurement bases for similar types of assets and liabilities.
Notwithstanding the foregoing, the Supervisor of Banks' directives with regard to application of the standard have clarified that a banking corporation may not elect the fair value option, unless the banking corporation had previously developed knowledge, systems, procedures and high-level controls which would allow it to measure the item with a high degree of reliability. Therefore, the Bank may not elect the fair value option for any asset which may be classified under Level 2 or Level 3 of the fair value ranking, nor for any liability, without prior consent of the Supervisor of Banks.

17) Taxes on income

Taxes on income include current and deferred taxes. Current and deferred taxes are charged to the statement of profit and loss, or charged directly to equity if they arise from items directly recognized under equity. The provision for taxes on income of the Bank and its subsidiaries that are financial institutions for VAT purposes includes profit tax levied on earnings under the Value Added Tax Act. The payroll tax levied on the salaries of financial institutions is included under “Payroll and associated expenses”.

A. Current taxes
Current taxes are taxes on income paid or payable (or refundable) for the current period, as determined by application of statutory tax provisions legislated with regard to taxable income. Current taxes include changes in tax payments with regard to previous years.

B. Deferred taxes
Deferred tax liabilities and deferred tax assets reflect the future effects on taxes on income, due to temporary differences and carry-forward losses existing at the end of the period.
The Bank recognizes deferred tax liabilities with respect to all taxable temporary differences.

Note 1 – Reporting Principles and Accounting Policies (continued)

The Bank recognizes deferred tax liabilities with respect to taxable temporary differences. However, the Bank does not recognize deferred tax liabilities with respect to undistributed earnings of subsidiaries which are essentially permanent.
The Bank recognizes deferred tax assets with respect to all deductible temporary differences and carry-forward losses, while concurrently recognizing a separate valuation allowance for the amount included in the asset that is more likely than not to be realized.
Deferred tax liabilities or deferred tax assets are measured using the statutory tax rates legislated, that are expected to apply to taxable income in the period when the deferred tax liability is expected to be settled or the deferred tax asset is expected to be realized.

C. Offset of deferred tax assets and liabilities
The Bank offsets deferred tax assets and deferred tax liabilities, as well as any related valuation allowance, for a specific taxable component and within a specific tax jurisdiction.

D. Uncertain tax positions
The Bank applies the rules for recognition, measurement and disclosure stipulated in FIN 48. In conformity with these rules, the Bank only recognizes the effect of tax positions if it is more likely than not that those positions would be accepted by the Tax Authority or by the Court. Tax positions
recognized are measured at the maximum amount whose likelihood of realization exceeds 50%. Changes in recognition or measurement are reflected in the period in which a change in circumstances resulted in a change in judgment.
For more information about application of US GAAP with regard to Section 740 of the Codification "Taxes on income", applicable as from January 1, 2017, see section C. 1).

18) Earnings per share

The Bank presents earnings per share data, both basic and diluted, for its ordinary share capital. Basic earnings per share is calculated by dividing the earnings attributable to holders of ordinary shares of the Group, by the weighted average number of ordinary shares outstanding during the period, after adjustment for treasury shares.
Diluted earnings per share is calculated by adjusting earnings (such as adjustment for after-tax effect of dividends, financing costs and other changes, if any) related to holders of ordinary shares, and adjusting the weighted average number of ordinary shares outstanding, after adjustment for treasury shares and for the effect of all potentially dilutive ordinary shares, including stock options awarded to employees.
For more information about application of US GAAP with regard to Section 260 of the Codification "Earnings per share", as from January 1, 2017, see section E.

19) Bank operating segments

A. Supervisory operating segments
A supervisory operating segment is a Bank component engaged in certain activities or grouping clients in certain classifications, as specified by the Supervisor of Banks. The format for reporting Bank supervisory operating segments was prescribed in Public Reporting Regulations by the Supervisor of Banks.
A supervisory operating segment is mostly specified in terms of client classification. Individual clients are classified based on financial assets for the household and private banking segments. Clients other than individuals are primarily classified based on the entire turnover for business segments (separated into small and micro business, medium business and large business), institutional investors and the financial management segment.
Furthermore, the Bank is required to apply disclosure requirements for supervisory segments based on management approach, when such operating segments materially differ from the supervisory operating segments.

On September 10, 2015, the Supervisor of Banks issued an updated Q&A file, which includes certain relief with regard to client categorization by operating segments based on their revenues – when this data is not typical or is unavailable to the Bank. According to the Q&A file, in such cases the Bank may categorize clients into operating segments based on other parameters, in line with total client indebtedness. Thus, in some cases listed in the Q&A file, clients may be categorized based on the number of employees or total assets on their balance sheet. If this information is not available either, clients may be categorized, in such cases, based on their total financial assets with the bank, multiplied by a specified factor.

B. Operating segments – management approach

In addition to uniform reporting by supervisory operating segments, the Supervisor of Banks' circular dated November 3, 2014 stipulates that disclosure of "Operating segments in conformity with management approach" should be provided in conformity with generally acceptable accounting practices by US banks with regard to operating segments (included in ASC 280), if there is a material difference between management approach and supervisory reportable segments.

An operating segment in conformity with 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 by chief decision makers at the Bank for the purpose of making decisions about resource allocation and performance evaluation, and
- Separate financial information is available with regard to it.

In fact, there is a correlation between supervisory operating segments and "operating segments in conformity with management approach" but never the less, there are some differences in client attribution to segments and in decision making. Therefore, the financial statements also include reporting of operating results in conformity with "management approach", as noted above.

For more information about criteria for client classification into supervisory segments and into segments in conformity with management approach and for differences between them and additional extensive segment information, see Note 29 to the financial statements.

20) Transactions with controlling shareholders

The Bank applies US GAAP for accounting treatment of transactions between the Bank and its controlling shareholder and a company controlled by the Bank. In cases where the aforementioned rules do not refer to the accounting treatment, the Bank applies the rules stated in Standard 23 of the Israel Accounting Standards Board concerning accounting treatment of transactions between an entity and its controlling shareholder.

Assets and liabilities subject to a transaction with a controlling shareholder are measured at fair value as of the transaction date.

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 topic	Issue date	Scope	Issued by	Standard summary	Effect on the Bank's financial statements
Recognition of revenues from contracts with clients	January 11, 2015	January 1, 2018	Supervisor of Banks	Revenues to be recognized in the amount expected to be received in consideration for transfer of goods or provision of services to the client – not applicable to most Bank revenues.	No material effect
Measurement of financial instruments	January 2016	January 1, 2018(1)	US Financial Accounting Standards Board ("FASB")	The standard amends the accounting treatment of investment in shares, on the balance sheet and on the statement of profit and loss.	The Bank is studying the impact of the standard
Adoption of GAAP on certain issues in the USA	October 13, 2016	January 1, 2018	Supervisor of Banks	Updates to the Public Reporting Regulations and adoption of 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; and other topics.	No material effect
Impairment of goodwill	January 2017	January 1, 2020	US Financial Accounting Standards Board ("FASB")	Goodwill impairment is recognizable at the difference between fair value and carrying amount.	No material effect is expected
Receivables	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
Share-based payment	May 15, 2017	January 1, 2018	US Financial Accounting Standards Board ("FASB")	Application of modification accounting 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.	No material effect
Limit on sector indebtedness	July 10, 2017	January 1, 2018	Supervisor of Banks	Definitive setting of sector indebtedness limit, elimination of additional provision and general provision mechanism. When setting the provision for credit losses, the risk with respect to credit for which no current financial statements are available should be weighted.	No material effect
Derivatives and hedge accounting	August 2017	January 1, 2019(1)	US Financial Accounting Standards Board ("FASB")	Updates to presentation and disclosure requirements and assessment of hedge effectiveness. The Bank is considering early adoption of the standard.	The Bank is studying the impact of the standard
Improved presentation of expenses with respect to pension and other post-employment benefits	January 1, 2018	January 1, 2018	Supervisor of Banks	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).	No material effect

(1) Yet to be adopted by the Supervisor of Banks.

Note 2 – Interest revenues and expenses
For the year ended December 31,
Reported amounts (NIS in millions)

	2017	2016	2015
A. Interest revenues(1)			
From loans to the public	5,989	5,157	4,691
From loans to Governments	11	10	9
From deposits with the Bank of Israel and from cash	74	46	29
From deposits with banks	8	5	6
From securities loaned or acquired in resale agreements	–	–	–
From debentures	140	93	171
Total interest revenues	6,222	5,311	4,906
B. Interest expenses			
On deposits from the public	1,261	1,045	962
On deposits from governments	2	2	2
On deposits from banks	11	12	12
On debentures and subordinated notes	599	472	392
On other liabilities	2	2	4
Total interest expenses	1,875	1,533	1,372
Total interest revenues, net	4,347	3,778	3,534
C. Details of net effect of hedging derivatives on interest revenues	(6)	(24)	44
D. Details of interest revenues on accrual basis from debentures			
Held to maturity	43	40	75
Available for sale	94	49	92
Held for trading	3	4	4
Total included under interest revenues	140	93	171

(1) Includes the effective element in the hedging ratios.

Note 3 – Non-interest financing revenues
For the year ended December 31,

Reported amounts (NIS in millions)

	2017	(6)2016	(6)2015
A. Non-interest financing revenues (expenses) with respect to non-trading operations			
1. From activity in derivatives			
Non-effective element of hedging ratios(1)	–	8	5
Net revenues (expenses) with respect to ALM derivatives(2)	(1,089)	(181)	37
Total from activity in derivatives	(1,089)	(173)	42
2. From investment in debentures			
Gains from sale of debentures held to maturity(3)	–	–	67
Gains on sale of debentures available for sale	44	58	118
Total from investment in debentures	44	58	185
3. Exchange rate differences, net	1,196	364	136
4. Gain from investment in shares			
Gains on sale of available-for-sale shares	8	3	–
Dividends from available-for-sale shares	4	3	7
Total from investment in shares	12	6	7
5. Net gain with respect to loans sold	4	45	1
Total non-interest financing revenues with respect to non-trade operations	167	300	371
B. Non-interest financing revenues (expenses)with respect to trading operations(4)			
Net expenses with respect to other derivatives	(30)	(19)	(8)
Realized losses from adjustment to fair value of debentures held for trade, net	–	(1)	(9)
Unrealized gains (losses) from adjustment to fair value of debentures held for trade, net	(1)	15	4
Total from trading operations(5)	(31)	(5)	(13)
Details of non-interest financing revenues (expenses) with respect to trading operations, by risk exposure			
Interest exposure	2	(3)	3
Foreign currency exposure	(37)	2	(16)
Exposure to shares	4	1	–
Exposure to commodities and others	–	(5)	–
Total	(31)	(5)	(13)

(1) Excludes the effective element in the hedging ratios.
(2) derivatives which constitute part of the Bank's asset and liability management system, which were not intended as hedges.
(3) Gains from sale of debentures held to maturity at Bank Yahav.
(4) Includes exchange rate differentials resulting from trading operations.
(5) For interest revenues from investment in debentures held for trade, see Note 2.D. to the financial statements.
(6) Reclassified.

Note 4 – Commissions
For the year ended December 31,

Reported amounts (NIS in millions)

	2017	2016	2015
Account management[1]	325	313	303
Credit cards	174	169	158
Activities involving securities	202	221	244
Commissions on distribution of financial products[2]	55	50	55
Provident fund operations	22	23	20
Handling credit	33	29	38
Translation differences	184	188	169
Foreign trade activity	40	43	41
Net revenues from credit portfolio service	43	42	55
Life insurance distribution commissions	96	96	93
Home insurance distribution commissions	15	14	15
Other commissions	49	49	42
Total commissions other than from financing business	1,238	1,237	1,233
Commissions from financing transactions	[3]185	196	193
Total commissions	1,423	1,433	1,426

(1) In Israeli and foreign currency

(2) Includes distribution commissions from mutual funds and retirement products.

(3) After effect of risk sale by acquiring an insurance policy for Sales Act guarantees, amounting to NIS 48 million.

Note 5 – Other revenues
For the year ended December 31,

Reported amounts (NIS in millions)

	2017	2016	2015
Gain from sale of buildings and equipment	47	92	36
Trustee fees	23	19	17
Revenues from security services	9	7	6
Rent revenues	9	8	8
Other	6	8	7
Total other revenues	94	134	74

Note 6 – Salaries and Related Expenses
For the year ended December 31,
Reported amounts (NIS in millions)

	2017	2016	2015
Salaries (including bonuses)[1]	1,509	1,372	1,263
Expense arising from share-based payment transactions[2]	21	8	16
Other associated expenses, including study fund and paid leave	76	57	63
Long-term benefits	19	18	13
National Insurance and VAT on salaries	459	416	399
Expenses with respect to retirement (including severance pay and provident funds)			
Defined benefit[3]	98	62	57
Defined contribution	121	114	112
Other post-employment benefits and post-retirement benefits, other than pension payment	6	7	5
Expenses with respect to other employee benefits	17	17	16
Total salaries and related expenses	2,326	2,071	1,944
Of which: Payroll and associated expenses overseas	46	54	54

(1) For more information about the impact of the collective bargaining agreement with the Employee Union, see Note 6.22.
(2) See Note 23.
(3) See Note 22.

Note 7 – Other Expenses
For the year ended December 31,
Reported amounts (NIS in millions)

	2017	2016	2015
Marketing and advertising	63	52	57
Communications	40	42	45
Computer	129	92	79
Office expenses	34	35	39
Insurance	11	13	10
Professional services	106	132	195
Board members' fees	9	10	10
Training and continuing education	13	14	10
Commissions	30	28	34
Cars and travel	34	34	40
Other	74	83	71
Total other expenses	543	535	590

Note 8 – Provision for Taxes on Profit
For the year ended December 31,

Reported amounts (NIS in millions)

A. Composition

	2017	2016	2015
Current taxes -			
For the current year	762	825	725
For prior years	22	11	9
Total current taxes	784	836	734
Changes in deferred taxes -			
For the current year	24	(4)	28
For prior years	(2)	1	(1)
Total deferred taxes	22	(3)	27
Total provision for taxes on income	806	833	761
Includes provision for taxes overseas	41	33	25

B. Movement in deferred taxes:

	2017	2016	2015
Temporary differences created and reversed	22	(73)	15
Change in tax rate	–	70	12
Total movement in deferred taxes	22	(3)	27

C. Reconciliation between the theoretical tax amount that would be applicable had the profit been taxable at the statutory tax rate applicable to banks in Israel, and between the provision for taxes on profit as included in the statement of profit and loss:

	2017	2016	2015
Statutory tax rate applicable to a bank in Israel	35.04%	35.89%	37.58%
Tax amount based on statutory tax rate	770	768	734
Tax (tax saving) from:			
Income of subsidiaries in Israel[(1)]	(5)	(21)	(24)
Income of subsidiaries overseas	8	3	(1)
Exempt income	–	–	–
Adjustment differences on depreciation, amortization and capital gains	(5)	(10)	(1)
Other non-deductible expenses	10	11	34
Temporary differences and losses for which deferred taxes have not been recorded	–	–	(2)
Taxes with respect to previous years:			
Additional amounts payable for problematic debts	8	3	2
Others	18	8	7
Change in deferred tax balances due to change in tax rates	–	70	12
Adjustment differences on monetary assets and other differences, net	2	1	–
Total provision for taxes on income	806	833	761

(1) Includes revenues of auxiliary corporations.

Reported amounts (NIS in millions)

D. On September 3, 2015, the Knesset Finance Committee decided to decrease the VAT rate on transactions and imports of goods from 18% to 17%, as from October 1, 2015.

On November 12, 2015, the VAT Ordinance (VAT Rate for Non-Profits and Financial Institutions) (Revised), 2015 was published, updating the profit tax and payroll tax rates applicable to financial institutions, to 17% as from October 1, 2015.

The effect of this change in the VAT rate (effective as from October 1, 2015) is reflected in the 2015 financial statements and amounted to an expense of NIS 12 million. The effect is primarily due to a decrease in deferred taxes.

The effect of the decrease in the payroll tax rate impacts the balance of liabilities with respect to employee rights and, concurrently, also deferred taxes and other comprehensive income, such that the total balance of other comprehensive income increased by NIS 4 million.

On January 4, 2016, the Knesset Plenum approved the Income Tax Ordinance Amendment Act (Amendment no. 216), 2016 which stipulates, *inter alia*, a reduction of the companies' tax rate as from 2016 by 1.5%, to 25% (previous rate: 26.5%). The effect of this decrease in the companies tax rate is reflected in the financial statements for the first quarter of 2016, amounting to a decrease in deferred taxes by NIS 32 million, against recording expenses with respect to provision for profit taxes amounting to NIS 30 million and against Other Comprehensive Income amounting to NIS 2 million.

Moreover, on December 22, the Knesset plenum approved the Economic Streamlining Act (Legislation Amendments to Achieve Budget Goals for 2017 and 2018 Budget Years), 2016, which stipulated a reduction of the corporate tax rate from 25% to 23% in two steps: the first step, to 24%, as from January 2017 and the second step, to 23%, as from January 2018.

The effect of this decrease in the companies tax rate in the fourth quarter of 2016 amounted to a decrease in deferred taxes by NIS 43 million, against recording expenses with respect to provision for profit taxes amounting to NIS 40 million and against Other Comprehensive Income amounting to NIS 3 million.

Following the aforementioned amendments, the statutory tax rates applicable to banking corporations have been amended as follows:

Tax year	Statutory tax rate
2015	37.58%
2016	35.89%
2017	35.04%
2018 and later	34.19%

The tax indebtedness of Bank subsidiaries is determined based on applicable tax rates in those countries. For overseas branches, the Bank makes up the tax indebtedness based on the tax rate in Israel.

E. The Bank has final tax assessments, or tax assessments deemed to be final, through the 2010 tax year.
For 2011-2013, agreed tax assessments were issued, except for the issue of profit tax with respect to operations of overseas branches, for which the Bank received a tax assessment by decree, which the Bank appealed. These tax assessments amount to NIS 13 million, net including interest and linkage. The Bank made appropriate provisions for this matter.
The Bank received payroll tax assessment decrees with regard to payroll of local employees at overseas branches of the Bank for 2009-2014. These tax assessments amount to NIS 31 million, including interest and linkage. The Bank disputes these tax assessments and therefore has filed an appeal with regard to these years. It is more likely than not that the Bank's position will prevail, resulting in cancellation of the decreer,and will determine that salary paid to Bank employees at branches overseas should not be subject to payroll tax.
Bank Yahav has finalized tax assessments through the 2012 tax year, as confirmed by the Assessing Officer.

Note 8 – Provision for Taxes on Profit – continued
For the year ended December 31,
Reported amounts (NIS in millions)

F. Deferred tax assets and provision for deferred taxes

	Balances December 31, 2017	Balances December 31, 2016	Average tax rate in % December 31, 2017	Average tax rate in % December 31, 2016
Deferred taxes with respect to[3]:				
Provision for credit losses[1]	512	479	34.2	34.3
Provision for vacation pay, long-service bonuses and employee rights[1]	84	121	33.0	33.6
Excess provision for employee rights on retirement, net[1]	430	380	34.2	34.5
Securities[1][4]	–	–	–	–
Investments in investees[1]	(21)	–	12.0	–
Adjustment of depreciable non-monetary assets[2]	(1)	(1)	23.0	23.0
Other – from monetary items[1][2][5]	23	34	34.2	34.9
Other – from non-monetary items, net[1][2]	17	(9)	34.2	34.2
Total deferred taxes	1,044	1,004	34.1	34.3
Deferred taxes include:				
(1) Deferred tax assets included under "Other Assets"	1,059	1,030	34.1	34.3
(2) Deferred taxes payable included under "Other Liabilities"	(15)	(26)	23.0	23.0
Deferred taxes, net	1,044	1,004	34.1	34.3

(3) The Bank believes that, with respect to all of the aforementioned deferred taxes, it is more likely than not that future operating results would generate sufficient taxable revenue to realize these deferred tax assets.

(4) Changes in this item with respect to gain amounting to NIS 8 million due to adjustment of fair value of securities available for sale (previous year – loss amounting to NIS 9 million) were charged to a separate item in shareholders' equity.

(5) Changes in this item amounting to NIS 3 million due to net loss from cash flow hedges (previous year – loss amounting to NIS 4 million) were charged to a separate item in shareholders' equity.

G. In conformity with directives of the Supervisor of Banks, as from January 1, 2017 the Bank recognizes a deferred tax liability with respect to un-distributed earnings of subsidiaries accrued since January 1, 2017. Total liabilities amount to NIS 21 million.

H. The Bank has a subsidiary in Holland (United Mizrahi International Holding Company Ltd. B.V. Holland). The company in Holland has carry-forward losses which have no effect on the Bank's tax liability.

Note 9 – Earnings per Ordinary Share

Reported amounts (NIS in millions)

	For the year ended December 31, 2017	For the year ended December 31, 016	For the year ended December 31, 2015
Net profit used to calculate earnings per share:			
Basic and diluted earnings per share			
Total net profit attributable to shareholders of the Bank	1,347	1,266	1,134
Weighted average number of shares(1)			
Weighted average number of ordinary shares used to calculate basic earnings	232,357,974	231,948,499	231,342,045
Weighted average number of ordinary shares used to calculate diluted earnings	234,002,171	232,016,679	232,118,646
Earnings per share:			
Total basic earnings attributable to holders of ordinary Bank shares	5.80	5.46	4.90
Total diluted earnings attributable to holders of ordinary Bank shares	5.76	5.46	4.89

(1) The weighted average number of ordinary shares used to calculate diluted earnings per share includes the number of options due to share-based payment transactions. See Note 23 to the financial statements for details.

Note 10 – 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	Other comprehensive income (loss), before attribution to non-controlling interests Translation adjustments(1)	Other comprehensive income (loss), before attribution to non-controlling interests Net gain from cash flow hedges	Other comprehensive income (loss), before attribution to non-controlling interests Adjustments with respect to employee benefits	Other comprehensive income (loss), before attribution to non-controlling interests Total	Other comprehensive income (loss), before attribution to non-controlling interests Other comprehensive income attributed to non-controlling interests	Other comprehensive income attributable to shareholders of the Bank
Balance as of January 1, 2015	5	1	18	(102)	(78)	(6)	(72)
Net change in the period	(17)	(1)	(4)	(2)	(24)	1	(25)
Balance as of December 31, 2015	(12)	–	14	(104)	(102)	(5)	(97)
Net change in the period	(17)	1	(5)	(199)(2)	(220)	–	(220)
Balance as of December 31, 2016	(29)	1	9	(303)	(322)	(5)	(317)
Net change in the period	14	(3)	(5)	(3) (84)	(78)	(12)	(66)
Balance as of December 31, 2017	(15)	(2)	4	(387)	(400)	(17)	(383)

(1) Foreign currency translation adjustments of associates whose functional currency differs from that of the Bank.

(2) Includes the cost of update to the actuarial liability with respect to the streamlining plan, amounting to NIS 286 million; the cost net of tax, amounting to NIS 188 million, was charged to shareholders' equity.

(3) Includes: The effect of update to the assumption of salary cost and update to the remuneration increase rate in the second quarter of 2017, 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. See Note 22 to the financial statements for additional information.

Note 10 – 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 year ended December 31 2017 Before tax	For the year ended December 31 2017 Tax effect	For the year ended December 31 2017 After tax	For the year ended December 31 2016 Before tax	For the year ended December 31 2016 Tax effect	For the year ended December 31 2016 After tax	For the year ended December 31 2015 Before tax	For the year ended December 31 2015 Tax effect	For the year ended December 31 2015 After tax
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	66	(23)	43	32	(11)	21	158	(60)	98
Losses (gains) with respect to available-for-sale securities reclassified to the statement of profit and loss(1)	(44)	15	(29)	(58)	20	(38)	(185)	70	(115)
Net change in the period	22	(8)	14	(26)	9	(17)	(27)	10	(17)
Translation adjustments									
Adjustments from translation of financial statements(2)	(4)	1	(3)	1	–	1	(1)	–	(1)
Net change in the period	(4)	1	(3)	1	–	1	(1)	–	(1)
Cash flows hedges									
Net gains (losses) with respect to cash flows hedging	(8)	3	(5)	(9)	4	(5)	(1)	1	–
Net (gains) losses with respect to cash flow hedges reclassified to the statement of profit and loss(3)	–	–	–	–	–	–	(5)	1	(4)
Net change in the period	(8)	3	(5)	(9)	4	(5)	(6)	2	(4)
Employee benefits									
Net actuarial gain (loss) for the period	(150)	54	(96)(5)	(303)(4)	98	(205)	(7)	3	(4)
Net losses reclassified to the statement of profit and loss	18	(6)	12	9	(3)	6	4	(2)	2
Net change in the period	(132)	48	(84)	(294)	95	(199)	(3)	1	(2)
Total net change in the period	(122)	44	(78)	(328)	108	(220)	(37)	13	(24)
Total net change in the period attributable to non-controlling interests	18	(6)	12	–	–	–	(1)	–	(1)
Total net change in the period attributable to shareholders of the Bank	(104)	38	(66)	(328)	108	(220)	(38)	13	(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 associates 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 cost of update to the actuarial liability with respect to the streamlining plan, amounting to NIS 286 million; the cost net of tax, amounting to NIS 188 million, was charged to shareholders' equity.

(5) Includes: The effect of update to the assumption of salary cost and update to the remuneration increase rate in the second quarter of 2017, 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. See Note 22 to the financial statements for additional information.

Note 11 – Cash and Deposits with Banks
As of December 31

Reported amounts (NIS in millions)

	2017	2016
Cash and deposits with central banks	40,089	40,245
Deposits with commercial banks	1,041	1,480
Total cash and deposits with banks	41,130	41,725
Includes: Cash, deposits with banks and deposits with central banks for an original period of up to three months	40,497	41,495

Note 12 – Securities

As of December 31, 2017

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	3,267	3,267	75	–	3,342
Total debentures held to maturity	3,267	3,267	75	–	3,342

	Carrying amount	Amortized cost (for shares – cost)	Cumulative other comprehensive income Gains	Cumulative other comprehensive income Losses	Fair value
(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]	2,406	2,445	–	(39)	2,406
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	[4]24	[4](45)	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
(3) Securities held for trade					
Debentures -					
of Government of Israel	209	209	–	–	209
Total securities held for trade	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:

(1) 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 investment in shares – see Note 3.A.4 to the financial statements.

(2) The distinction between Israeli and foreign debentures was made in conformity with the country of residence of the authority which issued the securities.

Note 12 – Securities – Continued

As of December 31, 2016

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	3,236	3,236	75	–	3,311
Total debentures held to maturity	3,236	3,236	75	–	3,311

	Carrying amount	Amortized cost (for shares – cost)	Cumulative other comprehensive income Gains	Cumulative other comprehensive income Losses	Fair value[1]
ecurities available for sale					
Debentures -					
Of the Government of Israel[2]	5,002	5,007	29	(34)	5,002
Of foreign governments [2][5]	1,538	1,578	1	(41)	1,538
Of foreign financial institutions	19	19	–	–	19
Of others overseas	19	19	–	–	19
Total debentures available for sale	6,578	6,623	30	(75)	6,578
Shares[3]	100	101	–	(1)	100
Total securities available for sale	6,678	6,724	[4]30	[4](76)	6,678

	Carrying amount	Amortized cost (for shares – cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value
ecurities held for trade					
Debentures -					
of Government of Israel	348	347	[6]1	–	348
Total securities held for trade	348	347	1	–	348
Total securities	10,262	10,307	106	(76)	10,337

(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 452 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.

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

Remarks:

(1) 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 investment in shares – see Note 3.A.4 to the financial statements.

(2) The distinction between Israeli and foreign debentures was made in conformity with the country of residence of the authority which issued the securities.

Note 12 – 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 December 31, 2017

	Less than 12 months Fair value(1)	Less than 12 months Unrealized losses 0%-20%	Less than 12 months Unrealized losses 20%-40%	Less than 12 months Total	12 months or more Fair value(1)	12 months or more Unrealized losses 0%-20%	12 months or more Unrealized losses 20%-40%	12 months or more Total
Debentures -								
of Government of Israel	674	1	–	1	611	4	–	4
Of foreign governments	512	5	–	5	1,110	34	–	34
Of others overseas	–	–	–	–	10	1	–	1
Total securities available for sale	1,186	6	–	6	1,731	39	–	39

As of December 31, 2016

		Less than 12 months Fair value(1)	Less than 12 months Unrealized losses 0%-20%	Less than 12 months Unrealized losses 20%-40%	Less than 12 months Total	12 months or more Fair value(1)	12 months or more Unrealized losses 0%-20%	12 months or more Unrealized losses 20%-40%
Debentures -								
of Government of Israel	3,971	33	–	33	184	1	–	1
Of foreign governments	1,245	41	–	41	–	–	–	–
Shares	–	–	–	–	3	1	–	1
Total securities available for sale	5,216	74	–	74	187	2	–	2

(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 December 31, 2017 and 2016, there was no balance of asset-backed or mortgage-backed securities.

Note 13 – 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

December 31, 2017

	Commercial	Housing	Individual – other	Total to the public	Banks and governments	Total
Recorded debt balance of debts [1]						
reviewed on individual basis	33,392	33	588	34,013	2,543	36,556
reviewed on group basis	9,605	120,514	18,470	148,589	–	148,589
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	499	2	24	525	1	526
reviewed on group basis	119	628	212	959	–	959
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 in excess of that required by extent of arrears, assessed on group basis, amounting to NIS 421 million.

Note 13 – 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

December 31, 2016

	Commercial	Housing	Individual – other	Total To the public	Banks and governments	Total
Recorded debt balance of debts[1]						
reviewed on individual basis	29,972	27	725	30,724	2,839	33,563
reviewed on group basis	[4]9,982	114,959	[4]17,114	142,055	–	142,055
Of which: By extent of arrears	1,243	114,373	–	115,616	–	115,616
Total debts	39,954	114,986[2]	17,839	172,779	2,839	175,618
Of which:						
Impaired debts under restructuring	102	–	46	148	–	148
Other impaired debts	482	27	24	533	–	533
Total impaired debts	584	27	70	681	–	681
Debts in arrears 90 days or longer	79	853	26	958	–	958
Other problematic debts	762	–	89	851	–	851
Total problematic debts	1,425	880	185	2,490	–	2,490
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	518	2	7	527	2	529
reviewed on group basis	108	613	190	911	–	911
Of which: Provision by extent of arrears[3]	5	613	–	618	–	618
Total provision for credit losses	626	615	197	1,438	2	1,440
Of which: With respect to impaired debts	132	2	12	146	–	146

(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 5,731 million.

(3) Includes balance of provision in excess of that required by extent of arrears, assessed on group basis, amounting to NIS 401 million.

(4) Reclassified.

Note 13 – 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

December 31, 2017

	Commercial	Housing	Individual – other	Total to the public	Banks and governments	Total
Balance of provision for credit losses at start of period	724	615	208	1,547	2	1,549
Expenses with respect to credit losses	46	24	123	193	(1)	192
Net accounting write-off[(1)]	(245)	(9)	(145)	(399)	–	(399)
Recovery of debts written off in previous years[(1)]	174	–	59	233	–	233
Net accounting write-offs	(71)	(9)	(86)	(166)	–	(166)
Balance of provision for credit losses at end of period	699	630	245	1,574	1	1,575
Of which: With respect to off balance sheet credit instruments	81	–	9	90	–	90

December 31, 2016

	Commercial	Housing	Individual – other	Total to the public	Banks and governments	Total
Balance of provision for credit losses at start of period	700	614	192	1,506	3	1,509
Expenses with respect to credit losses	96	13	92	201	(1)	200
Net accounting write-off[(1)]	(191)	(12)	(133)	(336)	–	(336)
Recovery of debts written off in previous years[(1)]	119	–	57	176	–	176
Net accounting write-offs	(72)	(12)	(76)	(160)	–	(160)
Balance of provision for credit losses at end of period	724	615	208	1,547	2	1,549
Of which: With respect to off balance sheet credit instruments	98	–	11	109	–	109

December 31, 2015

	Commercial	Housing	Individual – other	Total to the public	Banks and governments	Total
Balance of provision for credit losses at start of period	635	624	186	1,445	5	1,450
Expenses with respect to credit losses	149	9	55	213	(2)	211
Net accounting write-off[(1)]	(211)	(20)	(114)	(345)	–	(345)
Recovery of debts written off in previous years[(1)]	127	1	65	193	–	193
Net accounting write-offs	(84)	(19)	(49)	(152)	–	(152)
Balance of provision for credit losses at end of period	700	614	192	1,506	3	1,509
Of which: With respect to off balance sheet credit instruments	97	–	9	106	–	106

(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 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 effort 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 14 – Loans to Governments

As of December 31

Reported amounts (NIS in millions)

	2017	2016
Loans to Government of Israel	–	–
Loans to foreign governments	456	330
Total loans to governments	456	330

Note 15 – Investments in Investees and Details

As of December 31

Reported amounts (NIS in millions)

A. Item composition:

	2017 Associates	2016 Associates
Investment in shares stated on equity basis	(3)	(1)
Subordinated notes and capital notes	35	35
Total investments	32	34
Of which:		
Losses accrued since acquisition date	(15)	(15)
Post-acquisition items accrued in shareholders' equity:		
Adjustments from translation of financial statements	(3)	(1)

B. Bank's share in profits (losses) of associates:

In 2015-2017, the Bank had no profits nor losses from associates.

Note 15 – Investments in Investees and Details – Continued

Reported amounts (NIS in millions)

	Company information	Share in capital conferring rights to profits As of December 31 2017	Share in capital conferring rights to profits As of December 31 2016	Share in voting rights 2017	Share in voting rights 2016	Investment in shares at equity value[9] As of December 31 2017	Investment in shares at equity value[9] As of December 31 2016	Goodwill balance[3] As of December 31 2017	Goodwill balance[3] As of December 31 2016	Other capital investments[1] As of December 31 2017	Other capital investments[1] As of December 31 2016	Contribution to net profit (loss) attributable to equity holders of the banking corporation For the year ended December 31, 2017	Contribution to net profit (loss) attributable to equity holders of the banking corporation For the year ended December 31, 2016	Dividends recorded For the year ended December 31, 2017	Dividends recorded For the year ended December 31, 2016	Other items accrued under shareholders equity[10] For the year ended December 31, 2017	Other items accrued under shareholders equity[10] For the year ended December 31, 2016
C. Details of principal investees[2]:																	
1) Subsidiaries																	
Bank Yahav for Government Employees Ltd.[3]	The Bank	50%	50%	50%	50%	713	679	69	69	600	573	44	42	–	–	(10)	–
Tefahot Insurance Agency (1989) Ltd.	Insurance agency	100%	100%	100%	100%	961	888	–	–	–	–	73	72	–	–	–	–
Mizrahi International Holding Company Ltd. (B.V. Holland)[4]	International holding company	100%	100%	100%	100%	304	323	–	–	–	–	[5](19)	[5](6)	–	–	–	–
Etgar Investment Portfolio Management Company of the Mizrahi Tefahot Group Ltd.	Portfolio management	100%	100%	100%	100%	27	27	–	–	–	–	–	–	–	–	–	–
Mizrahi Tefahot Issue Company Ltd.	Issuance company	100%	100%	100%	100%	50	46	–	–	–	–	4	3	–	–	–	–
Mizrahi Tefahot Trust Company Ltd.	Trust company	100%	100%	100%	100%	68	55	–	–	–	–	13	11		(1)	–	–
2) Associates																	

	Company information	Share in capital conferring rights to profits As of December 31 2017	Share in capital conferring rights to profits As of December 31 2016	Share in voting rights 2017	Share in voting rights 2016	Investment in shares at equity value[9] As of December 31 2017	Investment in shares at equity value[9] As of December 31 2016	Goodwill balance[3] As of December 31 2017	Goodwill balance[3] As of December 31 2016	Other capital investments[1] As of December 31 2017	Other capital investments[1] As of December 31 2016	Contribution to net profit (loss) attributable to equity holders of the banking corporation For the year ended December 31, 2017	Contribution to net profit (loss) attributable to equity holders of the banking corporation For the year ended December 31, 2016	Dividends recorded For the year ended December 31, 2017	Dividends recorded For the year ended December 31, 2016	Other items accrued under shareholders equity[10] For the year ended December 31, 2017	Other items accrued under shareholders equity[10] For the year ended December 31, 2016
Psagot Jerusalem Ltd. ("Psagot")	Land for construction	[8]20%	[8]20%	20%	20%	(16)	(16)	–	–	35	35	–	–	–	–	–	–
Rosario Capital Ltd. ("Rosario")	Underwriting company	19.99%	19.99%	19.99%	19.99%	2	1	–	–	–	–	1	–	–	(1)	–	–
Mustang Mezzanine Fund Limited Partnership	Extending credit	20%	20%			11	12	–	–	–	–	1	–	–	–	(2)	–
Planus Technology Fund	Extending credit	20%	20%			–	2	–	–	–	–	(2)	–	–	–	–	–
3) Main subsidiary of a subsidiary of United Mizrahi Overseas International Holding Ltd. (BV Holland)																	
United Mizrahi Bank (Switzerland) Ltd.[6]	Commercial bank	100%	100%	100%	100%	211	222	–	–	–	–	[7](11)	[7](5)	–	–	–	–

Note 15 – Investments in Investees and Details – Continued

Reported amounts (NIS in millions)

December 31, 2017

	Cost	Accumulated amortization	Amortized balance
Balance of goodwill with respect to investees:(11)(12)	140	53	87

(1) Includes capital notes.

(2) The above list does not include wholly owned and controlled subsidiaries constituting property companies that provide services to the Bank, or companies that provide services to the Bank, and whose assets and liabilities and operating results are included in the Bank's financial statements.

(3) Balance of goodwill with respect to acquisition of Bank Yahav is included on the consolidated balance sheet under Intangible Assets and Goodwill and on the Bank's balance sheet under Investments in Investees.

(4) The company is incorporated in Holland; for a subsidiary of the Company, see section C.3.

(5) Includes loss due to revaluation of the shekel, relative to foreign currency exchange rates, amounting to NIS 22 million in 2016 (in 2016: loss amounting to NIS 10 million).

(6) United Mizrahi Bank (Switzerland) Ltd. is a commercial bank registered in Switzerland. The investment is presented on the Bank's financial statements as an affiliate whose functional currency is identical to the Bank's.

(7) Includes loss due to revaluation of the shekel, relative to CHF exchange rate, amounting to NIS 12 million (in 2016: NIS 9 million).

(8) Share of contribution in case of loss is 27%.

(9) Includes goodwill balance included on the consolidated balance sheet under "Intangible assets and goodwill".

(10) Including adjustments from translation of financial statements and adjustments with respect to presentation of certain securities of investees at fair value and changes to Other Comprehensive Income with respect to employee benefits.

(11) The goodwill balance includes goodwill with respect to acquisition of Tefahot Mortgage Bank Ltd., whose amortized balance as of December 31, 2017 amounted to NIS 14 million (identical to amortized balance as of December 31, 2016 and as of December 31, 2015), and with respect to acquisition of Adanim Mortgage Bank Ltd., whose amortized balance as of December 31, 2017 amounted to NIS 4 million (identical to amortized balance as of December 31, 2016 and as of December 31, 2015).

(12) Balance of goodwill with respect to subsidiaries is included on the consolidated balance sheet under Intangible Assets and Goodwill.

Note 16 – Buildings and Equipment

Reported amounts (NIS in millions)

	Buildings and land (including installations and leasehold improvements)	Equipment, furniture, and vehicles	Cost of software	Total
A. Composition				
Cost of assets				
December 31, 2015	1,533	1,112	1,608	4,253
Additions	29	54	175	258
Disposals	(87)	(1)	–	(88)
Cost of assets as of December 31, 2016	1,475	1,165	1,783	4,423
Additions	69	56	147	272
Disposals	(306)	(2)	–	(308)
Cost of assets as of December 31, 2017	1,238	1,219	1,930	4,387
Depreciation and impairment loss				
Accumulated as of December 31, 2015	618	854	1,198	2,670
Depreciation	39	67	116	222
Impairment	–	–	1	1
Disposals	(54)	(1)	–	(55)
Accumulated as of December 31, 2016	603	920	1,315	2,838
Depreciation	40	64	141	245
Impairment	–	–	–	–
Disposals	(98)	(1)	–	(99)
Accumulated depreciation as of December 31, 2017	545	983	1,456	2,984
Carrying amount[(1)]:				
As of December 31, 2017	693	236	474	1,403
As of December 31, 2016	872	245	468	1,585
As of December 31, 2015	915	258	410	1,583
Weighted average depreciation rate as of December 31, 2017	3.9%	13.2%	23.1%	
Weighted average depreciation rate as of December 31, 2016	3.8%	13.4%	22.4%	

B. Additional information

Depreciation rates are as follows:

Buildings	2%-4%
Leasehold improvements	10%
Office equipment and furniture	6%-25%
Vehicles	15%-20%
Computers, software usage rights and costs	20%-33%

(1) Includes amortized capitalized cost of independently developed computer software as of December 31, 2017 amounting to NIS 405 million (December 31, 2016: NIS 381 million; December 31, 2015: NIS 324 million).

Note 16 – Buildings and Equipment – continued

Reported amounts (NIS in millions)

C. Assets not used by the Group (depreciable balance):

	Consolidated December 31, 2017	Consolidated December 31, 2016
Not designated for sale	31	31
Includes – leased to others	31	27
Designated for sale(1)	–	11

(1) In addition, assets used by the Group and designated for sale of December 31, 2017 amounted to NIS 3 million (as of December 31, 2016: NIS 1 million).

D. Leasehold rights in buildings (depreciable balance)

	Lease term end dates		Consolidated December 31,
	(In years)	2017	2016
Capitalized lease	5-37	83	68
Non-capitalized lease	0-6	15	27

E. This item includes installations, leasehold rights and payments on account. Part of the buildings and leasing rights, amounting to NIS 95 million (as of December 31, 2016: NIS 295 million), have yet to be recorded at the Land Registry Office in the name of the Bank or its subsidiaries, primarily due to delays in land consolidation or where rights are in the process of being recorded.

F. As of December 31, 2017, the Bank Group has an obligation to acquire and refurbish buildings, amounting to NIS 5 million (December 31, 2016 – NIS 6 million).

Note 17 – Other Assets

As of December 31

Reported amounts (NIS in millions)

	December 31, 2017	December 31, 2016
Deferred taxes receivable, net(1)	1,059	1,030
Excess of advance tax payments over current provisions	58	50
Un-earned revenues	116	112
Other receivables and debit balances	483	306
Total other assets	1,716	1,498

(1) See Note 8 to the financial statements.

Note 18 – Deposits from the Public

As of December 31

Reported amounts (NIS in millions)

A. Deposit types by location and depositor type

	2017	2016
In Israel		
On-call		
Non interest-bearing	44,324	40,470
Interest-bearing	22,189	18,935
Total on-call	66,513	59,405
Term deposits	112,188	113,574
Total deposits in Israel[(1)]	178,701	172,979
Outside of Israel		
On-call		
Non interest-bearing	504	694
Interest-bearing	5	7
Total on-call	509	701
Term deposits	4,363	4,572
Total deposits overseas	4,872	5,273
Total deposits from the public	183,573	178,252
(1) Includes:		
Deposits from individuals	87,456	82,501
Deposits from institutional investors	38,881	[(2)]35,261
Deposits from corporations and others	52,364	[(2)]55,217

(2) A balance amounting to NIS 700 million was reclassified from "balance of deposits from institutional investors" to "balance of deposits from other corporations".

B. Deposits from the public by size

	2017	2016
Maximum deposit		
Up to 1	63,493	59,606
Over 1 to 10	41,125	38,805
Over 10 to 100	26,906	25,042
Over 100 to 500	23,911	24,120
Above 500	28,138	30,679
Total	183,573	178,252

Note 19 – Deposits from Banks

Reported amounts (NIS in millions)

	Consolidated December 31, 2017	Consolidated December 31, 2016
In Israel		
Commercial banks:		
On-call deposits	232	92
Term deposits	773	1,267
Acceptances	118	176
Outside of Israel		
Commercial banks:		
On-call deposits	2	2
Total deposits from banks	1,125	1,537

Note 20 – Debentures and Subordinated Notes

As of December 31

Reported amounts (NIS in millions)

Debentures and subordinated notes not convertible into shares:

	Average maturity in years (1)	Internal rate of return(2)	Consolidated 2017	Consolidated 2016
In Israeli currency – non-linked				
Debentures	4.58	1.46%	8,136	5,465
Subordinated notes(3)	5.56	3.15%	192	192
In Israeli currency – CPI-linked				
Debentures	3.98	0.41%	17,047	15,803
Subordinated notes(3)	6.59	3.85%	4,548	5,574
Total debentures and subordinated notes	4.55	1.48%	29,923	27,034

(1) Average maturity is the average of the repayment periods, weighted by the flows discounted according to the internal rate of return.

(2) Internal rate of return is the interest rate used to discount the projected flow of payments to the carrying value in the financial statements.

(3) Upon dissolution, the subordinated notes issued by the Bank and included under this item are repayable after all other liabilities.

A. On October 30, 2006, the Bank's Board of Directors approved the issuance of Bank subordinated notes (Series A) which will be deemed complex capital instruments ("Upper Tier II capital"), as the term is defined in Proper Business Conduct Directive 311 and in accordance with the approval received from the Supervisor of Banks on November 12, 2006), amounting up to NIS 500 million. The subordinated notes are obligatory notes that, if certain events specified in advance in their terms should occur, will be converted in a forced conversion, according to a formula prescribed in advance, into shares of the Bank. On November 15, 2006, Ma'alot Israel Securities Rating Company Ltd. issued a rating of AA- for the subordinated notes issued. The rating of the subordinated notes in its offering is based on the rating of the Bank's debentures, including subordinated notes, with the changes required by the terms of the subordinated notes.

On September 15, 2009, the Bank and the Trustee for the Bank's subordinated capital notes (Series A) signed an addendum, revising the Deed of Trust dated November 16, 2006, which is effective as of the signing date there of ("the revision"). According to the revision, the capital note section stipulating that interest payment to holders of capital notes would be suspended, inter alia, in case "within a period of six consecutive quarters, the financial statements for the most recent of which was published prior to the date set for payment of such interest, the Bank has not reported a cumulative net profit" (i.e. if the simple summation of quarterly net profit or loss amounts stated on the Bank financial statements, with respect to six consecutive quarters, should be negative).

Note 20 – Debentures and Subordinated Notes – continued

On January 4, 2017, Maalot announced that the subordinated capital notes, which qualify as Tier II equity in conformity with transitional provisions of Basel III, are rated ilA+.
The balance of subordinated capital notes (Series A) as of December 31, 2016 amounted to NIS 1,958 million, NIS 1,702 million par value, issued for consideration of NIS 1,644 million.

Mizrahi Tefahot Issue Company ("the Company"), a company wholly-owned and controlled by the Bank, issued to the public CPI-linked pursuant to prospectus, debentures and subordinated notes with a par value of NIS 17,767 million and non-linked debentures with a par value of NIS 7,936 million, as of December 31, 2017, and deposited the proceeds in the Bank earmarked for its day-to-day activities.
The Company issued in 2017 additional debentures (Series 40, 41 and 42) of NIS 1,224, NIS 1,355 and NIS 226 million par value, respectively for consideration of NIS 1,280, NIS 1,423 and NIS 224 million. The Company also issued additional debentures (Series 45 and 46) amounting to NIS 2,501 and NIS 802 million, respectively for consideration of NIS 2,501 and NIS 802 million.
On December 19, 2017, Tefahot Issuance first issued to the public contingent subordinated notes (Contingent Convertibles – CoCo) (Series 47) 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 total par value of NIS 679 million for consideration of NIS 679 million. In total, the Company issued NIS 6,787 million par value for consideration of NIS 6,909 million.

B. In December 2015 and in January 2016, the Bank issued contingent subordinated notes (Contingent Convertibles – CoCo) with loss-absorption provisions through principal write-off, amounting to NIS 600 million. These notes qualify for recognition as Tier II equity pursuant to Basel III provisions.
The notes include loss-absorption provisions if the Bank's Tier I capital should drop below 5% or in case of another event leading to dissolution of the Bank, in conformity with the Supervisor of Banks' decision.
In such case, the notes would be partially or completely written off.
Should the Tier I capital ratio exceed the minimum required ratio, the Bank may announce a write-off of principal, in whole or in part.
Standard & Poor's Ma'alot rated the contingent subordinated notes ilAA-.
In July 2016 and in August 2017, Bank Yahav issued contingent subordinated notes (Contingent Convertibles – CoCo) with loss-absorption provisions through principal write-off, amounting to NIS 218 million and NIS 120 million, respectively.
These notes qualify for recognition as Tier II equity pursuant to Basel III provisions.

Note 21 – Other Liabilities

Reported amounts (NIS in millions)

	December 31, 2017	December 31, 2016
Provision for deferred taxes, net[1]	15	26
Excess of provision over funding severance pay, retirement and pension[2]	1,204	1,043
Unearned revenues	232	110
Accrued expenses	555	443
Provision for unutilized vacations and long- service bonus	160	154
Guarantees payable	94	93
Provision for doubtful debts for off-balance sheet and other items	90	109
Payables for credit card operations	3,932	3,714
Market value of securities sold short	280	205
Other payables and credit balances	929	795
Total other liabilities	7,491	6,692

(1) See Note 8 to the financial statements.
(2) See Note 22 to the financial statements.

Note 22 – Employee Rights

A. Description of benefits

1. Below is a summary of the terms of office and employment of the Chairman of the Board of Directors, Mr. Moshe Vidman.

   Mr. Moshe Vidman serves as Chairman of the Bank's Board of Directors, in a full-time position equivalent, as from December 1, 2012.

   On February 14, 2017, the General Meeting of Bank shareholders approved, in line with the resolution by the Board of Directors and after approval by the Remuneration Committee, the terms of office and employment of Mr. Vidman as Chairman of the Bank's Board of Directors in line with a new officer remuneration policy, also approved by the General Meeting on said date, which was made to conform to provisions of the Remuneration of Officers in Financial Corporations Act (Special Permission and Non-allowance of Expenses for Tax Purposes with Respect to Excessive Remuneration), 2016 ("the Executive Remuneration Act") and following revisions to Proper Banking Conduct Directive 301A on remuneration ("the new remuneration policy").

   For more information about terms of office and employment of the Chairman of the Board of Directors, see Addendum B to report dated January 9, 2017 (reference: 2017-01-003454) and report dated February 14, 2017 (reference: 2017-01-013930), included herein by way of reference.

   The employment term according to the approved employment agreement ("the amended employment agreement") is from December 1, 2016 through December 31, 2017 and will be automatically renewed, every year, for one additional year – all subject to provisions of the amended employment agreement ("the additional employment term").

   Notwithstanding the foregoing, either party may announce discontinuation of employment at any time during the additional employment period, for any reason and with no need to justify their position to the other party, subject to providing six months' advance notice to the other party.

   During the advance notice period, the Chairman of the Board of Directors will be required to fully work as usual, but the Bank may waive such notice period, in whole or in part, and may terminate employment of the Chairman of the Board of Directors; in such case, the Bank will pay to the Chairman of the Board of Directors for the portion of the advance notice period for which the Bank waived the Chairman's work – in an amount equal to the salary for the waived period plus an amount equal to Bank contributions to provident fund, retirement fund, severance pay and study fund as stated above.

   In conformity with the amended employment agreement, the Chairman of the Board of Directors will be entitled to monthly salary of NIS 189,660. This salary is fully linked to changes in the Consumer Price Index. The Bank provides to the Chairman of the Board of Directors a budget equal to 14.83% for contributions towards provident fund, retirement fund and severance pay payable by the Bank (6.5% for provident fund and 8.33% for severance pay). The Chairman of the Board of Directors is also eligible to employer contributions to a study fund at 7.5% of the salary. These amounts are contributed to provident / pension / study funds as selected by the Chairman of the Board of Directors.

   Should the Chairman of the Board of Directors request, from time to time, the Bank would update the Chairman's monthly salary, subject to required adjustments and changes to payment of associated expenses, so that any increase or decrease in the salary would be against concurrent decrease or increase in associated expenses and vice versa, provided that the total cost of employment of the Chairman would remain unchanged, including the tax cost to the Bank, all subject to statutory provisions and subject to the maximum remuneration allowed by the Executive Remuneration Act and the statutory rate of contributions to severance pay and provident funds.

   Upon approval of the terms of office and employment of the Chairman of the Board of Directors by the Remuneration Committee and by the Board of Directors, the total maximum remuneration which the Bank may have paid to the Chairman of the Board of Directors (subject to obtaining statutory approvals), pursuant to Section 2(b) to the Executive Remuneration Act, amounted to NIS 2,746 thousand per annum (for this matter, any remuneration for which expenses are not expected pursuant to GAAP and contribution towards severance pay and provident funds by law would not be taken into account).

Note 22 – Employee Rights (continued)

Pursuant to terms of employment and office of the Chairman of the Board of Directors, should the maximum remuneration pursuant to the Executive Remuneration Act, including pursuant to Section 2(b) of the Act, allow this, the Bank would pay the Chairman of the Board of Directors an additional fixed remuneration component equal to up to 2 months' salary (based on the salary for December of that year). With respect to this additional fixed remuneration component, the Bank would make all statutory payments and contributions as well as contribution towards severance pay and provident funds by law. Due to revision of the cap calculated upon approval of the terms of office, the Chairman of the Board of Directors received an additional payment of NIS 209,000 with respect to 2017.

Since the expense with respect to cost of salary to be incurred by the Bank, directly or indirectly, in the tax year with respect to the Chairman of the Board of Directors would exceed the "Maximum payment", as defined in Section 4 of the Executive Remuneration Act, part of the remuneration payable to the Chairman of the Board of Directors would not be tax deductible for the Bank pursuant to provisions of the aforementioned Section 4.

Upon termination of employment pursuant to the amended employment agreement, the Bank will pay to the Chairman of the Board of Directors an acclimation bonus in exchange for non-competition, equal to three monthly salaries ("Acclimation Bonus for the Chairman of the Board of Directors").

The amended employment agreement clarifies that the Acclimation Bonus payable to the Chairman of the Board of Directors, as noted above, is the only acclimation bonus to which the Chairman of the Board of Directors would be entitled upon termination of their employment term pursuant to the amended employment agreement.

Furthermore, upon termination of employment pursuant to the amended employment agreement, the Bank would pay the Chairman of the Board of Directors the retirement bonus to which the Chairman is eligible pursuant to the Previous Employment Agreement. for the employment term from December 1, 2012 to November 30, 2015, equal to 150% of the Chairman's final salary, according to the Previous Employment Agreement for 2012-2015, multiplied by the number of years in office (three years), in conformity with the Previous Employment Agreement for said period ("Retirement Bonus for the Chairman of the Board of Directors").

Note that the cost of the Retirement Bonus for the Chairman of the Board of Directors and Acclimation Bonus for the Chairman of the Board of Directors, payable to the Chairman of the Board of Directors, as noted above, has been fully provided for on the Bank's financial statements prior to the end of the transition period for the Executive Remuneration Act.

Should the Chairman of the Board of Directors be eligible for severance pay, pursuant to the Severance Pay Law, 1963 ("the Severance Pay Law") and should the amount accrued in the provident fund with respect to Bank contributions towards severance pay (8.33%) and all accrued returns as of the termination date and as reported by the provident fund, be lower than the Severance Pay Amount, as defined in the Severance Pay Law, gross (hereinafter: "statutory severance pay"), then the aforementioned Retirement Bonus for the Chairman of the Board of Directors, in whole or as required, will be on account of the statutory severance pay; should the amount accrued in the provident fund plus the Retirement Bonus for the Chairman of the Board of Directors amount together be lower than the statutory severance pay – then the Bank will make up the difference up to the statutory severance pay.

2. On June 17, 2013, the Bank's Board of Directors approved the appointment of Mr. Eldad Fresher as Bank President. Mr. Fresher started in his office as full-time Bank President on August 16, 2013.

   On February 14, 2017, the General Meeting of Bank shareholders approved, in line with the resolution by the Board of Directors and after approval by the Remuneration Committee, the terms of office and employment of Mr. Fresher as Bank President & CEO, in line with a new officer remuneration policy, also approved by the General Meeting on said date, which was made to conform to provisions of the Executive Remuneration Act and with due attention to amendments required by Proper Banking Conduct Directive 301A with regard to remuneration.

   For more information about terms of office and employment of the Bank President & CEO, see Addendum C to report dated January 9, 2017 (reference: 2017-01-003454) and report dated February 14, 2017 (reference: 2017-01-013930), included here by way of reference.

Note 22 – Employee Rights (continued)

The Bank President & CEO would be entitled to monthly salary of NIS 190,660. This salary is fully linked to changes in the Consumer Price Index. The Bank provides to the Bank President & CEO a budget of 15.83% for contributions to provident, pension and severance pay funds (5% for provident funds and 8.33% for severance pay); the Bank would also obtain, on behalf of the Bank President & CEO, disability insurance by payment at 2.5% or such rate as to provide to the Bank President & CEO a disability pension equal to 75% of their salary, whichever is lower). The Bank President & CEO is also eligible to employer contributions to a study fund at 7.5% of the salary. These amounts are contributed to provident / pension / study funds as selected by the Bank President & CEO.

Should the Bank President & CEO request, from time to time, the Bank would update the Bank President & CEO's monthly salary, subject to required adjustments and changes to payment of associated expenses, so that any increase or decrease in the salary would be against concurrent decrease or increase in associated expenses and vice versa, provided that the total cost of employment of the Bank President & CEO would remain unchanged, including the tax cost to the Bank, all subject to statutory provisions and subject to the maximum remuneration allowed by the Executive Remuneration Act and the statutory rate of contributions to severance pay and provident funds.

Upon approval of the terms of office and employment of the Bank President & CEO by the Remuneration Committee and by the Board of Directors, the total maximum remuneration which the Bank may have paid to the Bank President & CEO (subject to obtaining statutory approvals), pursuant to Section 2(b) to the Executive Remuneration Act, amounted to NIS 2,746 thousand per annum (for this matter, any remuneration for which expenses are not expected pursuant to GAAP and contribution towards severance pay and provident funds by law would not be taken into account).

Pursuant to terms of employment and office of the Bank President & CEO, should the maximum remuneration pursuant to the Executive Remuneration Act, including pursuant to Section 2(b) of the Act, allow this, the Bank would pay the Bank President & CEO an additional fixed remuneration component equal to up to 1 month' salary (based on the salary for December of that year). With respect to this additional fixed remuneration component, the Bank would make all statutory payments and contributions as well as contribution towards severance pay and provident funds by law. Due to revision of the cap calculated upon approval of the terms of office, the Bank President & CEO received an additional payment with respect to 2017, equal to the salary amount for December 2017.

Since the expense with respect to cost of salary to be incurred by the Bank, directly or indirectly, in the tax year with respect to the Bank President & CEO would exceed the "Maximum payment", as defined in Section 4 of the Executive Remuneration Act, part of the remuneration payable to the Bank President & CEO would not be tax deductible for the Bank pursuant to provisions of the aforementioned Section 4.

Upon termination of employment pursuant to the additional employment agreement, the Bank will pay to the Bank President & CEO an acclimation bonus in exchange for non-competition, equal to six monthly salaries ("Acclimation Bonus for the Bank President & CEO").

Furthermore, upon termination of employment pursuant to the amended employment agreement, the Bank would pay the Bank President & CEO a retirement bonus equal to 150% of the last monthly salary of the Bank President & CEO prior to end of the transition period pursuant to the Executive Remuneration Act (October 12, 2016) multiplied by the number of years of service with the Bank through the end of the transition period, all subject to provisions of Section 4.9.4 of Addendum B to the immediate report issued by the Bank on May 4, 2014 (reference 2014-01-056838) ("the Retirement Bonus for the Bank President & CEO").

Note that the cost of the Retirement Bonus for the Bank President & CEO and Acclimation Bonus for the Bank President & CEO payable to the Bank President & CEO, as noted above, has been fully provided for on the Bank's financial statements prior to the end of the transition period for the Executive Remuneration Act. The Retirement Bonus for the Bank President & CEO and one half of the Acclimation Bonus for the Bank President & CEO would be deemed variable retirement remuneration, payable in 4 lots, three of which would be deferred and payable in the three years subsequent to the employment termination date. All provided that the financial statements published soon prior to payment of any such deferred lot would not include deviation in excess of 10% of the minimum ratios for total capital adequacy and Tier I capital adequacy.

Note 22 – Employee Rights (continued)

The Remuneration Committee and the Board of Directors may, at their discretion, award the Bank President & CEO a monetary bonus for each of 2017, 2018 and 2019, amounting up to three months' salary. Notwithstanding the foregoing, should the Remuneration Committee and the Board of Directors resolve that the performance-based bonus awarded for a given year to officers (other than the Bank President & CEO or Board members) would also include equity-based remuneration, they may resolve, at their own discretion, that the performance-based remuneration to be awarded to the Bank President & CEO for the bonus year would also include equity-based remuneration.

Eligibility of the Bank President & CEO for any performance-based remuneration, should it be awarded, would be contingent on the Bank's total capital adequacy ratio and Tier I capital adequacy ratio, in conformity with the Bank's annual financial statements for the bonus year, would not be lower than the minimum ratios stipulated by Bank of Israel directives.

The variable remuneration to be awarded to the Bank President & CEO would be subject to restitution provisions as per Section 6.10 of Addendum A to the Immediate Report issued by the Bank on January 9, 2017 (reference: 2017-01-003454).

Either party may announce discontinuation of employment at any time during the additional employment period, for any reason and with no need to justify their position to the other party, subject to providing six months' advance notice to the other party.

During the notice period, the Bank President & CEO will be required to fully work as usual, but the Bank may waive such notice period, in whole or in part, and may terminate employment of the Bank President & CEO; in such case, the Bank will pay to the Bank President & CEO for the portion of the notice period in which the Bank waived the Bank President & CEO's work – in an amount equal to the salary for the waived period plus an amount equal to Bank contributions to provident fund, retirement fund, severance pay and study fund as stated above.

3. Officer remuneration policy

On November 19, 2013, the Supervisor of Banks issued Proper Banking Conduct Directive 301A concerning remuneration policies at banking corporations, as amended in August 2015 and in September 2016 (hereinafter: "Directive 301A" or "the remuneration directive"). As this directive became effective and further to discussions between the Bank and the Supervisor of Banks, the Bank has acted to revise the remuneration policy for officers, approved by the General Meeting of Bank shareholders on August 27, 2013 (hereinafter: "the original remuneration policy").

On February 14, 2017, the General Meeting of Bank shareholders approved, after approval by the Board of Directors and recommendation by the Remuneration Committee, the revised officer remuneration policy at the Bank (hereinafter "the revised remuneration policy"), effective for three (3) years as from January 1, 2017.

The revised remuneration policy incorporates provisions of the Companies Law and directives by the Supervisor of Banks concerning remuneration, with general principles which the Bank's Board of Directors, after recommendations by the Remuneration Committee, saw fit to adopt with regard to officer remuneration at the Bank with due attention, inter alia, to the Bank's strategic plan and to current employment terms of officers at the Bank.

The remuneration of officers, other than Board members, will include two major components: monthly salary (and associated components) and performance-based variable remuneration (based on the Bank's performance targets, on individual performance benchmarks and including discretionary remuneration), to include a monetary bonus and which may include long-term equity-based remuneration not to exceed one half of the performance-based variable remuneration. The remuneration package may also include remuneration related to retirement.

The mid-term remuneration (annual bonus) and the long-term remuneration are designed to align the interests of officers with those of the Bank and to strengthen the link between overall Bank performance and the officer's contribution to achievement of such performance to the officer's remuneration, in line with the Bank's risk profile.

Note 22 – Employee Rights (continued)

In conformity with the new remuneration policy, the maximum variable remuneration shall not exceed 85% of the fixed remuneration, except under special conditions, where the maximum variable remuneration may not exceed 170% of the fixed remuneration. The Bank's Board of Directors also stipulated that the maximum variable remuneration for officers who are gatekeepers would not exceed 55% of fixed remuneration and that such officers would be eligible for a retention bonus equal to two months' salary, which constitutes fixed remuneration pursuant to the remuneration policy.
In conformity with the new remuneration policy, the maximum remuneration as defined in the Executive Remuneration Act (i.e. excluding payments for severance pay and provident funds by law) for the Chairman of the Board of Directors and the Bank President & CEO would be less than 35 times the lowest salary of any full-time Bank employee, including contractors. The maximum remuneration of other officers (other than Board members) would be NIS 2.5 million.
The policy stipulates that the variable remuneration may be subject to restitution, in whole or in part, under circumstances listed in the remuneration policy.
For more information about the revised remuneration policy, its principles and scope, see Addendum A to the immediate report dated January 9, 2017 (reference: 2017-01-003454) and the Immediate Report dated February 14, 2017 (reference: 2017-01-013930), included herein by way of reference.

As from January 1, 2017, the notice period to the Bank from the Bank President & CEO and from other officers reporting there to, including the Chief Internal Auditor with regard to termination of their employment with the Bank, would be of 6 months.

4. Senior officers are eligible upon their retirement to an acclimation grant equal up to six months' salary, for which a provision was recorded in the financial statements. Officers are also entitled to a retirement bonus at 150% per year through December 31, 2016 for officers, or through October 11, 2016 for the Bank President & CEO, all subject to provisions of the revised remuneration policy.

5. Remuneration policy for all Bank employees
   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").
   The revised remuneration policy for all Bank employees discusses remuneration terms of key employees at the Bank and those of other managers at the Bank and of other Bank employees for 2017-2019.
   The terms of office or employment of Bank employees include fixed and variable remuneration, as customary at the Bank, as well as retirement terms and any other benefit, payment or commitment to make a payment, provided with respect to the aforementioned office or employment.
   In October 2017, options with respect to 2017 were allotted to Bank officers and to key employees and other managers at the Bank and at Bank subsidiaries. For more information about this allotment, see Note 23.B.4.

6. On September 16, 2009, a special collective bargaining agreement was signed with the Employee Union – clerks sector, whereby the special collective bargaining agreement signed on April 27, 2006 was extended by a further 5 years, from January 1, 2011 through December 31, 2015. This agreement was approved by the Bank Board of Directors on October 19, 2009.
   In late 2015, an economic arbitration process (hereinafter: "arbitration") was launched between the Bank and the Mizrahi Tefahot Employees Union ("the Employee Union"), to discuss the demands made by the Employee Union for 2005-2015.
   In 2016, an attempt was made to refer the discussion of Employee Union demands to a mediation framework, however this attempt was un-successful and in late 2016, the issue was once again being discussed in arbitration.

   Management believes, based on the opinion of legal counsel, that exposure with respect to this arbitration cannot be estimated. Concurrently with the arbitration, in 2017 there have been negotiations taking place to renew the payroll agreement between Bank management and the Employee Union.

Note 22 – Employee Rights (continued)

On June 13, 2017, the Employee Union declared a labor dispute. On June 25, 2017, Bank management and the Employee Union jointly announced they would negotiate in order to reach agreement by the end of July 2017. These negotiations did not result in a comprehensive payroll agreement.

On August 1, 2017, the Employee Union announced a strike by Bank employees represented by the Employee Union, starting on August 2, 2017.

During the strike, the Bank provided regular services in as much as possible.

On August 16, 2017, the Bank announced that management and the Employee Union have reached understandings and consequently, the employees terminated the strike and the parties will continue to hold discussions through September 12, 2017, in order to reach agreements which would allow them to sign a collective bargaining agreement. The deadline was extended by the parties and discussions continued.

On December 3, 2017, a collective bargaining agreement was signed with the Employees' Union and on December 11, 2017 this agreement was approved by the qualified organs of the Bank ("the new collective bargaining agreement").

Below are highlights of the new collective bargaining agreement:

- The agreement applies to the period 2016-2021.
- Full and complete labor relations would be maintained throughout the term of the agreement.
- Bank employees would be engaged and would assist in successful completion of moves to acquire and/or merge another bank, other than the four major banks and including success of the merger with Bank Igud LeIsrael Ltd. at no additional cost to the Bank.
- During this period, fixed pay increases and differential pay increases would be given.
- The seniority increase to be given to new employees hired by the Bank as from signing the agreement would be lower than the current one.
- A bonus would be given contingent on Bank performance (return on equity), including a gradual increase based on achievement of the strategic plan targets.
- Employees employed by the Bank upon signing the agreement would receive a special perseverance and engagement bonus, equal to one half of a 13th monthly salary (based on the value as of the agreement signing date), for each year from 2018 through 2021 in return for their actual work during these years, where the bonus part with regard to 2019 being contingent on overall agreement as to how Bank Igud employees would be included in the collective bargaining agreement.
- The voluntary retirement plan approved by the Bank's Board of Directors on December 27, 2016 would be implemented (Immediate Report dated December 27, 2016, reference: 2016-01-092211).
- Various understandings were reached to allow the Bank additional managerial flexibility with regard to human resources.

In accordance with the memorandum of understandings reached with the Employee Union, , expenses amounting to NIS 160 million were recorded on the financial statements for the third quarter of 2017 (effect on net profit of NIS 104 million).

Bank management believes that, following this agreement and implementation of the voluntary retirement plan, payroll would increase by NIS 100 million compared to payroll level in 2017 excluding the effect of this agreement. Note that this payroll increase, compared to 2017 excluding the effect of this agreement, should remain similar and non-recurring over the term of the agreement, with, on the one hand, gradual increase in pay increment and, on the other hand, gradual implementation of the voluntary retirement plan.

Payroll expenses may also increase due to bonuses, including performance-based bonuses, of up to NIS 40 million, based on achievement of the strategic plan objectives.

As noted above, should these bonuses be paid, it is expected that the increase in payroll with respect to the bonuses would remain similar and non-recurring.

The effect of implications with respect to implementation of the agreement on the balance of actuarial liability was included in the financial statements for the second quarter of 2017 and amounted to NIS 106 million. See also section 7 below.

The assumption of remuneration growth rate used to determine the actuarial liability was 2.24% as of June 30, 2017.

Note 22 – Employee Rights (continued)

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.

7. Some Bank employees who take early retirement, sometimes receive, upon retirement, higher amounts than their entitlement pursuant to the law and to agreements. Sometimes the Bank pays these employees a pension until they reach the full retirement age. According to the Supervisor of Banks' directive, an actuarial reserve with respect to these payments is included on the financial statements.

8. On December 27, 2016, the Bank's Board of Directors approved the streamlining program recommended by Bank management, whereby early retirement would be possible for 300 employees in 2017-2021, at improved conditions.

   Note that the retiring employees, who would be allowed to take such early retirement, include Bank employees and 50 employees of a wholly-owned and wholly-controlled subsidiary of the Bank, Mizrahi-Tefahot Technology Division Ltd. The number of retiring employees from each group may change, but the total number will not exceed 300.

   In conformity with the streamlining plan, the retiring employees would be entitled to an early pension through the official retirement age or to increased severance pay at 150% (in addition to receiving ownership of provident fund accounts in their name), based on the criteria listed in the plan. It is possible that retirement terms and conditions could offer additional, non-material benefits to such employees.

   The cost of update to the actuarial liability with respect to the streamlining program, recorded on the financial statements as of December 31, 2016, amounts to NIS 286 million; the cost net of tax, amounting to NIS 188 million, was charged to equity (under Other Comprehensive Income).

   Following understandings reached with the Employee Union, the financial statements for the second quarter of 2017 include an increase in the actuarial liability balance. See section 6 above.

9. A small group of employees who retired in the past is entitled to a fixed monthly pension from the Bank. Employees who retired from the Bank prior to June 30, 1997 are entitled to pension payments from the Bank for certain salary components. Bank retirees are also eligible to receive non-pension benefits. The Bank's liability for these payments is covered by provisions, based on an actuarial calculation.

10. Personal employment contracts have been signed with a group of senior employees, entitling them to a special bonus upon termination, under the circumstances prescribed in the agreements that could, in a few years' time, reach seventeen months' salary for certain employees with high seniority. These employees are entitled upon retirement to moneys and other rights accrued on their behalf in various funds as well as to advance termination notice three to six months in advance. The Bank has no intention to terminate any of these senior Bank employees. The Bank's liability for these payments is covered by provisions, based on an actuarial calculation.

11. Reserves with respect to long-service bonuses and voluntary retirement programs were made based on an actuarial calculation, with the discount rate based on the yield of Government debentures in Israel plus the average yield spread for corporate debentures rated AA (international rating scale) or higher upon the report date. For practical reasons, the spread would be determined by the difference between yields to maturity, by terms to maturity, for corporate debentures rated AA or higher in the USA – and yields to maturity, for the same terms to maturity, for US government debentures, all as of the reporting date.

    The calculation takes into account future real increase in pay of between 2.34%-4.55%.

    The provision with respect to voluntary retirement was calculated in conformity with the retirees' eligibility to have their pension linked to the Consumer Price Index.

Note 22 – Employee Rights (continued)

12. Long-service bonuses

    Bank employees are entitled to special lump-sum bonuses upon attaining thirteen and eighteen years of service. A provision for these liabilities was recorded in the financial statements according to an actuarial calculation based on past experience and the likelihood that the employee will still be employed by the Bank on the vesting date.

13. Reserve with respect to tuition pay

    Bank employees under the collective bargaining agreement are entitled to tuition reimbursement for biblical studies and for higher education, based on reimbursement percentage customary at the Bank. A provision for these liabilities was recorded in the financial statements according to an actuarial calculation based on past experience and the likelihood that the employee is still employed by the Bank.

14. Bank Yahav has a defined benefit plan, funded and unfunded, with respect to all of its employees The plan provides a defined benefit based on years of service and most recent salary.

    Bank Yahav's obligation to pay severance or retirement pay is primarily covered by current deposits based on the salary for pension purposes to official provident and pension funds in the name of the employees. Bank Yahav customarily makes up the difference, for employees eligible to receive severance pay, between the employee's most recent salary multiplied by their number of years in service and the amount accrued in their name in the aforementioned provident funds. Bank Yahav may not withdraw the funded amounts other than for severance payment.

    To some of its employees, Bank Yahav committed to deliver, upon termination of their employment for any reason, the severance pay component of recognized provident funds (pursuant to Section 14 of the Severance Pay Law). The Bank is not required to make up the difference for these employees between the employee's most recent salary multiplied by their number of years in service and the amount accrued in their name in the aforementioned provident funds.

    In 2017, the Bank Yahav Board of Directors approved the voluntary retirement program, as recommended by Bank Yahav management.

    Bank Yahav was granted approval for this program by the Supervisor of Banks, as required in the streamlining directive. Pursuant to the program, early retirement of employees would be authorized subject to criteria set forth in the program. The costs of actuarial liability with respect to employees were revised to NIS 35 million before tax (NIS 23 million after tax effect).

    Bank Yahav has a collective bargaining agreement with employee representation which governs labor and remuneration through 2017.

Note 22 – Employee Rights – Continued

B. Liability amounts with respect to benefits by type (NIS in millions):

	December 31, 2017	December 31, 2016
Post-retirement benefits[1]		
Liability amount	160	149
Excess liability over plan assets	160	149
Benefits post termination and prior to retirement[2]		
Liability amount	1,165	1,006[3]
Fair value of plan assets	121	112
Excess liability over plan assets	1,044	894
Benefits prior to termination[4]		
Liability amount	86	76
Excess liability over plan assets	86	76
Total		
Excess liability included under Other Liabilities	1,290	1,119
Of which: With respect to overseas employee benefits	10	11

(1) Holiday gifts and other post-retirement employee benefits

(2) Pension, severance pay and other benefits on defined-benefit plan, including balance of liability with respect to employees who have retired.

(3) Includes effect of the streamlining plan, for more information see section 8 below.

(4) Primarily jubilee bonus and tuition for current employees.

C. Defined benefit plans (pension, severance pay and other benefits)[1]

1. Obligations and funding status

1.1. Change in obligations with respect to expected benefit (NIS in millions)

	December 31, 2017	December 31, 2016
Obligation with respect to expected benefit at start of period	1,155	867
Cost of service	42	26
Cost of interest	42	31
Actuarial loss[2]	150	303
Benefits paid	(64)	(72)
Obligation with respect to expected benefit at end of period	1,325	1,155
Obligation with respect to cumulative benefit at end of period[3]	1,171	1,066

(1) Post-employment pre-retirement benefits and post-retirement benefits, including balance of liability with respect to employees who have retired.

(2) On December 27, 2016, the Bank Board of Directors approved the streamlining plan. For more information, see section 7 below.

(3) Excludes any assumptions with regard to future remuneration.

Note 22 – Employee Rights – Continued

1.2. Change in fair value of plan assets and plan funding status (NIS in millions)

	December 31, 2017	December 31, 2016
Fair value of plan assets at start of period	112	104
Actual return on plan assets	8	3
Deposits to plan by the banking corporation	6	6
Benefits paid	(5)	(1)
Fair value of plan assets at end of period	121	112
Funding status – net asset recognized at end of period	121	112

C. Defined benefit plans (pension, severance pay and other benefits)(1)

1. Obligations and funding status – continued

1.1. Amounts recognized on the consolidated balance sheet (NIS in millions)

	December 31, 2017	December 31, 2016
Amounts recognized under Other Liabilities	1,204	1,043
Net liability recognized on the balance sheet at end of period	1,204	1,043

1.2. Amounts recognized under Other Comprehensive Income (Loss), before tax effect (NIS in millions)

	December 31, 2017	December 31, 2016
Net actuarial loss	(584)	(452)
Net liability with respect to transition	–	–
Total – recognized under Other Comprehensive Income	(584)	(452)

1.3. Plans for which the obligation with respect to cumulative and expected benefit exceeds plan assets (NIS in millions)

	December 31, 2017	December 31, 2016
Obligation with respect to expected benefit	1,325	1,155
Obligation with respect to cumulative benefit	1,171	1,066
Fair value of plan assets	121	112

(1) Post-employment pre-retirement benefits and post-retirement benefits, including balance of liability with respect to employees who have retired.

Note 22 – Employee Rights – Continued

C. Defined benefit plans (pension, severance pay and other benefits)(1)

2. Expenses during the reported period

2.1. Net benefit cost components recognized on Profit and Loss (NIS in millions)

	For the year ended December 31, 2017	For the year ended December 31, 2016	For the year ended December 31, 2015
Cost of service	42	26	26
Cost of interest	42	31	31
Expected return on plan assets	(4)	(4)	(4)
Deduction of non-allowed amounts:			
Net actuarial loss	18	9	4
Total benefit cost, net	98	62	57

2.2. Changes to obligation recognized under Other Comprehensive Income (Loss), before tax effect (NIS in millions)

	For the year ended December 31, 2017	For the year ended December 31, 2016	For the year ended December 31, 2015
Net actuarial loss for the period	150	303	7
Amortization of actuarial loss(2)	(18)	(9)	(4)
Total – recognized under Other Comprehensive Income	132	294	3
Total benefit cost, net	98	62	57
Total recognized under benefit cost, net for the period and under Other Comprehensive Income	230	356	60

2.3. Estimated amounts included under Cumulative Other Comprehensive Income expected to be deducted from Cumulative Other Comprehensive Income to the Statement of Profit and Loss as expense in 2018, before tax effect

	NIS in millions
Net actuarial loss	36
Total expected to be deducted from Cumulative Other Comprehensive Income	36

(1) Post-employment pre-retirement benefits and post-retirement benefits, including balance of liability with respect to employees who have retired.

(2) Actuarial loss due to current changes in discount rates during the reported year and actuarial gains due to current changes in discount rates during the reported year after the loss balance as of the transition date has been decreased to zero, would be amortized using the straight line method over the remaining average terms of service for employees expected to receive benefits over the plan term or, alternatively, over the average remaining term for receipt of benefits by employees. See also Note 1.D.13 to the financial statements.

Note 22 – Employee Rights – Continued

D. Assumptions

1. Assumptions based on weighted average, used to determine the obligation with respect to benefit and to measure the benefit cost, net

1.1. Key assumptions used to determine the obligation with respect to benefit:

	December 31, 2017 In %	December 31, 2016 In %
Discount rate	1.20	1.70
Discount rate – CPI	2.00	2.00
Departure rate	3.55	3.40
Remuneration increase rate	2.34	1.72

1.2. Key assumptions used to measure benefit cost for the period (in %):

	December 31, 2017 In %	December 31, 2016 In %	December 31, 2015 In %
Discount rate	3.77	4.18	4.17
Expected long-term return on plan assets	3.85	4.07	4.08
Remuneration increase rate	2.34	1.72	1.75

1.3. Effect of change of 1 percentage point on obligation with respect to expected benefit, before tax effect:

	Increase by 1 percentage point December 31, 2017	Increase by 1 percentage point December 31, 2016	Decrease by 1 percentage point December 31, 2017	Decrease by 1 percentage point December 31, 2016
Discount rate	(114)	(94)	139	113
Departure rate	71	54	(96)	(76)
Remuneration increase rate	74	65	(63)	(55)

Note 22 – Employee Rights – Continued

E. Plan assets

1.1. Fair value composition of plan assets

Property type	December 31, 2017	December 31, 2016
Shares	31	42
Government assistance to legacy pension funds	11	11
Other	12	8
Debentures: Government	13	15
Debentures Designated Government	27	12
Debentures Corporate	27	24
Total	121	112

1.2 Fair value of plan assets by asset type and allocation target for 2017 (in %)

Property type	Allocation target For 2018	Percentage of plan assets 2017	Percentage of plan assets 2016
Shares	26	26	37
Government assistance to legacy pension funds	10	9	10
Other	7	10	7
Debentures: Government	12	11	14
Debentures Designated Government	23	22	10
Debentures Corporate	22	22	22
Total	100	100	100

1.3 Deposits to defined-benefit pension plans

Property type	Allocation target For (1)2018	Actual deposits For the year ended December 31, 2017	Actual deposits For the year ended December 31, 2016
Deposits	6	6	6

(1) Estimated deposits to be paid into defined-benefit pension plans in 2018.

F. Cash flows – Benefits which the corporation expects to pay in future:

Year	NIS in millions
2018	116
2019	100
2020	98
2021	102
2022	87
2023-2027	335
2028 and later	694
Total	1,532

Note 23 – Share-based Payment Transactions

A. Stock option plan for the President

As part of the option plan and in conformity with its terms and conditions, the Bank will allot to a trustee, on behalf of the Bank President & CEO, options in three annual lots as follows: 186,915 options for 2014, 177,720 options for 2015 and 172,503 options for 2016. Each option may be exercised for one Bank ordinary share of NIS 0.1 par value, subject to adjustments for bonus share distribution, rights issuance, share split or reverse-split, dividend distributions etc.

Assuming full exercise of all options, and assuming allotment of the maximum possible number of exercise shares, all options allotted under the stock option plan to the Bank President pursuant to the option plan (based on the report "Equity status and securities registries of the corporation and changes there to", issued by the Bank on April 10, 2014) would be equal to 0.23% of the Bank's issued share capital and voting rights (after allotment of the full number of exercise shares), and assuming full dilution – 0.18% of the Bank's issued share capital and voting rights.

The President & CEO's eligibility for options allotted with respect to any bonus year is contingent on the following threshold conditions being fulfilled for the bonus year:

1. Return on equity for the bonus year shall be at least 9%.
2. Overall capital adequacy ratio and core capital adequacy ratio for the Bank, for the bonus year, shall be no less than the minimum ratios specified in Bank of Israel regulations.

The Bank President's eligibility for options included in any annual lot would be calculated soon after publication of the Bank's financial statements for the bonus year for which the annual lot has been allotted, based on fulfillment of the specified eligibility conditions.

Each of the annual lots for 2014-2016 would vest in three equal parts as from April 1 of 2016-2020.

The exercise price for each option to be allotted to the Bank President pursuant to the plan is NIS 46.19[(1)] plus CPI linkage differentials, from the known CPI upon approval by the Board of Directors to the known CPI upon the exercise date. The exercise price was determined based on the average closing price per Bank ordinary share on the stock exchange over the thirty trading days preceding the date of approval by the Board of Directors. Accordingly, note that on the exercise date, the Bank President would not be required to pay the exercise price – which would only serve to determine the monetary benefit amount and the number of exercise shares actually allotted to the Bank President.

For calculation of fair value as of approval of the option award by the General Meeting of Bank shareholders, as noted above, the following terms of the option plan were taken into account as well as annualized standard deviation between 26.7%-32.1%, reflecting the standard deviation for periods of 3.41-7.42 years. Risk-free interest ranges between (0.82%)-0.55% for the various lots.

Based on these assumptions, the average fair value of each option awarded to the Bank President pursuant to the option plan, as of the approval date of option award by the General Meeting of Bank shareholders, is as follows: Options included in the first lot – NIS 7.90; options included in the second lot – NIS 8.37; options included in the third lot – NIS 8.67.

Accordingly, the theoretical benefit value of the options in this plan (the fair value), calculated in accordance with accounting standards, amounts to NIS 4.5 million (NIS 5.3 million including Payroll Tax). This value will be recognized over the eligibility period in non-linear fashion.

The options would be allotted under the "wages" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the Bank President from exercise of these options shall be taxed at the marginal tax rate applicable to the Bank President upon exercise of the options. The Bank would be required to pay the payroll tax with respect to the benefit arising to the President from exercise of the options under the stock option plan. Furthermore, upon payment of the tax with respect to this benefit by the Bank President & CEO, the Bank may make a deduction for tax purposes with respect to the aforementioned options based on the effective tax rate applicable upon the exercise date.

In 2017 some 38,024 options were exercised, at an exercise price of NIS 46.19[(1)]. The share price upon option exercise for shares exercised in 2017 was NIS 59.14. In conformity with financial results for 2016, in 2017 some 50,827 options were forfeited (in 2015-2016: 58,141 and 72,843 options, respectively) with an exercise price of NIS 46.19[(1)] (same for 2015-2016). As of December 31, 2017, the President & CEO has a total of 317,303 options (in 2015-2016: 406,154 and 464,295 options, respectively) at an exercise price of NIS 46.19[(1)] (same for 2015-2016).

(1) Plus linkage differentials and dividend adjustment.

Note 23 – Share-based Payment Transactions – continued

B. Stock option plan for employees

1. On June 10, 2014, the General Meeting of Bank shareholders approved, after approval by the Board of Directors and recommendation by the Remuneration Committee, the revised officer remuneration policy at the Bank (for details see section C. above).

   On June 19, 2014, the Bank's Board of Directors approved, after approval by the Remuneration Committee on June 16, 2014, the offering of options to Bank officers, pursuant to section 15B(1)(a) of the Securities Act. Further, the Bank's Board of Directors approved, after approval by the Remuneration Committee, an option offering to key Bank employees and to other managers of the Bank and its subsidiaries, pursuant to section 15B(1)(a) of the Securities Act, all as delisted a report issued by the Bank on June 19, 2014, reference 2014-01-091176 (hereinafter: "the outline report").

   As resolved by the Board of Directors on June 19, 2014, the following option plans were approved:

   – Option plan A – up to 2,083,197 options A to be awarded to up to eight Bank officers who are not gatekeepers, exercisable for up to 2,083,197 Bank ordinary shares of NIS 0.1 par value each.
   – Option plan B – up to 873,066 options B to be awarded to up to five Bank officers who are gatekeepers, exercisable for up to 873,066 Bank ordinary shares of NIS 0.1 par value each.
   – Option plan C – up to 2,708,060 options C to be awarded to up to forty-three key Bank employees and up to ten managers at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 2,708,060 Bank ordinary shares of NIS 0.1 par value each.
   – Option plan D – up to 1,183,110 options D to be awarded to up to twenty-eight managers employed by the Bank subject to individual employment contracts and up to eight managers at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 1,183,110 Bank ordinary shares of NIS 0.1 par value each.
   – Option plan E – up to 5,046,390 options E to be awarded to up to two hundred fifty-three managers employed by the Bank subject to collective bargaining agreements, exercisable for up to 5,046,390 Bank ordinary shares of NIS 0.1 par value each.

   Threshold conditions and eligibility conditions for options

   An offeree's eligibility for options pursuant to each of the aforementioned option plans, for any bonus year, is contingent on fulfillment of all of the following threshold conditions in the bonus year:

   – Return on equity for the bonus year shall be at least 9%.
   – Overall capital adequacy ratio and core capital adequacy ratio for the Bank, for the bonus year, shall be no less than the minimum ratios specified in Bank of Israel regulations.

   In addition, eligibility conditions for options would be based on the following criteria:

   – Options A and options B to be issued to offerees who are officers of the Bank, as noted above, constitute part of these officers' variable remuneration. Officer eligibility to options A or to options B included in any annual lot would be determined based on four criteria which are measurable "company-wide criteria" (hereinafter: "the quantitative benchmarks") and on two qualitative criteria based on supervisor assessment of achievement of individual targets (hereinafter: "the individual targets") of the officer specified in the employee offering outline and on assessment of the officer's performance by the supervisor at the latter's discretion (hereinafter: "supervisor's discretion"). The individual targets and supervisor's discretion, hereinafter: "the qualitative benchmarks").

   The total weight assigned to quantitative benchmarks would be 80% of the annual lot of options A or options B. The total weight assigned to the qualitative benchmarks would be 20%: the weight assigned to the individual target benchmark would be 10% and the weight assigned to the supervisor's discretion benchmark would be 10%.

Note 23 – Share-based Payment Transactions – continued

Eligibility of offerees who are not officers of the Bank to options C and options D, with respect to any bonus year, would be determined based on the quantitative benchmarks and would not be based on any qualitative benchmark. Eligibility of offerees who are not officers of the Bank to options C and options E, with respect to any bonus year, would be determined based on the quantitative benchmarks and on the quality rating assigned to such offerees, as stated in section 2.12.9 of the outline report.

The quantitative benchmarks specified in the option plan are: return on equity, return on Bank shares relative to benchmark, operating efficiency ratio and average ratio of deposits to loans.

The theoretical benefit value of the options in these plans, calculated in accordance with accounting standards, amounts to NIS 96 million (NIS 113 million including Payroll Tax). When spreading the theoretical benefit value in the Bank's accounts, the estimated expected churn rate for plan offerees would be taken into account.

The options would be allotted under the "wages" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the offerees from exercise of these options shall be taxed at the marginal tax rate applicable to the offerees upon exercise of the options. The Bank would be required to pay the wages tax with respect to the benefit arising to the offerees from exercise of the options under the stock option plan. Furthermore, upon payment of the tax with respect to this benefit by the offerees, the Bank may make a deduction for tax purposes with respect to the aforementioned options based on the effective tax rate applicable upon the exercise date.

All other details of the plans and the outline of offering to employees (including the threshold conditions for eligibility for options, vesting and exercise periods of options and the Board of Directors' authority to reduce the number of options and provisions with regard to reimbursement of the monetary benefit are described in an Immediate Report dated June 19, 2014, reference 2014-01-091176. This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report.

On August 3, 2015, the Bank's Board of Directors, after receiving the recommendation of the Bank Remuneration Committee, resolved to approve the outline of an offering to employees, whereby the Bank would allot 229,990 options to 19 offerees who are managers at the Bank.

The option plan is based on the principles of the stock option plan approved by the Bank in 2014, according to which the Bank allotted options to managers on June 19, 2014. See below.

The options were allotted as follows:

- Up to 11,494 options D to be awarded to up to one Bank officer who is employed by an individual employment contract, exercisable for up to 11,494 Bank ordinary shares of NIS 0.1 par value each. In conformity with Option Plan D dated June 19, 2014.
- Up to 218,496 options E to be awarded to up to eighteen managers employed by the Bank subject to collective bargaining agreements, exercisable for up to 218,496 Bank ordinary shares of NIS 0.1 par value each. In conformity with Option Plan E dated June 19, 2014.

The theoretical benefit value of the options in these plans, calculated in accordance with accounting standards, amounts to NIS 1.6 million (NIS 1.9 million including Wages Tax). When spreading the theoretical benefit value in the Bank's accounts, the estimated expected churn rate for plan offerees would be taken into account.

All other details of the plans and the outline of offering to employees (including the threshold conditions for eligibility for options, vesting and exercise periods of options and the Board of Directors' authority to reduce the number of options and provisions with regard to reimbursement of the monetary benefit are described in an Immediate Report dated August 3, 2015, reference 2015-01-088305. This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report.

Note 23 – Share-based Payment Transactions – continued

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for each of the lots awarded on June 19, 2014:

	Lot 1	Lot 2	Lot 3	Total
Option plan A				
Number of options (in thousands)	728	690	665	2,083
Annualized standard deviation	20.07%-28.99%	22.00%-34.72%	25.94%-35.64%	
Exercise price (in NIS)	46.21	46.21	46.21	
Risk-free interest rate	0.08%-(0.45%)	0.64%-(0.87%)	1.08%-(0.70%)	
Term to expiration (in years)	2.75-4.75	3.75-5.75	4.75-6.75	
Fair value per single option	7.70	8.12	8.43	
Total fair value per lot, NIS in thousands	5,605	5,605	5,605	16,815
Option plan B				
Number of options (in thousands)	314	284	275	873
Annualized standard deviation	20.07%-28.99%	22.00%-34.72%	25.94%-35.64%	
Exercise price (in NIS)	46.21	46.21	46.21	
Risk-free interest rate	0.08%-(0.45%)	0.64%-(0.87%)	1.08%-(0.70%)	
Term to expiration (in years)	2.75-4.75	3.75-5.75	4.75-6.75	
Fair value per single option	7.73	8.17	8.43	
Total fair value per lot, NIS in thousands	2,428	2,319	2,319	7,066
Option plan C				
Number of options (in thousands)	917	896	896	
Annualized standard deviation	20.07%-28.99%	22.00%-34.72%	25.94%-35.64%	2,709
Exercise price (in NIS)	46.21	46.21	46.21	
Risk-free interest rate	0.08%-(0.45%)	0.64%-(0.87%)	1.08%-(0.70%)	
Term to expiration (in years)	2.75-4.75	3.75-5.75	4.75-6.75	
Fair value per single option	7.64	8.06	8.35	
Total fair value per lot (NIS in thousands)	7,006	7,222	7,482	21,710
Option plan D				
Number of options (in thousands)	394	394	394	1,182
Annualized standard deviation	20.07%-27.06%	22.00%-28.31%	25.94%-26.81%	
Exercise price (in NIS)	46.21	46.21	46.21	
Risk-free interest rate	(0.12%)-(0.16%)	0.26%-(0.87%)	0.61%-(0.70%)	
Term to expiration (in years)	4.50	4.50	4.50	
Fair value per single option	8.42	8.17	7.64	
Total fair value per lot (NIS in thousands)	3,317	3,219	3,010	9,546
Option plan E				
Number of options (in thousands)	1,682	1,682	1,682	5,046
Annualized standard deviation	20.07%-27.06%	22.00%-28.31%	25.94%-26.81%	
Exercise price (in NIS)	46.21	46.21	46.21	
Risk-free interest rate	(0.12%)-(0.16%)	0.26%-(0.87%)	0.61%-(0.70%)	
Term to expiration (in years)	4.50	4.50	4.50	
Fair value per single option	8.42	8.17	7.64	
Total fair value per lot (NIS in thousands)	14,162	13,742	12,850	40,754

Note 23 – Share-based Payment Transactions – continued

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for each of the lots awarded on August 3, 2015:

	Lot 1	Lot 2	Total
Option plan D			
Number of options (in thousands)	6	6	12
Annualized standard deviation	17.48%-21.01%	17.48%-22.92%	
Exercise price (in NIS)	47.76[(1)]	47.76[(1)]	
Risk-free interest rate	(0.58%)-(0.86%)	(0.45%)-(0.86%)	
Term to expiration (in years)	3.50	3.50	
Fair value per single option	7.08	6.91	
Total fair value per lot (NIS in thousands)	40	40	80
Option plan E			
Number of options (in thousands)	109	109	218
Annualized standard deviation	17.48%-21.01%	17.48%-22.92%	
Exercise price (in NIS)	47.76	47.76	
Risk-free interest rate	(0.58%)-(0.86%)	(0.45%)-(0.86%)	
Term to expiration (in years)	3.50	3.50	
Fair value per single option	7.08	6.91	
Total fair value per lot (NIS in thousands)	774	755	1,529

(1) Plus linkage differentials and dividend adjustment.

Details of the number of stock options and their exercise price for all plans are as follows:

	2017 Number of options	2017 Weighted average exercise price (in NIS)	2016 Number of options	2016 Weighted average exercise price (in NIS)	2015 Number of options	2015 Weighted average exercise price (in NIS)
Outstanding at year start	8,071,922	46.24	10,420,496	46.24	11,893,823	46.21
Granted during the year[(1)]	–	–	–	–	229,990	47.76
Forfeited during the year	1,297,047	46.26	1,599,747	46.26	1,699,397	46.21
Exercised during the year[(2)]	1,947,863	46.26	748,827	46.27	3,920	46.21
Outstanding at year end	4,827,012	46.23	8,071,922	46.24	10,420,496	46.24

(1) The weighted average fair value of stock options granted in 2015, as of the measurement date, was NIS 6.99. (in 2014 – NIS 8.06).

(2) The weighted average share price upon exercise of options into shares during 2017 was NIS 61.98 (2016 – NIS 53.09).

Note 23 – Share-based Payment Transactions – continued

Below is information about stock options outstanding at year end by exercise price range:

Exercise price range	December 31, 2017	December 31, 2016	December 31, 2015
(in NIS)	40-50	40-50	40-50
Number of stock options	4,827,012	8,071,922	10,420,496
Weighted average exercise price (in NIS)	46.23	46.24	46.24
Weighted average remaining contractual term (in years)	1.77	2.57	3.51
Of which vested:			
Number of stock options	2,389,747	2,136,379	1,157,176
Weighted average exercise price (in NIS)	46.26	46.25	46.21

4. On February 14, 2017, the General Meeting of Bank shareholders approved, after approval by the Board of Directors and recommendation by the Remuneration Committee, the revised officer remuneration policy at the Bank, effective for three years as from January 1, 2017.

   On August 31, 2017, the Bank Board of Directors approved, after approval by the Remuneration Committee on June 12, 2017, the offering of options to Bank officers, pursuant to section 15B(1)(a) of the Securities Act. Further, the Bank's Board of Directors approved, after approval by the Remuneration Committee, an option offering to key Bank employees and to other managers of the Bank and its subsidiaries, pursuant to section 15B(1)(a) of the Securities Act, all as delisted a report issued by the Bank on August 31, 2017, reference 2017-01-088584 (hereinafter: "the outline report"). (In addition, stock option reserves were approved to be issued in two additional annual lots for 2018 and 2019, in addition to those allocated in 2017, which issue would be subject to the required approvals from the Remuneration Committee and the Board of Directors in due course).

   As resolved by the Board of Directors on August 31, 2017, the following option plans were approved:

   - Option plan A – up to 572,985 options A to be awarded to up to seven Bank officers who are not gatekeepers, exercisable for up to 572,985 Bank ordinary shares of NIS 0.1 par value each.
   - Option plan B – up to 254,076 options B to be awarded to up to five Bank officers who are gatekeepers, exercisable for up to 254,076 Bank ordinary shares of NIS 0.1 par value each.
   - Option plan C – up to 180,353 options C to be awarded to up to four key Bank employees and up to three key employees at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 180,353 Bank ordinary shares of NIS 0.1 par value each.
   - Option plan D - up to 978,796 options D to be awarded to up to sixty-nine managers employed by the Bank subject to individual employment contracts and up to thirty-one other managers at the Bank and at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 978,796 Bank ordinary shares of NIS 0.1 par value each.
   - Option plan E – up to 1,365,244 options E to be awarded to up to two hundred sixty-seven managers employed by the Bank subject to collective bargaining agreements, exercisable for up to 1,365,244 Bank ordinary shares of NIS 0.1 par value each.

   The options issued in the name of the Trustee on behalf of each officer, pursuant to option plans A,B or C were in three equal lots, which may be exercised as from April 1, 2019, April 1, 2020 and April 1, 2021 and would expire eighteen months after said date.

   All options issued pursuant to option plans D and E may be exercised in a single lot from the 2nd to the 5th anniversaries of the issue date.

   An offeree's eligibility for options pursuant to each of the aforementioned option plans, for any bonus year, is contingent on fulfillment of all of the following threshold conditions in the bonus year:

   Return on equity for the bonus year shall be at least 9%;

Note 23 – Share-based Payment Transactions – continued

Overall capital adequacy ratio and core capital adequacy ratio for the Bank, for the bonus year, shall be no less than the minimum ratios specified in Bank of Israel regulations.

In addition, eligibility conditions for options would be based on the following criteria:

- Options A and options B issued to offerees who are officers of the Bank, as noted above, constitute part of these officers' variable remuneration. Officer eligibility to options A or to options B included in the annual lot for 2017 would be determined based on four criteria which are measurable "company-wide criteria" (hereinafter: "the quantitative benchmarks") and on two qualitative criteria based on supervisor assessment of achievement of individual targets (hereinafter: "the individual targets") of the officer specified in the employee offering outline and on assessment of the officer's performance by the supervisor at the latter's discretion (hereinafter: "supervisor's discretion"). The individual targets and supervisor's discretion, hereinafter: "the qualitative benchmarks").

The total weight of quantitative benchmarks would be forty-two percent of the annual lot of options A and thirty percent of the annual lot of options B. The total weight assigned to the qualitative benchmarks would be fifty-two percent of the annual lot of options: the weight assigned to the individual target benchmark would be thirty-six percent and the weight assigned to the supervisor's discretion benchmark would be twenty-two percent.

The total weight of qualitative benchmarks would be fifty-eight percent of the annual lot of options A and fourty percent for options B. The total weight assigned to the qualitative benchmarks would be seventy percent of the annual lot of options: the weight assigned to the individual target benchmark would be thirty-six percent and the weight assigned to the supervisor's discretion benchmark for options A would be fourty percent for options B.

- Eligibility of offerees who are not officers of the Bank to options C and options D, with respect to any bonus year, would be determined based on the quantitative benchmarks and would not be based on any qualitative benchmark. Eligibility of offerees who are not officers of the Bank to options C and options E, with respect to any bonus year, would be determined based on the quantitative benchmarks and on the quality rating assigned to such offerees, as stated in section 2.12.9 of the outline report.

The quantitative benchmarks specified in the option plan are: return on equity, return on Bank shares relative to banking benchmark, operating efficiency ratio and average ratio of deposits to loans.

The theoretical benefit value of the options in these plans, calculated in accordance with accounting rules of US standards pursuant to ASC718, amounts to NIS 28 million. When spreading the theoretical benefit value in the Bank’s accounts, the estimated expected churn rate for plan offerees would be taken into account.

The options were allotted under the "Capital Gain" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the offerees from exercise of these options shall be taxed at the capital gain tax rate applicable to the offerees upon exercise of the options. All other details of the plans and the outline of offering to employees (including the threshold conditions for eligibility for options, vesting and exercise periods of options and the Board of Directors' authority to reduce the number of options and provisions with regard to reimbursement of the monetary benefit are described in an Immediate Report dated August 31, 2017, reference 2017-01-088584. This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report.

Note 23 – Share-based Payment Transactions – continued

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for options awarded on August 31, 2017:

Exercise price NIS 64.65(2)

Risk-free interest rate (0.44%)–0.39%

Annualized standard deviation 16.54%–19.11%

	Option plan A	Option plan B	Option plan C	Option plan D	Option plan E
Number of options (in thousands)	573	254	180	979	1,365
Term to expiration (in years)	3.09-5.09	3.09-5.09	3.09-5.09	5.09	5.09
Average fair value per single option	(1)7.33	(1)7.36	7.22	8.63	8.63
Total fair value (NIS in thousands)	4,200	1,869	1,300	8,449	11,780

(1) Fair value with respect to supervisor's discretion and achievement of individual targets components was re-calculated as of December 31, 2017

(2) Plus linkage differentials and dividend adjustment.

Details of the number of stock options and their exercise price for all plans are as follows:

2017

	Number of options	Weighted average exercise price (in NIS)
Outstanding at year start	–	–
Granted during the year(1)	3,351,420	64.65
Forfeited during the year	463	64.65
Exercised during the year	–	–
Outstanding at year end	3,350,957	64.65

(1) The weighted average fair value of stock options granted in 2017, as of the measurement date, was NIS 8.24.

Below is information about stock options outstanding at year end by exercise price range:

Exercise price range	December 31, 2017
(in NIS)	60-70
Number of stock options	3,350,957
Weighted average exercise price (in NIS)	64.65
Weighted average remaining contractual term (in years)	4.50
Of which vested: Number of stock options	–
Weighted average exercise price (in NIS)	–

Note 24 – Share capital and shareholders' equity[(1)]

A. Details on share capital of the Bank (in NIS):

	Registered December 31, 2017	Registered December 31, 2016	Issued and paid-in 2017	Issued and paid-in 2016
Ordinary shares, NIS 0.1 par value[(2)]	40,000,000	40,000,000	23,263,136	23,456,851

(1) For allotment of stock options – see Note 23 to the financial statements.
(2) The shares are listed for trading on the Tel Aviv Stock Exchange.

On September 18, 2017, the Board of Directors of the Bank decided to cancel 2,500,000 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.

B. Dividend distribution policies:

On November 21, 2016, the Bank's Board of Directors approved a new five-year strategic plan for 2017-2021 and resolved to approve a dividends policy as from 2017.

The Bank's dividends policy in 2017 is to distribute dividends with respect to quarterly earnings, at 30% of net profit attributable to equity holders of the Bank.

The Bank has received approval from the Supervisor of Banks for this outline.

In conformity with a resolution dated November 21, 2016, The Bank's Board of Directors will monitor execution of the new strategic plan in order to consider the possibility of increase of the aforementioned dividends rate by a further step as from 2018. This would be subject to approval by the Supervisor of Banks.

On February 26, 2018, the Bank Board of Directors resolved to update the Bank's dividends policy for 2018 through 2021, after monitoring the execution of the aforementioned strategic plan.

The Bank's revised 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 Bank has received approval from the Supervisor of Banks for the outline of the aforementioned dividends policies.

The revised dividends policy is subject to the Bank achieving a ratio of Tier I capital to risk elements as required by the Supervisor of Banks and maintaining appropriate safety margins.

The Board of Directors would monitor performance of the new dividends policy and may make changes to this policy from time to time, as needed, at the Board's discretion.

Below is a summary of previous Board resolutions with regard to dividends distribution policies:

- On April 28, 2006, the Board decided on annual distribution of dividends at 40% of net operating profit and 80% of net profit from extraordinary items.
- On July 23, 2012, the Board decided that during the five-year plan for 2013-2017, the Bank would retain its dividend distribution policies.
- On August 14, 2013, a guideline was stipulated whereby, through December 31, 2014, the Bank would distribute dividends equal to up to 30% of annual operating net profit and 80% of annual profit from extraordinary items.
- On December 23, 2014, the Bank's Board of Directors resolved to approve the dividend distribution policy for 2015-2016.
- The dividends policy calls for dividends to be distributed with respect to quarterly earnings in 2015 and 2016 (as from the first quarter of 2015), at a rate of up to 15% of net profit attributable to shareholders.
- On this date and prior to the resolution effective as from November 21, 2016, as noted above, it was resolved that in 2017 the dividends policy would continue to be annual distribution of 40% of net operating profit and 80% from extraordinary items.

Note 24 – Share capital and shareholders' equity[1] (continued)

C. Information on dividend distribution limitations is provided below:

- According to the directives of the Supervisor of Banks with respect to a dividend distribution by banking corporations, a bank may not distribute cash dividends, as long as its non-monetary assets exceed its adjusted shareholders' equity. As of December 31, 2014, the Bank's reported capital exceeds its non-monetary assets by NIS 7,371 million.
- The permit issued to the purchasers of the controlling interest by the Governor of the Bank of Israel stipulates that dividends will not be distributed out of profits accruing until September 30, 1994, the amount of which (after capitalization to a capital reserve in 1998) is NIS 100 million.

Furthermore, the Bank may not distribute dividends without prior consent of the Supervisor of Banks for such distribution, when:

1. The Bank's retained earnings, net of negative differences included under Other Comprehensive Income, are not positive.
2. One or more of the most recent three years ended in comprehensive loss.
3. Cumulative results for the three quarters ending at the end of the interim period for which the most recent financial statements have been published – show a comprehensive loss.

D. On June 2, 2014, the Bank applied to the Supervisor of Banks for approval of a buy-back of 5 million Bank shares.

On July 17, 2014, the Bank submitted the detailed buy-back plan by date, as requested by the Supervisor of Banks.

The buy-back plan which was presented is in five stages, from the fourth quarter of 2015 to the fourth quarter of 2017, with restrictions for each buy-back lot and in total not to exceed 5 million shares. According to the plan, the Bank would sell any surplus shares after the end date for exercising all options under the stock option plan.

On July 27, 2014, the Supervisor of Banks approved the buy-back plan subject to conditions set between the Bank and the Supervisor of Banks.

On August 13, 2014, the Bank's Board of Directors approved the aforementioned share buy-back outline. To date, the Bank has not bought back any of its shares pursuant to the buy-back plans presented in 2014.

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.

Buy-back of Bank shares is tantamount to a distribution of dividends.

Note 25 – Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks

Reported amounts (NIS in millions)

A. Capital adequacy pursuant to directives of the Supervisor of Banks

Calculated in accordance with Proper Banking Conduct Directives 201-211 "Measurement and Capital Adequacy"

	December 31, 2017 (audited)	December 31, 2016 (audited)
1. Consolidated data		
A. Capital for purpose of calculating minimum capital ratio		
Tier I shareholders' equity	14,333	13,318
Tier I capital	14,333	13,318
Tier II capital	5,251	4,888
Total capital	19,584	18,206
B. Weighted risk asset balances		
Credit risk	130,525	122,605
Market risks	1,605	1,184
Operating risk	8,394	8,113
Total weighted risk asset balances(1)	140,524	131,902
C. Ratio of capital to risk elements		
Bank data:		
Ratio of Tier I capital to risk elements	10.20	10.10
Ratio of Tier I capital to risk elements	10.20	10.10
Ratio of total capital to risk elements	13.94	13.80
Minimum Tier I capital ratio required by Supervisor of Banks(2)	9.86	9.76
Total minimum capital ratio required by the Supervisor of Banks(2)	13.36	13.26
2. Significant subsidiaries		
Bank Yahav for Government Employees Ltd. and subsidiaries thereof		
Ratio of Tier I capital to risk elements	9.27	9.41
Ratio of Tier I capital to risk elements	9.27	9.41
Ratio of total capital to risk elements	13.01	13.27
Minimum Tier I capital ratio required by Supervisor of Banks	9.00	9.00
Total minimum capital ratio required by the Supervisor of Banks	12.50	12.50

(1) Of the total weighted balance of risk assets, NIS 298 million was deducted due to adjustments with respect to the streamlining plan (on December 31, 2016: NIS 245 million).

(2) Capital ratios required by the Supervisor of Banks as from January 1, 2015. As from January 1, 2015, an additional capital requirement was added to these ratios at 1% of the housing loan balance as of the reporting date. This requirement was gradually implemented through January 1, 2017.

Note 25 – Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks – Continued

Reported amounts (NIS in millions)

A. Capital adequacy pursuant to directives of the Supervisor of Banks – Continued

Calculated in accordance with Proper Banking Conduct Directives 201-211 "Measurement and Capital Adequacy" – continued

	As of December 31 2017	As of December 31 2016
3. Capital components for calculation of capital ratio (on consolidated basis)		
A. Tier I capital		
Shareholders' equity	14,327	13,324
Differences between shareholder equity and Tier I capital	(169)	(91)
Total Tier I capital before regulatory adjustments and deductions	14,158	13,233
Regulatory adjustments and deductions:		
Goodwill	(87)	(87)
Regulatory adjustments and other deductions	(11)	(16)
Total supervisory adjustments and deductions, before adjustments with respect to the streamlining plan – Tier I capital	(98)	(103)
Total adjustments with respect to the streamlining program[(1)]	273	188
Total Tier I capital after regulatory adjustments and deductions	14,333	13,318
B. Tier II capital		
Tier II capital: Instruments, before deductions	3,821	3,491
Tier II capital: Provisions, before deductions	1,430	1,397
Total Tier II capital, before deductions	5,251	4,888
Deductions:		
Total deductions – Tier II capital	–	–
Total Tier II capital	5,251	4,888

4. Effect of transitional provisions on Tier I capital:

	As of December 31 2017	As of December 31 2016
Ratio of capital to risk elements		
Ratio of Tier I capital to risk elements, before effect of transition provision of Directive 299 and before effect of adjustments with respect to the streamlining plan[(1)]	9.92%	9.83%
Effect of transition provisions, before effect of adjustments with respect to the streamlining plan	0.06%	0.13%
Effect of adjustments with respect to the streamlining plan	0.22%	0.14%
Ratio of Tier I capital to risk elements before application of transitional provisions	10.20%	10.10%

(1) Of which, NIS 202 million is in respect of the streamlining plan with regard to employees and NIS 71 million in respect of the streamlining plan with regard to real estate (as of December 31, 2016: NIS 188 million in respect of the streamlining plan with regard to employees).

(2) Before effect of transitional provisions concerning adoption of US GAAP with regard to employee rights.

Note 25 – Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks – Continued

Reported amounts (NIS in millions)

B. Liquidity coverage ratio pursuant to directives of the Supervisor of Banks

Calculated in accordance with Proper Banking Conduct Directive 221 "Liquidity coverage ratio"

	As of December 31 2017 In %	As of December 31 2016 In %
1. Consolidated data		
Liquidity coverage ratio(1)	118	117
Minimum liquidity coverage ratio required by the Supervisor of Banks(2)	100	80
2. Bank data		
Liquidity coverage ratio(1)	118	117
Minimum liquidity coverage ratio required by the Supervisor of Banks(2)	100	80
3. Significant subsidiaries		
Bank Yahav for Government Employees Ltd. and subsidiaries thereof		
Liquidity coverage ratio(1)	260	286
Minimum liquidity coverage ratio required by the Supervisor of Banks(2)	100	100

(1) In terms of simple average of daily observations during the reported quarter.

(2) As from January 1, 2017, the minimum liquidity coverage ratio required by the Supervisor of Banks is 100%.

C. Leverage ratio pursuant to directives of the Supervisor of Banks

Calculated in conformity with Proper Banking Conduct Directive 218 "Leverage ratio"

	As of December 31 2017	As of December 31 2016
1. Consolidated data		
Tier I capital(1)	14,333	13,318
Total exposure	261,504	252,489

	As of December 31 2017 In %	As of December 31 2016 In %
Leverage ratio	5.48	5.27
Minimum leverage ratio required by the Supervisor of Banks(2)	5.00	5.00
2. Significant subsidiaries		
Bank Yahav for Government Employees Ltd. and subsidiaries thereof		
Leverage ratio	5.14	5.00
Minimum leverage ratio required by the Supervisor of Banks(2)	4.70	4.70

(1) For effect of transition provisions and effect of adjustments with respect to the streamlining program, see sections A.3, A.4 above.

(2) Banking corporations are required to achieve the minimum leverage ratio required by the Supervisor of Banks as from January 1, 2018.

Note 25 – Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks – Continued

D. On September 28, 2014, the Supervisor of Banks issued a circular updating Proper Banking Conduct Directive no. 329, as well as a Q&A file on this issue. The circular consists of two amendments to the directive:

- Increase to the capital target – the target Tier I capital to risk elements ratio is to include an addition equal to 1% of the housing loan portfolio balance. The equity targets would be increased by fixed quarterly steps from January 1, 2015 to January 1, 2017 (over eight quarters).
- Risk weighting of leveraged loans bearing variable interest – the risk weighting of leveraged loans bearing variable interest would be reduced from 100% to 75%.

This requirement was gradually implemented through January 1, 2017.

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 9.86% and 13.36%, respectively.

This target may change based on actual data for the housing loan portfolio and for total risk assets.

E. As from January 1, 2015, the Bank has adopted US GAAP with regard to employee rights.

In conformity with transition provisions specified in Proper Banking Conduct Directive 299, a cumulative other comprehensive loss balance and amounts directly charged to retained earnings as of January 1, 2013 with respect to remeasurement of net liabilities or net assets with respect to defined benefit to employees, would not be immediately taken into account for calculation of the capital requirements, but would rather be subject to transitional provisions, so that the impact would be applied at equal rates of 20% as from January 1, 2014, 40% as from January 1, 2015 and through to full application as from January 1, 2018.

F. 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 according to Basel rules 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 shall maintain a leverage ratio of 5% or higher on a consolidated basis, as from January 1, 2018. Banking corporations which comply with the requirement upon publication of the directive may not drop below the threshold stated in the regulation. Any banking corporation which does not meet the requirements of this directive is required to increase its leverage ratio at fixed quarterly steps by January 1, 2018.

G. On October 22, 2015, the Supervisor of Banks issued a circular concerning capital requirements with respect to exposure to central counter-parties (CCP). The circular includes an amendment to Proper Banking Conduct Directive 203 with regard to capital measurement and adequacy, in conformity with directives of the Basel Committee on this matter.

The directive stipulates rules for treatment of exposure to clearinghouses, arising from trading of OTC derivatives, from transactions in negotiable derivatives and from transactions for financing securities.

Below are highlights of the amended directive:

- A central counter-party has been defined as a clearinghouse operating as a financial broker between counter-parties to contracts traded on a financial market.

Note 25 – Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks – Continued

- The trading exposure of a bank which is a member of the clearinghouse to a qualified central counter-party (QCCP) would be weighted at a risk weighting of 2% (compared to zero exposure currently). The trading exposure of a bank which is a member of the clearinghouse, that makes transfers to the clearinghouse's risks fund would be weighted in conformity with a formula specified in the directive.
- The trading exposure of a bank which is a member of the clearinghouse to clients active on a stock exchange in Israel would be calculated based on the calculation method for bi-lateral transactions (compared to current calculation according to rules of the stock exchange in Israel).
- The trading exposure of a bank acting through a member of the clearinghouse would carry a risk weighting of 2% or 4%, subject to compliance with business, operational and legal conditions specified in the directive.
- The trading exposure of a bank to a Non-Qualified Central Counter-Party would carry a risk weighting as applicable to that counter-party.

On June 9, 2016, the Supervisor of Banks issued a letter, whereby the provisions of the circular would apply as from January 1, 2017 and whereby the Tel Aviv Stock Exchange may be treated as a Qualified Counter-Party through June 30, 2017, even prior to being deemed qualified.

On December 28, 2016, the Supervisor of Banks' issued a letter whereby, notwithstanding the foregoing, calculation of exposure with respect to clients with activities on the MAOF stock exchange would continue to be based on the scenario method.

On June 29, 2017, ISA issued a notice with regard to implementation of guidelines for international standards for financial market infrastructure by the stock exchange clearinghouses, in conformity with guidelines issued by the Bank of International Settlements (BIS) and by the International Organization of Securities Commissions (IOSCO).

Given the notice issued by ISA, on July 2, 2017 the Supervisor of Banks authorized classification of the Stock Exchange clearinghouse and of the MAOF clearinghouse as qualified central counter-parties for calculation of capital requirements with respect to exposure to central counter-parties.

The Bank is applying this directive.

H. In December 2015 and in January 2016, the Bank issued contingent subordinated notes (Contingent Convertibles – CoCo) with loss-absorption provisions through principal write-off, amounting to NIS 600 million.

In December 2017, the Bank issued to the public contingent subordinated notes (Contingent Convertibles – Coco) with loss-absorption provisions through principal write-off, amounting to NIS 679 million.

These notes qualify for recognition as Tier II equity pursuant to Basel III provisions.

The notes include loss-absorption provisions if the Bank's Tier I capital should drop below 5% or in case of another event leading to non-sustainability of the Bank, in conformity with the Supervisor of Banks' decision.

In such case, the notes would be partially or completely written off.

Should the Tier I capital ratio exceed the minimum required ratio, the Bank may announce a write-off of principal, in whole or in part.

In July 2016, Bank Yahav issued contingent subordinated notes (Contingent Convertibles – Coco) with loss-absorption provisions through principal write-off, amounting to NIS 218 million.

In August 2017, Bank Yahav issued additional contingent subordinated notes (CoCo) amounting to NIS 120 million.

These notes qualify for recognition as Tier II equity pursuant to Basel III provisions.

See section O. below for more information about further funding raised by Bank Yahav in August 2017.

Note 25 – Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks – Continued

I. On December 27, 2016, the Bank's Board of Directors approved the streamlining program recommended by Bank management, whereby early retirement would be possible for 300 employees in 2017-2021, at improved conditions.

Bank management is in negotiations with the Employee Union with regard to the retirement program and as a first step, has started implementation of the plan in the Technology Division Ltd., pending agreement with the Employee Union at the Bank.

The cost of update to the actuarial liability with respect to the streamlining program, recorded on the financial statements as of December 31, 2016, amounts to NIS 286 million; the cost net of tax, amounting to NIS 188 million, was charged to equity (under Other Comprehensive Income).

In conformity with the Supervisor of Banks' letter dated January 12, 2016, with regard to operating streamlining of the Israeli banking system, the Supervisor of Banks allowed capital relief with respect to this plan. The Bank applies this capital relief so that supervisory capital used to calculate capital adequacy would be adjusted (increased) and the capital effect of the streamlining (a decrease by 0.14%) would be applied on a straight line basis as from 2017, over a five-year period.

For more information on the streamlining program approved by the Bank Board of Directors on December 27, 2016, see Notes 22 and 25 to the 2016 financial statements.

J. 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 insurance policy covers 80% of the guarantees amounting to NIS 15.5 billion and is effective as from December 31, 2016.

Obtaining this insurance resulted in a reduction of NIS 3.3 billion in the Bank's risk assets and in an increase by 0.25% in the Bank's Tier I capital ratio.

In the fourth quarter of 2017, the Bank changed the composition of reinsurers, with new reinsurers having a higher international rating.

The change in composition of reinsurers in the portfolio of Sales Act guarantees resulted in an increase by 0.08% in the Bank's Tier I capital ratio as of December 31, 2017.

K. Relief with regard to capital adequacy with respect to implementation of a real estate streamlining plan.

On January 12, 2016, the Supervisor of Banks issued a letter with regard to streamlining operations of the banking system in Israel. According to this letter, the Board of Directors of the banking corporation should set a multi-year streamlining plan. A banking corporation which is compliant with conditions listed in the letter would receive relief, whereby they may allocate the effect of such plan over 5 years, in a straight line, for calculation of capital adequacy. As noted on the financial statements as of December 31, 2016, in Notes 22 and 25, the Bank implemented on December 27, 2016 a streamlining program with regard to early retirement of employees as well as allocation of capital relief, such that supervisory capital used to calculate capital adequacy would be adjusted (increased) and the effect of streamlining on capital would be attributed on a straight line as from 2017 over a 5-year period.

On June 13, 2017, the Supervisor of Banks issued another letter, encouraging banking institutions to review, in addition to streamlining of payroll expenses, the optional reduction of the cost of real estate and maintenance of headquarters units and management, including through re-evaluation of their geographic location.

According to this letter, the Supervisor of Banks would allow banking corporations to apply similar relief to the foregoing with regard to capital adequacy for implementation of a real estate streamlining program, subject to the following conditions:

- The plan includes relocation of the corporation's headquarters units and management.
- The plan is economically viable and expected to achieve long-term cost savings.
- The plan provides a response to current and expected needs of the banking corporation over the time frame of its strategic plan.

Note 25 – Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks – Continued

On June 19, 2017, the Bank’s Board of Directors approved a plan to relocate operations of Bank headquarters units to one central site in Lod and directed Bank management to take the required actions to this end. This is further to contracting the purchase of land in Lod Industrial Zone, adjacent to the existing building in Lod.

The plan, including planning, construction and relocation, should take several years.

On June 28, 2017, the Bank closed (through its subsidiary Netzivim Assets and Equipment Ltd.) the sale of its interest in the headquarters building in Ramat Gan and concurrently leased back the building for a period of 8 years (hereinafter: "the streamlining period"). The Bank may extend the lease for additional terms, so that the total lease term would not exceed 24 years.

On July 12, 2017, the Bank applied to the Supervisor of Banks for the capital relief.

In conformity with the requirements stated by the Supervisor of Banks in the letter, the Bank presented the following:

- Plan for relocation of headquarters units and management to Lod.
- Economic viability of the plan.
- Firm commitment to carry out the streamlining program.

As directed by the Supervisor of Banks, the capital gain would be recognized over the lease term, in conformity with existing US standards for sale and lease-back transactions (section 840-40-25-2 of topic 840-40 of the codification concerning "Sale and lease-back transactions"). On July 20, 2017, the Supervisor of Banks allowed the Bank to recognize the capital gain (of NIS 83 million) generated by sale of the headquarters building in Ramat Gan as regulatory capital. The capital relief is to be amortized over the term of the streamlining program.

L. On June 13, 2017, the Board of Directors of Bank Yahav approved streamlining measures, including a voluntary retirement program and reduction of real estate areas. Bank Yahav was granted approval for this program by the Supervisor of Banks, as required in the streamlining directive. Pursuant to the retirement program, early retirement of Bank Yahav employees would be authorized subject to criteria set forth in the program. The costs of actuarial liability with respect to the retirement program at Bank Yahav amounted to NIS 36 million before tax (NIS 23 million after tax). As directed by the Bank of Israel, supervisory capital used to calculate capital adequacy would be adjusted (increased) and the capital effect of the streamlining would be applied on a straight line basis over a five-year period.

M. For more information about the Bank's dividend distribution policy, see Note 24.B. – share capital and equity.

Note 26 – Contingent Liabilities and Special Commitments

Reported amounts (NIS in millions)

A. Off-balance sheet liability for activities based on extent of collection at year end[1]

1. Balance of loans from deposits based on extent of collection[2]

	As of December 31 2017	As of December 31 2016
Israeli currency – linked to the CPI	3,767	4,148
Israeli currency – non-linked	3,207	3,538
Foreign currency	139	169
Total	7,113	7,855

2. Cash flows with respect to collection commissions on activities based on extent of collection[2]

	As of December 31 2017 Up to 1 year	As of December 31 2017 Over 1 year to 3 years	As of December 31 2017 Over 3 years to 5 years	As of December 31 2017 Over 5 years to 10 years	As of December 31 2017 Over 10 years to 20 years	As of December 31 2017 Over 20 years	As of December 31 2017 Total	As of December 31 2016 Total
In the CPI-linked sector[3]								
Cash flows of futures contracts	34	60	41	52	15	2	204	248
Expected future cash flows net of management's estimate of early repayments	33	59	40	47	12	1	192	237
Discounted expected future flows net of management's estimate of early repayments[4]	33	58	37	42	10	1	181	216
In the non-linked NIS-denominated sector								
Cash flows of futures contracts	3	–	–	–	–	–	3	4
Expected future cash flows net of management's estimate of early repayments	3	–	–	–	–	–	3	2
Discounted expected future flows net of management's estimate of early repayments[4]	2	–	–	–	–	–	2	–

3. Information on loans extended by mortgage banks during the year

	2017	2016
Loans out of deposits according to extent of collection	229	98
Standing loans and grants	71	88

(1) Loans and deposits from deposits the repayment of which to the depositor is contingent upon collection of the loans (or deposits), with margin or with collection commission (instead of margin).

(2) Standing loans and Government deposits given with respect to them totaling NIS 1,369 million (2016 – NIS 1,606 million) are not included in this table.

(3) Includes foreign currency sector.

(4) Discounted at the rate of 1.54% (2016 – 2.10%).

Note 26 – Contingent Liabilities and Special Commitments – continued

As of December 31

Reported amounts (NIS in millions)

B. Other liabilities and special commitments

	2017	2016
Obligations with respect to:		
Long-term leases[(1)(2)]	2,512	2,401
Computerization and software service contracts	240	233
Acquisition and renovation of buildings	5	6

(1) The Bank and subsidiaries have long-term leases on buildings, equipment and software for which the rental payments are as follows (subject to linkage conditions):

	2017	2016
First year	179	162
Second year	179	155
Third year	174	153
Fourth year	168	145
Fifth year	167	143
Sixth year and thereafter	1,645	1,643
Total	2,512	2,401

(2) 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.

C. Contingent liabilities and other special commitments

1) In accordance with a resolution of the Board of Directors of the Tel Aviv Stock Exchange (“TASE”), a risk fund was established, which totaled NIS 779 million as of December 31, 2017. The Bank's share of the fund as of December 31, 2017 is estimated at NIS 49 million (as of December 31, 2016 – NIS 45 million). The size of the risk fund is updated semi-annually based on the average daily total clearing volume – but no less than NIS 150 million. Each member’s share in the risk fund will be determined by a ratio between the member’s clearing volume and the total clearing volume of all members (except for the Bank of Israel) during that period, but no less than NIS 500 thousand.

   In accordance with a decision by the stock exchange clearinghouse Board of Directors, starting on December 15, 2008 each member of the clearing house deposits in cash at least 25% of their share in the risk fund.

   On October 31, 2016, the Board of Directors of the Stock Exchange resolved to approve opening of an account with the Bank of Israel for deposit of collateral provided by members of the stock exchange clearing house (as stated above), which have been deposited with other commercial banks through the account opening date.

   See Note 27.A regarding liens that the Bank has undertaken to furnish for this liability. to the financial statements.

Note 26 – Contingent Liabilities and Special Commitments – continued

2) The Bank has undertaken toward the MAOF Clearinghouse Ltd., a subsidiary of the TASE (hereinafter: "MAOF Clearinghouse"), to pay any monetary charge deriving from transactions in derivatives traded on the TASE, executed through it by its customers, and from such transactions executed by several members of the TASE that are not members of the MAOF Clearinghouse, for their customers.

   The amount of the liability for these customers, as of the balance sheet date, amounts to NIS 294 million (as of December 31, 2016 – NIS 168 million).

   Likewise, the Bank has undertaken to refund its share in the risk fund of the MAOF Clearinghouse, which totaled NIS 896 million as of December 31, 2017. The Bank's share of the fund as of December 31, 2017 is estimated at NIS 39 million (as of December 31, 2016 – NIS 53 million).

   In accordance with a decision by the MAOF clearinghouse Board of Directors, starting on December 15, 2008 each member of the clearing house deposits in cash at least 25% of their share in the risk fund.

   On October 30, 2016, the Board of Directors of the MAOF clearing house resolved to approve opening of an account with the Bank of Israel for deposit of collateral provided by members of the MAOF clearing house (as set forth above), which have been deposited with other commercial banks through the account opening date.

   For information regarding charges that the Bank undertook to furnish with respect to these liabilities, see Note 27.B. to the financial statements.

3) The Bank has made undertakings to the Tel Aviv Stock Exchange (hereinafter: "TASE") for operations of a company which is a member of the stock exchange but not a member of the clearinghouse. The undertaking is to honor any monetary charge arising from transactions executed by that company.

4) In 1992, a General Meeting of the Bank's shareholders ratified a resolution to indemnify officers of the Bank with the following wording:

– The Bank will indemnify in full each of the officers for financial liabilities and legal expenses incurred for actions, acts, and omissions performed within the framework stipulated in the Companies Ordinance and the Bank's by-laws, and subject to the above provisions.
– These officers will be indemnified whether the claim is brought against them during their employment period at the Bank, or whether subsequently and refers to an act performed in their capacity as officers.

   There are differing legal opinions regarding a company's authority to approve such broad indemnification, and whether invoking it in a specific case requires additional approval, in a manner stipulated by law. Should the Bank be required to pay any amounts on the basis of the above decision, it will seek advice from its legal counsel regarding its obligation, taking into consideration the specific and special circumstances of each incident, if applicable.

5) In December 2001, a General Meeting of the Bank's shareholders ratified the granting an advance exemption from liability (as described below) as well as advance commitment by the Bank to indemnify Board members and other officers (hereinafter jointly: "the officers"). Pursuant to the resolution by the General Meeting of shareholders, the Bank exempts in advance any liability by officers of the Bank towards the Bank with respect to any damage incurred by the Bank due to breach of the officer's duty of care towards the Bank in the officer's conduct, arising from his position as officer of the Bank. Committed to indemnify officers of the Bank for any liability or expense incurred by the officer in conjunction with his action in the course of their office, all as stated in the letter of commitment to indemnify, including with regard to actions by officers who are not Board members in conjunction with their action as Board member on behalf of the Bank, or at the Bank's request, of another company whose shares are owned by the Bank (hereinafter: "the original letter of indemnification").

   According to the original letter of indemnification, the amount if indemnification paid by the Bank to all officers on aggregate shall not exceed 25% of the Bank's shareholder equity on the Bank's 2000 financial statements, adjusted for the CPI as from December 2000 (hereinafter: ("total indemnification amount). This indemnification applies to action related, directly or indirectly, to one or more of the event types listed in the Addendum to the letter of commitment to indemnify.

On October 28, 2004, the General Meeting of Bank shareholders resolved to add to the list of events for which the Bank granted a commitment to indemnify to its officers, pursuant to the original letter of indemnification, a merger event, as defined in the Companies Law, including any decision, action or reporting with regard to a merger. It was resolved that in all that relates to indemnification resulting from a merger event, the maximum amount of the indemnification will be the lesser of: 25% of the Bank's shareholders' equity according to its financial statements as of December 31, 2000, plus linkage differentials beginning from the CPI for December 2000, or 25% of the Bank's shareholders' equity according to the last financial statements published in proximity to the actual payment date with respect to the indemnification.

On May 14, 2006, the General Meeting of Bank shareholders resolved to adapt the wording of the letter of indemnification to the provisions of the Companies Law (Amendment 3), 2005 and resolved to grant advance commitment to indemnify, of identical wording, to Bank employees serving as Board member on a company in which the Bank owns some shares, and to those serving, from time to time at the Bank's request, as Board member on a company controlled by the Bank.

On November 9, 2011, the General Meeting of Bank shareholders resolved to add a commitment by the Bank to indemnify Bank employees who are not officers of the Bank, who serve from time to time, upon request by the Bank, as officers of companies controlled by the Bank (such a resolution was also passed by the Bank's Board of Directors on February 16, 2009 – resolving to provide a letter of indemnification identical to the one granted to Bank officers), and to those who are not employees or officers of the Bank, who serve from time to time as officers of a company, other than a banking corporation, wholly-owned by the Bank (jointly: "the parties eligible for indemnification").

The General Assembly of Bank shareholders further decided to add a commitment by the Bank to indemnify the parties eligible for indemnification for any monetary liability arising from payment to any party injured by the breach and with respect to expenses related to any administrative proceeding, including reasonable litigation expenses – all as specified in the ISA Enforcement Proceeding Streamlining Act (Legislative Amendments), 2011.

The General Assembly of Bank shareholders also resolved that the maximum indemnification amount payable by the Bank, on aggregate to all those eligible for indemnification pursuant to the letter of commitment to indemnify, shall not exceed 25% of the Bank's shareholders equity, based on its most recent financial statements published soon prior to the actual payment date of the indemnification amount ("maximum indemnification amount"). Should the total indemnification amount exceed the maximum indemnification amount specified above, the maximum amount payable by the Bank on aggregate to all those eligible for indemnification shall not exceed the total indemnification amount, but the differences between these two amounts would only be used for indemnification with respect to action taken before November 9, 2011.

On September 20, 2012, the General Assembly of Bank shareholders further decided to add a commitment by the Bank to indemnify the parties eligible for indemnification for any monetary liability arising from payment to any party injured by the breach and with respect to expenses related to any administrative proceeding, including reasonable litigation expenses – all as specified in the ISA Enforcement Proceeding Streamlining Act (Legislative Amendments), 1981 and in the Financial Services Supervision Act (Provident Funds), 2005 and with respect to expenses related to any administrative proceeding, including reasonable litigation expenses – all as specified in the Restrictive Trade Practices Act, 1988.

The General Assembly of Bank shareholders further decided to add a commitment by the Bank to indemnify the parties eligible for indemnification for any monetary liability arising from payment to any party injured by the breach or similar, pursuant to any other statute, including reasonable litigation expenses, including attorneys' fees, with regard to any administrative proceeding pursuant to any other statute, provided that such indemnification is not prohibited by law.

On December 23, 2015, the General Assembly of Bank shareholders resolved to reduce the liability exemption for officers, so that it would not apply to any breach of duty of care after the approval date by the General Assembly of Bank shareholders, when making a decision or approving a transaction in which the controlling shareholder of the Bank or any officer of the Bank (including another officer, other than the officer who received the waiver) has a personal interest.

Note 26 – Contingent Liabilities and Special Commitments – continued

The General Assembly of Bank shareholders also resolved to add clarifications, details and elaboration to the events listed in the addendum to the letter of commitment to indemnify, according to events which the Board of Directors considers to be likely in view of actual Bank operations. The General Assembly of Bank shareholders further resolved to amend the letter of commitment to indemnify with regard to obtaining indemnification from an insurer or from a third party, so that the indemnification cap equal to the difference between the liabilities imposed on the officer or on the employee and/or legal expenses incurred by or charged to them, would also apply if the officer or employee would be reimbursed by any third party or by any third party's insurer who provided indemnification to the officer or employee for the same matter. It was further resolved that if the liability or legal expenses would not be actually covered in a timely manner by the insurer or by the third party, the Bank would indemnify the officer or employee for such liability and/or legal expenses – provided that the officer or employee would assign to the Bank their rights vis-a-vis the insurer or third party, so that the Bank would replace them vis-a-vis the insurer or third party.

6) In May 1998, General Assemblies of the shareholders of the Bank and of Bank Tefahot ratified an undertaking to indemnify officers, which had previously been approved by their Audit Committees and Boards of Directors as follows:

The Bank and Bank Tefahot will irrevocably indemnify any of their officers for any action taken in their capacity as officers, in connection with the causes of action listed below, and for any financial obligation to be imposed by a court judgment, including a compromise, or arbitrator's decision that is subsequently approved by a court, and also for any reasonable legal expenses for which they may be indemnified in accordance with provisions of the Companies Ordinance.

The indemnification will be made for all the officers on a cumulative basis, up to a sum not to exceed – for each bank separately – NIS 750 million (linked to the CPI of March 1998), for any financial liability that the officer incurs as a result of an action that he took that is directly or indirectly connected to the prospectus published in 1998, or to the draft prospectus that was filed in that year, in connection with the offer of sale of the Bank's securities by the State, including in connection with the reports submitted by the banks subsequent to the date of the prospectus regarding any matter that occurred before the date of the prospectus.

Furthermore, the total cumulative amount of indemnification to be paid for all officers for any action or matter related to the insurance of borrowers by mortgage banks mentioned in the above prospectus included in the letter of indemnification – by each bank separately – will not exceed NIS 750 million (linked to the CPI of March 1998).

The letters of undertaking for indemnification stipulated further that, notwithstanding the aforesaid, the total cumulative amount of indemnification to be paid for all the officers with regard to all the causes of action included in the letter of indemnification – by each bank separately – will be limited to NIS 1,000 million (linked to the CPI of March 1998).

Under terms and conditions of the merger of Bank Tefahot into the Bank, the Bank assumed this commitment.

7) In November 2001, approval was given by General Assemblies of the shareholders of Bank Tefahot and of a wholly-owned and controlled subsidiary of Bank Tefahot (hereinafter: "Tefahot Issuance"), in connection with the prospectus for issuance of debentures and subordinated notes of Bank Tefahot from November 2001, that Tefahot Issuance irrevocably undertakes to indemnify all of its officers, for any action taken in connection with matters detailed in the letter of indemnity, by virtue of his being an officer ("indemnification").

The indemnification will be given for any financial debt, if imposed by a judgment, including a judgment issued in a compromise or arbitration that was approved by a court, and with respect to any reasonable legal expenses (including fees to attorneys and other experts), which may be indemnified in accordance with the provisions of the Companies Law, all up to a limit of NIS 1 billion, linked to the CPI.

Bank Tefahot undertook vis-à-vis Tefahot Issuance that, should it be unable to fulfill its obligations to the indemnity recipients, or any one of them, Bank Tefahot would pay to Tefahot Issuance any amount that Tefahot Issuance will be found liable to indemnify, beyond the amounts paid by Tefahot Issuance.

Under terms and conditions of the merger of Bank Tefahot into the Bank, the Bank assumed this commitment.

8) In October 2002, the Board of directors of Bank Tefahot, following the approval of the Audit Committee, approved the bestowing of an advance undertaking for indemnification of directors and other officers of Bank Tefahot (together – "the officers"). Accordingly, Bank Tefahot undertakes, subject to the conditions detailed in the letter of undertaking and to the provisions of the Companies Law, to indemnify the officers for any liabilities or expenses imposed on the officer due to his capacity as an officer in Bank Tefahot, provided that these activities are related, directly or indirectly, to one or more of the events listed in the addendum to the letter of undertaking the indemnification.

   The cumulative amount of the indemnification to be paid by Bank Tefahot to all the officers will not exceed 25% of the shareholders' equity of Bank Tefahot according to its annual financial statements for 2001, adjusted for the CPI, beginning from December 2001, or 25% of the shareholders' equity of Bank Tefahot according to the latest financial statements published as of the actual payment date of the indemnification, whichever is lower.

   In November 2002, a General Meeting of the shareholders of Bank Tefahot ratified this resolution.

   Under terms and conditions of the merger of Bank Tefahot into the Bank, the Bank assumed this commitment.

9) On June 30, 1998, an extraordinary general meeting of Bank Adanim, following approval by its Board of Directors and approval of its Audit Committee, ratified an undertaking to indemnify ("indemnification letter") for officers in Bank Adanim. The indemnification letter will apply to officers, as defined in Section 96(24) of the Companies Ordinance, who, on the approval date of the indemnification by the General Meeting ("date of record"), are serving in Bank Adanim or whose tenure ended in a period not earlier than 4 years from the date of record.

   Pursuant to the indemnification letter, Bank Adanim will indemnify any officers in Bank Adanim for any financial liabilities imposed on them by a ruling, including legal expenses, for an act or omission done directly or indirectly in the matters itemized in the letter of indemnification, namely the offer of sale to the public of securities of Mizrahi Tefahot by the State, pursuant to a prospectus published in May 1998.

   Pursuant to the indemnification letter, the amount of the indemnification to be paid by Bank Adanim (in addition to the amounts to be received according to the officers' insurance policies as detailed below) to all officers, on a cumulative basis will not exceed NIS 70 million, with the amount linked to the last CPI published before the date of record until the CPI published before the date of payment.

   Bank Adanim will take action, to the extent possible, so that during the 10-year period beginning on the date of record, an officers' insurance policies will be purchased by or for Bank Adanim, which will cover the matters covered by the indemnification, the amount of which, including restitution/reinstatement will not be lower than the aforementioned amounts.

   On December 16, 2002, a General Meeting of Bank Adanim, following approval by the Audit Committee and ratification by its Board of Directors, ratified the letter of indemnification undertaking ("indemnification letter") for officers in Bank Adanim. The indemnification letter will apply to officers, as defined in Section 1 of the Companies Law, 1999, who, on the approval date of the indemnification letter by the general meeting ("date of record") serve in Bank Adanim. Pursuant to the indemnification letter, Bank Adanim will indemnify all of the officers in Bank Adanim for all the financial liabilities to be imposed on them by a ruling, including legal expenses, relating to an act or omission done directly or indirectly in matters listed in the indemnification letter, up to the indemnification amounts.

Note 26 – Contingent Liabilities and Special Commitments – continued

The indemnification amounts to be paid by Bank Adanim for each officer, on a cumulative basis, for one or more of the types of events provided in the addendum to the letter of undertaking, shall not exceed 25% of the shareholders' equity of Bank Adanim according to its financial statements for the year 2001, adjusted from time to time, according to the rate of increase in the CPI compared with the CPI for December 2001 that was published in January 2002 ("total indemnification amount). In the event the officer will receive indemnification from the insurer of the officers' insurance policies for the matter covered by the indemnification, the indemnification will be provided by Bank Adanim in the amount of the difference between the amount of financial liabilities imposed on the officer and/or legal expenses incurred by or charged to the officer, and between the amount received from the insurer on this matter, provided that the amount of indemnification for which Bank Adanim will be charged will not exceed the total indemnification amount.

Beginning December 2002, Bank Adanim was one of the insured parties in the officers' insurance policies purchased by the Bank for itself and its subsidiaries and related companies, which is in effect until April 5, 2007.

Under terms and conditions of the merger of Bank Adanim into the Bank, the Bank assumed this commitment.

10) 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 significant claims, including motions for approval of class action status and claims in which the amount claimed (excluding interest and fees) exceeds 1% of Bank equity attributable to equity holders of the Bank:

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.

Note 26 – Contingent Liabilities and Special Commitments – continued

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 there after, 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 its approval. A resolution is still pending.

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 in section C. below 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 there after, 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 and a resolution has yet to be handed down.

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 September 25, 2017, the Supreme Court postponed the appeal hearing to March 14, 2018.

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).

Note 26 – Contingent Liabilities and Special Commitments – continued

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. In February 2017, the banks filed a motion to reject the response summations. On February 23, the Court resolved that this motion would be addressed as part of the resolution on the motion for class action status, which has yet to be resolved.

F) In March 2014, a claim and motion for class action status were filed with the Central District Court against the Bank, alleging unlawful charging of warning letter commission and excessive interest charged for exceeding the authorized limit on accounts, allegedly in breach of Proper Banking Conduct Directive 325 concerning "management of credit facility in checking account". The plaintiff claims that this directive is breached, *inter alia*, by the Bank allowing charges to clients which the Bank could and should have rejected, since the Bank may not allow clients to exceed their credit facility – thereby causing them to exceed their credit facility.

The plaintiff claims to be unable to estimate the damage caused to potential class members, but believes this amounts to hundreds of millions of NIS.

The Bank filed its response to the motion in October 2014. On March 10, 2015, the plaintiff filed their response to the Bank's response to the motion. A common pre-trial hearing for the three motions filed against the Bank, Bank Leumi and Discount Bank – against which claims were filed citing similar causes – took place on March 26, 2015. On November 2, the Bank filed its motion to reject parts of the plaintiff's response to the Bank's response. The plaintiff has yet to file its response. On April 18, 2016, another preliminary hearing took place; according to the Court decision, the plaintiffs were granted an extension to file their response to the motion by the Bank to dismiss part of the plaintiff's response to the Bank's response. On October 27, 2016, another pre-trial hearing took place to discuss motions by the banks to dismiss sections in the plaintiffs' response to the banks' response to the motion; another pre-trial hearing took place on April 18, 2016.

On October 27, 2016, a pre-trial hearing took place to discuss motions by the banks to dismiss sections in the plaintiffs' response to the banks' response to the motion; an evidentiary hearing is scheduled for May 4, 2017. Concurrently, the parties are negotiating an agreed withdrawal settlement. On May 1, 2017, the parties filed a motion to withdraw by agreement. On May 14, 2017, the Court issued a verdict confirming the plaintiff's withdrawal of the motion.

Note 26 – Contingent Liabilities and Special Commitments – continued

G) In August 2014, a counter-claim was filed with the Supreme Court in New York by a plaintiff who is subject to debt collection proceedings concerning his guarantee to secure credit obtained by a company controlled there by. The plaintiff claims it has sustained damage in excess of USD 57 million due to a breach of verbal commitment made by the Bank to the plaintiff not to enforce his personal guarantee. The plaintiff claims that deeds and omissions by the Bank have resulted in failure to meet his various obligations and in destruction of his business. In March 2015, the Bank filed a motion to dismiss. The plaintiff filed its response in May 2015. On July 10, 2015, the Bank filed its response to the plaintiff's claim and to the motion to dismiss.

On July 31, 2015, a hearing of the motion to dismiss took place. On December 14, the Court rejected the plaintiff's claim with regard to alleged Bank omissions – but left in place the cause of claim with regard to verbal termination of their guarantee.

The Bank filed its response to the plaintiff's claim on February 11, 2016 and document discovery is now under way.

On August 18, 2016, the Bank filed an appeal of the Court resolution to partially dismiss the motion to dismiss filed by the Bank, with regard to the plaintiff's claim that the Bank has verbally approved the termination of their guarantee; on November 11, 2016, the plaintiff filed their response to the appeal. In December, the Bank filed its response to the plaintiff's response. A resolution is still pending.

On April 21, 2017, the parties signed an agreement which, *inter alia*, withdrew the claim filed against the Bank.

H) 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. The plaintiff filed their response summation on January 31, 2017. A verdict has been issued, whereby the motion for approval was partially accepted. Dates have been scheduled for filing the claim and response. A pre-trial hearing is scheduled for May 29, 2018.

I) In March 2015, a claim and motion for class action status was filed with the District Court in Tel Aviv against the Bank, its President, Board members and controlling shareholders, with regard to damage allegedly caused to the plaintiff and to class members due to the alleged breach of mandatory disclosure of material information to investors.

The plaintiff alleges that the defendants have allegedly acted in contravention of the Securities Act, 1968 and relevant regulations, by failing to disclose on the Bank's financial statements that a provision has been made with respect to an investigation against the Bank in the USA, the nature and amounts of such provisions and the fact that the Supervisor of Banks has required the Bank to make provisions on the Bank's financial statements with regard to exposure to investigation by authorities in the USA.

The plaintiff claims that – due to the requirement by the Supervisor of Banks – the Bank made provisions amounting to tens of millions of NIS on its financial statements for the second and third quarters of 2014, classified under "Other expenses".

Note 26 – Contingent Liabilities and Special Commitments – continued

The plaintiff claims that, based on information in the aforementioned financial statements, tens of thousands of investors have bought Bank shares without having the aforementioned material information. The plaintiff also claims that the price at which class members purchased those Bank shares was higher than the price they would have paid for the shares, had the proper disclosure been made.

No specific amount was specified in the statement of claim. However, the plaintiff referred to the mechanism for calculation of damage whereby, on the date when the alleged deception was made public, the Bank share under-performed the Bank Share Index by 2.19% (excluding Bank HaPoalim and Bank Mizrahi Tefahot).

The plaintiff wishes to specify, in conformity with the Class Action Lawsuit Act, that the lawsuit would be filed on behalf of "anyone who bought shares of Bank Mizrahi-Tefahot Ltd. from the publication date of the financial statements for the second quarter of 2014 (August 13, 2014) and held the shares on February 26, 2015".

The response by the Bank and other defendants was filed on November 19, 2015; discovery proceedings have been completed. On August 3, 2016, the Court approved the consent by the parties to dismiss the controlling shareholders of the Bank from the motion. The plaintiff's filed their response to the response by the Bank and other defendants to the motion on September 11, 2016; on October 9, 2016, the defendants filed a motion to dismiss the plaintiffs' response claiming, *inter alia*, a broader scope. The plaintiff also filed a motion to call the Supervisor of Banks in the relevant period to testify on the motion. The Bank filed its response to the motion on November 2, 2016.

On January 3, 2017, a resolution was given by the Court, whereby the Bank and other defendants may file their response to the plaintiff's response to the defendants' response to the motion. The Court also rules that on the date to be set for hearing of the actual motion, the then Supervisor of Banks would be invited.

On March 1, 2017, the Bank and the other defendants filed their response to the previous responses. On April 23, 2017, evidentiary hearings were scheduled for June 11, 2017.

In June 2017, evidentiary hearings took place, including testimony from the then Supervisor of Banks on the relevant dates; deadlines were set for the parties to file their summations. Consequently, the plaintiff filed their summation on August 30, 2017.

On September 1, 2017, a mutually-agreed application was submitted to the Court, to reject the request for approval with no expenses awarded. As resolved by the Court, the detailed arrangement reached by the parties was published and as no objections to this arrangement have been filed, on January 3, 2018 a verdict was issued which rejected the motion for approval.

See also section 12 with regard to inquiry by the US Department of Justice concerning Bank Group business with its US clients.

J) 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 are in negotiations to reach an agreement.

K) 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 there to 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.

L) In February 2016, a claim and application for class action status was filed with the Tel Aviv District Court against the Bank and against Bank HaPoalim Ltd., Bank Leumi Le-Israel Ltd., Bank Discount Le-Israel Ltd. and First International Bank of Israel Ltd. (hereinafter: "the defendants"). The plaintiff set the claim amount for all defendant Banks, jointly and severally, at NIS 219 million. The motion concerns alleged discrimination in providing service to student groups by age, allegedly in violation of the Prohibition of Discrimination in Products, Services and in Access to Entertainment Venues and to Public Venues Act, 2000 (hereinafter: "the Non-Discrimination Act") and the Banking Act (Customer Service), 1981 (hereinafter: "the Banking Act").

According to the plaintiffs, this is a general policy of all defendants, which seeks to exclude the "non-young" population from student benefit plans and/or from being able to open an account with the terms and conditions of a student account, by setting an age cap for receiving student benefits.

The plaintiff asks, in conformity with the Class Actions Law, for the claim to be filed on behalf of all students discriminated against due to their age, by comparison to younger students, who were precluded from receiving student benefits from the defendants in the past seven years (for causes pursuant to the Banking Act (Customer Service), 1981 or as from July 15, 2014 (pursuant to the amendment to the Non-Discrimination Act). The Bank filed its response to the motion on September 13, 2016 and the plaintiff has filed their response to this response. On October 27, 2016, the plaintiff filed its response to the Bank's response to the motion. On January 25, 2017, a preliminary hearing was held on the motion for approval. An evidentiary hearing set for September 2017 was canceled after the parties concluded a written agreement. The plaintiff's summation was filed on October 26, 2017 and the Bank's summation was filed on December 21, 2017. The plaintiff filed their response summation, including a motion for removal of annexes enclosed with the banks' summations. The banks filed their response to this motion on January 9, 2018. A resolution is still pending.

M) 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. As directed by the Supreme Court, a motion was filed to consolidate the hearing of the motions for approval to the District Court. On January 21, 2018 the motion for consolidation was heard. A resolution is still pending.

N) In August 2016, a motion for class action status filed with the Tel Aviv-Yafo District Court, against the Bank and 9 other banks, alleging unlawful over-charging of fees to clients not classified as individuals or small businesses, in breach of the Bank's duties in its relations with clients.

The plaintiffs claim that the defendant banks charge any clients not classified as individuals or small businesses, fees not listed in the binding statutory price list, in conformity with the Banking Act (Customer Service), 1981 or in amounts higher than specified there in, allegedly in violation of the Act. The plaintiff claim that upon filing the motion, they are unable to demonstrate the exact size of the class or of the damage. However, they set the total damage incurred by the class at an estimated NIS 1 billion or higher, against all defendant banks together.

On March 19, 2017, the banks filed a motion, asking the Court to order the plaintiff to deposit a bond and to grant an extension for filing the response to the motion for class action status, which was accepted. A motion to appeal the resolution has been filed and was rejected by the Supreme Court ruling of October 2, 2017; the date for depositing a guarantee to secure the respondents' expenses, was set for November 2, 2017.

The deposit was not made by the plaintiff by the deadline specified in the Supreme Court resolution. Therefore, on November 5, 2017, the respondent banks filed a motion to reject the motion for approval, and on November 7, 2017, the Court ordered the motion for approval to be rejected.

O) 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 their 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.

P) 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 February 4, 2015, 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. Another pre-trial hearing is scheduled on May 27, 2018.

Q) In February 2017, a motion for class action status was filed against Bank Yahav with the Central District Court. The plaintiff claims that Bank Yahav's transition to a new core system caused its clients to incur damage due to impact to service levels in various service channels which, allegedly, left the clients unable to conduct transactions in their accounts.

The plaintiff estimates damages to each class member at NIS 1,000 or higher and has set the claim amount at NIS 370 million (based on 370,000 Bank Yahav clients).

On August 21, 2017, Bank Yahav filed its response to the request for approval. On September 24, 2017 a verdict was issued, confirming the plaintiff's withdrawal of their claim and the motion for class action status rejected.

For all claims against the Bank Group in individual amounts over NIS 2 million, excluding claims listed in section 10 above, there is additional, non-remote exposure for which no provision was made, amounting to NIS 68 million.

11. 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.

Note 26 – Contingent Liabilities and Special Commitments – continued

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 said 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 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 inquiry 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, the 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 inquiry by the US DOJ.

On December 26, 2017, the Court orderd the parties to inform the Court, no later than April 1, 2018, where they stand on the matter and on continued hearing of the claim.

See also section 12 with regard to inquiry by the US Department of Justice concerning Bank Group business with its US clients.

Note 26 – Contingent Liabilities and Special Commitments – continued

B) InNovember 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.

C) 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.

D) 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 has yet to file its response.

12) In 2011, authorities in the USA and in Switzerland have been negotiating the tax treaty between these countries. As requested by Swiss authorities, several Swiss banks, including Mizrahi Bank Switzerland, have provided, as from September 2011, to Swiss authorities quantitative data as requested about their business with US clients, to be provided to US authorities.
In a letter dated August 2013, Mizrahi Bank Switzerland was informed by the US Department of Justice that an investigation of its business has been launched. The letter did not indicate the suspicions which led to the launch of this investigation. This notice means that Mizrahi Bank Switzerland is not in Category 2, which qualifies for a Non-Prosecution Agreement pursuant to the US DOJ program for Swiss banks ("the Swiss program"). The financial implications of the Swiss program for Category 2 banks are determined based on the amount of assets held by US citizens and residents and the dates of such holdings. Although the Swiss program does not apply to Mizrahi Bank Switzerland due to the aforementioned letter, the bank has expressed its willingness to cooperate with and to assist the US Department of Justice in conformity with the Swiss program and has provided the requested quantitative data, as noted.
In addition to the foregoing, in August 2013 the Bank was informed that the US DOJ continued to review loans extended to clients by the Los Angeles branch against collateral provided in the form of monetary deposits in Israel. Thereafter, the Bank has provided to the US DOJ quantitative data about such back-to-back transactions.
On April 14, 2014, the Bank branch in Los Angeles received a subpoena, demanding it to produce documents related to a Bank employee and to a Bank employee who retired five years ago, as well as to banking services provided at the Los Angeles branch, provided that such documents are available at the Bank branch in Los Angeles. The branch has provided the required documents.

On April 30, 2014, an indictment was filed with the Court in Los Angeles against the former Bank employee in Los Angeles who has retired; the indictment alleges , *inter alia*, that the employee aided US clients of the Bank to avoid tax payment. The Bank is not named on the indictment, no violation is attributed to the Bank, referred to exclusively as "Bank A of Tel Aviv". On September 19, 2014, the Bank was required by US DOJ to provide documents and quantitative information with regard to this indictment. On October 31, 2014, the retired Bank employee was acquitted by a jury of all charges.

In June 2014, the Bank was first informed of expansion of the US DOJ investigation, which would apply to all inter-state activities of the Bank Group with its US clients, including the aforementioned back-to-back transactions.

In a letter dated July 25, 2014, the US DOJ required the Bank to provide data and information with regard to a wide range of issues concerning inter-state transactions with US clients of the Bank Group, including quantitative data with regard to accounts of US clients for the period from January 1, 2002 to the letter date ("the effective period"); internal and external communications by electronic messages; operations and marketing, compliance, employee training, remuneration, policy documents and procedures; internal audit and external audit reports with regard to Bank Group operations with its US clients and a long list of other documents and data as listed in the aforementioned letter.

In order to collect the information and data thus required by the US DOJ, the Bank engaged, in August 2014, the services of external experts for data research and validation and the services of legal counsel in the USA, who joined the Bank Group's team of legal counsel (in Israel and in the USA) and in the first quarter of 2015, this team was expanded with additional legal counsel.

In a letter dated November 25, 2014 to the US Department of Justice, the advisors handling this issue on behalf of the Bank together with the external experts, provided a preliminary detailed description of the mapping process of available computer-based information at the Bank Group (in Israel, Switzerland, London and Los Angeles) with regard to accounts of US clients and of electronic messages, following visits to various Bank Group sites and on discussions with Bank Group officers, in order to assess the scope and complexity of the information and data required by the US DOJ.

In the aforementioned letter, the external experts estimated the schedules required for review of computer-based information with regard to the Bank Group's US clients, for analysis of this information based on specified criteria and for validation of their findings. According to the preliminary estimate provided by the external experts, the required quantitative data should have been ready for delivery to the US DOJ by April 30, 2015, subject to conditions, assumptions and reservations listed by these experts.

In December 2014, agreements signed with an Israeli bank subject to an investigation were made public – including a Deferred Prosecution Agreement with the US DOJ. The aforementioned report also noted that a banking subsidiary of said bank in Switzerland was made subject to the Swiss program. The Bank maintains that the conduct of other banks, the structure of their inter-state operations and individual agreements by those banks should not be used in comparison to the Bank Group, including with regard to a potential arrangement between the Bank Group and the US DOJ.

Nevertheless, the Supervisor of Banks, after reviewing the circumstances and for reasons of accounting conservatism, directed the Bank to accrue a provision with respect to issues related to the aforementioned events and later on instructed the Bank to disclose the same on its 2014 annual report. Consequently, while the Bank Group fully retains its rights and claims, the Bank's 2014 financial statements include a provision amounting to NIS 95 million, estimated based on a calculation founded on a theoretical assumption, as directed by the Supervisor of Banks, whereby Mizrahi Bank Switzerland would be included in the Swiss program, although the bank was informed that this program does not apply there to and based on the Bank's understanding of the implications of the Swiss program.

Note 26 – Contingent Liabilities and Special Commitments – continued

In conformity with ISA requirement, a Note to the 2014 annual financial statements includes additional detailed explanations as well as details of provisions made in 2014, although the Bank maintains that these provision amounts are not material.

In 2015, the Bank continued to intensively create a computer-based information repository to include the quantitative information about US clients, as required by the US DOJ. Accordingly, the external experts have revised the schedule for delivery of the quantitative data to the US DOJ, as noted above, to March 15, 2016.

Other than the content of the letter dated July 25, 2014, the US DOJ, in another letter dated November 4, 2015, gave instructions designed to clarify, focus the required documents and data in conjunction with the Bank Group's co-operation with regard to the investigation concerning its business with its US clients.

Validation of the quantitative data in the repository with regard to business with US clients throughout the Bank Group was completed in the first quarter of 2016.

On February 8, 2016, the Bank provided to the US DOJ the requested quantitative information with regard to closed accounts of US clients at Bank branches in Israel and on March 14, 2016, the Bank delivered to the US DOJ the quantitative data with regard to balances of its US clients in Israel. On May 27, 2016, the Bank also delivered to the US DOJ additional quantitative information requested by the US DOJ in December 2015.

The process of collecting electronic messages with regard to activity of US clients at the Bank Group has been completed and some of these have been provided for review by the US DOJ in coordination there with.

According to the letters, the Court order and additional discussions, the Bank should provide additional information and documents. These have been provided, including in meetings with representatives of the US DOJ, who also indicated actions which the Bank should take in order for the investigation to be concluded. This is part of the constant contact of the Bank and of Mizrahi Bank Switzerland with the US DOJ, in order to reach a comprehensive outline for the entire Bank Group with regard to this investigation.

In early May 2017, another meeting took place with representatives of the US DOJ, where a summary of data and highlights of information provided by the Bank to the US DOJ by that date, were presented. In late 2017 and in January 2018, the Bank received letters from the US DOJ, requesting the Bank to conduct additional tests and to provide additional data and information, including a request for the Bank to update certain data with regard to US clients' accounts for the period extended through October 2017. The Bank is acting to comply with the requests in these letters.

The Bank is in preliminary contact with the US DOJ. However, due to the requests for additional information, no negotiations are yet taking place with the US DOJ with regard to the inquiry or to its implications in terms of any arrangement and in terms of any monetary implications for the Bank Group, if any, of such an arrangement when formulated.

The Bank regularly reports these events to the Supervisor of Banks and Mizrahi Bank Switzerland reports these to the Swiss supervisory authorities.

According to the opinion of the Bank's legal counsel, based on data in the computer-based repository which has been validated and considering arrangements made by the US DOJ with other banks with regard to investigations concerning undisclosed accounts of US taxpayers, certain data in the repository may be relevant to Bank Group exposure, should the Bank's position about these data not prevail.

Based on the aforementioned opinion, the provision with respect to this inquiry has been increased to to USD 46.1 million (NIS 159.8 million). This amount was calculated for data which may be relevant, according to opinion of the Bank's legal counsel and for components which, according to the opinion of the Bank's legal counsel, should be accounted for, as the case may be. The estimated tax amount which the US clients associated with said data ("the relevant clients") should have paid to the IRS in the USA, revenues accrued by the Bank due to banking activity of the relevant clients and the percentage of monetary assets of the relevant clients (and excluding other payment components, such as fines). As for data related to Mizrahi Switzerland business with US clients, the provision was calculated based on a theoretical assumption whereby Mizrahi Switzerland Bank is included under Category 2 of the Swiss Program.

Note that the Bank's legal counsel have expressed their opinion that at this stage, it is not possible to estimate the potential loss which the Bank Group may incur with respect to this inquiry, the relevant exposure amount nor the exposure range for the Bank Group. This is due, *inter alia*, to the fact that based on the professional experience of US legal counsel, such conclusions cannot be made prior to analysis of all of all data and information to be provided and because, as noted above, discussions with the US DOJ with regard to formulating an appropriate outline for the Bank Group have yet to start.

Because, as noted above, discussions with the US DOJ with regard to formulating an appropriate outline for the Bank Group have yet to start, it may transpire in future that the realized loss significantly exceeds the provision made to date.

13) On November 18, 2008, the Bank entered into an agreement with Israel Credit Cards Ltd. (hereinafter: "CAL") and with Diners Club Israel Ltd., a company controlled by CAL (hereinafter: "Diners") – (hereinafter jointly: "CAL Group") with regard to jointly providing Visa, MasterCard and Diners Club charge cards, including cards under the Bank brand (hereinafter: "the cards"), to be distributed by the Bank to its clients. The agreement sets forth the parties' rights as well as operating arrangements and service provision by CAL Group for the cards, as well as all other terms and conditions related there to.

In conjunction with the agreement, the Bank received an option to acquire from CAL, by way of allotment, up to 121,978 ordinary CAL shares, which if allotted upon the date of signing the agreement would have constituted up to 10% of CAL's ordinary share capital, fully diluted.

The agreement expired on November 18, 2013 and the Bank did not exercise any options during this period.

On March 2, 2014, the Bank and CAL Group signed an agreement revising the joint issuance agreement. The revised agreement is effective for a 5-year term from its signing date.

This agreement updated the operating and marketing arrangements for the cards, as well as remuneration of the parties.

The agreement is subject to all regulatory requirements required by statute, if any.

14) A trust company that is a subsidiary of the Bank executes trust transactions that include primarily trusteeships for trust funds, for debenture holders, for owners of restricted shares and for the maintenance of bank accounts.

15) In a labor agreement signed between the Bank and its employee representatives on December 30, 1993, the Bank made available long-term loans to its employees, to finance the retroactive purchase of pension rights from certain pension funds with which the Bank had undertakings in this connection, which bear specified interest and are CPI-linked. It was agreed that if, on the maturity date of each of the aforementioned loans, it becomes clear that the linkage differentials and the interest accrued exceed the yield accumulated in an agreed provident fund, they would be reduced accordingly. The tax effects, if any, related to this reduction will devolve on the Bank. When such a difference is created, an appropriate provision is made.

At the balance sheet date, the balances of these loans amount to NIS 9 million.

16) The Bank has undertaken vis-à-vis the trustee for debentures and subordinated notes issued by Mizrahi Tefahot Issue Company Ltd., to fulfill the payment terms, as stated in the debentures and subordinated notes.

Note 26 – Contingent Liabilities and Special Commitments – continued

17) The Bank has committed to borrowers in certain savings plans who would borrow from the Bank, to the following fixed terms[(1)]:

	As of December 31 2017	As of December 31 2016
0.25% less than the interest prevailing at the time the loan was issued	624	632

(1) The commitment may be utilized only if certain conditions stipulated in the savings plans are met. Granting of credit is subject at all times to the Bank's exclusive discretion, in accordance with procedures specified by the Bank, with due consideration to client attributes and subject to review of the actual client application for credit to be granted by the Bank.

18) As from July 1, 2004, a two-year agreement went into effect between Bank Tefahot, at that time, and the Government, whereby the collection commission rate determined by the tender held by the Ministry of Finance, with the participation of the mortgage banks will apply to loans to eligible borrowers issued on or after said date. This agreement has been continuously extended each year, most recently through June 30, 2015.

In May 2008, another agreement between the Ministry of Finance and the banks became effective (the agreement is expected to be renewed annually, unless any of the parties gives notice of their wish to terminate the agreement), whereby loans to eligible borrowers with low point rating are provided out of Bank funds and at Bank risk. The interest on these loans is determined based on interest for special assistance loans out of Ministry of Finance funds.

Loan terms have been specified to be 25, 20, 15 or up to 10 years, at the customer's choice, but no longer than the term of assistance out of Ministry of Finance funds. The remainder of the conditions would be in line with generally acceptable conditions for assistance out of Ministry of Finance funds, including a waiver of early repayment commission.

For loans granted to certain eligible borrowers, the Ministry of Finance pays the banks which grant loans out of Bank funds the difference between the actual interest rate charged and the average interest rate published by the Bank of Israel, plus spread. Concurrently with loan origination, as stated above, the banks may continue to grant loans out of Ministry of Finance funds to low-rated eligible borrowers, under terms of the previous agreement (dated 2004) and subject to total loans for the Group of low-rated eligible borrowers not exceeding 8% of total Bank loans to this group (out of Bank funds and out of budgeted funds).

The agreement for provision of assistance to eligible borrowers out of Bank funds, signed in 2008, has been extended through April 30, 2015.

Group revenues from all loans to eligible borrowers under State responsibility in 2017 amounted to NIS 42 million, compared to NIS 41 million in 2016.

On January 1, 2015, the Bank joined the fast track process to refinance directed loans, as initiated by the Bank of Israel and the Ministry of Construction and Housing. According to a circular issued by the Bank of Israel (Bank-Client Division), this campaign, started on January 1, 2015, was designed to allow eligible borrowers who took out a loan out of Government funds to improve the terms of their loans in the NIS, CPI-linked track. The change in terms was made in a fast-track process at a low cost and the loans were provided out of Bank funds in the CPI-linked track bearing fixed interest for the remainder of the loan term. According to this circular, loans provided by the Bank as part of this campaign are exempt from group-based provision at 0.35%, as specified in Proper Banking Conduct Directive 329. The risk weighting of these loans is a reduced risk weighting with regard to capital adequacy. The circular also included further concessions to encourage borrowers to join this campaign. The campaign ended on December 31, 2015.

19) The Bank contracts loan syndication transactions with multiple institutional investors. Some of these transactions are organized, managed and operated by the Bank.

Note 27 – Liens

A. Stock exchange members are required to deposit a system of collateral to secure the fulfillment of all the obligations of their customers and the obligations of the other stock exchange members that are not members of the clearinghouse and their customers, to the stock exchange clearinghouse, with respect to transactions executed through the stock exchange clearinghouse, and to secure their share in the risks fund for this activity (as discussed below in Note 26.C.1).

In the framework of system of collateral, the Bank deposits liquid collateral, as provided below:

1) In the account opened by the stock exchange clearinghouse in its name ("collateral account in clearinghouse") government debentures of the Bank were deposited as collateral in favor of the stock exchange clearinghouse, at the full value of the customers' obligations plus the Bank's share in the risk fund. As of December 31, 2017: NIS 39 million were deposited. (As of December 31, 2016: NIS 38 million).
2) Additionally, as from June 19, 2017, in the account opened by the stock exchange clearinghouse in the Bank of Israel in its name on behalf of the Bank, cash is deposited that the Bank furnishes as collateral, as well as the cash to be paid as income on securities that were deposited in the account, the clearinghouse's collateral or cash originating in any other financial right deriving from those securities, including cash proceeds from their sale. As of December 31, 2017, deposits to this account amounted to NIS 12 million (as of December 31, 2016: NIS 19 million).
3) Through June 19, 2017, funds provided as collateral by stock exchange clearing house members, currently deposited with the Bank of Israel (as set forth in section 2 above), were deposited on behalf of the Bank with another bank.
4) The accounts discussed in Par. 1 and 3 above have been pledged under a first-level fixed lien in favor of the stock exchange clearinghouse. The aforementioned account in section 2 above was pledged by a first-ranked lien and by assignment by way of pledge of unlimited amount in favor of the stock exchange clearing house.

B. Stock exchange members are required to deposit a system of collateral that secures the fulfillment of their obligations relating to MAOF transactions that are executed by them or their customers or by stock exchange members that are not members of the MAOF Clearinghouse, and to secure their share in the risks fund covering this activity, (as provided below in Note 26.C.2).

Accordingly, the Bank was required to deposit only liquid collateral, for the full exposure of activity in derivatives and for its share in the risks fund, as provided below:

1) In the account opened in the TASE Clearinghouse in the name of the MAOF Clearinghouse ("main MAOF collateral account"), government debentures of the Bank were deposited as security in favor of the MAOF Clearinghouse, at the full value of the requirements for customers' collateral plus the Bank's share in the risks fund. The value of debentures deposited as of December 31, 2017 is NIS 294 million (as of December 31, 2016 – NIS 331 million).
2) Additionally, as from June 19, 2017, in the account opened by the MAOF clearinghouse in its own name on behalf of the Bank with the Bank of Israel, cash is deposited that the Bank furnishes as collateral, as well as the cash to be paid as income on securities that will be deposited in a major clearinghouse collateral account or cash originating in any other financial right deriving from said securities, including cash proceeds from their sale. As of December 31, 2017, deposits to this account amounted to NIS 10 million (as of December 31, 2016: NIS 20 million).
3) Through June 19, 2017, funds provided as collateral by MAOF clearing house members, currently deposited with the Bank of Israel (as set forth in section 2) above), were deposited on behalf of the Bank with another bank.

4) The aforementioned accounts in sections 1 and 3 above are pledged under a floating and fixed lien to benefit the MAOF clearinghouse. The aforementioned account in section 2 above was pledged by a first-ranked lien and by assignment by way of pledge of unlimited amount in favor of the MAOF clearing house.

C. The Bank of Israel operates the Real Time Gross Settlement system (hereinafter: "RTGS") – a system which allows customers to transfer in real time NIS-denominated amounts between bank accounts in the same bank or between banks.

The Bank of Israel provides daily and intra-day credit for participants in the RTGS system against specific liens on Bank debentures in the Bank of Israel account with the stock exchange clearinghouse. As of December 31, 2017 and as of December 31, 2016, no debentures were deposited in this account.

D. The Bank conducts securities operations through the EuroClear clearinghouse, which is a settlement system for securities traded on international markets. For these operations, the Bank pledged securities valued, as of December 31, 2017, at USD 10 million (similar to December 31, 2016).

E. In accordance with the requirement of the regulatory agencies in the U.S., the Bank's branch there pledged securities worth USD 26 million as of the balance sheet date (as of December 31, 2016: USD 21 million), used to secure deposits of the public or to comply with other government regulations, or to fulfill other government directives. Most of the amount pledged, which as of December 31, 2017 amounted to USD 23 million (as of December 31, 2016 – USD 20 million), relates to a demand by U.S. regulatory agencies to secure 7.5% of the branch's liabilities, as defined by the authorities there.

F. To secure credit facilities provided to the Bank by the Bank of Israel, the Bank has pledged an account containing foreign securities. As of December 31, 2017 and December 31, 2016, the Bank pledged no foreign securities.

G.

	December 31, 2017	December 31, 2016
Sources of securities which have been received and which the Bank may sell or pledge, at fair value excluding set-offs:		
Securities received in transactions for borrowing securities against cash	76	9

Note 28 – derivatives and hedging activities

Reported amounts (NIS in millions)

A. Description of derivatives and the risks inherent in such activity

1) Overview

The Bank's activities in derivatives, such as futures contracts and forward trades, options and financial swaps, are executed both as broker for its customers and as part of the management of its assets and liabilities and in order to minimize as much as possible the Bank's exposure to market risks.

The Bank designates certain derivatives as fair value hedges or as cash flow hedges. For more information, see Note 1.D.15. to the financial statements.

2) Types and description of activity in derivatives

The activities in derivatives include currency contracts, interest rate contracts and other contracts, and contracts for customers in the MAOF market, on different indices and assets, as outlined below:

– Forward transactions and futures contracts:
  A contract between two parties to buy or sell a specified quantity of commodities, currencies, interest or other financial instruments (hereinafter: "underlying asset"), to be executed on a future date and at a price specified in advance.
– Swaps:
  Contracts to exchange a specified quantity of underlying assets on the transaction date, with a reciprocal obligation to re-exchange the items that had been exchanged on a future date.
– Options:
  Contracts that confer, in return for the payment of a premium, the right to purchase (call) or sell (put) the underlying assets at a pre-determined fixed price, quantity and time.
– Spot trades (transactions for immediate delivery):
  Exchanges of two currencies, based on an exchange rate agreed in advance, to be executed within two business days.
– Credit derivatives:
  Contracts that confer, in return for the payment of a one-time or periodic premium, the right to receive payment in the event of a change in credit rating, the inability to honor obligations or any other credit event, relating to the State or the company, as stipulated in the contract.

3) Risks inherent in derivative instrument activities:

The Bank's activities in derivatives expose it to credit risks and to market risks that include interest risks, basis risks and liquidity risks, as detailed below:

A. Credit exposure in derivatives, which is defined by the Supervisor of Banks as "present credit exposure", quantifies the maximum possible loss that the Bank will sustain if the other party does not fulfill the terms of the transaction, after deducting enforceable set-off agreements, and without taking collateral into account. To manage the credit extent of the exposure inherent in derivatives over the life of the transaction, the exposure is estimated at the price of the commitment in the reverse transaction for the remaining life of the transaction.

   Collateral requirements are determined according to the type of customer, and sometimes, at a fixed percentage of the credit facility determined for a given customer. In other cases, exposure is determined according to scenarios based on the Black and Scholes Model. The collateral required by the Bank usually includes liquid collateral such as securities, deposits, etc., and is valued as collateral in accordance with the various collateral coefficients used by the Bank.

   In the credit derivatives written by the Bank, the credit exposure is expressed in the amount that the Bank will be obliged to pay if the event stipulated in the contract occurs.

B. Market risk – the risk of fluctuation in value of derivatives due to unforeseen changes in interest rates, inflation rate, exchange rates and other financial benchmarks. The Bank manages the market risks involved in financial derivatives by including these instruments within the management of exposure to market risks of the entire range of the Bank's operations.

Note 28 – derivatives and hedging activities (continued)

C. Liquidity risk – the risk of inability to quickly close the exposure by cash payment or by creating reverse exposure. The derivatives and their effect on liquidity needs are an integral part of the management of the Bank's liquidity risk in accordance with Proper Banking Conduct Directive 342.

D. Operating risk – the risk of erroneous operation of transactions, beginning from the date they are entered into until they are settled, due to human error or to machine error. The Bank minimizes operating risk in its derivatives operations by using computer-based processes and a complementary set of controls.

For more information see the Detailed Risk Management Report on the Bank website.

b) Activity on consolidated basis

As of December 31, 2017 - Interest contract

	NIS – CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
1. Stated amounts of derivatives						
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 28 – derivatives and hedging activities – continued

Reported amounts (NIS in millions)

b) Activity on consolidated basis – continued

As of December 31, 2017 - Interest contract

	NIS – CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
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 derivatives	9,083	29,949	136,946	32,127	12,528	220,633
2. Fair value, gross, of derivatives						
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 derivatives	315	658	2,056	392	6	3,427
Of which: Carrying amount of assets with respect to derivatives 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 derivatives	178	968	1,603	330	3	3,082
Of which: Carrying amount of liabilities with respect to derivatives 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 derivatives amounting to NIS 6 million.

Note 28 – derivatives and hedging activities – continued

Reported amounts (NIS in millions)

b) Activity on consolidated basis - continued

As of December 31, 2016 - Interest contract

	NIS – CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
1. Stated amounts of derivatives						
A. Hedging derivatives(1)						
Forward contracts	2,196	–	–	–	–	2,196
Other option contracts:						
Options written	–	19	–	–	–	19
Swaps	–	1,218	–	–	–	1,218
Total	2,196	1,237	–	–	–	3,433
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	–	1,218	–	–	–	1,218
B. ALM derivatives(1)(2)						
Forward contracts	6,756	200	103,041	–	53	110,050
Option contracts traded on stock exchange:						
Options written	–	–	4	–	–	4
Options purchased	–	–	21	–	–	21
Other option contracts:						
Options written	–	–	11,058	–	–	11,058
Options purchased	–	–	10,251	–	–	10,251
Swaps	1,810	31,906	8,256	–	–	41,972
Total	8,566	32,106	132,631	–	53	173,356
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,647	17,889	–	–	–	19,536
C. Other derivatives(1)						
Forward contracts	–	–	1,148	–	–	1,148
Option contracts traded on stock exchange:						
Options written	–	–	6,590	14,194	7,876	28,660
Options purchased	–	–	6,590	14,194	7,876	28,660
Other option contracts:						
Options written	–	–	–	41	–	41
Options purchased	–	200	–	27	–	227
Swaps	–	4	14	9,200	–	9,218
Total	–	204	14,342	37,656	15,752	67,954
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 28 – derivatives and hedging activities – continued

Reported amounts (NIS in millions)

b) Activity on consolidated basis – continued

As of December 31, 2016 - Interest contract

	NIS – CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is beneficiary	–	–	–	–	882	882
Foreign currency spot swap contracts	–	–	4,024	–	–	4,024
Total	–	–	4,024	–	882	4,906
Total stated amounts of derivatives	10,762	33,547	150,997	37,656	16,687	249,649
2. Fair value, gross, of derivatives						
A. Hedging derivatives(1)						
Positive fair value, gross	34	8	–	–	–	42
Negative fair value, gross	3	89	–	–	–	92
B. ALM derivatives(1)(2)						
Positive fair value, gross	349	1,016	1,486	–	3	2,854
Negative fair value, gross	198	1,298	1,310	–	3	2,809
C. Other derivatives(1)						
Positive fair value, gross	–	–	86	606	–	692
Negative fair value, gross	–	2	83	579	–	664
C. Credit derivatives						
Credit derivatives in which the Bank is beneficiary						
Positive fair value, gross	–	–	–	–	4	4
Negative fair value, gross	–	–	–	–	1	1
Total						
Positive fair value, gross(3)	383	1,024	1,572	606	7	3,592
Fair value amounts offset on the balance sheet	–	–	–	–	–	–
Carrying amount of assets with respect to derivatives	383	1,024	1,572	606	7	3,592
Of which: Carrying amount of assets with respect to derivatives not subject to a master netting agreement or to similar agreements	123	154	769	294	6	1,346
Total						
Negative fair value, gross	201	1,389	1,393	579	4	3,566
Fair value amounts offset on the balance sheet	–	–	–	–	–	–
Carrying amount of liabilities with respect to derivatives	201	1,389	1,393	579	4	3,566
Of which: Carrying amount of liabilities with respect to derivatives not subject to a master netting agreement or to similar agreements	13	231	894	564	3	1,705

(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 derivatives amounting to NIS 8 million.

Note 28 – derivatives and hedging activities – continued

Reported amounts (NIS in millions)

C) Credit risk on financial derivatives according to counter-party to the contract – Consolidated

As of December 31, 2017

	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivatives[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 derivatives	86	68	14	1	913	1,082
Off-balance sheet credit risk on derivatives[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 derivatives	169	756	170	–	751	1,846
Total credit risk on derivatives	255	824	184	1	1,664	2,928
Carrying amount of liabilities with respect to derivatives	**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 derivatives	86	53	14	–	1,182	1,335

As of December 31, 2016

	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivatives[1]	**215**	**2,264**	**14**	**–**	**1,099**	**3,592**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	–	(1,634)	–	–	(44)	(1,678)
Mitigation of credit risk with respect to cash collateral received	–	(500)	–	–	(38)	(538)
Net amount of assets with respect to derivatives	215	130	14	–	1,017	1,376
Off-balance sheet credit risk on derivatives[2]	145	1,353	152	–	965	2,615
Mitigation of off-balance sheet credit risk	–	(547)	–	–	(134)	(681)
Net off-balance sheet credit risk with respect to derivatives	145	806	152	–	831	1,934
Total credit risk on derivatives	360	936	166	–	1,848	3,310
Carrying amount of liabilities with respect to derivatives	**215**	**2,115**	**14**	**29**	**1,193**	**3,566**
Gross amounts not offset on the balance sheet:						
Financial instruments	–	(1,634)	–	–	(44)	(1,678)
Pledged cash collateral	–	(295)	–	(23)	–	(318)
Net amount of liabilities with respect to derivatives	215	186	14	6	1,149	1,570

(1) Includes positive fair value, gross, of embedded derivatives amounting to NIS 6 million as of December 31, 2017 (as of December 31, 2016: NIS 8 million).

(2) The difference, if positive, between the total amount with respect to derivatives (including with respect to derivatives 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 derivatives of the borrower.

In 2017, the Bank recognized revenues with respect to decrease in credit losses with respect to derivatives, amounting to NIS 2 million (in 2016, the Bank recognized revenues with respect to decrease in credit losses amounting to NIS 14 million; in 2015 the Bank recognized revenues due to decrease in credit losses amounting to NIS 11 million).

Note 28 – derivatives and hedging activities – continued

Reported amounts (NIS in millions)

d) Maturity dates – stated amounts: year-end balances – Consolidated

As of December 31, 2017

	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
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

As of December 31, 2016

	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts:					
NIS – CPI	2,052	1,386	6,458	866	10,762
Other	2,808	5,055	17,150	8,534	33,547
Currency contracts	92,907	46,200	9,704	2,186	150,997
Contracts for shares	28,755	8,757	144	–	37,656
Commodities and other contracts	15,793	229	243	422	16,687
Total	142,315	61,627	33,699	12,008	249,649

Note 29 – Operating Segments and Geographic Regions

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 this Note, disclosure with regard to "Operating segments in conformity with 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 trade, market making operations for securities, operations involving derivatives 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 derivatives, ALM hedging, deposits with banks and deposits from banks in Israel and overseas, currency hedging of investments overseas, deposits with and from Governments.

Note 29 – Operating Segments and Geographic Regions

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.

	House-holds – other	Households – housing loans	Private banking	Small and micro businesses	Medium businesses	Large businesses	Institutional investors	Financial Management Segment	Total – operations in Israel	Private individuals	Business operations	Total – operations overseas	**Total**
Interest revenues from externals	861	3,294	2	904	222	506	42	158	5,989	19	214	233	6,222
Interest expenses from externals	461	–	124	65	26	159	340	645	1,820	3	52	55	1,875
Interest revenues, net from externals	400	3,294	(122)	839	196	347	(298)	(487)	4,169	16	162	178	4,347
Interest revenues, net – inter-segment	743	(1,983)	181	56	10	117	410	482	16	–	(16)	(16)	–
Total interest revenues, net	1,143	1,311	59	895	206	464	112	(5)	4,185	16	146	162	4,347
Total non-interest financing revenues	–	–	–	–	–	(1)	(1)	131	129	–	7	7	136
Total commissions and other revenues	502	145	10	335	76	134	44	(3)242	1,488	21	8	29	1,517
Total non-interest revenues	502	145	10	335	76	133	43	373	1,617	21	15	36	1,653
Total revenues	1,645	1,456	69	1,230	282	597	155	368	5,802	37	161	198	6,000
Expenses with respect to credit losses	122	24	1	149	7	(89)	(22)	(1)	191	–	1	1	192
Operating and other expenses to externals	1,503	600	52	662	104	168	125	326	3,540	27	44	71	3,611
Operating and other expenses – inter-segment	3	–	1	(3)	2	2	–	(5)	–	–	–	–	–
Total operating and other expenses	1,506	600	53	659	106	170	125	321	3,540	27	44	71	3,611
Pre-tax profit	17	832	15	422	169	516	52	48	2,071	10	116	126	2,197
Provision for taxes on profit	6	305	6	155	62	189	19	18	760	3	43	46	806
After-tax profit	11	527	9	267	107	327	33	30	1,311	7	73	80	1,391
Share of banking corporation in earnings of associate companies	–	–	–	–	–	–	–	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	11	527	9	267	107	327	33	30	1,311	7	73	80	1,391
Net profit attributed to non-controlling interests	(21)	–	–	(1)	–	–	–	(22)	(44)	–	–	–	(44)
Net profit attributable to shareholders of the banking corporation	(10)	527	9	266	107	327	33	8	1,267	7	73	80	1,347
Average balance of assets	18,866	118,042	86	16,190	5,704	14,642	1,413	49,529	224,472	1,033	9,107	10,140	234,612

	House-holds – other	Households – housing loans	Private banking	Small and micro businesses	Medium businesses	Large businesses	Institutional investors	Financial Management Segment	Total – operations in Israel	Private individuals	Business operations	Total – operations overseas	**Total**
Of which: Investments in associated companies	–	–	–	–	–	–	–	33	33	–	–	–	33
Average balance of loans to the public	18,866	118,042	86	16,190	5,704	14,642	1,413	–	174,943	502	2,529	3,031	177,974
Balance of loans to the public at end of reported period	20,058	120,187	121	17,044	5,854	15,012	1,175	–	179,451	504	2,647	3,151	182,602
Balance of impaired debts	70	33	–	396	64	160	–	–	723	–	–	–	723
Balance of debt in arrears 90 days or longer	22	1,071	–	42	–	–	–	–	1,135	1	–	1	1,136
Average balance of liabilities	76,920	–	11,563	18,284	6,470	27,864	38,748	32,221	212,070	948	7,746	8,694	220,764
Of which: Average balance of deposits from the public	73,505	–	11,563	18,284	6,470	27,864	38,748	–	176,434	900	4,202	5,102	181,536
Balance of deposits from the public at end of reported period	75,008	–	12,448	18,942	7,138	26,284	38,881	–	178,701	847	4,025	4,872	183,573
Average balance of risk assets (1)	16,675	65,085	28	15,484	6,484	20,887	2,334	5,872	132,849	374	3,121	3,495	136,344
Balance of risk assets at end of reported period(1)	17,202	66,921	31	16,344	7,014	20,747	2,290	6,493	137,042	454	3,028	3,482	140,524
Average balance of assets under management(2)	42,450	7,080	2,367	15,796	4,292	27,037	148,933	12,174	260,129	–	–	–	260,129
Composition of interest revenues, net:													
Margin from credit granting operations	744	1,268	1	786	176	393	34	–	3,402	13	80	93	3,495
Margin from activities of receiving deposits	396	–	58	84	25	60	76	–	699	1	11	12	711
Other	3	43	–	25	5	11	2	(5)	84	2	55	57	141
Total interest revenues, net	1,143	1,311	59	895	206	464	112	(5)	4,185	16	146	162	4,347

(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, compared to NIS 92 million in the corresponding period last year.

Note 29 – Operating Segments and Geographic Regions – Continued

For the year ended December 31, 2016

Reported amounts (NIS in millions)

	Households – other	Households – housing loans	Private banking	Small and micro businesses	Medium businesses	Large businesses	Institutional investors	Financial Management Segment	Total – operations in Israel	Private individuals	Business operations	Total – operations overseas	Total
Interest revenues from externals	801	2,676	1	817	200	499	53	69	5,116	20	175	195	5,311
Interest expenses from externals	376	–	101	45	25	133	308	509	1,497	3	33	36	1,533
Interest revenues, net from externals	425	2,676	(100)	772	175	366	(255)	(440)	3,619	17	142	159	3,778
Interest revenues, net – inter-segment	590	(1,576)	150	24	12	89	351	365	5	–	(5)	(5)	–
Total interest revenues, net	1,015	1,100	50	796	187	455	96	(75)	3,624	17	137	154	3,778
Total non-interest financing revenues	–	–	–	–	–	–	–	291	291	–	4	4	295
Total commissions and other revenues	511	152	10	319	72	150	52	(3)270	1,536	25	6	31	1,567
Total non-interest revenues	511	152	10	319	72	150	52	561	1,827	25	10	35	1,862
Total revenues	1,526	1,252	60	1,115	259	605	148	486	5,451	42	147	189	5,640
Expenses with respect to credit losses	91	13	1	114	11	(29)	(1)	(1)	199	–	1	1	200
Operating and other expenses to externals	1,490	507	39	598	51	83	102	355	3,225	25	49	74	3,299
Operating and other expenses – inter-segment	(77)	–	5	(44)	39	50	25	2	–	–	–	–	–
Total operating and other expenses	1,413	507	44	554	90	133	127	357	3,225	25	49	74	3,299
Pre-tax profit	22	732	15	447	158	501	22	130	2,027	17	97	114	2,141
Provision for taxes on profit	8	285	6	174	61	195	9	51	789	8	36	44	833
After-tax profit	14	447	9	273	97	306	13	79	1,238	9	61	70	1,308
Share of banking corporation in earnings of associate companies	–	–	–	–	–	–	–	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	14	447	9	273	97	306	13	79	1,238	9	61	70	1,308
Net profit attributed to non-controlling interests	(27)	–	–	(1)	–	–	–	(14)	(42)	–	–	–	(42)
Net profit attributable to shareholders of the banking corporation	(13)	447	9	272	97	306	13	65	1,196	9	61	70	1,266
Average balance of assets	17,837	110,612	73	14,772	4,862	14,531	1,583	42,591	206,861	1,103	8,875	9,978	216,839

	Households – other	Households – housing loans	Private banking	Small and micro businesses	Medium businesses	Large businesses	Institutional investors	Financial Management Segment	Total – operations in Israel	Private individuals	Business operations	Total – operations overseas	Total
Of which: Investments in associated companies	–	–	–	–	–	–	–	35	35	–	–	–	35
Average balance of loans to the public	17,837	110,612	73	14,772	4,862	14,531	1,583	–	164,270	563	2,632	3,195	167,465
Balance of loans to the public at end of reported period	18,795	114,691	82	15,387	4,869	14,128	1,577	–	169,529	502	2,748	3,250	172,779
Balance of impaired debts	70	27	–	312	66	205	–	–	680	–	1	1	681
Balance of debt in arrears 90 days or longer	26	853	–	52	21	6	–	–	958	–	–	–	958
Average balance of liabilities	72,550	–	10,637	14,955	6,549	28,728	34,669	26,974	195,062	1,008	7,682	8,690	203,752
Of which: Average balance of deposits from the public	69,137	–	10,637	14,955	6,549	28,728	34,669	–	164,675	946	3,848	4,794	169,469
Balance of deposits from the public at end of reported period	71,334	–	11,167	15,738	7,378	32,101	35,261	–	172,979	995	4,278	5,273	178,252
Average balance of risk assets (1)	15,464	60,850	27	13,816	6,306	23,131	2,564	5,414	127,572	388	3,206	3,594	131,166
Balance of risk assets at end of reported period(1)	16,373	63,247	24	14,482	5,920	20,813	2,375	5,277	128,511	344	3,047	3,391	131,902
Average balance of assets under management(2)	39,164	6,104	2,074	13,224	3,687	22,572	141,469	248	228,542	–	–	–	228,542
Composition of interest revenues, net:													
Margin from credit granting operations	684	1,073	1	724	161	387	37	–	3,067	11	81	92	3,159
Margin from activities of receiving deposits	329	–	49	54	23	57	59	–	571	5	6	11	582
Other	2	27	–	18	3	11	–	(75)	(14)	1	50	51	37
Total interest revenues, net	1,015	1,100	50	796	187	455	96	(75)	3,624	17	137	154	3,778

(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 92 million before tax, from realization of assets in conjunction with asset reorganization and streamlining of the Bank's branch network, compared to NIS 36 million in the corresponding period last year.

Note 29 – Operating Segments and Geographic Regions – Continued

For the year ended December 31, 2015

Reported amounts (NIS in millions)

	House-holds – other	Households – housing loans	Private banking	Small and micro businesses	Medium businesses	Large businesses	Institutional investors	Financial Management Segment	Total – operations in Israel	Private individuals	Business operations	Total – operations overseas	Total
Interest revenues from externals	723	2,267	1	770	189	551	63	208	4,772	14	120	134	4,906
Interest expenses from externals	292	–	70	31	13	114	588	238	1,346	1	25	26	1,372
Interest revenues, net from externals	431	2,267	(69)	739	176	437	(525)	(30)	3,426	13	95	108	3,534
Interest revenues, net – inter-segment	487	(1,275)	104	(13)	(7)	(3)	637	67	(3)	–	3	3	–
Total interest revenues, net	918	992	35	726	169	434	112	37	3,423	13	98	111	3,534
Total non-interest financing revenues	–	–	–	–	–	–	–	353	353	–	5	5	358
Total commissions and other revenues	542	170	12	295	64	150	77	158	1,468	27	5	32	1,500
Total non-interest revenues	542	170	12	295	64	150	77	511	1,821	27	10	37	1,858
Total revenues	1,460	1,162	47	1,021	233	584	189	548	5,244	40	108	148	5,392
Expenses with respect to credit losses	55	9	–	88	13	45	(7)	(2)	201	–	10	10	211
Operating and other expenses to externals	1,445	442	33	610	46	76	88	406	3,146	29	51	80	3,226
Operating and other expenses – inter-segment	(107)	(1)	6	(57)	44	66	43	6	–	–	–	–	–
Total operating and other expenses	1,338	441	39	553	90	142	131	412	3,146	29	51	80	3,226
Pre-tax profit	67	712	8	380	130	397	65	138	1,897	11	47	58	1,955
Provision for taxes on profit	26	277	3	148	51	155	25	53	738	6	17	23	761
After-tax profit	41	435	5	232	79	242	40	85	1,159	5	30	35	1,194
Share of banking corporation in earnings of associate companies	–	–	–	–	–	–	–	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	41	435	5	232	79	242	40	85	1,159	5	30	35	1,194
Net profit attributed to non-controlling interests	(25)	–	–	–	–	–	–	(35)	(60)	–	–	–	(60)
Net profit attributable to shareholders of the banking corporation	16	435	5	232	79	242	40	50	1,099	5	30	35	1,134
Average balance of assets	15,784	102,194	74	14,610	4,849	14,189	2,176	35,959	189,835	1,182	8,114	9,296	199,131
Of which: Investments in associated companies	–	–	–	–	–	–	–	42	42	–	–	–	42
Average balance of loans to the public	15,784	102,194	74	14,610	4,849	14,189	2,176	–	153,876	505	2,160	2,665	156,541
Balance of loans to the public at end of reported period	16,698	105,719	68	14,748	4,857	13,359	2,063	–	157,512	536	2,556	3,092	160,604
Balance of impaired debts	81	24	–	235	41	402	27	–	810	2	5	7	817
Balance of debt in arrears 90 days or longer	17	956	–	38	–	–	1	–	1,012	–	–	–	1,012

	House-holds – other	Households – housing loans	Private banking	Small and micro businesses	Medium businesses	Large businesses	Institutional investors	Financial Management Segment	Total – operations in Israel	Private individuals	Business operations	Total – operations overseas	Total
Average balance of liabilities	65,379	–	9,828	14,217	5,927	21,286	37,447	26,761	180,845	830	6,556	7,386	188,231
Of which: Average balance of deposits from the public	62,552	–	9,828	14,217	5,927	21,286	37,447	–	151,257	793	2,181	2,974	154,231
Balance of deposits from the public at end of reported period	64,642	–	10,242	14,542	6,098	26,688	36,127	–	158,339	896	3,145	4,041	162,380
Average balance of risk assets (1)	14,545	55,922	34	12,517	6,077	27,062	3,101	4,904	124,162	377	2,641	3,018	127,180
Balance of risk assets at end of reported period(1)	14,675	58,761	31	12,585	6,084	25,603	2,848	5,377	125,964	405	3,117	3,522	129,486
Average balance of assets under management(2)	40,245	6,546	1,889	15,085	3,305	19,473	146,343	153	233,039	–	–	–	233,039
Composition of interest revenues, net:													
Margin from credit granting operations	655	946	1	677	158	404	47	–	2,888	9	69	78	2,966
Margin from activities of receiving deposits	258	–	34	36	8	24	60	–	420	4	3	7	427
Other	5	46	–	13	3	6	5	37	115	–	26	26	141
Total interest revenues, net	918	992	35	726	169	434	112	37	3,423	13	98	111	3,534

(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.

Note 29 – Operating segments and Geographic Regions – Continued
Individuals – households and private banking – operations in Israel

For the year ended December 31, 2017

Reported amounts (NIS in millions)

	Household Segment Housing loans	Household Segment Credit cards	Household Segment Other	Household Segment Total – Households	Private Banking Segment Credit cards	Private Banking Segment Other	Private Banking Segment Total – private banking	Total
Interest revenues from externals	3,294	33	828	4,155	–	2	2	4,157
Interest expenses from externals	–	–	461	461	–	124	124	585
Interest revenues, net from externals	3,294	33	367	3,694	–	(122)	(122)	3,572
Interest revenues, net – inter-segment	(1,983)	(5)	748	(1,240)	–	181	181	(1,059)
Total interest revenues, net	1,311	28	1,115	2,454	–	59	59	2,513
Total non-interest financing revenues	–	–	–	–	–	–	–	–
Total commissions and other revenues	145	89	413	647	–	10	10	657
Total non-interest revenues	145	89	413	647	–	10	10	657
Total revenues	1,456	117	1,528	3,101	–	69	69	3,170
Expenses with respect to credit losses	24	–	122	146	–	1	1	147
Operating and other expenses to externals	600	45	1,458	2,103	2	50	52	2,155
Operating and other expenses – inter-segment	–	–	3	3	–	1	1	4
Total operating and other expenses	600	45	1,461	2,106	2	51	53	2,159
Pre-tax profit	832	72	(55)	849	(2)	17	15	864
Provision for taxes on profit	305	26	(20)	311	(1)	7	6	317
After-tax profit	527	46	(35)	538	(1)	10	9	547
Share of banking corporation in earnings of associates	–	–	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	527	46	(35)	538	(1)	10	9	547
Net profit attributed to non-controlling interests	–	(3)	(18)	(21)	–	–	–	(21)
Net profit attributable to shareholders of the banking corporation	527	43	(53)	517	(1)	10	9	526
Average balance of assets	118,042	3,415	15,451	136,908	11	75	86	136,994
Of which: Investments in associated companies	–	–	–	–	–	–	–	–
Average balance of loans to the public	118,042	3,415	15,451	136,908	11	75	86	136,994
Balance of loans to the public at end of reported period	120,187	3,611	16,447	140,245	12	109	121	140,366
Balance of impaired debts	33	–	70	103	–	–	–	103
Balance of debt in arrears 90 days or longer	1,071	–	22	1,093	–	–	–	1,093
Average balance of liabilities	–	3,415	73,505	76,920	–	11,563	11,563	88,483
Of which: Average balance of deposits from the public	–	–	73,505	73,505	–	11,563	11,563	85,068
Balance of deposits from the public at end of reported period	–	–	75,008	75,008	–	12,448	12,448	87,456
Average balance of risk assets	65,085	3,051	13,624	81,760	7	21	28	81,788
Balance of risk assets at end of reported period	66,921	3,115	14,087	84,123	7	24	31	84,154
Average balance of assets under management	7,080	–	42,450	49,530	–	2,367	2,367	51,897
Composition of interest revenues, net:								
Margin from credit granting operations	1,268	28	716	2,012	–	1	1	2,013
Margin from activities of receiving deposits	–	–	396	396	–	58	58	454
Other	43	–	3	46	–	–	–	46
Total interest revenues, net	1,311	28	1,115	2,454	–	59	59	2,513

Note 29 – Operating segments and Geographic Regions – Continued
Individuals – households and private banking – operations in Israel

For the year ended December 31, 2016

Reported amounts (NIS in millions)

	Household Segment Housing loans	Household Segment Credit cards	Household Segment Other	Household Segment Total – Households	Private Banking Segment Credit cards	Private Banking Segment Other	Private Banking Segment Total – private banking	Total
Interest revenues from externals	2,676	32	769	3,477	–	1	1	3,478
Interest expenses from externals	–	–	376	376	–	101	101	477
Interest revenues, net from externals	2,676	32	393	3,101	–	(100)	(100)	3,001
Interest revenues, net – inter-segment	(1,576)	(5)	595	(986)	–	150	150	(836)
Total interest revenues, net	1,100	27	988	2,115	–	50	50	2,165
Total non-interest financing revenues	–	–	–	–	–	–	–	–
Total commissions and other revenues	152	88	423	663	–	10	10	673
Total non-interest revenues	152	88	423	663	–	10	10	673
Total revenues	1,252	115	1,411	2,778	–	60	60	2,838
Expenses with respect to credit losses	13	1	90	104	–	1	1	105
Operating and other expenses to externals	507	50	1,440	1,997	1	38	39	2,036
Operating and other expenses – inter-segment	–	(8)	(69)	(77)	–	5	5	(72)
Total operating and other expenses	507	42	1,371	1,920	1	43	44	1,964
Pre-tax profit	732	72	(50)	754	(1)	16	15	769
Provision for taxes on profit	285	26	(18)	293	–	6	6	299
After-tax profit	447	46	(32)	461	(1)	10	9	470
Share of banking corporation in earnings of associate companies	–	–	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	447	46	(32)	461	(1)	10	9	470
Net profit attributed to non-controlling interests	–	(5)	(22)	(27)	–	–	–	(27)
Net profit attributable to shareholders of the banking corporation	447	41	(54)	434	(1)	10	9	443
Average balance of assets	110,612	3,413	14,424	128,449	10	63	73	128,522
Of which: Investments in associated companies	–	–	–	–	–	–	–	–
Average balance of loans to the public	110,612	3,413	14,424	128,449	10	63	73	128,522
Balance of loans to the public at end of reported period	114,691	3,446	15,349	133,486	10	72	82	133,568
Balance of impaired debts	27	–	70	97	–	–	–	97
Balance of debt in arrears 90 days or longer	853	–	26	879	–	–	–	879
Average balance of liabilities	–	3,413	69,137	72,550	–	10,637	10,637	83,187
Of which: Average balance of deposits from the public	–	–	69,137	69,137	–	10,637	10,637	79,774
Balance of deposits from the public at end of reported period	–	–	71,334	71,334	–	11,167	11,167	82,501
Average balance of risk assets	60,850	2,984	12,480	76,314	7	20	27	76,341
Balance of risk assets at end of reported period	63,247	3,053	13,320	79,620	7	17	24	79,644
Average balance of assets under management	6,104	–	39,164	45,268	–	2,074	2,074	47,342
Composition of interest revenues, net:								
Margin from credit granting operations	1,073	27	657	1,757	–	1	1	1,758
Margin from activities of receiving deposits	–	–	329	329	–	49	49	378
Other	27	–	2	29	–	–	–	29
Total interest revenues, net	1,100	27	988	2,115	–	50	50	2,165

Note 29 – Operating segments and Geographic Regions – Continued
Individuals – households and private banking – operations in Israel

For the year ended December 31, 2015

Reported amounts (NIS in millions)

	Household Segment Housing loans	Household Segment Credit cards	Household Segment Other	Household Segment Total – Households	Private Banking Segment Credit cards	Private Banking Segment Other	Private Banking Segment Total – private banking	Total
Interest revenues from externals	2,267	31	692	2,990	–	1	1	2,991
Interest expenses from externals	–	–	292	292	–	70	70	362
Interest revenues, net from externals	2,267	31	400	2,698	–	(69)	(69)	2,629
Interest revenues, net – inter-segment	(1,275)	(4)	491	(788)	–	104	104	(684)
Total interest revenues, net	992	27	891	1,910	–	35	35	1,945
Total non-interest financing revenues	–	–	–	–	–	–	–	–
Total commissions and other revenues	170	134	408	712	1	11	12	724
Total non-interest revenues	170	134	408	712	1	11	12	724
Total revenues	1,162	161	1,299	2,622	1	46	47	2,669
Expenses with respect to credit losses	9	–	55	64	–	–	–	64
Operating and other expenses to externals	442	20	1,425	1,887	–	33	33	1,920
Operating and other expenses – inter-segment	(1)	(2)	(105)	(108)	–	6	6	(102)
Total operating and other expenses	441	18	1,320	1,779	–	39	39	1,818
Pre-tax profit	712	143	(76)	779	1	7	8	787
Provision for taxes on profit	277	56	(30)	303	–	3	3	306
After-tax profit	435	87	(46)	476	1	4	5	481
Share of banking corporation in earnings of associate companies	–	–	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	435	87	(46)	476	1	4	5	481
Net profit attributed to non-controlling interests	–	(3)	(22)	(25)	–	–	–	(25)
Net profit attributable to shareholders of the banking corporation	435	84	(68)	451	1	4	5	456
Average balance of assets	102,194	2,827	12,957	117,978	9	65	74	118,052
Of which: Investments in associated companies	–	–	–	–	–	–	–	–
Average balance of loans to the public	102,194	2,827	12,957	117,978	9	65	74	118,052
Balance of loans to the public at end of reported period	105,719	3,211	13,487	122,417	8	60	68	122,485
Balance of impaired debts	24	–	81	105	–	–	–	105
Balance of debt in arrears 90 days or longer	956	–	17	973	–	–	–	973
Average balance of liabilities	–	2,827	62,552	65,379	–	9,828	9,828	75,207
Of which: Average balance of deposits from the public	–	–	62,552	62,552	–	9,828	9,828	72,380
Balance of deposits from the public at end of reported period	–	–	64,642	64,642	–	10,242	10,242	74,884
Average balance of risk assets	55,922	2,822	11,723	70,467	7	27	34	70,501
Balance of risk assets at end of reported period	58,761	2,907	11,768	73,436	7	24	31	73,467
Average balance of assets under management	6,546	–	40,245	46,791	–	1,889	1,889	48,680
Composition of interest revenues, net:								
Margin from credit granting operations	946	27	628	1,601	–	1	1	1,602
Margin from activities of receiving deposits	–	–	258	258	–	34	34	292
Other	46	–	5	51	–	–	–	51
Total interest revenues, net	992	27	891	1,910	–	35	35	1,945

Note 29 – Operating segments and Geographic Regions – Continued
Small and micro, medium and large business – operations in Israel
For the year ended December 31, 2017
Reported amounts (NIS in millions)

	Small and micro business segment Construction and real estate	Small and micro business segment Other	Small and micro business segment Total	Medium business segment Construction and real estate	Medium business segment Other	Medium business segment Total	Large business segment Construction and real estate	Large business segment Other	Large business segment Total
Interest revenues from externals	187	717	904	67	155	222	269	237	506
Interest expenses from externals	10	55	65	3	23	26	7	152	159
Interest revenues, net from externals	177	662	839	64	132	196	262	85	347
Interest revenues, net – inter-segment	(3)	59	56	(5)	15	10	(43)	160	117
Total interest revenues, net	174	721	895	59	147	206	219	245	464
Total non-interest financing revenues	–	–	–	–	–	–	–	(1)	(1)
Total commissions and other revenues	44	291	335	36	40	76	89	45	134
Total non-interest revenues	44	291	335	36	40	76	89	44	133
Total revenues	218	1,012	1,230	95	187	282	308	289	597
Expenses with respect to credit losses	15	134	149	–	7	7	(78)	(11)	(89)
Operating and other expenses to externals	33	629	662	13	91	104	42	126	168
Operating and other expenses – inter-segment	–	(3)	(3)	–	2	2	1	1	2
Total operating and other expenses	33	626	659	13	93	106	43	127	170
Pre-tax profit	170	252	422	82	87	169	343	173	516
Provision for taxes on profit	63	92	155	30	32	62	126	63	189
After-tax profit	107	160	267	52	55	107	217	110	327
Share of banking corporation in earnings of associate companies	–	–	–	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	107	160	267	52	55	107	217	110	327
Net profit attributed to non-controlling interests	–	(1)	(1)	–	–	–	–	–	–
Net profit attributable to shareholders of the banking corporation	107	159	266	52	55	107	217	110	327
Average balance of assets	4,298	11,892	16,190	1,611	4,093	5,704	6,516	8,126	14,642
Of which: Investments in associated companies	–	–	–	–	–	–	–	–	–
Average balance of loans to the public	4,298	11,892	16,190	1,611	4,093	5,704	6,516	8,126	14,642
Balance of loans to the public at end of reported period	4,723	12,321	17,044	1,839	4,015	5,854	7,240	7,772	15,012
Balance of impaired debts	83	313	396	24	40	64	53	107	160
Balance of debt in arrears 90 days or longer	9	33	42	–	–	–	–	–	–
Average balance of liabilities	2,903	15,381	18,284	1,432	5,038	6,470	4,462	23,402	27,864
Of which: Average balance of deposits from the public	2,903	15,381	18,284	1,432	5,038	6,470	4,462	23,402	27,864
Balance of deposits from the public at end of reported period	3,206	15,736	18,942	1,725	5,413	7,138	4,454	21,830	26,284
Average balance of risk assets	4,844	10,640	15,484	2,395	4,089	6,484	13,429	7,458	20,887
Balance of risk assets at end of reported period	5,314	11,030	16,344	2,631	4,383	7,014	13,114	7,633	20,747
Average balance of assets under management	1,934	13,862	15,796	1,744	2,548	4,292	4,870	22,167	27,037
Composition of interest revenues, net:									
Margin from credit granting operations	158	628	786	53	123	176	207	186	393
Margin from activities of receiving deposits	11	73	84	5	20	25	6	54	60
Other	5	20	25	1	4	5	6	5	11
Total interest revenues, net	174	721	895	59	147	206	219	245	464

Note 29 – Operating segments and Geographic Regions – Continued
Small and micro, medium and large business – operations in Israel

For the year ended December 31, 2016

Reported amounts (NIS in millions)

	Small and micro business segment Construction and real estate	Small and micro business segment Other	Small and micro business segment Total	Medium business segment Construction and real estate	Medium business segment Other	Medium business segment Total	Large business segment Construction and real estate	Large business segment Other	Large business segment Total
Interest revenues from externals	153	664	817	60	140	200	225	274	499
Interest expenses from externals	6	39	45	2	23	25	7	126	133
Interest revenues, net from externals	147	625	772	58	117	175	218	148	366
Interest revenues, net – inter-segment	(4)	28	24	(7)	19	12	(30)	119	89
Total interest revenues, net	143	653	796	51	136	187	188	267	455
Total non-interest financing revenues	–	–	–	–	–	–	–	–	–
Total commissions and other revenues	44	275	319	32	40	72	107	43	150
Total non-interest revenues	44	275	319	32	40	72	107	43	150
Total revenues	187	928	1,115	83	176	259	295	310	605
Expenses with respect to credit losses	6	108	114	(1)	12	11	(17)	(12)	(29)
Operating and other expenses to externals	31	567	598	7	44	51	23	60	83
Operating and other expenses – inter-segment	(3)	(41)	(44)	4	35	39	10	40	50
Total operating and other expenses	28	526	554	11	79	90	33	100	133
Pre-tax profit	153	294	447	73	85	158	279	222	501
Provision for taxes on profit	60	114	174	28	33	61	109	86	195
After-tax profit	93	180	273	45	52	97	170	136	306
Share of banking corporation in earnings of associate companies	–	–	–	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	93	180	273	45	52	97	170	136	306
Net profit attributed to non-controlling interests	–	(1)	(1)	–	–	–	–	–	–
Net profit attributable to shareholders of the banking corporation	93	179	272	45	52	97	170	136	306
Average balance of assets	2,905	11,867	14,772	1,399	3,463	4,862	5,768	8,763	14,531
Of which: Investments in associated companies	–	–	–	–	–	–	–	–	–
Average balance of loans to the public	2,905	11,867	14,772	1,399	3,463	4,862	5,768	8,763	14,531
Balance of loans to the public at end of reported period	3,847	11,540	15,387	1,388	3,481	4,869	6,035	8,093	14,128
Balance of impaired debts	94	218	312	20	46	66	90	115	205
Balance of debt in arrears 90 days or longer	9	43	52	–	21	21	–	6	6
Average balance of liabilities	2,298	12,657	14,955	1,206	5,343	6,549	4,388	24,340	28,728
Of which: Average balance of deposits from the public	2,298	12,657	14,955	1,206	5,343	6,549	4,388	24,340	28,728
Balance of deposits from the public at end of reported period	2,385	13,353	15,738	1,244	6,134	7,378	4,900	27,201	32,101
Average balance of risk assets	4,175	9,641	13,816	2,479	3,827	6,306	14,888	8,243	23,131
Balance of risk assets at end of reported period	4,222	10,260	14,482	2,208	3,712	5,920	13,203	7,610	20,813
Average balance of assets under management	876	12,348	13,224	556	3,131	3,687	2,594	19,978	22,572
Composition of interest revenues, net:									
Margin from credit granting operations	129	595	724	47	114	161	179	208	387
Margin from activities of receiving deposits	8	46	54	3	20	23	6	51	57
Other	6	12	18	1	2	3	3	8	11
Total interest revenues, net	143	653	796	51	136	187	188	267	455

Note 29 – Operating segments and Geographic Regions – Continued
Small and micro, medium and large business – operations in Israel

For the year ended December 31, 2015

Reported amounts (NIS in millions)

	Small and micro business segment Construc-tion and real estate	Small and micro business segment Other	Small and micro business segment Total	Medium business segment Construc-tion and real estate	Medium business segment Other	Medium business segment Total	Large business segment Construc-tion and real estate	Large business segment Other	Large business segment Total
Interest revenues from externals	144	626	770	46	143	189	240	311	551
Interest expenses from externals	4	27	31	1	12	13	4	110	114
Interest revenues, net from externals	140	599	739	45	131	176	236	201	437
Interest revenues, net – inter-segment	(7)	(6)	(13)	(5)	(2)	(7)	(27)	24	(3)
Total interest revenues, net	133	593	726	40	129	169	209	225	434
Total non-interest financing revenues	–	–	–	–	–	–	–	–	–
Total commissions and other revenues	40	255	295	25	39	64	120	30	150
Total non-interest revenues	40	255	295	25	39	64	120	30	150
Total revenues	173	848	1,021	65	168	233	329	255	584
Expenses with respect to credit losses	20	68	88	(3)	16	13	19	26	45
Operating and other expenses to externals	42	568	610	6	40	46	23	53	76
Operating and other expenses – inter-segment	(4)	(53)	(57)	4	40	44	13	53	66
Total operating and other expenses	38	515	553	10	80	90	36	106	142
Pre-tax profit	115	265	380	58	72	130	274	123	397
Provision for taxes on profit	45	103	148	23	28	51	107	48	155
After-tax profit	70	162	232	35	44	79	167	75	242
Share of banking corporation in earnings of associate companies	–	–	–	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	70	162	232	35	44	79	167	75	242
Net profit attributed to non-controlling interests	–	–	–	–	–	–	–	–	–
Net profit attributable to shareholders of the banking corporation	70	162	232	35	44	79	167	75	242
Average balance of assets	2,764	11,846	14,610	1,217	3,632	4,849	6,022	8,167	14,189
Of which: Investments in associated companies	–	–	–	–	–	–	–	–	–
Average balance of loans to the public	2,764	11,846	14,610	1,217	3,632	4,849	6,022	8,167	14,189
Balance of loans to the public at end of reported period	2,930	11,818	14,748	1,208	3,649	4,857	5,606	7,753	13,359
Balance of impaired debts	55	180	235	14	27	41	131	271	402
Balance of debt in arrears 90 days or longer	3	35	38	–	–	–	–	–	–
Average balance of liabilities	2,230	11,987	14,217	1,143	4,784	5,927	2,974	18,312	21,286
Of which: Average balance of deposits from the public	2,230	11,987	14,217	1,143	4,784	5,927	2,974	18,312	21,286
Balance of deposits from the public at end of reported period	2,172	12,370	14,542	1,122	4,976	6,098	4,557	22,131	26,688
Average balance of risk assets	3,992	8,525	12,517	2,312	3,765	6,077	16,072	10,990	27,062
Balance of risk assets at end of reported period	3,990	8,595	12,585	2,313	3,771	6,084	15,911	9,692	25,603
Average balance of assets under management	1,443	13,642	15,085	544	2,761	3,305	2,933	16,540	19,473
Composition of interest revenues, net:									
Margin from credit granting operations	122	555	677	37	121	158	189	215	404
Margin from activities of receiving deposits	7	29	36	2	6	8	5	19	24
Other	4	9	13	1	2	3	15	(9)	6
Total interest revenues, net	133	593	726	40	129	169	209	225	434

Note 29 – Operating Segments and Geographic Regions – Continued
Financial Management Setment – Operations in Israel, Consolidated

For the year ended December 31, 2017

Reported amounts (NIS in millions)

Financial Management Segment

	Trading activity	Asset and liability management activity	Real investment activity	Other	Total
Interest revenues from externals	3	155	–	–	158
Interest expenses from externals	–	645	–	–	645
Interest revenues, net from externals	3	(490)	–	–	(487)
Interest revenues, net – inter-segment	–	482	–	–	482
Interest revenues, net	3	(8)	–	–	(5)
Non-interest revenues from externals - financing	58	57	12	4	131
Non-interest revenues from externals – operating	80	–	–	162	242
Non-interest revenues – inter-segment	–	–	–	–	–
Total non-interest revenues	138	57	12	166	373
Total revenues	141	49	12	166	368
Expenses with respect to credit losses	–	–	–	(1)	(1)
Operating and other expenses from externals	134	72	–	120	326
Operating and other expenses – inter-segment	(3)	(2)	–	–	(5)
Total operating and other expenses	131	70	–	120	321
Pre-tax profit	10	(21)	12	47	48
Provision for taxes on profit	4	(8)	5	17	18
After-tax profit	6	(13)	7	30	30
Share of banking corporation in earnings of associate companies	–	–	–	–	–
Net profit before attribution to non-controlling interests	6	(13)	7	30	30
Net profit attributed to non-controlling interests	–	–	–	(22)	(22)
Net profit attributable to shareholders of the banking corporation	6	(13)	7	8	8
Average balance of assets	–	49,496	33	–	49,529
Includes: Investments in associates	–	–	33	–	33
Average balance of liabilities	–	32,221	–	–	32,221
Includes: Average balance of deposits from the public	–	–	–	–	–
Balance of deposits from the public at end of reported period	–	–	–	–	–
Average balance of risk assets	1,442	1,240	200	2,990	5,872
Balance of risk assets at end of reported period	1,756	1,313	181	3,243	6,493
Average balance of assets under management	–	–	–	12,174	12,174
Components of net interest revenues and non-interest financing revenues:					
Exchange rate differentials, net	10	(20)	–	–	–
CPI differentials, net	–	32	–	–	–
Interest exposure, net	24	(9)	–	–	–
Equity exposure, net	1	–	–	–	–
Interest spreads attributable to financial management	–	45	–	–	–
Total net interest revenues and non-interest revenues, by accrual basis	35	48	–	–	–
Gain or loss from sale or other then temporary impairment of debentures	–	44	–	–	–
Change in difference between fair value and accrual basis of derivative instruments recognized on profit and loss	–	(48)	–	–	–
Other non-interest revenues	106	5	–	–	–
Total net interest revenues and non-interest revenues	141	49	–	–	–

Note 29 – Operating Segments and Geographic Regions – Continued

Reported amounts (NIS in millions)

B. Information about operations by geographic region

	Revenues* For the year ended December 31, 2017	Revenues* For the year ended December 31, 2016	Revenues* For the year ended December 31, 2015	Net profit attributable to shareholders of the banking corporation For the year ended December 31, 2017	Net profit attributable to shareholders of the banking corporation For the year ended December 31, 2016	Net profit attributable to shareholders of the banking corporation For the year ended December 31, 2015	Total assets For the year ended December 31, 2017	Total assets For the year ended December 31, 2016
Israel	5,786	5,446	5,247	1,267	1,196	1,099	233,785	224,334
Outside of Israel	214	194	145	80	70	35	5,787	6,121
Total consolidated	6,000	5,640	5,392	1,347	1,266	1,134	239,572	230,455

* Revenues – net interest revenues and non-interest revenues

C. Operating segments in conformity with 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 derivatives, 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" below and Note 1.B.1 to the financial statements.

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 three 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.

Note 29 – Operating Segments and Geographic Regions – Continued

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.

	House-holds – other	House-holds – mortgages	Private banking	Small business	Commercial banking	Business banking	Financial mana-gement	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	504	144	52	275	46	238	258	1,517
Total revenues	1,893	1,272	127	970	231	1,120	387	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	204	692	35	267	90	868	41	2,197
Provision for taxes on profit	75	254	13	98	33	318	15	806
After-tax profit	129	438	22	169	57	550	26	1,391
Share in net profits of associated companies, after tax	–	–	–	–	–	–	–	–
Net profit:								
Before attribution to non-controlling interests	129	438	22	169	57	550	26	1,391
Attributable to non-controlling interests	(21)	–	–	(1)	–	–	(22)	(44)
Net profit attributable to shareholders of the Bank	108	438	22	168	57	550	4	1,347
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	5.9%	6.9%	33.4%	16.3%	10.6%	16.6%	8.3%	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	6,390	58,954	9,917	181,536
Average balance of assets	24,382	113,510	1,551	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 elements attributed there to in conformity with provisions of Basel III.

(2) Risk weighted assets – as calculated for capital adequacy (Proper Banking Conduct Directive No. 201).

Note 29 – Operating Segments and Geographic Regions – Continued
Operating segments in conformity with management approach.

For the year ended December 31, 2016

Reported amounts (NIS in millions)

	House-holds – other	House-holds – mortgages	Private banking	Small business	Commer-cial banking	Business banking	Financial mana-gement	Total conso-lidated
Interest revenues, net:								
From outside operating segments	557	2,461	(5)	560	158	580	(533)	3,778
Inter-segment	669	(1,518)	78	61	6	186	518	–
Total interest revenues, net	1,226	943	73	621	164	766	(15)	3,778
Non-interest financing revenues	3	–	1	2	5	21	263	295
Commissions and other revenues	506	150	60	260	49	251	291	1,567
Total revenues	1,735	1,093	134	883	218	1,038	539	5,640
Expenses with respect to credit losses	81	11	(2)	120	5	(14)	(1)	200
Operating and other expenses	1,365	486	91	509	110	305	433	3,299
Pre-tax profit	289	596	45	254	103	747	107	2,141
Provision for taxes on profit	112	232	18	99	40	291	41	833
After-tax profit	177	364	27	155	63	456	66	1,308
Share in net profits of associated companies, after tax	–	–	–	–	–	–	–	–
Net profit:								
Before attribution to non-controlling interests	177	364	27	155	63	456	66	1,308
Attributable to non-controlling interests	(27)	–	–	(1)	–	–	(14)	(42)
Net profit attributable to shareholders of the Bank	150	364	27	154	63	456	52	1,266
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	9.8%	6.2%	32.6%	17.6%	12.6%	13.1%		10.2%
Average balance of loans to the public, net	21,572	106,108	1,003	10,690	4,549	22,380	–	166,302
Average balance of deposits from the public	74,941	–	7,472	15,979	5,665	55,129	10,283	169,469
Average balance of assets	22,412	106,420	1,766	10,829	4,613	27,570	43,229	216,839
Average balance of risk assets (2)	18,388	58,439	820	8,652	4,964	34,446	5,457	131,166

(1) Calculated in conformity with capital attributed to this segment based on risk elements attributed there to in conformity with provisions of Basel III.

(2) Risk weighted assets – as calculated for capital adequacy (Proper Banking Conduct Directive No. 201).

Note 29 – Operating Segments and Geographic Regions – Continued
Operating segments in conformity with management approach.

For the year ended December 31, 2015

Reported amounts (NIS in millions)

	Households – other	Households – mortgages	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:								
From outside operating segments	590	2,066	9	542	166	617	(456)	3,534
Inter-segment	512	(1,229)	55	24	1	135	502	–
Total interest revenues, net	1,102	837	64	566	167	752	46	3,534
Non-interest financing revenues	2	–	1	2	–	32	321	358
Commissions and other revenues	544	164	66	244	50	241	191	1,500
Total revenues	1,648	1,001	131	812	217	1,025	558	5,392
Expenses with respect to credit losses	42	10	3	104	16	38	(2)	211
Operating and other expenses	1,362	350	90	508	113	305	498	3,226
Pre-tax profit	244	641	38	200	88	682	62	1,955
Provision for taxes on profit	95	250	15	78	34	265	24	761
After-tax profit	149	391	23	122	54	417	38	1,194
Share in net profits of associated companies, after tax	–	–	–	–	–	–	–	–
Net profit:								
Before attribution to non-controlling interests	149	391	23	122	54	417	38	1,194
Attributable to non-controlling interests	(25)	–	–	–	–	–	(35)	(60)
Net profit attributable to shareholders of the Bank	124	391	23	122	54	417	3	1,134
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)[(1)]	9.2%	7.6%	26.4%	18.0%	11.9%	11.5%	22.9%	10.0%
Average balance of loans to the public, net	20,514	96,373	1,018	9,590	4,376	21,972	–	153,843
Average balance of deposits from the public	67,963	–	8,356	13,375	5,126	46,344	13,067	154,231
Average balance of assets	20,477	96,752	1,871	9,875	4,531	26,522	39,103	199,131
Average balance of risk assets [(2)]	17,035	53,918	916	7,119	4,783	38,057	5,352	127,180

(1) Calculated in conformity with capital attributed to this segment based on risk elements attributed there to in conformity with provisions of Basel III.

(2) Risk weighted assets – as calculated for capital adequacy (Proper Banking Conduct Directive No. 201).

Note 29 – Operating Segments and Geographic Regions – Continued
Operating segments in conformity with management approach.

For the year ended December 31, 2015

Reported amounts (NIS in millions)

D. Effect of attribution of expenses related to the US DOJ inquiry on operating segments

Had the expenses related to the US DOJ inquiry been attributed to the private banking segment and to overseas operations (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 2017 would have amounted to a loss of NIS 11 million and for 2016, a loss amounting to NIS 50 million.

Results of the financial management segment under the supervisory approach for 2017 would have amounted to profit of NIS 28 million and for 2016, profit amounting to NIS 124 million.

Results of overseas operations according to the supervisory approach for 2017 and 2016 would have been unchanged.

Results of the private banking segment under the management approach for 2017 would have amounted to gain of NIS 2 million and for 2016, loss amounting to NIS 32 million.

Results of the financial management segment under the management approach for 2017 would have amounted to profit of NIS 24 million and for 2016, profit amounting to NIS 111 million.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses

Reported amounts (NIS in millions)

A. Off balance sheet debt[1] and credit instruments

1. Change in balance of provision for credit losses

December 31, 2017 - Provision for credit losses -Loans to the public

	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Balance of provision for credit losses at start of period	724	615	208	1,547	2	1,549
Expenses with respect to credit losses	46	24	123	193	(1)	192
Net accounting write-off[2]	(245)	(9)	(145)	(399)	–	(399)
Recovery of debts written off in previous years[2]	174	–	59	233	–	233
Net accounting write-offs	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Balance of provision for credit losses at end of period	699	630	245	1,574	1	1,575
Of which: With respect to off balance sheet credit instruments	81	–	9	90	–	90

December 31, 2016 - Provision for credit losses -Loans to the public

	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Balance of provision for credit losses at start of period	700	614	192	1,506	3	1,509
Expenses with respect to credit losses	96	13	92	201	(1)	200
Net accounting write-off[2]	(191)	(12)	(133)	(336)	–	(336)
Recovery of debts written off in previous years[2]	119	–	57	176	–	176
Net accounting write-offs	(72)	(12)	(76)	(160)	–	(160)
Balance of provision for credit losses at end of period	724	615	208	1,547	2	1,549
Of which: With respect to off balance sheet credit instruments	98	–	11	109	–	109

December 31, 2015 - Provision for credit losses -Loans to the public

	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Balance of provision for credit losses at start of period	635	624	186	1,445	5	1,450
Expenses with respect to credit losses	149	9	55	213	(2)	211
Net accounting write-off[2]	(211)	(20)	(114)	(345)	–	(345)
Recovery of debts written off in previous years[2]	127	1	65	193	–	193
Net accounting write-offs	(84)	(19)	(49)	(152)	–	(152)
Balance of provision for credit losses at end of period	700	614	192	1,506	3	1,509
Of which: With respect to off balance sheet credit instruments	97	–	9	106	–	106

(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 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 effort 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 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

A. Off balance sheet debt[(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

December 31, 2017 - Provision for credit losses - Loans to the public

	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Recorded debt balance of debts [(1)]						
reviewed on individual basis	33,392	33	588	34,013	2,543	36,556
reviewed on group basis	9,605	120,514	18,470	148,589	–	148,589
Of which: the provision for credit losses is assessed 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
Provision for credit losses with respect to debts [(1)]						
reviewed on individual basis	499	2	24	525	1	526
reviewed on group basis	119	628	212	959	–	959
Of which: Loans for which a provision for credit losses is assessed by extent of arrears[(3)]	5	628	–	633	–	633
Total provision for credit losses	618	630	236	1,484	1	1,485

December 31, 2016 - Provision for credit losses - Loans to the public

	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Recorded debt balance of debts [(1)]						
reviewed on individual basis	29,972	27	725	30,724	2,839	33,563
reviewed on group basis	[(4)]9,982	114,959	[(4)]17,114	142,055	–	142,055
Of which: the provision for credit losses is assessed by extent of arrears	1,243	114,373	–	115,616	–	115,616
Total debts	39,954	[(2)]114,986	17,839	172,779	2,839	175,618
Provision for credit losses with respect to debts [(1)]						
reviewed on individual basis	518	2	7	527	2	529
reviewed on group basis	108	613	190	911	–	911
Of which: Loans for which a provision for credit losses is assessed by extent of arrears[(3)]	5	613	–	618	–	618
Total provision for credit losses	626	615	197	1,438	2	1,440

(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 (as of December 31, 2016 – NIS 5,731 million).

(3) Includes balance of provision in excess of that required by extent of arrears, assessed on group basis, amounting to NIS 421 million (as of December 31, 2016 – NIS 401 million).

(4) Reclassified.

Note 30 – 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 December 31, 2017

	Non troubled	Problematic[(2)] Non impaired	Problematic[(2)] Impaired[(3)]	Total	Non impaired debts – additional information In arrears 90 days or longer[(4)]	Non impaired debts – additional information 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 30.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 30 – 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 December 31, 2016

	Non troubled	Problematic[2] Non impaired	Problematic[2] Impaired[3]	Total	Non impaired debts – additional information In arrears 90 days or longer[4]	Non impaired debts – additional information In arrears 30 to 89 days[5]
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction[8]	10,006	38	106	10,150	10	18
Construction and real estate – real estate operations	2,016	2	78	2,096	–	4
Financial services	[9]3,504	311	17	[9]3,832	1	6
Commercial – other	[9]19,727	490	379	[9]20,596	68	74
Total commercial	35,253	841	580	36,674	79	102
Private individuals – housing loans	113,811	[7]853	27	114,691	[7]853	[6]407
Private individuals – other	[9]17,380	115	70	[9]17,565	26	64
Total public – activity in Israel	166,444	1,809	677	168,930	958	573
Banks in Israel	275	–	–	275	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	166,719	1,809	677	169,205	958	573
Borrower activity overseas						
Public – commercial						
Construction and real estate	1,653	–	1	1,654	–	–
Commercial – other	1,623	–	3	1,626	–	–
Total commercial	3,276	–	4	3,280	–	–
Private individuals	569	–	–	569	–	–
Total public – activity overseas	3,845	–	4	3,849	–	–
Overseas banks	2,234	–	–	2,234	–	–
Overseas governments	330	–	–	330	–	–
Total activity overseas	6,409	–	4	6,413	–	–
Total public	170,289	1,809	681	172,779	958	573
Total banks	2,509	–	–	2,509	–	–
Total governments	330	–	–	330	–	–
Total	173,128	1,809	681	175,618	958	573

(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 30.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 31 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 125 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 debt amounting to NIS 1,544 million, extended to certain purchase groups which are in the process of construction.

(9) Reclassified.

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 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:

December 31, 2017 - 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
December 31, 2016 - Credit segment						
Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Debts in good standing	(2)38,529	114,106	(2)17,654	330	2,509	173,128
Problematic non-impaired debts(1)	841	853	115	–	–	1,809
Impaired debts	584	27	70	–	–	681
Total	39,954	114,986	17,839	330	2,509	175,618

(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.

(2) Reclassified.

Note 30 – 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

December 31, 2017

	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	69	17	86	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 30 – 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

December 31, 2016

	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	61	14	45	106	185
Construction and real estate – real estate operations	55	1	23	78	242
Financial services	9	5	8	17	28
Commercial – other	[(4)]269	112	[(4)]110	379	485
Total commercial	394	132	186	580	940
Private individuals – housing loans	16	2	11	27	27
Private individuals – other	23	10	47	70	75
Total public – activity in Israel	433	144	244	677	1,042
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	433	144	244	677	1,042
Borrower activity overseas					
Public – commercial					
Construction and real estate	1	–	–	1	1
Commercial – other	3	–	–	3	3
Total commercial	4	–	–	4	4
Private individuals	–	–	–	–	–
Total public – activity overseas	4	–	–	4	4
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	4	–	–	4	4
Total public	437	144	244	681	1,046
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	437	144	244	681	1,046
Of which:					
Measured at present value of cash flows	407	144	195	602	
Debts under problematic debts restructuring	90	7	58	148	

(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.

(4) Reclassified.

Note 30 – 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)]

	December 31, 2017 Average balance of impaired debts[(2)]	December 31, 2017 Interest revenues recorded[(3)]	December 31, 2017 Of which: Recorded on cash basis	December 31, 2016 Average balance of impaired debts[(2)]	December 31, 2016 Interest revenues recorded[(3)]	December 31, 2016 Of which: Recorded on cash basis	December 31, 2015 Average balance of impaired debts[(2)]	December 31, 2015 Interest revenues recorded[(3)]	December 31, 2015 Of which: Recorded on cash basis
Borrower activity in Israel									
Public – commercial									
Construction and real estate – construction	107	3	3	95	3	3	95	4	4
Construction and real estate – real estate operations	41	1	1	106	–	–	184	–	–
Financial services	22	–	–	17	1	1	68	4	4
Commercial – other	382	7	6	453	8	8	360	13	13
Total commercial	552	11	10	671	12	12	707	21	21
Private individuals – housing loans	32	–	–	27	–	–	8	–	–
Private individuals – other	69	4	3	75	2	2	80	3	2
Total public – activity in Israel	653	15	13	773	14	14	795	24	23
Banks in Israel	–	–	–	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–	–	–	–
Total activity in Israel	653	15	13	773	14	14	795	24	23
Borrower activity overseas									
Public – commercial									
Construction and real estate	1	–	–	4	–	–	5	–	–
Commercial – other	3	–	–	6	–	–	5	–	–
Total commercial	4	–	–	10	–	–	10	–	–
Private individuals	–	–	–	–	–	–	–	–	–
Total public – activity overseas	4	–	–	10	–	–	10	–	–
Overseas banks	–	–	–	–	–	–	–	–	–
Overseas governments	–	–	–	–	–	–	–	–	–
Total activity overseas	4	–	–	10	–	–	10	–	–
Total public	657	15	13	783	14	14	805	24	23
Total banks	–	–	–	–	–	–	–	–	–
Total governments	–	–	–	–	–	–	–	–	–
Total(4)	657	15	13	783	14	14	805	24	23

(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 accrued interest at the original terms, the Bank would have recognized interest revenues amounting to NIS 57 million (As of December 31, 2016 – NIS 53 million; as of December 31, 2015 – NIS 71 million).

Note 30 – 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

December 31, 2017 - 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 30 – 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

December 31, 2016 - 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	13	–	–	–	13
Construction and real estate – real estate operations	50	–	–	1	51
Financial services	3	–	–	–	3
Commercial – other	32	–	–	2	34
Total commercial	98	–	–	3	101
Private individuals – housing loans	–	–	–	–	–
Private individuals – other	22	–	–	24	46
Total public – activity in Israel	120	–	–	27	147
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	120	–	–	27	147
Borrower activity overseas					
Public – commercial					
Construction and real estate	–	–	–	1	1
Commercial – other	–	–	–	–	–
Total commercial	–	–	–	1	1
Private individuals	–	–	–	–	–
Total public – activity overseas	–	–	–	1	1
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	–	–	–	1	1
Total public	120	–	–	28	148
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	120	–	–	28	148

(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 December 31, 2017, the Bank had no commitments to provide additional credit to debtors subject to problematic debt restructuring, for which credit terms have been revised.

Note 30 – 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)]

	December 31, 2017 Number of contracts	December 31, 2017 Recorded debt balance before restruc-turing	December 31, 2017 Recorded debt balance after restruct-uring	December 31, 2016 Number of contracts	December 31, 2016 Recorded debt balance before restruc-turing	December 31, 2016 Recorded debt balance after restruct-uring	December 31, 2015 Number of contracts	December 31, 2015 Recorded debt balance before restruc-turing	December 31, 2015 Recorded debt balance after restruct-uring
Borrower activity in Israel									
Public – commercial									
Construction and real estate – construction	41	10	9	22	4	3	22	4	2
Construction and real estate – real estate operations	8	2	1	5	1	1	–	–	–
Financial services	1	–	–	7	1	–	8	–	–
Commercial – other	267	130	72	127	17	16	149	17	13
Total commercial	317	142	82	161	23	20	179	21	15
Private individuals – housing loans	–	–	–	–	–	–	–	–	–
Private individuals – other	826	35	34	730	29	28	792	28	26
Total public – activity in Israel	1,143	177	116	891	52	48	971	49	41
Banks in Israel	–	–	–	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–	–	–	–
Total activity in Israel	1,143	177	116	891	52	48	971	49	41
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	1,143	177	116	891	52	48	971	49	41
Total banks	–	–	–	–	–	–	–	–	–
Total governments	–	–	–	–	–	–	–	–	–
Total	1,143	177	116	891	52	48	971	49	41

(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 30 – 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)]

	December 31, 2017 Recorded debt balance Number of contracts	December 31, 2017 Recorded debt balance Recorded debt balance	December 31, 2016 Number of contracts	December 31, 2016 Recorded debt balance	December 31, 2015 Number of contracts	December 31, 2015 Recorded debt balance
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	7	–	5	–	2	–
Construction and real estate – real estate operations	–	–	–	–	–	–
Financial services	1	–	–	–	–	–
Commercial – other	45	2	36	3	43	2
Total commercial	53	2	41	3	45	2
Private individuals – housing loans	–	–	–	–	–	–
Private individuals – other	87	2	96	2	126	3
Total public – activity in Israel	140	4	137	5	171	5
Banks in Israel	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	140	4	137	5	171	5
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	140	4	137	5	171	5
Total banks	–	–	–	–	–	–
Total governments	–	–	–	–	–	–
Total	140	4	137	5	171	5

(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 30 – 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:

December 31, 2017

		Housing loan balance Total	Housing loan balance Of which: Bullet / balloon	Housing loan balance Of which: Variable interest	Off-balance sheet credit risk Total
Senior lien: LTV ratio	Up to 60%	77,785	2,905	50,100	3,702
Senior lien: LTV ratio	Over 60%	42,511	516	27,835	1,459
Junior lien or no lien		251	2	185	1,554
Total		120,547	3,423	78,120	6,715

December 31, 2016

		Housing loan balance Total	Housing loan balance Of which: Bullet / balloon	Housing loan balance Of which: Variable interest	Off-balance sheet credit risk Total
Senior lien: LTV ratio	Up to 60%	72,138	2,499	46,751	3,621
Senior lien: LTV ratio	Over 60%	42,672	470	28,299	1,446
Junior lien or no lien		176	2	133	1,083
Total		114,986	2,971	75,183	6,150

(1) Ratio of approved facility upon extending the facility to the property value, as approved by the Bank upon extending the facility

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

C. Balances of loans to the public and off-balance sheet credit risk according to extent of borrower credit risk:

December 31, 2017

Loan ceiling and credit risk (NIS in thousands)		Number of Borrowers(1)	Credit(2)	Off balance sheet credit risk(3)
Up to 10		215,800	288	364
Above 10	Up to 20	88,826	560	736
Above 20	Up to 40	120,982	1,692	1,822
Above 40	Up to 80	125,132	4,304	2,880
Above 80	Up to 150	95,966	8,243	2,400
Above 150	Up to 300	84,148	16,036	2,015
Above 300	Up to 600	78,492	32,491	2,569
Above 600	Up to 1,200	70,982	54,485	5,142
Above 1,200	Up to 2,000	15,666	20,732	2,139
Above 2,000	Up to 4,000	4,545	10,401	1,397
Above 4,000	Up to 8,000	1,256	5,510	1,211
Above 8,000	Up to 20,000	650	5,569	2,169
Above 20,000	Up to 40,000	260	4,766	2,278
Above 40,000	Up to 200,000	268	11,573	10,834
Above 200,000	Up to 400,000	42	3,551	7,691
Above 400,000	Up to 615,000	13	2,401	5,480
Total		903,028	182,602	51,127

December 31, 2016

Loan ceiling and credit risk (NIS in thousands)		Number of Borrowers(1)	Credit(2)	Off balance sheet credit risk(3)
Up to 10		210,521	274	288
Above 10	Up to 20	84,139	538	684
Above 20	Up to 40	121,913	1,657	1,872
Above 40	Up to 80	128,142	4,214	3,153
Above 80	Up to 150	95,825	8,004	2,633
Above 150	Up to 300	82,049	15,532	2,126
Above 300	Up to 600	77,306	31,831	2,701
Above 600	Up to 1,200	66,719	51,186	4,960
Above 1,200	Up to 2,000	14,836	19,581	2,235
Above 2,000	Up to 4,000	4,106	9,354	1,413
Above 4,000	Up to 8,000	1,124	4,780	1,216
Above 8,000	Up to 20,000	623	5,535	1,921
Above 20,000	Up to 40,000	239	3,900	2,414
Above 40,000	Up to 200,000	268	10,065	10,846
Above 200,000	Up to 400,000	46	4,206	5,684
Above 400,000	Up to 772,000	19	2,122	8,638
Total		887,875	172,779	52,784

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

(2) Off-balance sheet credit and 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.

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

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

D.Sale, purchase and syndication of loans to the public during the year

1. Sale and purchase of loans to the public

December 31, 2017

	Sold risk with respect to loans to the public Loans to the public sold during the year	Sold risk with respect to loans to the public Off-balance sheet credit risk sold during the year	Sold risk with respect to loans to the public Of which: Problematic credit	Sold risk with respect to loans to the public Total gain (loss) with respect to credit sold	Sold risk with respect to loans to the public Balance at end of year of credit sold, which is serviced by the Bank	Purchased risk with respect to loans to the public Loans to the public purchased during the year	Purchased risk with respect to loans to the public Off-balance sheet credit risk purchased during the year	Purchased risk with respect to loans to the public Of which: Problematic credit
Commercial	290	175	–	4	–	109	70	–
Private individuals – housing loans	2,308	–	–	–	2,252	–	–	–
Private individuals – other	–	–	–	–	–	593	–	–
Total credit risk to public	2,598	175	–	4	2,252	702	70	–

December 31, 2016

	Sold risk with respect to loans to the public Loans to the public sold during the year	Sold risk with respect to loans to the public Off-balance sheet credit risk sold during the year	Sold risk with respect to loans to the public Of which: Problematic credit	Sold risk with respect to loans to the public Total gain (loss) with respect to credit sold	Sold risk with respect to loans to the public Balance at end of year of credit sold, which is serviced by the Bank	Purchased risk with respect to loans to the public Loans to the public purchased during the year	Purchased risk with respect to loans to the public Off-balance sheet credit risk purchased during the year	Purchased risk with respect to loans to the public Of which: Problematic credit
Commercial	1,168	–	–	37	–	–	–	–
Private individuals – housing loans	1,431	–	–	8	1,385	–	–	–
Private individuals – other	–	–	–	–	–	266	–	–
Total credit risk to public	2,599	–	–	45	1,385	266	–	–

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

D. Sale, purchase and syndication of loans to the public during the year – Continued

2. Loan syndication and participation in syndication

December 31, 2017

	Syndication transactions initiated by the Bank Balance at end of the year Loans to the public	Syndication transactions initiated by the Bank Balance at end of the year Off-balance sheet credit risk	Syndication transactions initiated by the Bank Others' share Loans to the public	Syndication transactions initiated by the Bank Others' share Off-balance sheet credit risk	Syndication transactions initiated by others Bank's share Loans to the public	Syndication transactions initiated by others Bank's share Off-balance sheet credit risk
Construction and real estate	38	–	220	–	510	781
Commercial – other	548	123	991	224	1,250	553
Total credit risk to public	586	123	1,211	224	1,760	1,334

December 31, 2016

	Syndication transactions initiated by the Bank Balance at end of the year Loans to the public	Syndication transactions initiated by the Bank Balance at end of the year Off-balance sheet credit risk	Syndication transactions initiated by the Bank Others' share Loans to the public	Syndication transactions initiated by the Bank Others' share Off-balance sheet credit risk	Syndication transactions initiated by others Bank's share Loans to the public	Syndication transactions initiated by others Bank's share Off-balance sheet credit risk
Construction and real estate	64	–	303	–	443	1,477
Commercial – other	238	–	952	–	1,574	696
Total credit risk to public	302	–	1,255	–	2,017	2,173

E. Off-balance sheet financial instruments

Contractual balances or their denominated amounts at the end of the year

	As of December 31 2017 Balance(1)	As of December 31 2016 Balance(1)	As of December 31 2017 Provision for credit losses	As of December 31 2016 Provision for credit losses
Transactions in which the balance represents a credit risk:				
- Unutilized debitory account and other credit facilities in accounts				
- available on demand	15,045	16,688	20	26
- Guarantees to home buyers	10,795	12,461	6	7
- Irrevocable commitments for loans approved but not yet granted	12,044	10,651	12	13
- Unutilized revolving credit card facilities	6,801	7,559	4	7
- Commitments to issue guarantees	5,981	5,797	4	4
- Guarantees and other liabilities(2)	5,677	4,869	23	22
- Loan guarantees	2,283	2,606	20	29
- Documentary credit	201	384	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 38 million. (similar to December 31, 2016) see Note 26.C. 2. and Note 27.A.1. to the financial statements.

Note 31 – Assets and Liabilities by Linkage Basis

As of December 31, 2017

Reported amounts (NIS in millions)

	Israeli currency Non-linked	Israeli currency CPI-linked	In foreign currency(1) USD	In foreign currency(1) EUR	In foreign currency(1) 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 loaned or purchased in	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 derivatives	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 derivatives	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 derivatives:							
derivatives (other than options)	1,489	(1,489)	–	–	–	–	–
Non-hedging derivatives:							
derivatives (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 derivatives 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 31 – Assets and Liabilities by Linkage Basis – Continued

As of December 31, 2016

Reported amounts (NIS in millions)

	Israeli currency Non-linked	Israeli currency CPI-linked	In foreign currency(1) USD	In foreign currency(1) EUR	In foreign currency(1) Other currencies	Non-monetary items(2)	Total
Assets							
Cash and deposits with banks	39,128	121	1,865	331	280	–	41,725
Securities	5,981	146	3,516	499	20	100	10,262
Securities loaned or purchased in	9	–	–	–	–	–	9
Loans to the public, net(3)	111,144	49,369	7,394	1,862	1,572	–	171,341
Loans to Governments	–	–	139	191	–	–	330
Investments in associated companies	35	–	–	–	–	(1)	34
Buildings and equipment	–	–	–	–	–	1,585	1,585
Intangible assets and goodwill	–	–	–	–	–	87	87
Assets with respect to derivatives	2,031	333	1,051	146	23	–	3,584
Other assets	989	383	68	1	13	44	1,498
Total assets	159,317	50,352	14,033	3,030	1,908	1,815	230,455
Liabilities							
Deposits from the public	122,611	17,039	28,804	7,180	2,618	–	178,252
Deposits from banks	160	265	899	195	18	–	1,537
Deposits from the Government	20	3	27	–	–	–	50
Debentures and subordinated notes	5,656	21,378	–	–	–	–	27,034
Liabilities with respect to derivatives	2,113	168	1,105	160	20	–	3,566
Other liabilities	5,207	1,030	255	9	36	155	6,692
Total liabilities	135,767	39,883	31,090	7,544	2,692	155	217,131
Difference	23,550	10,469	(17,057)	(4,514)	(784)	1,660	13,324
Impact of hedging derivatives:							
derivatives (other than options)	2,159	(2,159)	–	–	–	–	–
Non-hedging derivatives:							
derivatives (other than options)	(19,238)	(3,431)	17,656	4,405	608	–	–
Net in-the-money options (in terms of underlying asset)	152	–	(388)	208	28	–	–
Net out-of-the-money options (in terms of underlying asset)	115	–	(47)	(87)	19	–	–
Total	6,738	4,879	164	12	(129)	1,660	13,324
Net in-the-money options (capitalized par value)	(1,212)	–	608	518	86	–	–
Net out-of-the-money options (capitalized par value)	1,323	–	(638)	(615)	(70)	–	–

(1) Includes linked to foreign currency.

(2) Includes derivatives 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 32 – Assets and liabilities by currency and by term to maturity[1]

Reported amounts (NIS in millions)

	Expected contractual future cash flows On-call to 1 month	Expected contractual future cash flows 1-3 months	Expected contractual future cash flows 3 months to 1 year	Expected contractual future cash flows 1-2 years	Expected contractual future cash flows 2-3 years	Expected contractual future cash flows 3-4 years	Expected contractual future cash flows 4-5 years	Expected contractual future cash flows 5-10 years	Expected contractual future cash flows 10-20 years	Expected contractual future cash flows Over 20 years	Expected contractual future cash flows Total cash flows	Balance sheet balance Without maturity	Balance sheet balance Total	Contractual rate of return[4]
As of December 31, 2017														
Israeli currency (including linked to foreign currency)														
Assets	[3]53,907	7,627	23,994	19,998	15,842	13,884	10,566	42,909	52,031	17,711	258,469	1,919[2]	222,885	3.65%
Liabilities	90,023	28,013	25,650	10,311	6,199	2,257	12,542	13,575	5,684	521	194,775	136	189,115	1.85%
Difference	(36,116)	(20,386)	(1,656)	9,687	9,643	11,627	(1,976)	29,334	46,347	17,190	63,694	1,783	33,770	
Futures transactions	(11,195)	(12,667)	5,890	491	(576)	(153)	(360)	29	–	–	(18,541)	–	(18,541)	
Options	9	408	(427)	228	(2)	18	24	6	–	–	264	–	262	
Difference after effect of derivatives	(47,302)	(32,645)	3,807	10,406	9,065	11,492	(2,312)	29,369	46,347	17,190	45,417	1,783	15,491	
Foreign currency														
Assets	4,389	1,387	2,179	952	1,152	844	332	881	516	1,602	14,234	[2]36	15,058	2.66%
Liabilities	20,091	6,073	9,383	380	433	153	10	128	–	–	36,651	–	35,947	0.94%
Difference	(15,702)	(4,686)	(7,204)	572	719	691	322	753	516	1,602	(22,417)	36	(20,889)	
Of which: Difference in USD	(6,812)	(3,254)	(6,277)	38	(10)	60	72	172	(25)	–	(16,036)	–	(15,239)	
Of which: Difference with respect to foreign operations	(8)	(1,083)	(31)	425	723	188	265	396	202	134	1,211	–	1,542	
Futures transactions	11,195	12,667	(5,890)	(491)	576	153	360	(29)	–	–	18,541	–	18,540	
Options	(9)	(408)	427	(228)	2	(18)	(24)	(6)	–	–	(264)	–	(263)	
Difference after effect of derivatives	(4,516)	7,573	(12,667)	(147)	1,297	826	658	718	516	1,602	(4,140)	36	(2,612)	
Total														
Assets	58,296	9,014	26,173	20,950	16,994	14,728	10,898	43,790	52,547	19,313	272,703	1,955	237,943	3.59%
Liabilities	110,114	34,086	35,033	10,691	6,632	2,410	12,552	13,703	5,684	521	231,426	136	225,062	1.82%
Difference	(51,818)	(25,072)	(8,860)	10,259	10,362	12,318	(1,654)	30,087	46,863	18,792	41,277	1,819	12,881	
Of which: Loans to the public	14,027	8,007	23,819	20,388	15,810	12,393	10,780	42,432	52,120	17,845	217,621	1,548	181,118	3.77%

	Expected contractual future cash flows On-call to 1 month	Expected contractual future cash flows 1-3 months	Expected contractual future cash flows 3 months to 1 year	Expected contractual future cash flows 1-2 years	Expected contractual future cash flows 2-3 years	Expected contractual future cash flows 3-4 years	Expected contractual future cash flows 4-5 years	Expected contractual future cash flows 5-10 years	Expected contractual future cash flows 10-20 years	Expected contractual future cash flows Over 20 years	Expected contractual future cash flows Total cash flows	Balance sheet balance Without maturity	Balance sheet balance Total	Contractual rate of return(4)
Of which: Deposits from the public	103,668	33,197	32,481	5,736	5,822	1,744	4,264	6,256	4,203	373	197,744	1	183,573	1.10%
As of December 31, 2016														
Assets	(2)56,898	8,706	24,790	20,233	16,864	15,028	10,019	42,683	46,482	16,006	257,709	1,535(3)	228,640	3.19%
Liabilities	108,316	23,742	39,918	6,747	8,519	9,260	6,173	8,284	9,146	3,107	223,212	173	216,976	1.73%
Difference	(51,418)	(15,036)	(15,128)	13,486	8,345	5,768	3,846	34,399	37,336	12,899	34,497	1,362	11,664	

(1) Presented in this note are expected contractual future cash flows with respect to assets and liabilities, according to linkage basis, according to the remaining contractual period to maturity of each flow. The data is stated net of provisions for doubtful debts.

(2) Includes assets amounting to NIS 426 million and NIS 425 million as of December 31, 2017 and 2016, respectively, which are past due.

(3) Includes loans at debitory account terms amounting to NIS 6,154 million and NIS 5,773 million as of December 31, 2017 and 2016, respectively and amounts exceeding limits in debitory account facilities amounting to NIS 372 million and NIS 327 million as of December 31, 2017 and 2016, respectively.

(4) Contractual rate of return is the interest rate which discounts the expected contractual future cash flows, as presented in this Note, for the monetary item to its balance sheet balance.

Note 33 – Balances and Estimates of Fair Value of Financial Instruments

1) Fair value of financial instruments

For most of the Bank's financial instruments, a "market price" cannot be quoted, because there is no active market in which they are traded. Therefore, the fair value is estimated using acceptable pricing models, such as present value of future cash flows, discounted at an interest rate that reflects the level of risk inherent in the instrument.

The estimate of fair value using future cash flows and determination of a discount rate is subjective. Therefore, for most financial instruments, the estimation of fair value is not necessarily an indication of the realization value of the financial instrument on the balance sheet date. The fair value valuation uses interest rates prevailing at the balance sheet date, and does not take into account fluctuations in interest rates. The assumption of different interest rates will result in fair values that could be substantially different. Essentially, this relates to financial instruments that bear fixed interest or are interest-free, or to CPI-linked financial instruments with shorter maturities than those in which similar transactions are actually effected. In addition, in determining the fair value, the commissions to be received or paid as a result of the business activity are not taken into account, nor does it include the tax effect. Moreover, the difference between the carrying value and the fair value balances may not be realized, because, in most cases, the Bank will hold the financial instrument to maturity. Consequently, it should be emphasized that the data included in this note do not indicate the value of the Bank as a going concern. In addition, because of the broad range of valuation techniques and the possible estimates to be applied during the valuation of the fair value, one must be cautious when comparing the fair values between different banks.

2) The principal methods and assumptions for estimating fair value of financial instruments:

A. Fair value was calculated taking into account the possibility of early repayment based on empirical analysis.

   The early repayment assumptions in mortgages are based on empirical testing and on a borrower behavior model with regard to early repayment rate out of all mortgages, on annual basis. These assumptions are verified from time to time against actual early repayment, in each linkage segment and interest type, separately short and long original loan terms.

   Early repayment assumptions for deposits and savings plans with early withdrawal options (bearing fixed or variable interest, CPI-linked or non-linked), where interest terms are known in advance, are based on empirical analysis and are reviewed and revised from time to time.

   The early repayment assumptions resulted in a NIS 7 million increase in total fair value of assets, and in a NIS 172 million decrease in total fair value of liabilities.

B. Deposits from the public, deposits with banks and loans to Governments, as well as debentures and non-negotiable subordinated notes – the discounted future cash flow method, using interest rates at which, according to Bank management, similar transactions could have been executed on the balance sheet date. For transactions which bear variable interest, the difference between the spread over the variable interest base for the transaction, and the spread for similar transactions upon the balance sheet date is separated. In calculating fair value, this difference is treated as a fixed interest component. For debentures and subordinated notes traded as an asset on an active market, quoted or based on trader quotes for identical liabilities traded as an asset on an active market.

C. Negotiable securities, see Note 1. D.16. to the financial statements.

D. Investments in corporations for which a market value cannot be quoted are not included in this Note at their fair value but rather at cost, (net of impairment provisions) which, in the estimation of management, is not lower than the fair value of the investment.

E. Loans to the public – The fair value of loans to the public is estimated by the present value of future cash flows method, using an appropriate discount rate. For loans which bear variable interest, the difference between the spread over the variable interest base for the transaction, and the spread for similar loans upon the reporting date is separated. In calculating fair value, this difference is treated as a fixed interest component. The balance of the loans was broken down according to the risk level of the individual borrower at the balance sheet date, for which the flows of future receipts (principal and interest) were calculated. The balance of housing loans is divided into homogeneous risk categories.

Note 33 – Balances and Estimates of Fair Value of Financial Instruments (continued)

These receipts were discounted at the interest rates at which the Bank estimates it will be possible to execute similar transactions on the balance sheet date, and which reflects the risk level inherent in the loans for a similar client (for housing loans – a rate which reflects the risk associated with the category). In certain loans granted by the Bank and a subsidiary at variable interest that changes at a frequency of up to three months, namely housing loans, the carrying value approximates fair value.

F Impaired debt – fair value is calculated using discount rates that reflects the high credit risk inherent therein. In no case were these discount rates lower than the highest interest rate used by the members of the Bank Group in providing loans on the balance sheet date. The future cash flows of problematic debts were calculated after deducting the provisions for credit losses and after deducting accounting write-offs.
a decrease by 1% in the discount rate affects the fair value of the problematic debts of the Group by NIS 10 million.

G. Off-balance sheet financial instruments in which the balance represents credit risk and contingent liabilities and special commitments – the balance in the financial statements as of the balance sheet date approximates the fair value.

H. Derivatives – see Note 1. D.16. to the financial statements.

I. Financial instruments with original maturity of three months or shorter (other than derivatives and negotiable financial instruments) – the balance on the balance on the financial statements as of the balance sheet date approximates the fair value, subject to changes in credit risk and in Bank margin.

3) Information on the fair value of financial instruments is presented below:

A. Fair value balances

December 31, 2017 - 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	7,123	2,987	98	10,208
Securities loaned or acquired 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 derivatives	3,421	193	2,329	[(2)]899	3,421
Other financial assets	562	57	–	505	562
Total financial assets	[(4)]236,929	11,887	51,664	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 derivatives	3,082	193	1,984	905[(2)]	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 12 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 33 – Balances and Estimates of Fair Value of Financial Instruments – continued

Reported amounts (NIS in millions)

A. Fair value balances – Continued

December 31, 2016 - Fair value

	Book balance	Level 1[1]	Level 2[1]	Level 3[1]	Total
Financial assets					
Cash and deposits with banks	41,725	6,704	33,804	1,203	41,711
Securities[3]	10,262	7,805	2,434	98	10,337
Securities loaned or acquired in resale agreements	9	9	–	–	9
Loans to the public, net	171,341	331	10,432	[5] 160,002	170,765
Loans to Governments	330	–	–	330	330
Investments in associated companies	35	–	–	35	35
Assets with respect to derivatives	3,584	343	1,524	[2] 1,717	3,584
Other financial assets	380	–	–	380	380
Total financial assets	[4]227,666	15,192	48,194	163,765	227,151
Financial liabilities					
Deposits from the public	178,252	331	44,708	135,246	180,285
Deposits from banks	1,537	–	322	1,284	1,606
Deposits from the Government	50	–	–	55	55
Debentures and subordinated notes	27,034	26,043	–	1,617	27,660
Liabilities with respect to derivatives	3,566	343	1,385	[2] 1,838	3,566
Other financial liabilities	5,019	205	3,715	1,097	5,017
Total financial liabilities	[4]215,458	26,922	50,130	141,137	218,189

(1) Level 1 – Fair value measurement using quoted prices on an active market; Level 2 – Fair value measurement using other significant observed data; Level 3 – Fair value measurement 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 12 to the financial statements.

(4) Includes assets and liabilities amounting to NIS 60,183 million and NIS 50,468 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 8 million.

Note 33 – 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

December 31, 2017

	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	2,406	–	–	2,406
Of others overseas	–	16	–	16
Shares	1	–	–	1
Securities held for trading:				
Debentures of the Government of Israel	209	–	–	209
Securities loaned or acquired in resale agreements	76	–	–	76
Credit with respect to loans to clients	395	–	–	395
Assets with respect to derivatives[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	–	–	6	6
Total assets	4,445	5,316	905	10,666
Liabilities				
Deposits with respect to borrowing from clients	395	–	–	395
Liabilities with respect to derivatives[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 derivatives classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

Note 33 – 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

December 31, 2016

	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	2,606	2,396	–	5,002
Of foreign governments	1,538	–	–	1,538
Of banks and financial institutions overseas	–	19	–	19
Of others overseas	–	19	–	19
Shares	2	–	–	2
Securities held for trading:				
Debentures of the Government of Israel	348	–	–	348
Securities loaned or purchased in resale agreements	9	–	–	9
Credit with respect to loans to clients	331	–	–	331
Assets with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	–	178	205	383
Other	–	507	517	1,024
Currency contracts	75	837	660	1,572
Contracts for shares	268	2	328	598
Commodities and other contracts	–	–	7	7
Other	–	–	8	8
Total assets	5,177	3,958	1,725	10,860
Liabilities				
Deposits with respect to borrowing from clients	331	–	–	331
Liabilities with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	–	137	64	201
Other	–	720	669	1,389
Currency contracts	75	528	790	1,393
Contracts for shares	268	–	311	579
Commodities and other contracts	–	–	4	4
Other financial liabilities	205	–	–	205
Total liabilities	879	1,385	1,838	4,102

(1) Fair value measurement of derivatives classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

Note 33 – 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

	December 31, 2017 Fair value Level 1[(1)]	December 31, 2017 Fair value Level 2[(1)]	December 31, 2017 Fair value Level 3[(1)]	December 31, 2017 Fair value Total	For the year ended December 31, 2017 Gains
Impaired credit whose collection is contingent on collateral	–	–	78	78	76

	December 31, 2016 Fair value Level 1[(1)]	December 31, 2016 Fair value Level 2[(1)]	December 31, 2016 Fair value Level 3[(1)]	December 31, 2016 Fair value Total	For the year ended December 31, 2016 Gains
Impaired credit whose collection is contingent on collateral	–	–	79	79	19

(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 33 – 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 year ended December 31, 2017

	Fair value as of December 31, 2016	Realized / unrealized gain s(losses) included, net(1) In statement of profit and loss	Realized / unrealized gain s(losses) included, net(1) In statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of December 31, 2017	Unrealized gain s(losses) with respect to instruments held as of December 31, 2017
Assets									
Assets with respect to derivatives(2)(3)									
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 derivatives(2)(3)									
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 33 – 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 year ended December 31, 2016

	Fair value as of December 31, 2015	Realized / unrealized gain s(losses) included, net[1] In statement of profit and loss	Realized / unrealized gain s(losses) included, net[1] In statement of other comprehensive income under Equity	Acqui-sitions	Sales	Disposi-tions	Transfer to level 3	Fair value as of December 31, 2016	Gains (losses) with respect to instruments held as of December 31, 2016
Assets									
Securities available for sale									
Debentures:									
Of banks and financial institutions overseas	196	(196)	–	–	–	–	–	–	(196)
Assets with respect to derivatives[(2)(3)]									
Interest contracts:									
NIS / CPI	125	15	–	–	–	(76)	141	205	235
Other	68	461	–	2	–	(14)	–	517	559
Currency contracts	462	87	–	1,472	–	(1,361)	–	660	416
Contracts for shares	69	161	–	185	–	(87)	–	328	–
Commodities and other contracts	1	5	–	3	–	(2)	–	7	1
Other	3	5	–	–	–	–	–	8	–
Total assets	924	538	–	1,662	–	(1,540)	141	1,725	1,015
Liabilities									
Liabilities with respect to derivatives[(2)(3)]									
Interest contracts:									
NIS / CPI	18	1	–	4	–	(7)	48	64	68
Other	120	560	–	4	–	(15)	–	669	799
Currency contracts	502	141	–	1,930	–	(1,783)	–	790	802
Contracts for shares	178	205	–	198	–	(270)	–	311	–
Commodities and other contracts	–	2	–	4	–	(2)	–	4	1
Other	–	3	–	1	–	(4)	–	–	–
Total liabilities	818	912	–	2,141	–	(2,081)	48	1,838	1,670

(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 33 – 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 December 31, 2017	Valuation technique	Non-observed data	Range	Weighted average
Assets with respect to derivatives:					
Interest contracts – NIS CPI	104	Cash flows discounting	Inflationary expectations	0.41%- 0.43%	0.41%
Contracts for shares	-	Options pricing model	Standard deviation per share	29.56% – 44.53%	38.96%
Other	801	Cash flows discounting	Counter-party credit quality	0.30% – 3.10%	1.38%
Liabilities with respect to derivatives:					
Interest contracts – NIS CPI	80	Cash flows discounting	Inflationary expectations	0.41%- 0.43%	0.41%
Other	825	Cash flows discounting	Counter-party credit quality	0.30% – 3.10%	1.89%

	Fair value as of December 31, 2016	Valuation technique	Non-observed data	Range	Weighted average
Assets with respect to derivatives:					
Interest contracts – NIS CPI	85	Cash flows discounting	Inflationary expectations	0.29% – 1.16%	0.53%
Contracts for shares	2	Options pricing model	Standard deviation per share	71.84% – 71.84%	71.84%
Other	1,638	Cash flows discounting	Counter-party credit quality	0.30% – 3.30%	2.04%
Liabilities with respect to derivatives:					
Interest contracts – NIS CPI	20	Cash flows discounting	Inflationary expectations	0.29% – 1.16%	0.47%
Other	1,818	Cash flows discounting	Counter-party credit quality	0.30% – 3.30%	2.08%

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

Due to election of the fair value option, the Bank treats investments in certain debentures at fair value, charging the changes to profit and loss and classifies them under the portfolio held for trading – even though 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 December 31, 2017 and December 31, 2016, the Bank did not elect the fair value option.

Note 34 – Interested and Related Parties

Reported amounts (NIS in millions)

A. Balances

As of December 31, 2017

	Interested parties Controlling shareholders Balance as of balance sheet date	Interested parties Controlling shareholders Highest balance during the year(1)	Interested parties Officers(4) Balance as of balance sheet date	Interested parties Officers(4) Highest balance during the year(1)	Interested parties Others(5) Balance as of balance sheet date	Interested parties Others(5) Highest balance during the year(1)	Interested parties Interested parties upon the transaction date Balance as of balance sheet date	Interested parties Interested parties upon the transaction date Highest balance during the year(1)	Related parties owned by the banking corporation Jointly-owned associates or investees Balance as of balance sheet date	Related parties owned by the banking corporation Jointly-owned associates or investees Highest balance during the year(1)
Assets										
Loans to the public	52	61	37	38	102	151	–	–	–	4
Provision for credit losses	–	1	–	–	3	3	–	–	–	–
Loans to the public, net	52	60	37	38	99	148	–	–	–	4
Investments in associates	–	–	–	–	–	–	–	–	32	33
Liabilities										
Deposits from the public	30	97	61	83	668	1,028	–	–	9	12
Shares (included in shareholders' equity)(2)	6,056	6,056	–	–	–	–	–	–	–	–
Credit risk in off-balance sheet financial instruments(3)	5	5	41	43	142	266	–	–	–	–

(1) Based on balances at the end of each month.
(2) The share of interested and related parties in the Bank's capital.
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purposes of per-borrower limitations.
(4) Officers of the Bank (including the President & CEO) and including Board members along with their close family members.
(5) Any corporation in which a person or corporation included in one of these interested party groups has a controlling interest or owns 25% or more of their issued share capital or voting rights thereof, or may appoint 25% or more of their Board members.

Note 34 – Interested and Related Parties

Reported amounts (NIS in millions)

A. Balances

As of December 31, 2016

	Interested parties Controlling shareholders Balance as of balance sheet date	Interested parties Controlling shareholders Highest balance during the year[1]	Interested parties Officers[4] Balance as of balance sheet date	Interested parties Officers[4] Highest balance during the year[1]	Interested parties Others[5] Balance as of balance sheet date	Interested parties Others[5] Highest balance during the year[1]	Interested parties Interested parties upon the transaction date Balance as of balance sheet date	Interested parties Interested parties upon the transaction date Highest balance during the year[1]	Related parties owned by the banking corporation Jointly-owned associates or investees Balance as of balance sheet date	Related parties owned by the banking corporation Jointly-owned associates or investees Highest balance during the year[1]
Assets										
Loans to the public	60	67	34	36	82	184	–	–	–	3
Provision for credit losses	–	–	–	–	2	2	–	–	–	–
Loans to the public, net	60	67	34	36	80	182	–	–	–	3
Investments in associates	–	–	–	–	–	–	–	–	34	36
Liabilities										
Deposits from the public	76	178	53	82	1,367	1,793	–	–	4	17
Shares (included in shareholders' equity)[2]	5,641	5,648	–	–	–	–	–	–	–	–
Credit risk in off-balance sheet financial instruments[3]	5	9	36	37	160	232	–	–	–	–

(1) Based on balances at the end of each month.
(2) The share of interested and related parties in the Bank's capital.
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purposes of per-borrower limitations.
(4) Officers of the Bank (including the President & CEO) and including Board members along with their close family members.
(5) Any corporation in which a person or corporation included in one of these interested party groups has a controlling interest or owns 25% or more of their issued share capital or voting rights thereof, or may appoint 25% or more of their Board members.

Note 34 – Interested and Related Parties – Continued

Reported amounts (NIS in millions)

B. Summary of business results with interested and related parties

	For the year ended December 31, 2017 Interested parties Controlling shareholders	For the year ended December 31, 2017 Interested parties Officers[1]	For the year ended December 31, 2017 Interested parties Others[2]	For the year ended December 31, 2017 Related parties owned by the banking corporation Jointly-owned associates or investees	For the year ended December 31, 2016 Interested parties Controlling shareholders	For the year ended December 31, 2016 Interested parties Officers[1]	For the year ended December 31, 2016 Interested parties Others[2]	For the year ended December 31, 2016 Related parties owned by the banking corporation Jointly-owned associates or investees	For the year ended December 31, 2015 Interested parties Controlling shareholders	For the year ended December 31, 2015 Interested parties Officers[1]	For the year ended December 31, 2015 Interested parties Others[2]	For the year ended December 31, 2015 Related parties owned by the banking corporation Jointly-owned associates or investees
Net interest revenues from loans to the public	–	1	4	–	–	1	9	–	–	–	12	–
Interest expenses for deposits from the public	–	(1)	(4)	–	–	(1)	(6)	–	–	–	(4)	–
Total interest revenues (expenses), net	–	–	–	–	–	–	3	–	–	–	8	–
Net non-interest financing revenues	–	–	–	–	–	–	–	–	–	–	–	–
Operating and other expenses	–	(43)	(3)	–	–	(42)	(3)	–	–	(50)	(3)	–
Total	–	(43)	(3)	–	–	(42)	–	–	–	(50)	5	–

Note 34 – Interested and Related Parties – Continued

Reported amounts (NIS in millions)

C. Remuneration and other benefits to interested parties (by the banking corporation and its investees)

	For the year ended December 31, 2017 Officers[1] Total benefits	For the year ended December 31, 2017 Officers[1] Total number of benefit recipients	For the year ended December 31, 2017 Others[2] Total benefits	For the year ended December 31, 2017 Others[2] Total number of benefit recipients	For the year ended December 31, 2016 Officers[1] Total benefits	For the year ended December 31, 2016 Officers[1] Total number of benefit recipients	For the year ended December 31, 2016 Others[2] Total benefits	For the year ended December 31, 2016 Others[2] Total number of benefit recipients	For the year ended December 31, 2015 Officers[1] Total benefits	For the year ended December 31, 2015 Officers[1] Total number of benefit recipients	For the year ended December 31, 2015 Others[2] Total benefits	For the year ended December 31, 2015 Others[2] Total number of benefit recipients
Interested party employed by or on behalf of the corporation	36	14	–	–	35	14	–	–	42	14	–	–
Board member not employed by or on behalf of the corporation	7	12	–	–	7	13	–	–	8	13	–	–
Other interested party not employed by or on behalf of the corporation	–	–	3	3	–	–	3	3	–	–	3	3

(1) Officers of the Bank (including the President & CEO) and including Board members along with their close family members.

(2) Any corporation in which a person or corporation included in one of these interested party groups has a controlling interest or owns 25% or more of their issued share capital or voting rights thereof, or may appoint 25% or more of their Board members.

Note 35 – Events after the balance sheet date

On February 26, 2018, after the balance sheet date, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 109.5 million, or 30% of earnings in the fourth quarter of 2017.
The dividend s are is 470.3% of issued share capital, i.e. NIS 0.4703 per NIS 0.1 par value share. The effective date for dividends payment is March 14, 2018 and the payment date is March 26, 2018. The final dividends per share is subject to changes due to realized convertible securities of the Bank. According to accounting rules, this amount will be deducted from retained earnings in the first quarter of 2018.
On said date, the Bank Board of Directors resolved to update the Bank's dividends policy for 2018 through 2021, after monitoring the execution of the strategic plan.
The Bank's revised 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 Bank has received approval from the Supervisor of Banks for the outline of the aforementioned dividends policies.
The revised dividends policy is subject to the Bank achieving a ratio of Tier I capital to risk elements as required by the Supervisor of Banks and maintaining appropriate safety margins.

Note 36 – Condensed financial statements of the Bank(1)

A. Statement of profit and loss

Reported amounts (NIS in millions)

	2017	2016	2015
Interest revenues	5,804	4,942	4,555
Interest expenses	2,084	1,697	1,487
Interest revenues, net	3,720	3,245	3,068
Expenses with respect to credit losses	163	184	200
Interest revenues, net after expenses with respect to credit losses	3,557	3,061	2,868
Non-interest revenues			
Non-interest financing revenues	159	306	290
Commissions	1,163	1,174	1,175
Other revenues	79	121	62
Total non-interest revenues	1,401	1,601	1,527
Operating and other expenses			
Payroll and associated expenses	2,030	1,805	1,697
Maintenance and depreciation of buildings and equipment	616	599	602
Other expenses	363	379	455
Total operating and other expenses	3,009	2,783	2,754
Pre-tax profit	1,949	1,879	1,641
Provision for taxes on profit	724	745	656
After-tax profit	1,225	1,134	985
Share in profits of investees, after tax	122	132	149
Net profit	1,347	1,266	1,134

(1) Complete data for the Bank solo is available on the Bank website: www.mizrahi-tefahot.co.il >> about the bank >> investor relations >> financial statements.

Note 36 – Condensed financial statements of the Bank – Continued

B. Balance sheet

Reported amounts (NIS in millions)

	2017	2016
Assets		
Cash and deposits with banks	37,104	36,660
Securities[1]	9,327	10,233
Securities loaned or purchased in resale agreements	76	9
Loans to the public	172,710	163,529
Provision for credit losses	(1,419)	(1,380)
Loans to the public, net	171,291	162,149
Loans to Governments	456	330
Investments in investees	2,922	2,786
Buildings and equipment	1,125	1,292
Assets with respect to derivatives	3,420	3,584
Other assets	1,446	1,331
Total assets	227,167	218,374
Liabilities and Equity		
Deposits from the public	189,946	182,241
Deposits from banks	11,396	11,398
Deposits from the Government	25	30
Debentures and subordinated notes	3,209	3,270
Liabilities with respect to derivatives	3,082	3,565
Other liabilities [2]	5,824	5,156
Total liabilities	213,482	205,660
Capital	13,685	12,714
Total liabilities and equity	227,167	218,374

(1) Of which: NIS 6,074 million at fair value (December 31, 2016: NIS 6,899 million).

(2) Of which: Provision for credit losses with respect to off balance sheet credit instruments amounting to NIS 89 million (on December 31, 2016: NIS 109 million).

Note 36 – Condensed financial statements of the Bank – Continued

C. Statement of cash flows

Reported amounts (NIS in millions)

	2017	2016	2015
Cash flows provided by current operations			
Net profit	1347	1266	1134
Adjustments			
Share of the Bank in undistributed earnings of associated companies	(122)	(132)	(149)
Depreciation of buildings and equipment	188	194	196
Expenses with respect to credit losses	163	184	200
Gain from sale of securities available for sale	(52)	(61)	(117)
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	1	(14)	5
Gain from sale of buildings and equipment	(55)	(92)	(36)
Expenses arising from share-based payment transactions	24	8	20
Deferred taxes, net	23	(2)	27
Change in employee provisions and liabilities	11	3	(12)
Effect of changes in exchange rate on cash balances	78	182	179
Proceeds from sale of loan portfolios	(4)	(45)	(1)
Net change in current assets			
Deposits with banks	5	71	2,134
Loans to the public	(11,171)	(13,953)	(11,813)
Loans to Governments	(126)	(14)	(9)
Securities loaned or purchased in resale agreements	(67)	62	36
Assets with respect to derivatives	156	(67)	2,068
Securities held for trade	138	(112)	807
Other assets, net	9	579	193
Net change in current liabilities			
Deposits from banks	(2)	1,796	1,269
Deposits from the public	7,705	18,033	12,374
Deposits from the Government	(5)	(8)	(8)
Securities loaned or sold in conjunction with repurchase agreements	–	–	(223)
Liabilities with respect to derivatives	(483)	(66)	(2,865)
Other liabilities	360	517	(538)
Accrual differences included with investment and financing operations	(26)	(13)	(268)
Net cash provided by current operations	(1,905)	8,316	4,603

Note 36 – Condensed financial statements of the Bank – Continued

C. Statement of cash flows – Continued

Reported amounts (NIS in millions)

	2017	2016	2015
Cash flows provided by investment activities			
Acquisition of securities available for sale	(3,816)	(6,899)	(10,318)
Proceeds from sale of securities available for sale	4,671	7,536	9,470
Proceeds from redemption of securities available for sale	–	1,083	401
Proceeds from sale of loan portfolios	2,554	2,662	590
Purchase of loan portfolios	(700)	–	–
Acquisition of buildings and equipment	(197)	(162)	(153)
Proceeds from sale of buildings and equipment	320	125	55
Proceeds from realized investment in associates	1	28	19
Net cash provided by investment activities	2,833	4,373	64
Cash flows provided by financing operations			
Issuance of debentures and subordinated notes	–	183	417
Redemption of debentures and subordinated notes	(67)	(38)	(845)
Dividends paid to shareholders	(334)	(186)	(86)
Net cash provided by financing operations	(401)	(41)	(514)
Increase (decrease) in cash	527	12,648	4,153
Cash balance at beginning of year	36,607	24,141	20,167
Effect of changes in exchange rate on cash balances	(78)	(182)	(179)
Cash balance at end of year	37,056	36,607	24,141
Interest and taxes paid / received			
Interest received	6,103	4,847	5,149
Interest paid	1,663	2,121	2,387
Dividends received	4	9	10
Income taxes received	64	76	68
Income taxes paid	747	745	627
Appendix A – Non-cash Transactions			
Acquisition of buildings and equipment	25	13	22

Corporate governance, audit, other information about the Bank business and its management

Table of Contents

Corporate governance and audit

Board of Directors and management

Board of Directors

During 2017, the Bank Board of Directors held 25 plenary meetings. During this period there were also 64 meetings of Board committees and 5 Board member workshops.

The permanent Board committees are: Audit, Risks Management,Credit and Remuneration

Presented below are changes during 2017 and through publication of these financial statements:

The Board of Directors, at its meeting on January 2, 2017, resolved to appoint Mr. Joseph Shachak member of the Risks Management Committee.

The Board of Directors, at its meeting on December 18, 2017, resolved to appoint Mr. Avraham Zeldman member of the Audit Committee.

Members of the Bank's Board of Directors and their membership of Board committees, as of the publication date of these financial statements:

Moshe Vidman, Chairman	Credit Committee – Chairman; Risks Management Committee – Chairman
Zvi Ephrat	Credit Committee
Sabina Biran	Audit Committee, Risks Management Committee and Remuneration Committee
Ron Gazit	Risks Management Committee
Avraham Zeldman	Audit Committee and Risks Management Committee
Nachshon Yoav-Asher	Credit Committee
Mordechai Meir	Audit Committee
Jacob Abraham Neyman	Audit Committee, Risks Management Committee and Remuneration Committee – Chairman
Gideon Siterman	Audit, Credit and Remuneration Committees
Liora Ofer	Credit Committee
Jonathan Kaplan	Risks Management Committee
Osnat Ronen	Audit Committee – Chair, Credit and Remuneration Committees
Joseph Shachak	Audit, Risks Management, Credit and Remuneration Committees

Board members with accounting and financial expertise – The Bank's Board of Directors prescribed that at least three directors should have accounting and finance qualifications. In the Board's opinion, this number enables it to meet all of the obligations imposed on it, especially with respect to its responsibility to examine the financial position of the corporation and to prepare and approve financial statements. The Board has also determined that the Audit Committee would have as members at least 2 Board members having accounting and financial qualifications. The Audit Committee includes 7 Board members having accounting and financial qualifications.

Based on their skills, education, experience and knowledge, the Bank's Board of Directors includes, as of the publication date of these financial statements, 10 Board members having accounting and financial qualifications: Moshe Vidman, Sabina Biran, Avraham Zeldman, Nachshon Yoav-Asher, Mordechai Meir, Jacob Abraham Neyman, Gideon Siterman, Yonatan Kaplan, Osnat Ronen, Joseph Shachak.

For more information about members of the Bank's Board of Directors, including: qualifications, education and experience and other information about their office, as well as other information about Board members with accounting and financial expertise and professional qualifications, as required pursuant to the Public Reporting Regulations and the Securities Regulations, see Regulation 26 on the Bank's 2017 Annual Report on the ISA MAGNA website.

The Bank's Board of Directors thanks the Bank President & CEO, management and employees for their efforts to promote the Bank, the result of their diligent efforts to maintain the Bank's services with due responsibility. The Board of Directors appreciates the constant efforts of the Bank President & CEO, Bank management and Bank employees to expand the business activities and client base.

Executive Management

The following are Executive Management Forum members as of December 31, 2017 with their title and position:

Eldad Fresher	President & CEO	
Menahem Aviv	Vice-President	Manager, Accounting & Financial Reporting Division and Chief Accountant
Israel Engel	Vice-President	Manager, Retail Division
Ayala Hakim		Manager, Mizrahi Tefahot Technology Division Ltd. and CIO
Moshe Lari	Vice-President	Manager, Finance Division and Chief Financial Officer (CFO)
Nisan Levi	Vice-President	Manager, Planning, Operations and Customer Asset Division
Ofir Morad	Vice-President	Manager, Business Banking Division
Dinah Navot	Vice-President	Manager, Marketing, Promotion and Business Development Division
Racheli Friedman	Vice-President	Manager, Legal Division, Chief Legal Counsel
Doron Klauzner	Vice-President	Manager, Risks Control Division and Chief Risk Officer (CRO)
Rita Rubinstein	Vice-President	Manager, Human Resources and Administration Division
Galit Weiser		Chief Internal Auditor; Manager, Internal Audit Division
Maya Feller		Corporate Secretary
Benny Shoukroun		Bank Spokesman

For more information about senior officers of the Bank, including: education and experience and other information about their office, as required pursuant to the Public Reporting Regulations and the Securities Regulations, see Regulation 26A on the Bank's 2017 Annual Report on the ISA MAGNA website.

Internal Auditor

The following is information about the Chief Internal Auditor of the Bank Group, who started in office on July 7, 2011:

Name	Galit Weiser
Start of term in office	July 2011
Education	CPA; undergraduate degree in Accounting and Economics (Hebrew University); graduate degree in Business Administration (Hebrew University).
Experience	Deputy Chief Internal Auditor at Bank Mizrahi Tefahot; previously, Chief Internal Auditor of Bank Tefahot.

Pursuant to provisions of Section 146(B) of the Companies Law, 1999 – the Internal Auditor is not an interested party of the corporation, an officer or relative of it.

Pursuant to provisions of Section 8 of the Internal Audit Act, 1992, the Internal Auditor holds no other position in addition to her position as Chief Internal Auditor, other than as Ombudsman, Internal Auditor of Bank Yahav and Auditor of Bank Mizrahi-Tefahot subsidiaries. The Bank's Internal Auditor holds no position outside of the Bank which creates or may create conflict of interest with her position as Internal Auditor. Other than the foregoing, the Internal Auditor has no material business relationships or other material relationships with the Bank or with any related entity thereof.

In conformity with Proper Banking Conduct Directive 307, audit staff are only appointed subject to consent of the Internal Auditor. Audit staff act on behalf of the Internal Auditor for the purpose of internal audit, and are only instructed on audit-related matters by the Internal Auditor. Internal Audit staff do not hold other positions with the banking corporation in addition to internal audit, other than as Ombudsman. Internal Audit staff may only sign on behalf of the banking corporation documents related to audit work or to inquiries from the public. Internal Audit employees are terminated with due process and consent of the Internal Auditor.

As of December 31, 2017, the Internal Auditor is entitled to 144,057 options to purchase Mizrahi Tefahot ordinary shares of NIS 0.1 par value, in conformity with the 2014 Allotment Program approved by the Mizrahi Tefahot Board of Directors. The Internal Auditor is also entitled to up to 58,424 options to purchase such ordinary shares, in conformity with the 2017 Allotment Program approved by the Mizrahi Tefahot Board of Directors. For further details about this allotment, see Note 23 to the financial statements.

The Board of Directors believes that the extent of Bank securities owned by the Internal Auditor does not impact the quality of her work.

The Internal Auditor is a full-time employee of the Bank.

Appointment process – Roles and responsibilities

In June 2011, appointment of the Internal Auditor was confirmed by the Audit Committee and the Board of Directors, based on the Auditor's experience and educational qualifications.

The roles and responsibilities of Internal Audit are listed in the Appointment Letter, which has been discussed and approved by the Bank's Board of Directors, including:

- The authority and ability to initiate audits of all units and existing operations of the Bank, in Israel or overseas, and to demand and receive any document and any information required for discharging their office.
- Employees of the Internal Audit function shall have direct access – for discharging their office – to all records, to any regular or computer-based repository, to any database and work files and to any program of automated data processing, including managerial information and meeting minutes of decision making entities, related to the audit subject.
- Employees of the Audit function may enter any property owned or used by the Bank and to examine it.
- With regard to confidential information by law, the Internal Auditor, their staff and anyone acting on behalf thereof shall be subject to statutory limitations. The Internal Auditor, their staff and anyone acting on behalf thereof must not disclose any document or information obtained in the course of discharging their office –

unless such disclosure is required for lawfully discharging their office or if such disclosure is required by any law.

Identity of the Internal Auditor's Supervisor

The Internal Auditor reports to the Chairman of the Board of Directors.

Internal Audit work plan

Internal Audit work is based on a multi-annual audit plan focused on risk for a 4-year period from which an annual work plan is derived. Note that checking of material operations and transactions, including checking of transactions with related parties, are incorporated into the multi-annual work plan of Internal Audit.

Considerations in determining the multi-annual audit plan

Mapping of activities carried out by different Bank departments according to organizational structure, assignment of potential risk to each activity and setting audit frequency accordingly.

- Risks surveys conducted at the Bank.
- Regulatory requirements arising from directives of the Supervisor of Banks.
- Basel directives and the ICAAP process.
- Current audit reports of the Bank of Israel.
- Findings in audit reports of the Audit Division.
- Decisions of the Audit Committee and the Chairman of the Board of Directors, as well as requests from the Bank President & CEO.

The multi-annual work plan is prepared by the Internal Auditor, brought up for discussion by the Board of Directors' Audit Committee and sent to the Bank President. After discussion and recommendation by the Audit Committee, the plan is submitted for approval by the Board of Directors.

Accordingly, on February 7, 2018, the Board of Directors approved the Internal Audit work plan for 2018-2021.

Considerations in determining the annual audit plan

In addition to the aforementioned considerations, used as basis for determining the multi-annual audit plan from which the annual audit plan is derived, the annual work plan includes additional special tests required of Internal Audit by request of the Supervisor of Banks and the Audit Committee. In addition, the audit refers to issues as requested by Bank management.
Any material changes are brought for approval by the Audit Committee. In case of non-material changes, the Audit Committee is informed after the fact.
Similar to the multi-annual audit plan, the annual audit plan is also prepared by the Internal Auditor and brought for discussion by the Board's Audit Committee. The plan is also submitted to the President. After the Board's Audit Committee recommends approval of the plan, the plan is submitted for approval by the Board of Directors.
Accordingly, on February 7, 2018, the Board of Directors approved the Internal Audit work plan for 2018.

Overseas audits or audits of held corporations

The Bank's Internal Auditor includes in the annual and multi-annual audit program the active corporations held by the Bank, during her tenure as their internal auditor, except for Bank Mizrahi Switzerland, which had its own internal auditor during the reported period. With respect to this company, the Internal Auditor verifies that there is proper internal auditing.
At Bank Yahav, a separate audit plan is submitted to the Bank Yahav Board of Directors.

Scope of employment of the Internal Auditor and their staff

The Internal Auditor is a full-time employee of the Bank.

The average number of positions reporting to the Internal Auditor is derived from Internal Audit needs, which arise from the multi-annual work plan and from the annual work plan of Internal Audit. The average number of positions in 2017, including internal auditors of subsidiaries and overseas branches is as follows:

	In Israel	Outside of Israel
Employees engaged in internal audit	Employees engaged in role of Ombudsman	Employees engaged in internal audit
[(1)]49	6	[(2)]3

(1) Includes 7 full-time positions for audit at Bank Yahav, including outsourcing at Bank Yahav. In addition, Internal Audit at Bank Mizrahi-Tefahot used outsourced services equivalent to 2 full time positions, which are also included.

(2) Includes use of external service providers overseas.

Conducting audits

The Internal Auditor performs the audit based on the generally accepted professional standards.

– Various legal requirements, including provisions of the Internal Audit Act, 1992, Banking Regulations (Internal Audit), 1992 and regulatory authorities' instructions relevant to the audited area, including guidelines and directives of the Supervisor of Banks, including Proper Banking Conduct Directive 307 concerning "Internal Audit function".
– Standards for Professional Engagement in Internal Audit of the Global Institute of Internal Auditors.

The Board of Directors and the Audit Committee believe that audit is conducted in accordance with the aforementioned professional standards so as to achieve the objectives of the internal audit. This is done, inter alia, based on annual reporting, semi-annual reporting and work plans of Internal Audit, which include reference to these issues. Furthermore, as needed, an independent external survey is conducted, once every 5 years, of the quality of work of Internal Audit, which is reported to the Audit Committee.

Access to information

The Internal Auditor regularly has complete access to all the information he needed, in conformity with Proper Banking Conduct Directive 307, as stated in Section 9 of the Internal Audit Law, 1992, including constant and direct access to the Bank's IT systems, including financial data. Note that in conducting audits at investees and operations outside of Israel, too, Internal Audit has full access, as noted above, through visits to operation hubs outside of Israel or through receiving material on demand.

Submitting report of Audit findings

The Auditor regularly sends every audit report to the Chairman of the Board of Directors, the chairman of the Audit Committee, the Bank President & CEO and head of the internal audit unit. A copy of each report is also sent to the CRO, Compliance Officer and AML Supervisor, Manager, Risk Control Division and to the Chief Accountant. Audit reports are submitted in writing. Once every six months, the Auditor submits to members of the Audit Committee the list of all reports submitted during the six-month period. All of the reports are discussed in a forum including the division manager and/or official in-charge of the audited unit or activity. The material reports are discussed by a forum headed by the Bank President & CEO. The Chair of the Audit Committee, in consultation with the Internal Auditor, determines the material audit reports to be discussed by the Audit Committee.

On July 19, 2017, a report about the performance of the Internal Audit work plan for the first half of 2017. This report was discussed by the Audit Committee at its meeting held on July 24, 2017. The summary report of internal audit work for 2017 was issued and discussed by organs of the Board of Directors close to the approval date of the 2017 financial statements. Other major reports were discussed during the year at regular meetings of the Audit Committee.

Assessment of Internal Auditor's activities

The Board of Directors and the Audit Committee believe that the scope, nature, continuity of the activity and the work plan of the Internal Auditor realize the objectives of internal auditing.

Remuneration of the Internal Auditor

Below is information about the salary, benefits, employer contributions and provisions paid or provided for to the Chief Internal Auditor in 2017: Salary amounting to NIS 1,130 thousand, bonuses amounting to NIS 570 thousand (including retention bonus amounting to NIS 173 thousand), social benefits amounting to NIS 263 thousand, bonus with respect to share-based payment amounting to NIS 413 thousand and other benefits valued at NIS 80 thousand. Total remuneration paid or provided for, to the Internal Auditor in 2017 amounted to NIS 2,456 thousand. The outstanding balance of loans at standard terms, as of the end of 2017, amounted to NIS 48 thousand. For more information on officer remuneration policy, see Note 22.A.3.

The Board of Directors believes that the size of remuneration provided to the Internal Auditor should not influence her judgment with respect to his work.

Independent Auditors' Fees [(1)(2)(3)]

(NIS in thousands)

	Consolidated 2017	Consolidated 2016	The Bank 2017	The Bank 2016
For audit activities[(4)]:				
Independent auditors[(5)]	7,050	7,027	6,380	6,347
Other independent auditors	1,192	1,236	364	396
Total	8,242	8,263	6,744	6,743
For tax services[(6)]:				
Independent auditors	–	–	–	–
Other independent auditors	193	122	193	122
For other services[(5)(7)]:				
Independent auditors	1,573	1,886	1,544	1,814
Other independent auditors	824	740	–	–
Total	2,590	2,748	1,737	1,936
Total fees to independent auditors	10,832	11,011	8,481	8,679

(1) Board of Directors' report to the annual general meeting on auditors' fees for audit activities and for other services in addition to the audit, in accordance with Sections 165 and 167 of the Companies Law, 1999.

(2) Independent auditors' fees include payments to partnerships and corporations under their control, as well as payments under the VAT Law.

(3) Includes fees paid and accrued.

(4) Audit of annual financial statements, review of interim financial statements and audit of report adjusted for income tax purposes.

(5) Includes other independent auditors in overseas branches.

(6) Includes payments for preparation of reports adjusted for income tax purposes and reports to tax authorities.

(7) Includes mainly payments for consulting and various services.

Details of senior officer remuneration

(NIS in thousands)

All of 2017

Details of remunerated party[1] Name	Details of remunerated party[1] Role	Remuneration for services rendered[2] Salary	Remuneration for services rendered[2] Bonuses	Remuneration for services rendered[2] Social benefit contributions[4]	Remuneration for services rendered[2] Share-based payment[5]	Remuneration for services rendered[2] Value of additional benefits[6]	Remuneration for services rendered[2] **Total[7]**	Loans granted at beneficial terms[3] Balance as of December 31, 2017	Loans granted at beneficial terms[3] Average term to repayment (in years)	Loans granted at standard terms
Moshe Vidman[8]	Chairman of the Board of Directors	2,641	–	546	–	139	**3,326**	329	2.8	32
Eldad Fresher[9]	President & CEO	2,584	25	575	–	141	**3,325**	–	–	56
Shaul Gelbard	CEO, Bank Yahav for Government Employees Ltd.	1,378	1,044	539	-	-	**2,961**	-	-	23
Ofir Morad[10]	Vice President and Manager, Business Banking Division	1,149	529	302	559	105	**2,644**	2,711	4.9	642
Moshe Lari[10]	Deputy President and Manager, Finance Division, CFO	1,140	536	291	571	90	**2,628**	934	11.7	21
Israel Engel[10]	Deputy President and Manager, Retail Division	1,144	536	267	571	93	**2,611**	–	–	76

All of 2016

Details of remunerated party[1] Name	Details of remunerated party[1] Role	Remuneration for services rendered[2] Salary	Remuneration for services rendered[2] Bonuses	Remuneration for services rendered[2] Social benefit contributions[4]	Remuneration for services rendered[2] Share-based payment[5]	Remuneration for services rendered[2] Value of additional benefits[6]	Remuneration for services rendered[2] **Total[7]**	Loans granted at beneficial terms[3] Balance as of December 31, 2017	Loans granted at beneficial terms[3] Average term to repayment (in years)	Loans granted at standard terms
Moshe Vidman[8]	Chairman of the Board of Directors	2,651	–	612	–	133	**3,396**	386	3.3	10
Eldad Fresher[9]	President & CEO	2,385	678	758	449	145	**4,415**	–	–	48
Doron Klauzner[10]	Vice President and Manager, Risks Control Division, CRO	1,136	624	412	191	87	**2,450**	–	–	51
Israel Engel[10]	Deputy President and Manager, Retail Division	1,132	585	406	246	80	**2,449**	–	–	56
Moshe Lari[10]	Deputy President and Manager, Finance Division, CFO	1,135	585	389	246	87	**2,442**	962	11.3	23

Remarks:

(1) Remuneration recipients are employed in a full-time position and do not hold Bank equity.

(2) The amounts are included under "salaries and related expenses" in the statement of profit and loss.

(3) The benefit is under the same terms and conditions granted to all Bank employees.

(4) Includes severance pay, pension, study fund, acclimation bonus, paid leave and social security.

(5) For details of share-based payment to the President and to officers, see Note 23 to the financial statements.

(6) Interest relates to loans granted at beneficial terms compared to market terms. There is no interest benefit with respect to deposits. In other banking transactions, the benefits apply to all Bank employees and the amount there of is immaterial.

(7) Excluding payroll tax. Including statutory retirement and severance pay to Mr. Moshe Vidman amounting to NIS 369 thousand, to Mr. Eldad Fresher amounting to NIS 368 thousand, to Mr. Ofir Morad and Moshe Lari amounting to NIS 153 thousand each and to Mr. Israel Engel amounting to NIS 159 thousand.

(8) Mr. Moshe Vidman – Mr. Vidman's employment start date was December 1, 2012 for three years, ended November 30, 2015 and extended from December 1, 2015 through December 31, 2017 and would automatically renew annually for one additional year, subject to provisions of the employment agreement. For more information about Mr. Vidman's employment terms, see Appendix II to report dated January 9, 2017 (reference: 2017-01-003457) as well as Note 22.A.1 to the financial statements.

(9) Mr. Eldad Fresher – On June 17, 2013, the Bank Board of Directors approved the appointment of Mr. Eldad Fresher as Bank President. Mr. Fresher started in his office as full-time Bank President on August 16, 2013. For more information about Mr. Fresher's employment terms, see Appendix III to report dated January 9, 2017 (reference: 2017-01-003457) as well as Note 22.A.2 to the financial statements.

(10) Officers employed pursuant to an individual employment agreement for an unspecified term:

Mr. Ofir Morad – As from January 1, 2014.

Mr. Moshe Lari – As from November 8, 2009.

Mr. Israel Engel – As from June 15, 1999.

Mr. Doron Klauzner – As from November 8, 2009.

For more information about employment terms, see Note 22.A.3 to the financial statements.

Transactions with controlling shareholders and related parties

On August 6, 2008, the amendment to the Securities Regulations (Periodic and Immediate Reports), 1970 became effective ("the Amendment"), whereby, inter alia, a reporting corporation is required to issue an Immediate Report with regard to "details of a transaction with a controlling shareholder, or which the controlling shareholder has a personal interest in its confirmation, including highlights of the transaction or contract, details of the organ which confirmed the transaction and its summary reasons for the confirmation; in this paragraph, "transaction" excludes a transaction which the most recent financial statements classify transactions of its type as immaterial."

Banks have been exempted from immediate reporting of non-extraordinary banking transactions, provided they specify criteria for extraordinary and negligible transactions.

The Audit Committee of the Board of Directors has previously approved criteria for unusual and immaterial transactions, which the Committee ratified on February 6, 2017, as follows:

Transaction other than a banking transaction

Definition of "immaterial transaction":

A transaction other than a banking transaction, conducted in the normal course of business at market terms and conditions, and which meets one or more of the following criteria, is an immaterial transaction:

In this section, "transaction" means a transaction with a controlling shareholder, or a transaction in which a controlling shareholder has a personal interest.

A Transaction for sale of retail products in the normal course of Bank business and at market conditions, amounting up to NIS 1.5 million per transaction, or a continuous transaction as stated above (multiple, essentially identical transactions with the same company), whose aggregate amount over one calendar year is up to 0.1% of supervisory capital, after adjustments and deductions, as defined in Proper Banking Conduct Directive 202 (hereinafter: "Supervisory capital"). This amount will not apply to individual transactions whose amount is under NIS 25 thousand each.

B Transaction for provision of services, including in the field of TV advertising, in the normal course of Bank business and at market conditions, amounting up to 0.1% of supervisory capital, or a continuous transaction as stated above (multiple, essentially identical transactions with the same company), whose aggregate amount over one calendar year is up to 0.75% of total annual operating and other expenses by the Bank's most recent annual financial statements. This amount will not apply to individual transactions whose amount is under NIS 25 thousand each.

C Transactions involving leasing of space, in the normal course of Bank business and at market conditions, approved in a single calendar year and amounting up to 0.1% of supervisory capital.

D Any other transaction in the normal course of Bank business and at market conditions, where the total amount for such a transaction type in a single calendar year is up to 0.1% of supervisory capital. This amount will not apply to individual transactions whose amount is under NIS 25 thousand each.

Banking transaction

Definition of "unusual transaction" - a transaction other than at market conditions or not in the normal course of business or a material transaction.

A banking transaction which meets one of the following criteria shall be deemed to be, for this matter, a "material transaction":

A. **Indebtedness transaction** - an indebtedness transaction (after deductions, as specified in Proper Banking Conduct Directive no. 312), which results in total indebtedness of any group of controlling shareholders exceeding 5% of supervisory capital, or a transaction which results in the increase in indebtedness of an individual borrower from among the controlling shareholders exceeding 2% of supervisory capital. If multiple indebtedness transactions are approved for the same borrower in a single calendar year, these indebtedness transactions shall be measured in aggregate. Any specific provision for doubtful debts, or write-off of any amount with regard to indebtedness of a controlling shareholder or a corporation affiliated with it, shall be deemed to be a material transaction. Measurement of total indebtedness, for this matter, shall be separate for the Wertheim Group and for the Ofer Group.

"**Group of controlling shareholders**" – a controlling shareholder, as defined in the Securities Law, together with corporations affiliated there with, as the term "affiliated person" is defined in Proper

Business Conduct of Directive 312, and together with relatives of controlling shareholders included in the group.

B. **Deposits** – receipt of deposit from a controlling shareholder shall be deemed to be a material transaction if, consequently, total deposits from the same group of controlling shareholders would exceed 2% of total deposits at the Bank. Receipt of deposit from a company which is an "affiliated person" of the controlling shareholder, and which is not a company controlled by it, shall be deemed to be a material transaction if, consequently, total deposits from that company, on a consolidated basis, would exceed 2% of total deposits at the Bank. Total deposits at the Bank will be calculated based on the most recent annual financial statements published by the Bank prior to the transaction date.

C. **Transaction in securities or in foreign currency (other than an indebtedness transaction or deposit transaction, as stated above)** – a transaction in securities or in foreign currency where the annual commission charged with respect there to does not exceed 2% of total annual operating revenues of the Bank (less revenues from investment in shares), based on the most recent annual financial statement published by the Bank prior to the transaction date.

D. **Other transactions** – any other transaction for provision of financial and banking services, the revenues from which to the Bank exceed 0.1% of the Bank's total supervisory capital.

Any temporary, immaterial deviation for a period of up to 30 days would not change classification of the transaction as an immaterial transaction, and disclosure of such deviation would be provided in the annual report.

"Market terms" - terms which are not preferable to those at which similar transactions are made by the Bank with individuals or corporations which are not controlling shareholders of the Bank, or in transactions in which the controlling shareholder has no personal interest . Market terms with regard to banking transactions are compared to terms of similar transactions of similar volume at the Bank, as used for review of transactions with affiliated persons in accordance with Proper Banking Conduct Directive 312, with Bank clients who are not affiliated persons, or are not entities where the controlling shareholder has a personal interest in transactions there with; market conditions with regard to transactions other than banking transactions are compared to conditions of similar transactions made by the Bank with suppliers and/or with regard to offers from other suppliers reviewed prior to deciding to make the commitment. In cases where the Bank has no similar transactions, market conditions are to be compared with regard to similar transactions made in the market, provided that such transactions are made in the normal course of business and that such transactions have a market in which similar transactions are made.

Indebtedness transactions to which Proper Banking Conduct Directive 312 does not apply - as for Indebtedness transactions to which Proper Banking Conduct Directive 312 does not apply, should the Bank become aware of any such transaction, the Bank commits to bring any such transaction for approval pursuant to Proper Banking Conduct Directive 312 and to provide disclosure of it in the Bank's annual financial statements. The definition of "immaterial transaction" and "unusual transaction" with regard to these transactions would be similar to the aforementioned definitions by the Bank.

Below is summary data with regard to banking transactions with controlling shareholders (NIS in millions):

A. Indebtedness transactions

December 31, 2017

Group of controlling shareholders	Loan balance on balance sheet	Unutilized facility	Risk assets due to derivatives activity	Guarantees provided by the Bank to secure credit of controlling shareholder or affiliated party there to	Total indebtedness[(1)]
Wertheim Group and private companies it controls	52	5	–	–	57
Relatives of Wertheim Group and private companies controlled thereby	–	–	–	–	–
Total – Wertheim Group	52	5	–	–	57
Ofer Group and private companies it controls	19	22	–	–	41
Relatives of Ofer Group and private companies it control	102	24	–	13	139
Reporting entities controlled by relatives of Ofer Group					
Oil Refineries Ltd.	–	76	–	–	76
Israel Chemicals Ltd.	–	24	4	–	28
Rotem Amfert Negev Ltd.	–	1	–	–	1
Total – Ofer Group	121	147	4	13	285

December 31, 2016

Group of controlling shareholders	Loan balance on balance sheet	Unutilized facility	Risk assets due to derivatives activity	Guarantees provided by the Bank to secure credit of controlling shareholder or affiliated party there to	Total indebtedness[(1)]
Wertheim Group and private companies it controls	60	5	–	–	65
Relatives of Wertheim Group and private companies controlled thereby	–	–	–	–	–
Total – Wertheim Group	60	5	–	–	65
Ofer Group and private companies it controls	18	19	–	–	37
Relatives of Ofer Group and private companies it control	82	16	–	13	111
Reporting entities controlled by relatives of Ofer Group					
Oil Refineries Ltd.	–	85	–	–	85
Israel Chemicals Ltd.	–	3	14	–	17
Gadiv Petrochemical Industries Ltd.	–	27	–	–	27
Rotem Amfert Negev Ltd.	–	1	–	–	1
Total – Ofer Group	100	151	14	13	278

(1) Indebtedness as defined in Proper Banking Conduct Directive 312, after set off of allowed deductions.

B. Deposits

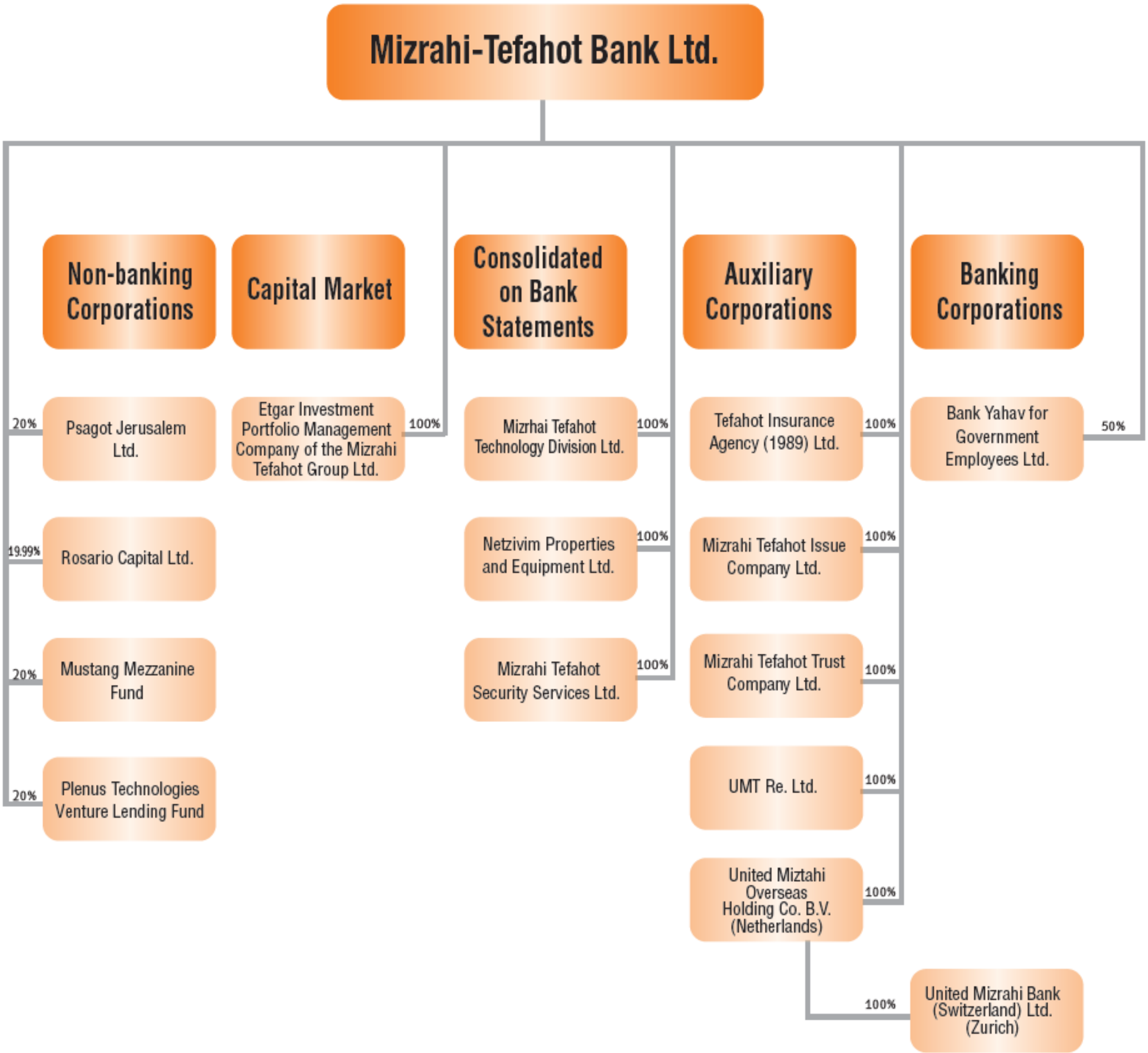
Group of controlling shareholders	Balance as of December 31, 2017	Highest balance in 2017
Wertheim Group and private companies it controls	27	76
Relatives of Wertheim Group and private companies it controls	–	–
Reporting entities controlled by relatives of Wertheim Group		
. Amot Investments Ltd.	1	2
Total – Wertheim Group	28	78
Ofer Group and private companies it controls	2	19
Relatives of Ofer Group and private companies it control	34	175
Reporting entities controlled by relatives of Ofer Group		
. Oil Refineries Ltd.	53	182
. Israel Corporation Ltd.	579	666
. Israel Chemicals Ltd.	–	4
. Gadiv Petrochemical Industries Ltd.	2	2
Total – Ofer Group	670	1,048

Group of controlling shareholders	Balance as of December 31, 2016	Highest balance in 2016
Wertheim Group and private companies it controls	60	152
Relatives of Wertheim Group and private companies it controls	–	–
Reporting entities controlled by relatives of Wertheim Group	–	–
. Amot Investments Ltd.	1	4
Total – Wertheim Group	61	156
Ofer Group and private companies it controls	15	22
Relatives of Ofer Group and private companies it control	100	206
Reporting entities controlled by relatives of Ofer Group		
. Oil Refineries Ltd.	195	380
. Israel Corporation Ltd.	1,071	1,203
. Israel Chemicals Ltd.	1	2
. Gadiv Petrochemical Industries Ltd.	2	4
Total – Ofer Group	1,384	1,819

To the best of the Bank's knowledge, 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.

Other information about the Bank and its management

Holding Structure - Major Companies [1]:



For further information about organizational changes in the Group, see Note 15 to the financial statements

[1] The Bank has holdings in other companies which are not material to Bank operations.

Controlling shareholders

To the best of the knowledge of the Bank and the Board of Directors, the holding interests of controlling shareholders of the Bank, as of December 31, 2017, are as follows:

Holder	No. of shares	% of capital and voting rights
Wertheim Group - M.W.Z. (Holdings) Ltd.(1)	20,495,785	8.81
Wertheim Group - F & W (Registered Partnership)(2)	30,262,844	13.01
Total – Wertheim Group	50,758,629	21.82
Ofer Group - C.A.B.M. Ltd.(3)	7,193,594	3.09
Ofer Group - L.A.B.M. (Holdings) Ltd.(4)	7,814,717	3.36
Ofer Group - A.A.B.M. Ltd.(5)	15,428,435	6.63
Ofer Group - Ofer Investments Ltd.(6)	14,291,819	6.14
Ofer Group - Ofer Sahaf Ltd.(7)	7,477,642	3.21
Total – Ofer Group	52,206,207	22.43
Total holdings by controlling shareholders	102,964,836	44.25
Total shares issued by the Bank	232,631,364	100.00

(1) A private company owned by David Wertheim (63%) and by Drorit Wertheim (37%).

(2) A registered partnership owned (1%) by Mr. David Wertheim and Ms. Drorit Wertheim (at a ratio of 63% and 37%, respectively) and by MWZ (99%).

(3) A private company wholly-owned and controlled by Ofer Development and Investments Ltd., a private company, the shares of which are held by Ofer Holdings Properties Ltd. (89.1%) and by Nazareth Industrial Properties (10.9%). Nazareth Industrial Properties Ltd. is a private company wholly-owned and controlled by Ofer Development and Investments Ltd. Ofer Holdings Properties Ltd. is a private company wholly-owned and controlled by Ofer Holdings (1989) Ltd. ("Ofer Holdings"). Ofer Holdings is a private company held by the Yehuda (Yuli) Ofer RIP estate (36.67%), Liora Ofer (15%), Doron Ofer (15%) and L.I.N. (Holdings) Ltd. (33.33%) (see also footnotes 4 and 6 below).

(4) A private company wholly-owned and controlled by L.I.N. (Holdings) Ltd. ("L.I.N."), which is a private company owned by a foreign trust whose main benefactor, with regard to Bank shares, is Mr. Eyal Ofer (95%) and a foreign-resident company (5%). The foreign trust has given Mr. Eyal Ofer power-of-attorney to vote at General Meetings of L.I.N. with regard to issues concerning the control permit of the Bank, Bank shares directly and indirectly owned by L.I.N., appointment of Board members at the Bank and all matters concerning the Bank. The power-of-attorney gives Eyal Ofer full authority to act on these matters as he sees fit.

(5) A private company wholly-owned and controlled by Ofer Brothers Holdings Properties Ltd., a private company wholly-owned and controlled by Ofer Holdings (see also footnote 3 above).

(6) A private company, the shares of which are held by Leora Ofer (51.67%), Doron Ofer (15%) and L.I.N. (33.33%) (see also footnote 4 above). Prior to the death of Mr. Yuli Ofer RIP, he together with his children, Liora Ofer and Doron Ofer, were the controlling shareholders of Ofer Investments and Ofer Holdings. Upon the death of Mr. Yuli Ofer RIP on September 11, 2011, his shares of Ofer Investments and Ofer Holdings became part of his estate. As the Bank was informed by Ofer Investments, further to the notice from Administrators of the Estate of Mr. Juli Ofer RIP (hereinafter: "the Estate Administrators") to Ofer Investments and following resolutions by the Family Court with regard to distribution of assets in the estate of Mr. Juli Ofer RIP, on September 28, 2016 the shareholder registry of Ofer Investments was revised, so that Ms. Liora Ofer was registered as holder of Ofer Investments shares held by Mr. Juli Ofer RIP (accounting for 36.67% of the share capital of Ofer Investments). Therefore, the holdings in Ofer Investments as of this date are as follows: Liora Ofer: 51.67%; Doron Ofer: 15%; L.I.N. (Holdings) Ltd.: 33.33%. They further noted that, as informed by the Estate Administrators, the Estate Administrators would continue, at this time, to hold the shares held by Mr. Juli Ofer RIP in Ofer Holdings (which constitute 36.67% of Ofer Holdings' share capital). Upon receiving confirmation from the Bank of Israel, the shareholder registry of Ofer Holdings would be revised, so that Ms. Liora Ofer would be registered as holder of Ofer Holdings shares held by Mr. Juli Ofer RIP.

(7) A private company wholly-owned and controlled by Ofer Investments Ltd.

Shareholder agreements

Between A.A.B.M. Ltd., C.A.B.M. Ltd., and L.A.B.M. (Holdings) Ltd. as the first party (hereinafter: ("Ofer Group") and between Feinberg-Wertheim (Registered Partnership) as the other party ("Wertheim Group") for cooperation in exercising rights associated with Bank shares ("voting agreement"). The aforementioned voting agreement sets forth, inter alia, rules for joint voting of controlling shareholders at General Meetings, for each party's right of refusal upon sale of controlling shares by the other parties, for rights to appoint Board members and rights to appoint the Chairman of the Board of Directors.

Ofer Group

On January 17, 2013 the Bank received notice from Ofer Investments Ltd. (hereinafter: "Ofer Investments") with regard to a permit dated January 15, 2013 given by the Governor of the Bank of Israel, for holding control and means of control over the Bank by Ofer Group (as defined in the control permit – i.e. Eyal Ofer, Doron Ofer, Liora Ofer and the estate of Juli Ofer RIP managed by estate administrators, Attorneys Zvi Ephrat and Reuven Bachar) and by Wertheim Group (i.e. Mr. Moshe Wertheim), pursuant to the Banking Act (Licensing), 1981 (hereinafter: "the new permit"). On this matter, see report issued by the Bank on January 17, 2013 (reference 2013-01-016320). This mention constitutes inclusion by way of reference of all information provided in the aforementioned report.

Through the receipt date of the new permit, Ofer Group held Bank shares (controlling interest shares and non-controlling interest shares) through Ofer Investments and its subsidiaries, and through L.I.N. (Holdings) Ltd. (hereinafter: "L.I.N") and its subsidiary. Upon receiving the new permit, the outline of change in the Bank holding structure came into effect, referring only to holding of Bank shares by Ofer Investments, to separation of holding of controlling interest shares of the Bank from other operations of Ofer Investments, including holding of real estate properties (hereinafter: "new structure change"). The new structure change includes transfer of controlling interest shares of the Bank (indirectly held by Ofer Investments) to be indirectly held by a sister company of Ofer Investments, Ofer Holdings (1989) Ltd. (hereinafter: "Ofer Holdings"). Resulting from the new structure change, Ofer Investments would continue to hold ordinary Bank shares (not part of the controlling interest), directly and through a subsidiary. For more information see footnote 6 to the above table showing control of the Bank Group.

New co-operation agreement between individuals of Ofer Group and corporations under their control -

As Ofer Investments informed the Bank, upon receiving the new permit and implementing the new structure change, a new co-operation agreement became effective between individuals of Ofer Group and corporations under their control, who hold Bank shares directly and indirectly. The new co-operation agreement replaces previous agreements between the parties. In the aforementioned agreement, the parties agree that relations with regard to Bank holdings, control over the Bank and management rights between Juli Group (recipients of the control permit from family of Juli Ofer RIP, including temporary or permanent administrators of his estate, pending distribution of shares owned by Juli Ofer RIP) (hereinafter: "Juli Group") and L.I.N (in which Eyal Ofer has power of attorney to act with regard to Bank business), would be shared on 50-50 basis, hence the Board member quota of Ofer Group would be equally divided between L.I.N and Juli Group, and no decisions would be made by Ofer Group with regard to any Bank-related matter without mutual consent of L.I.N and July Group. For more information, see section 3 in the Bank's Immediate Report dated January 17, 2013 (reference 2013-01-016320). This mention constitutes inclusion by way of reference of all information provided in the aforementioned report.

The notice from Ofer Investments to the Bank further indicated that Ofer Investments and Ofer Sahaf Ltd. (who would continue to hold non-controlling interest Bank shares) have committed, in the new co-operation agreement, to act pursuant to provisions of the control permit, as these may be from time to time, if applicable to them, including to only exercise voting rights with respect to Bank shares they hold in accordance with the decision made with regard to exercise of voting rights with respect to controlling interest Bank shares. Moreover, these companies committed that, should their shares be offered in future to the public, their aforementioned commitment would be reflected in the prospectus to be made public. For more information see footnote 6 to the above table showing control of the Bank Group.

Wertheim Group

On February 17, 2013, Mr. Moshe (Mosie) Wertheim informed the Bank that he had gifted to his children his shares and holdings of corporations holding Bank shares which are part of the controlling interest in the Bank, M.W.Z (Holdings) Ltd. and F&W (Registered Partnership), as follows: to Mr. David Wertheim – 63% of his holding stake, and to Ms. Drorit Wertheim – 37% of his holding stake.

According to Mr. Moshe Wertheim's notice to the Bank, this transfer of shares is subject, inter alia, to obtaining a control permit from the Governor of the Bank of Israel, pursuant to the Banking Act (Licensing), 1981.

On January 18, 2015, the Bank received notice from Mr. Wertheim, whereby a letter, received on January 15, 2015 from the Supervisor of Banks at the Bank of Israel, indicates that for legal and procedural reasons, the Supervisor of Banks is unable to recommend that the Governor of the Bank of Israel grant the requested permit. However, since receiving said letter, negotiations are ongoing with Bank of Israel to arrange this matter.

On August 31, 2016, Mr. Moshe (Mosie) Wertheim passed away.

On December 27, 2016, the Governor of the Bank of Israel, Dr. Karnit Flug, informed Mr. David Wertheim and Ms. Drorit Wertheim that the control permit at the Bank awarded to Mr. Moshe Wertheim RIP is no longer valid and that provisions of said control permit shall apply to Mr. David Wertheim and Ms. Drorit Wertheim as from the date of the Governor's notice, as if they had held the means of control over the Bank pursuant to a valid control and holding permit. According to the Governor's notice, Mr. David Wertheim and Ms. Drorit Wertheim would be regarded, *mutatis mutandis*, as replacing Mr. Moshe Wertheim RIP with regard to the voting agreement. For more information about the Governor's notice received by the Bank, see the report issued by the Bank on December 28, 2016 (reference no. 2016-01-092391).

The shareholders agreement signed by Mr. David Wertheim and Ms. Drorit Wertheim and companies controlled there by which hold Bank shares and are part of the controlling block at the Bank, MWZ and F&W, on June 26, 2015, governs the relations of Mr. David Wertheim and Ms. Drorit Wertheim in the holding companies and, indirectly, their exercise of their means of control over the Bank. The shareholders agreement stipulates various arrangements and principles. As for the control agreement with Ofer Group, the shareholders agreement stipulates that the representative of Wertheim Group at the Bank would be appointed by the MWZ Board of Directors, by simple majority. The parties also agreed how they would decide on their nominees for office of Bank Board member (other than external Board members); in conformity with the current holdings of the parties in the holding companies, David Wertheim may nominate most of the Wertheim Group nominees for office of Bank Board member and Drorit Wertheim may nominate the remaining ones. For more information, see report by the Bank dated January 5, 2017, reference: 2017-01-002452).

Fixed assets and installations

The amortized cost of buildings and real estate for the Bank Group (including installations and leasehold improvements), net of provision for impairment, as of December 31, 2017 amounts to NIS 693 million, compared to NIS 872 million at the end of 2016.

In 2018, no unusual investments are expected in fixed assets and in plant (buildings, land, equipment, furniture and automobiles).

For more information about fixed assets for the Group, see Note 16 "Buildings and equipment" on the financial statements.

This information constitutes forward-looking information, based inter alia on various assumptions and forecasts with regard to the state of the economy, legislation, directives of supervisory entities, technological developments, developments in the real estate and construction market and human resource issues. This information may not materialize, or materialize in part, to the extent and on dates to be determined by Bank management or due to changes that could occur in various influencing factors that are not under sole control of the Bank.

For more information about investments and expenses with respect to IT, see chapter "Analysis of composition of assets, liabilities, capital and capital adequacy" below.

For more information about replacement of the core banking system at Bank Yahav, see chapter "Significant developments in IT" of the Report of the Board of Directors and Management.

Intangible assets

The Bank Group has data base entries of clients and employees. The Bank also owns the rights to the trademarks "Mizrahi-Tefahot", including with the infinity symbol and the words "Team", "Live", "Tefahot", "Tefahot – No. 1 in Mortgages", "Retirement portfolio Based on a Nobel Prize Winning Model", "Mizrahi Bank" with the image of the sun and variations of these marks. The Bank owns the rights to trademarks associated with the Bank's name in the USA, Canada, Switzerland and in the European Union as well.

The Bank has acted extensively to develop its technological capabilities, in response to evolution of its business and in order to achieve the strategic plan.

The balance of discounted software development cost is included on the financial statements under "Buildings and equipment".

For more information about treatment of software development costs on the financial statements, including their useful life, see Note 1.D. 8. to the financial statements.

For more information about investments and expenses with respect to IT, see chapter "Explanation and analysis of results and business standing" of the Report of the Board of Directors and Management.

For more information about replacement of the core banking system at Bank Yahav, see chapter "Significant developments in IT" of the Report of the Board of Directors and Management.

Human Resources

Bank organizational structure

The Bank organizational structure is intended to support achievement of Bank objectives and realization of its business plan. The organizational structure is based on divisions and other departments, reporting to the Bank President & CEO (except for the Internal Audit Division, which reports to the Chairman of the Board of Directors), as follows:

Retail Division – This division consolidates most of the banking activity of private customers and small business customers. Division operations include: The retail sector, primarily responsible for operations of the Household segment and of the Small Business segment; and the mortgage sector, responsible for mortgage operations. Bank branches and business centers operate under this division in six geographic regions and the LIVE sector, which is operates by personal bankers via a range of communication channels (internet, telephone, SMS, fax and video chat).

Business Banking Division – this division consolidates most of the banking activity of the large corporations and of business customers. This division includes the corporate sector, in charge of operations of the business banking segment, and the business sector, in charge of operations of the commercial banking segment, operating three geographically-distributed business centers. The division also includes other units providing specialized services for clients in specific sectors: the construction and real estate sector, the international finance and trade sector and the diamonds business center. The division also operates the special client sector, in charge of arrangement and collection of troubled debt.

Finance Division – The division includes the financial management sector – which is responsible for management of the Bank's financial assets and liabilities – and the trading sector, which operates an integrated trading room active in all financial markets, in trading currencies, interest rates and Israeli and overseas securities, and the Information & Client Service Sector which supports all financial market operations, providing Back Office services. The Division is also responsible for the Group's international operations and for private banking, *inter alia*, through private banking units in Israel and through affiliates and subsidiaries overseas.

Information Technology Division – in charge of information technology, including pursuant to requirements of Proper Banking Conduct Directive 357, through the Mizrahi-Tefahot Technology Division Ltd., a wholly-owned subsidiary of the Bank.

Planning, Operations and Customer Asset Division – The division includes the Process Engineering Division, responsible, *inter alia*, for back-office banking operations and the Planning & Economics Division, which is also responsible for supervision and control of subsidiaries. The division is also responsible for Bank insurance business (including: banking insurance as well as officer and director insurance), insurance incidental to mortgages and the clearinghouse. The division also includes the departments which provide pension consulting and financial consulting services offered to clients. The division is also responsible for subsidiaries operating in the capital market, including: Etgar Investment Portfolio Management Company of the Mizrahi Tefahot Group Ltd., Mizrahi-Tefahot Trust Company Ltd. and the provident fund sector.

Risk Control Division – this division includes the various risk control departments at the Bank (including: market, interest, liquidity, credit and derivatives risk), which also manages the operational risk at the Bank. This division is in charge of information security issues. The Division includes the Bank's Chief Compliance Officer as well as the Analysis Department, tasked with formulating independent recommendations with regard to extending credit as well as opinions with regard to associated risk.

Human Resources and Administration Division – this division includes management of human resources, training, logistics, administration and improved efficiency (including properties, construction and procurement) as well as security (including the cash and courier center), community outreach and corporate social responsibility.

Marketing, Advertising and Business Development Division – This division consolidates activities relating to advertising, marketing, and development of financial products that the Bank markets to customers.

Accounting & Financial Reporting Division – in charge of preparing the Bank's public financial statements, reporting to statutory authorities and to management, taxation, main ledger, accounting, treasury and payroll department. The Division is also responsible for credit classification and for determining the provision for credit losses, as well as for challenging the discovery and reporting processes of problematic debt.

Legal Division – this division is responsible for providing legal services for all of the Bank's units, for creating the legal infrastructure for the Bank's activities, for management of exposure to legal risk and to handle claims against the Bank.

Internal Audit Division – the division is responsible for conducting internal audits of Bank business and operating units. The division is also responsible for handling the public inquiries and complaints against the Bank.

Human Resource Division Policy

Bank management regards all Bank employees and managers as a key component for achieving its business strategy and business growth targets. This commitment is reflected by implementation of three key principles in Bank operations:

- Creating a respectful work environment – The Bank regards its employees and managers as partners in the Bank's success and therefore strives to promote them and to create a supportive work environment.
- Caring for employee rights – The Bank ensures the rights of all employees, as well as their right to join a labor union. The Bank offers its employees better working conditions than required by labor laws.
- Caring for employee welfare – Employee welfare is managed as follows: Creating welfare support for Bank employees and their families, an extensive health care plan for employees, an organizational culture which supports recognition and allows for optional leisure activities – based on the understanding that such balance generates value for both the employee and the Bank.

The Bank regularly promotes equal opportunity in the work place. This is based on recognizing the ultimate importance of the value of equality. The Bank does not discriminate against any employee by religion, ethnicity, race, gender nor any other attributes.

Significant developments

- As part of the Bank's strategy of expansion in certain demographic segments, focused on the Arab segment and on the Jewish Orthodox segment, the Bank has acted to recruit employees from these demographics.
- As part of our commitment to equal opportunity and in preparation for implementing the Employment of Persons with Disabilities Act, a policy on this matter was approved and is being implemented by the Bank.

- As part of the Bank's concern for employee health, eligibility for medical check-ups and funding for such check-ups has been extended to all employees aged 40 or over.

Staff – general information

Provided below is information on the number of employees whose pay was reported under "Payroll and associated expenses", in terms of full-time positions (including impact of overtime) in the Bank and in subsidiaries. The number of Bank employees provided below also includes employees who are not employed by the Bank but by companies related to the Bank, including employees of Mizrahi-Tefahot Technology Division Ltd. and Mizrahi-Tefahot Security Services Ltd. – service companies wholly-owned and controlled by the Bank, that provide computerization, security and protection services to the Bank:

2017

	At the Bank	Overseas branches	Total for the Bank	Subsidiaries in Israel	Overseas subsidiaries	Total for the Group
Number of full-time equivalent positions as of December 31, 2017	5,235	62	5,297	952	22	6,271
Number of full-time employees based on monthly average	5,169	62	5,231	962	22	6,215

2016

	At the Bank	Overseas branches	Total for the Bank	Subsidiaries in Israel	Overseas subsidiaries	Total for the Group
Number of full-time equivalent positions as of December 31, 2016	5,072	64	5,136	982	23	6,141
Number of full-time employees based on monthly average	5,078	64	5,142	938	23	6,103

Below is the distribution of number of positions in the Group by operating segment(1)(2):

Operating segment	As of December 31 2017	As of December 31 2016
Households	3,823	3,718
Private banking	113	129
Small businesses	1,132	1,156
Commercial banking	266	254
Business banking	591	551
Financial management	346	333
Total	6,271	6,141

(1) Composition is by operating segments based on management approach. See Note 29 to the financial statements for details.
(2) Including Head Office employees that are allocated pro-rata to the various segments.

Human resource management

Bank management regards all Bank employees and managers as a key component for achieving its business strategy and growth objectives for operations and profitability. Human resources at the Bank are managed on two levels:

- Caring for the individual includes: recruitment, on-boarding and during the employee's service life time, through retirement.
- Human resources are developed during regular work, through individual and group training and development processes.

The Bank invests in development of its human resources, by training for skills related to banking, regulatory affairs, new behavioral and managerial skills, as well as by preservation of existing knowledge and skills. This is done through training activities throughout the employee's time with the organization, from starting in their new role, through promotion tracks, completing and expanding academic education and enrichment through external seminars.

In 2017, the Training Center continued to deploy the "Learning organization" concept – whereby managers and employees regard learning as an on-going task carried out at their workstation as well. Unit managers lead organizational change and are responsible for their employees' professional skills through personal mentoring. The Bank applies diverse learning methods: in-person training at the Training Center, individual / training at departments, in-person learning at departments (during team meetings), eLearning, professional and managerial mentoring, videos, games etc.

The Bank's Organizational Development and Training Division applies diverse tools to develop intra-organizational communication channels in general and conducting evaluation and feedback processes, with each employee given personal feedback for their performance over the past year.

Training expenses in 2017 amounted to NIS 13 million, compared to NIS 14 million in the previous year.

In 2017, all Bank employees attended training (in-person and online), for a total of 37,978 training days, compared to 35,275 training days in 2016.

For more information about human resource management, see also the 2016 Corporate Governance Report on the Bank website.

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

Collective labor relations

The labor relations in the Bank are collective (except for a limited group of senior employees), which are expressed in two employee organizations:

A **The Association of Bank Mizrahi-Tefahot Employees Ltd.** is a long-standing organization, which was authorized, by virtue of an inter-organization agreement signed by the Association and the HaPoel HaMizrahi Union, by that Union to act as the representative organization of Bank employees for the purpose of signing collective bargaining agreements and of representing Bank employees (hereinafter: ("Employees' Association").

B **The Association of Managers and Authorized Signatories at Bank Mizrahi-Tefahot Ltd.** was founded by branch- and department managers in 2005 (hereinafter: ("Manager Council"). This organization has been recognized by the Bank and by the Employee's Association as a "bargaining unit" for negotiation and signing agreements.

C **Bank Mizrahi Tefahot Ltd. Technology Division Employee Committee** – the organization authorized to sign, together with the MAOF trade union, on behalf of Bank Mizrahi Tefahot Ltd. Technology Division employees (a subsidiary wholly owned and controlled by the Bank), any collective bargaining agreements applicable to company employees (except for Technology Division employees employed under individual employment contracts).

D **Bank Yahav employee representatives** – empowered to sign on behalf of Bank Yahav employees any collective bargaining agreements applicable to Bank Yahav employees.

Employment terms of employees represented by the Bank's Employee Union

Overview

The employment terms are anchored in a series of collective agreements, together called "labor constitution". The labor constitution presents the general framework of the undertaking between the employees and the Bank, and arranges the basic employment terms. In addition, wage agreements are signed from time to time, within the framework of the constitution.

Collective bargaining agreement

On December 3, 2017, a new collective bargaining agreement was signed by management and by the Employees' Union. For more information see Note 22 to the financial statements.

Salary update method

Salaries of most Bank employees (except for a small number of employees employed under individual contracts signed by them and by the Bank – see chapter Individual Employment Contracts below) are updated based on three key components:

- Components which are updated regularly at rates and in the manner prescribed from time to time, in negotiations of labor agreements The major component is the basic salary. In addition, other increments derived from the basic salary are updated, primarily the seniority increment, which is updated at the start of each year by an increasing percentage, as employee seniority increases. The seniority increment reaches 4% per year (of the basic salary), for an employee with over 26 years' service with the Bank. The seniority pay increase for employees hired by the Bank as from August 17, 2017 would be revised at the start of each year, to a pay increase of up to 3% per year (of their base pay) for employees with over 22 years of service with the Bank.
- Components updated in accordance with changes in the Consumer Price Index.
- Components linked to changes in external tariffs.

All of the above components apply uniformly to all the employees, the employment terms of whom are subject to the labor constitution and to the labor agreements signed between the Bank and the Employee Union. Updates to part of the salary based on criteria not linked to the CPI, as well as payment of automatic Seniority Bonus as stated above, result in a situation where the real rate of salary increase at the Bank is higher the lower the inflation rate. In a reality of low single-digit inflation, these factors lead to an increase in real salaries, despite the absence of an update to the wage agreement.

Special payments

In addition to the regular salary elements, the Bank pays to its employees, as stipulated in the labor constitution, a one-time grant upon reaching seniority of thirteen years and eighteen years. The Bank's financial statements include a provision for these obligations, according to an actuarial calculation that is based on past experience and the probability that on the date of record, the employee will still be employed by the Bank.

During the term of the collective bargaining agreement for 2016-2021 and in return for achievement of return on equity, the Bank would pay employees a Return Bonus.

The Bank also provides individual compensation tools, through which the personal compensation of each and every employee is carried out. These compensation tools are selective and are based on specific assessments of the direct managers of the Bank's employees in the different segments regarding the performance of every employee. Personal promotion is achieved primarily via promotion in rank and in the bonus component, about which Bank management decides each year and these decisions are approved by the Board of Directors. Decisions relating to the extent of personal promotion and bonus or grant are not derived from provisions of labor agreements, but are influenced by the assessment of the employee performance, the Bank's situation and profitability in the relevant period.

Employment terms for employees represented by the Council of Managers and Authorized Signatories

Overview – Wage Agreements

On June 16, 2014, a wage agreement was concluded with the Manager Council for the period 2013-2017. The agreement primarily includes a gradual increase in management fee by 2% per annum for 2014-2017, linkage of vacation pay rates to the CPI, inclusion of vacation pay as part of the basis for contribution to study fund, extension of the agreements on other matters and ensuring labor unrest is avoided through December 31, 2017. Negotiations have started in order to sign a new labor agreement for the coming years.

Individual employment contracts

The labor agreements signed by the Bank in the years 1995, 1998, 2003 and 2006, stipulated that the Bank will be permitted to enter into individual employment contracts with senior employees, as defined in the agreements, as well as several individual employment contracts with certain officers. Some of the senior employees employed under individual employment contracts are eligible, in the event of termination by the Bank, to severance bonuses based on their period of service with the Bank, in addition to other amounts and benefits accrued to their credit in various funds. The financial statements include a provision for the severance bonuses accrued through the balance sheet date. See Note 22 to the financial statements for additional information.

Employment terms of employees of Mizrahi-Tefahot Technology Division Ltd.

Employment terms of employees of Mizrahi Tefahot Technology Division Ltd. (hereinafter: "the Technology Division" or "the Company") 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.

Significant Agreements

A Employment agreements signed with the Employees'Council, the Manager and Authorized Signatory Association and the Technology Division Employee Committee. For more information see chapter "Human Resources" above.

B Indemnification letters. For more information see Note 26.C. (4-9) to the financial statements.

C Agreement with Israel Credit Cards Ltd. (hereinafter: "CAL") and with Diners Club Israel Ltd., a company controlled by CAL, for joint issue of Visa, MasterCard and Diners Club debit cards, including Bank-branded cards, to be distributed by the Bank to its clients. For more information see Note 26.C.13 to the financial statements.

D Bank Yahav contracting with an international company for creating a core banking system and receiving outsourced services for such system. For more information see chapter "Significant developments in IT" in the Report by the Board of Directors and Management.

E Directed loans to Ministry of Construction and Housing eligible borrowers. For more information see chapter "Household segment" above.

F Sale of assets and liabilities in mortgage portfolio – For more information see chapter "Significant Developments in Management of Business Operations" in the Report of the Board of Directors and Management.

G Agreement with Bank Igud shareholders – For more information see chapter "Significant developments in management of business operations" in the Report of the Board of Directors and Management.

Legislation and Supervisory Regulation of Bank Group Operations

Laws and regulations

The Dodd-Frank Wall Street Reform and Consumer Protection Act and the European Market Infrastructure Regulation (EMIR).

In 2012, rules were published governing application of the Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted in the USA in 2010 (hereinafter: "Dodd-Frank reform").

The reform is designed, *inter alia*, to mitigate credit risk in trading on the OTC derivatives market, systemic risk arising there and increase transparency of this market.

The reform stipulates, inter alia, that transactions are to be settled by a central clearing house to consist of large, major banks which would guarantee each party's compliance with their obligations, binding procedures concerning collateral are to be specified, and all swap transactions made are to be reported to central information repositories, which would store this information and make it accessible to all market players.

Concurrently with the Dodd Frank reform, a similar reform was launched in Europe – European Market Infrastructure Regulation ("**EMIR**")

The EMIR reform, similar to the Dodd Frank reform, calls for central settlement, mandatory collateral requirements and reporting of executed transactions to designated data repositories.

The rules stipulated by the Dodd-Frank and EMIR reforms also apply to non-US and non-European entities conducting transactions (of certain volumes specified in these reforms) with US or European entities. The Bank applies the relevant directives in conformity with schedules stipulated by the reforms.

The Dodd-Frank and EMIR reforms stipulate new rules for margins, as well (Variation Margin and Initial Margin) for transactions which would not be settled, designed to align conduct rules for the derivatives market for supervision by the relevant regulator. Provisions with regard to Variation Margin became effective for entities such as the Bank as from March 1, 2017 and an extension was granted until September 1, 2017. The Bank applies the relevant provisions to it and has adapted the activity agreements in derivatives (ISDA agreements and the CSA appendix) with the entities relevant to the legislative requirements.

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, 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 as required by the directive.

Increased Competition and Reduced Concentration in Israeli Banking Act (Legislation Amendments), 2017

The Act was approved on January 27, 2017 and would become effective gradually. The Act aims to increase competition in the financial system through various means. For more information about the Increased Competition and Reduced Concentration in Israeli Banking Act and its impact, see chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" of the 2016 annual report.

Prohibition of Money Laundering Act (Amendment no. 16) – amendment of definition of Controlling Shareholder

As part of legislative amendments designed for implementation of international agreements on information exchange and improved transparency of legal entities, the definition of Controlling Shareholder in the Prohibition of Money Laundering Act, 2000 was amended. Highlights of the new definition, effective as from February 4, 2017, are as follows: Controlling Shareholder is an individual capable of (directly or indirectly) directing operations of the corporation and/or an individual holding 25% or more of any particular type of means of control (the definition of Means of Control was also expanded in this Amendment). In absence of such individuals, the senior officers are to be classified as Controlling Shareholders: CEO and Chairman of the Board of Directors for a corporation and equivalent officers of other entities. The Amendment is designed to align the definition specified in the Prohibition of Money Laundering Act with the definition required by the FATCA agreement. The Bank is applying this new definition.

Financial Services Supervision Act (Regulated Financial Services), 2016

The Act became effective on June 1, 2017. The Act is designed to govern the non-banking credit market, to generate fair, transparent competition in this area, which had been gray and exposed in part – and to allow consumers to have confidence in non-banking credit providers.

According to the Act, 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. As from June 1, 2018, it would not be permitted to engage in Israel in "provision of service in financial assets" without an appropriate license. Financial entities subject to licensing by other legislation are, naturally, exempt. The Bank may refuse account management to anyone required by law to hold a license who would fail to present such license. Currently, Bank clients that provide discounting and lending services are subject to licensing pursuant to the new Act and the Bank has contacted the relevant clients, requiring them to present their license or, alternatively, to certify that they do not extend credit.

On February 1, 2018, Amendment 4 to the Act became effective, stipulating that operation of a "credit brokerage system" constitutes a "financial service". Therefore, as from the effective start date of this Amendment, it would no longer be 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 is studying the Amendment and is preparing for its implementation.

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

Amendment 19 to the Sale Law (Apartments) (Securing Investments of Home Buyers), 1974

On March 30, 2017, Amendment 19 to the Sale Law (Apartments) (Securing Investments of Home Buyers), 1974 was made public, which covers two issues:

- Exempting the apartment seller from providing collateral to the buyer with respect to the VAT portion of the buyer payment, where the collateral issued to the buyer is a Sale Law guarantee or a Sale Law insurance policy:

Prior to the amendment, the law stipulated that an apartment seller must provide to the apartment buyer collateral of one of the types listed in the law for the entire payment made by the buyer to the seller with regard to consideration for the apartment.

The amendment exempts the seller from providing collateral with respect to the VAT portion of the buyer payment, where the collateral provided is a bank guarantee or an insurance policy.

The law stipulates that reimbursement of the VAT component of the buyer payment to the buyer, in case of default by the seller, pursuant to one of the causes listed in the law, would be secured and carried out by a fund to be created for this purpose at the Ministry of Finance (hereinafter: "the Fund"), which would be liable for reimbursing this component to the buyer in case of materialization of any of the causes listed in the law; this reimbursement would be done through the lending banks, requiring various reports upon demand from the Funs, from the assisting banks with regard to projects which are subject to this amendment to the law.

The effective start date for these provisions is 15 days after notice has been made public of the creation of such fund.

Such notice was made public on April 30, 2017 and the effective start date is, therefore, May 14, 2017.

The Bank is acting in conformity with this legislative amendment and applies it.

- Expansion of definition of "Corporation providing financial assistance" to insurance companies:

Prior to the amendment, the law defined a "Corporation providing financial assistance" as a banking corporation only and, consequently, the obligations of such a corporation, specified in the law, only applied to banks.

This amendment to the law expands the definition of "Corporation providing financial assistance" to also include insurance companies and the obligations imposed by law on a banking corporation providing financial assistance were also, accordingly, applied to insurance companies providing financing for construction projects using the financial assistance method, as defined by law.

Scope: The aforementioned part of the amendment would apply to construction projects whose financing agreements were signed as from the publication date of the law (March 30, 2017).

Insurance companies that act in this regard in co-operation with the Bank have applied the legislative amendment.

Application of the amendment 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, 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 that it held, at such terms and conditions as set forth 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 offer to sell part (1.5%) of the Stock Exchange Company shares held by the Bank. The expected consideration for these shares amounts to NIS 8.7 million. In conformity with the Stock Exchange solicitation, the Stock Exchange is not required to accept the Bank's offer, in whole or in part; therefore, as of this date, it is uncertain whether the sale of shares to the Stock Exchange would be completed.

Sale Announcement (Apartments) (Securing Investments of Home Buyers), 2017

On May 25, 2017, the Sale Announcement (Apartments) (Securing Investments of Home Buyers), 2017 was made public, including revision of the amounts of monetary sanctions imposed on a seller or on a financing provider with respect to breach of duty imposed there upon by the Act due to increase in the Consumer Price Index.

For a corporation providing financial assistance – revision of the amount of sanctions with respect to breach of duty to issue payment vouchers and to accept buyer payments using such vouchers into the project account.

For a corporation providing financing to buyers – revision of the amount of sanctions with respect to breach of duty to inform the buyer of their rights to secure funds by law and the obligation to transfer loan funds after verifying that the buyer received a guarantee or written commitment by the seller to issue one.

The revised regulation is effective as from the announcement date.

Application of the amendment has no impact on the Bank's financial statements.

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 Justice Minister, with consent of the Finance Minister, the Governor and with approval of the Constitution Committee, is authorized to extend its scope, in whole or in part, to credit granted to corporations.

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% (for currencies for which LIBOR is not published – the interest rate of the central bank in that country 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 (i.e. currently: Bank of Israel / LIBOR interest (as the case may be) plus 20%).
- 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).

Any violation of statutory provisions may result in imposition of financial sanctions.

The provisions of the Law would apply only to new loans. The effective start date of the Law is November 6, 2018.

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.

Banking Rules (Customer Service) (Commissions) (Amendment), 2017

On August 24, 2017, the following rules were published:

- As of September 23, 2017, the Bank may charge a casual client a commission higher than the one charged to clients who are account holders at the Bank.
- As from November 1, 2017, a commission for service provided by direct channel must be lower than the commission amount or rate for the same service provided by a teller. The Bank is also required to add an appendix to its price list (the price list for individuals and small businesses) listing the benefits of direct channel transactions.

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

Change in tax rate in USA

Recently, the US Senate approved a program to reduce the Federal corporate tax rate and other changes to the tax system. This is not expected to have any material impact on the Bank's financial statements.

Proposed legislation

From time to time, proposals for legislative amendments are brought before the Knesset on various matters, some of which could have an impact on the businesses of banking corporations, including the Bank. However, as of the date of the financial statements, these proposals are in different stages of legislation, they may be modified and there is no certainty as to when they will be completed or if they will eventually become provisions of binding legislation.

Supervisor of Banks

Circulars and Public Reporting Directives

Improved usefulness of public reports by banking corporations for 2017 and 2018

On December 31, 2017, the Supervisor of Banks issued a circular concerning improved usefulness of public reports by banking corporations for 2017 and 2018. Given the importance attached by the Supervisor of Banks to presentation of useful information to the public and further to action taken in this direction in recent years, and given the developments in disclosure requirements applicable to Banks globally and the methods used to provide disclosure pursuant to such requirements, the Reporting Regulations have been amended. Below are highlights for improved usability of the public reports for 2017 and 2018:

Summary of changes applicable as from the 2017 financial statements:

- Arrangement of disclosures with regard to exchange rate risk and net interest revenues.
- Multi-annual information and multi-quarter information transferred to appendixes to the financial statements.
- Expanded disclosure with regard to: Credit sale, purchase and syndication transactions, capital planning and capital target of the Bank.
- Reduced information on various matters in the report.

Summary of changes applicable as from the financial statements as of March 31, 2018:

- Addition of regulatory performance benchmarks in the Risks Report.
- Provision of disclosure with regard to leveraged credit transactions.

Summary of changes applicable as from the 2018 financial statements:

- Arrangement of disclosure with regard to exposure to foreign countries, credit risk by economic sector, interest risk and remuneration.
- Risks Report: Transfer of more detailed information about risks to the Risks Report; emphasis on important, comparable information; elimination of repeated information on the financial statements; and reduced disclosure frequency.

The Bank applies the changes in effect and is preparing to apply all other amendments.

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 is preparing to implement this directive.

Prohibition of money laundering

On March 6, 2017, the Bank of Israel issued a revision and expansion of Proper Banking Conduct Directive 411 "AML and Terror Financing Risk Management", 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 effective start dates for revisions to this directive is January 1, 2018. The Bank is preparing to implement this directive.

Board of Directors

On July 5, 2017, the Bank of Israel issued an update to Proper Banking Conduct Directive 301 concerning "Board of Directors". These updates to the directive are designed to improve the effectiveness of Board work and to enhance the professional qualifications of the Board of Directors as a corporate organ. The revised directive stipulates, *inter alia*, that the Board of Directors may not consist of more than 10 members, in lieu of 15 members currently; expands the definition of "having banking experience" and increases the number of Board members required to have such experience from one fifth to one third; stipulates that the Board of Directors shall include at least one Board member with proven experience in technology; reduces the list of topics for which Board authority may not be delegated to Board committees; stipulates that the Board of Directors should set policy on the maximum term in office of the Chairman of the Board of Directors; as well as other provisions with regard to Board authority, work and function.
The revised directive is effective as from the circular issue date. As for the number and qualifications of Board members, the effective start date is July 1, 2020. The Bank is preparing to implement the revised directive.

Reduced cross commission in deferred charge transactions using credit cards

On January 16, 2018, the Bank of Israel announced its intention 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 2024. This change will take place in 3 stages: First stage in January 2019 (0.6%); Second stage in January 2021 (0.55%) and the final stage in January 2024. According to this notice, should there be any material changes in the market, the Governor of the Bank of Israel may exercise their authority and review the need for future changes to this commission.

Application of the reduced commission is not expected to have any material impact on the Bank's financial statements.

Bank's credit rating

On January 21, 2017, 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 10, 2017, Midroog Ltd. (created in partnership with Moody's International, which owns a 51% equity stake) (hereinafter: "Midroog") issued an initial rating of the Bank. The long-term deposits and senior debt of the Bank wererated Aaa.il / Stable outlook. Subordinated capital notes (Lower Tier II capital) were rated Aa1.il / Stable outlook and subordinated capital notes (Upper Tier II capital) were 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 ilAa3 with Stable rating 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

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).

The disclosure outline for supervisory operating segments includes the following segments: Individuals, micro and small businesses, medium businesses, large businesses, institutional entities and financial management. The Bank's overseas operations should be presented separately.

Supervisory operating segments

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.

Below is brief description of supervisory operating segments:

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 – the segment primarily includes provident funds, pension funds, study funds, mutual funds, ETFs, insurance companies and stock exchange members who manage client portfolios, as defined by the Supervisor of Banks.

Financial management – includes trading operations, asset and liability management and non-banking investments.

Overseas operations – 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.

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, the supervisory operating segments and "Operating segments in conformity with the management approach" are correlated. However, there are some differences in client attribution to segments and in how decisions are made. Therefore, at this stage, the financial statements also include reporting of operating results in conformity with "the management approach", as noted above.

A summary of these differences are as follows:

- 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 or being part of the same borrower group.
- Other differences are reflected in the Bank's definition of Private Banking, how institutional investors are handled, business operations attributed to the Financial Management Division and other differences arising from the aforementioned definitions.
- The difference in definitions is reflected in particular in these segments:

- Individual clients with a financial asset portfolio at the Bank of less than NIS 3 million, classified to the private banking segment in the disclosure about operating segments in conformity with the management approach, were classified to the household segment in the disclosure about supervisory operating segments.
- Micro and small businesses, classified to the private banking segment in the disclosure about operating segments in conformity with the management approach, based on their attribution to the organizational unit in charge, were classified to the business segment in the disclosure about supervisory operating segments, in conformity with the aforementioned definitions.
- Business clients, classified to the business segment or to the commercial segment in the disclosure about operating segments in conformity with the management approach, based on their attribution to the organizational unit in charge, were classified to the micro and small businesses segment in the disclosure about supervisory operating segments, in conformity with the aforementioned definitions.
- Institutional investors classified to the business segment or to the financial management segment in the disclosure about operating segments in conformity with the management approach, were classified to the institutional investor segment in the disclosure about supervisory operating segments.
- 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.

Exceptions for classification of business clients by turnover

According to the Bank of Israel Q&A File, the Bank classified business clients to operating segments other than by turnover, in the following cases:

- When the Bank has no information about the revenues of a business client and client indebtedness is smaller than NIS 300 thousand, the client is classified to the appropriate supervisory operating segment based on the client's total financial assets with the Bank. Such classification would be in accordance with the aforementioned categories for revenues, with total financial assets multiplied by 10 for the purpose of such classification.
- When the Bank is of the opinion that the volume of revenues of a business client are not indicative of their total operations and the client's total assets on the balance sheet exceed NIS 100 million, the Bank classifies such client to the Large Businesses segment. Such classification is used, for example, in the real estate sector. When total assets on the balance sheet amount to less than NIS 100 million and the revenues are not indicative, as noted above, the client is typically classified as follows:

Small and micro businesses – total assets on client balance sheet amount up to NIS 50 million.

Medium businesses – businesses where total assets on the client balance sheet amount to between NIS 50 million and NIS 215 million.

Large business es– businesses where total assets on the client balance sheet exceeds NIS 215 million.

The principles used in assigning balances, revenues and expenses to clients in the system are as follows:

- Credit interest revenues and deposit interest expenses are directly attributed to the client. For credit, expense set at original cost of capital raised (transfer cost) is attributed to clients, against an inter-segment credit to the Financial Management segment. Each segment is also charged any excess premium inherent in the cost of raising qualified equity instruments for capital adequacy. This is based on the capital attributed for segment operations. For deposits, revenue set at the original cost of capital raised is attributed to clients, against an inter-segment debit to the Financial Management segment. Transfer prices for loans and deposits are similar. Each of the segments is credited for capital attributed to its operations against a debit to the Financial

Management segment. Capital consumption is measured by the average risk-free assets managed by the segment.

- When calculating risk assets attributed to each segment, any off-balance sheet credit exposures are "converted" to credit equivalent using coefficients specified in directives on measurement of capital adequacy.
- For derivative instrument operations, profits are attributed to the client at the spread incorporated in the price of the derivative instrument quoted to the client. Gains arising from changes to fair value of derivatives is attributed to Financial Management.
- Gains and losses from Bank investment in securities and from strategic positions are attributed to Financial Management.
- Expenses with respect to credit losses are directly attributed to clients on behalf of whom they were made.
- Commissions and other revenues are specifically attributed to clients.
- Payroll expenses, building maintenance and other expenses specifically attributed to Bank branches are attributed to branch clients using loading factors which reflect the client operations and the number of transactions in their account. Later on, an additional (inter-segment) settlement takes place, which attributes some of the direct expenses of the branch to clients in non-retail operating segments.

Intersegment settlement reflects the fact that branches also serve non-retail clients. This settlement is presented under inter-segment expenses / revenues in the Note.

- Payroll expenses of headquarters staff, maintenance and other expenses not specifically related to branches, are loaded on clients based on appropriate load bases which take into account the ratio of the expense for the segment.
- Certain headquarters expenses may sometimes be attributed to a specific operating segment and may sometimes be attributed based on the current estimate of resources allocated to each operating segment.
- When headquarters expenses may not be attributed, they are assigned by weighted business and IT transactions, as noted above In this regard, IT expenses directly associated with specific operating segments are attributed to these segments and other IT expenses are assigned to operating segments based on headcount.
- Provision for tax on operating profit is attributed to clients, is pro-rated in accordance with the effective tax rate and accounting for tax impact referring to specific segments and not to all Bank operations.
- Return on equity is calculated as the ratio of net profit to attributed equity. Equity is attributed based on the average risk assets of the customers.
- Balance sheet and assets-under-management balances are specifically attributed to clients.
- Fixed assets are attributed based on appropriate ratios.

Household segment

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

Below is a description of the notable products in the household segment and the primary services offered within the scope of these products.

Banking and finance

Most of the services are provided within this framework

- **Credit and debitory accounts:** The credit limits for debitory account activity are determined according to the client’s needs, his income level and Bank judgment, based on factors including economic models. In accordance with Proper Banking Conduct Directive 325, clients are not allowed to exceed their determined credit limit.
- **Investments:** Providing investment-related services to customers, such as: Various deposits for different terms.

- **Loans:** General-purpose loans which include, inter alia, loans not intended for home purchase secured by pledging a lien on a residential property, and other loans for various terms and under different conditions.
- **Financing automobile purchasing:** Operations providing loans for purchasing new automobiles from importers, where the Bank cooperates with multiple auto importers.

Mortgages

Major services related to mortgages:

Loans out of Bank funds – Loans out of Bank funds and at its risk, are extended for purchase / construction / expansion / renovation of real estate, as well as general-purpose loans secured by a lien on a residential apartment. The loans are issued for long terms of up to 30 years, considering the loan type and borrower repayment capacity.

The Bank extends credit in different linkage segments and offers a "combined mortgage" – a loan composition that combines various linkage segments and interest types. The combined mortgage enables the Bank to manage risk while maintaining profitability and allowing clients to diversify risk.

In view of the downward trend in Bank of Israel interest and the low interest rate, the share of loans bearing fixed interest in the CPI-linked and non-linked track increased.

Services in conjunction with the Ministry of Construction and Housing Assistance Program – Beyond the banking activity of granting credit, the Bank acts as an extension of the State in servicing eligible Ministry of Construction and Housing recipients. These services include loans within the Ministry of Construction and Housing's assistance program, including location-based loans and contingent grants. In this area, the Bank is involved, in addition to the ordinary banking services, in the array of administrative aspects required for services to Ministry of Construction and Housing eligible participants, such as issuance of eligibility certificates. The decision as to which bank to apply for their eligibility is up to clients who take out a mortgage. Interest on loans extended as part of assistance programs is set by the Housing Loan Act.

In addition to ordinary loans in conjunction with the Assistance Program, there is an arrangement for providing loans, the objective of which is to encourage the purchase of new homes in certain communities that the State has an interest in populating ("location-based loans") as well as special assistance provided to those buying an apartment under the "Buyer price" program.

Contracting by the Bank and the State for extending loans as part of assistance programs, including the consideration payable to the Bank, is governed by two agreements dated 2004 and 2008. These agreements are extended annually.

Bank revenues from all loans to eligible borrowers under State responsibility in 2017 amounted to NIS 42 million, compared to NIS 41 million in 2016 and to NIS 54 million in 2015.

For details of the agreement between the Ministry of Finance and banks, for provision of loans to eligible borrowers with low point rating out of Bank funds and under Bank responsibility, see Note 26.C.18.

Insurance marketing (insurance incidental to mortgages)

The vast majority of borrowers are insured by life insurance policies related to the loan, and the properties serving as collateral are insured by property insurance.

In accordance with directives of the Supervisor of Insurance and of the Supervisor of Banks, life insurance and home insurance incidental to housing loans are marketed by an insurance agency wholly-owned by the Bank (Tefahot Insurance Agency (1989) Ltd.), whose operations are separate from those of the Bank, and is restricted to exclusively engage in home insurance, including water damage, and in life insurance incidental to loans granted by the Bank.

Some borrowers choose to obtain insurance coverage through the Bank's insurance agency while others make other insurance arrangements.

In order to maintain the required separation between mortgage and insurance operations, clients are required, in order to purchase insurance from the Bank's insurance agency, to directly contact the insurance agency, also by using special phones connected directly to the insurance agency, which have been placed in Bank branches.

Bank revenues from insurance incidental to mortgages (in NIS millions):

	2017	2016	2015
Life insurance	95	96	93
Property insurance	15	15	15
Total revenues from sale of insurance	110	111	108

Capital market

This product includes client activities in the capital market, including buying, selling and custody of various securities and services provided for such securities held by clients (receiving interest, dividends, bonuses etc.) The Bank also provides mutual fund distribution services and provident fund operating services.

Credit cards

Credit cards are one of the key means of payment in the economy. As part of the activities with clients in the household segment, the clients a range of credit cards are offered. The Bank offers its clients all types of credit cards available in Israel, acting in this area with credit card companies Isracard, CAL and Leumi Card. The Bank offers its clients credit cards that are issued by these companies, according to the client's request. The Bank also has several products in the credit card sector:

"**The Card**": A Mizrahi-Tefahot credit card which also serves as the Bank's own client loyalty club. The Card provides unique promotions and activity focused on consumer and banking benefits.

For more information about the agreement with CAL group, *inter alia*, with regard to issuance of the branded credit card, see Note 26.C.13 to the financial statements.

"**Tefahot Credit Card**": The product is aimed at assisting mortgage sales as well as opening of current accounts. The product enables the allocation of a credit facility, based on the client’s repayment ability and the asset already pledged to the Bank, through which the client can finance additional expenses involved in purchasing a home (furniture, renovations, etc.), or for any other reason.

"Current" credit card for Tefahot clients: In conjunction with the Bank's synergy activity, it offers a credit card based on "The Card" platform, intended for clients who took out a mortgage at the Bank and do not have an active current account at the Bank. These clients enjoy the various benefits of "The Card" club, and monthly charges are paid to the Bank by debit order to the client's active account at another bank.

"**Free Student**" credit card: This card provides students with general-purpose credit. Credit on this credit card may be used within 3 years and bears attractive interest on the amount actually utilized; credit repayment is flexible; and early repayment at no cost to the client is allowed.

Unique services provided by the Bank to segment clients

The key unique service offered by the Bank is Hybrid Banking, which allows clients easy, direct access to a personal banker using a range of readily available technologies. As part of the Hybrid Banking campaign, the call center became a banking center, composed of 13 clusters. Later on, branch teams have been formed – each of which is assigned to 8-9 branches in various regions. These teams are an integral part of the branches to which they are assigned. Accordingly, Bank clients can reach their banker at the branch, or one of the branch team members, by using various communication channels during 12 hours of business, from 8am to 8pm. Moreover, under the household segment, the Bank offers its clients services which express the advantages of the combination of products offered by the Bank to its clients as described above. The Bank offers various benefits in current accounts and credit of clients who take out mortgages, in order to encourage the mortgage clients to maintain their current account in the Bank. The Bank also offers mortgage-related benefits to clients with current accounts in the Bank, in order to encourage these clients to take out mortgages through the Bank. The applicable benefits have also been applied to Bank Yahav clients, based on their activity and attributes.

The unique services that the Bank offers its clients in the household segment include retail banking products and mortgage products, as provided below:

"Priority Account": Personalized banking assistance.

"Executive Account": The unique "Executive Account" brand offers premium service to individuals on account management, banking value propositions, financial benefits and non-banking services. Clients may use professional advisors for financial, pension and mortgage advisory services.

"Interest-free Overdraft": Set-off of debit and credit balances of a customer during the month; this service is provided to select clients.

Benefits to mortgage holders: Unique benefits offered to specific groups of clients who have a mortgage account with the Bank. The benefits included an interest-free facility in the current account, as well as interest on the credit balance up to the level of the monthly mortgage payment. The benefit is given every month, subject to the client's meeting other prescribed conditions during that month.

Retirement advisory service: The Bank offers a retirement advisory service to Bank clients and to clients of other banks, both salaried and self-employed, based on an advisory model supported by a computer system developed by the Bank. This advisory service is provided by qualified pension advisors, providing an objective advisory service

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Major markets and distribution channels

Generally, marketing and distribution of the products and services of this segment are carried out through the network of Bank branches and through direct channels.

The Bank has mortgage marketers operating across Israel, based on geography. The role of these marketers is to identify target audiences in their geographic territory, to increase the exposure of such audiences to Bank products and services and to maximize the marketing potential of such audiences. Marketers give the Bank an edge in the market while making the client the focal point, in line with the Bank's strategy in recent years.

Marketers operate in four major areas:

- Direct activity with real estate players – to obtain potential clients.
- Activity with end clients – proactive contract with potential mortgage and checking account clients.
- Synergetic activity with individual clients – to realize the potential synergy of mortgage clients.
- Synergetic activity with business clients and MM clients – businesses, plants, Employees' Unions etc.

Bank branches – the Group operates 187 business centers, branches, affiliates and representative offices across the country, including 46 Yahav branches. In conformity with the Bank's growth strategy, the expansion of the branch network continues, primarily in business-rich environments and in towns of two distinct demographics where the Bank seeks growth – the Arab segment and the Jewish Orthodox segment.

Direct channels: In conformity with the Bank's unique Hybrid Banking concept, which links direct channels and the client's personal banker, the Bank operates these main direct channels:

- Banking center: The branch team at the banking center provides backup to branch bankers, assisting with transactions and providing information to Bank clients, as part of the integrated Hybrid service offered to clients. This service is provided 24 hours a day (except for weekends and holidays).
- The banking center provides sale of instant loan services, standing orders and credit cards as well as client preservation for non-bank credit cards.
- Mortgage center: This center is at the core of the mortgage segment, providing clients with a range of activities related to mortgages, including filing applications and providing advice on housing loans, receiving payments for existing loans and making arrangements and payments for loans in arrears.
- The Hybrid Banking service for mortgages is provided at all Bank branches.
- Sales center: Intended to support the selling capabilities of Bank branches, as part of marketing campaigns to recruit clients, who are referred directly to the sales center, or by means of sales calls. In addition, the sales center handles sales of credit cards, re-financing mortgages from other banks for Bank clients, sale of car loans and preventing churn.
- Investment center: This center provides rapid, professional response to capital market clients for investment transactions and advice, from 7am to midnight, along with training of investment advisors to be assigned to branches. The center also recruits new clients for savings, focusing on maximizing performance of investment campaigns. The center operates an affiliate of the trading room, providing Bank clients with service concerning foreign currency and foreign securities.
- On line service – allows clients to receive banking information and execute transactions in your account for a range of banking products available to Bank clients at a reduced cost. This service is available 24 hours a day.
- Data for the mortgage segment is presented using an advanced, convenient interface for clients. Clients who enroll in this service can obtain valuable information, including: detailed information about the mortgage loan (including graphics), details of properties pledged to secure the loan,

mortgage loan repayment history, details of life and property insurance as entered in the Bank's system, comprehensive environmental information, apartment price lists and market analysis from the MADLAN website. Clients can also produce for themselves useful documents and forms, directly from the website.

- The new website offers a secure correspondence service for clients in the process of obtaining a mortgage. This services improves the service experience and reinforces the personal connection between mortgage clients and the personal banker who handles their application. The service allows for close assistance to clients throughout the process, through mortgage origination, expanded communication channels, including a means for easy and convenient document transfer between the client and the banker at the branch.
- Cell phone application – allows clients to obtain banking information and conduct transactions by means of cellular browsing using smartphones.
- "Tefahot to Home" app: The Bank offers an advanced app for clients interested in obtaining a mortgage. This app provides: assistance in creating a financing plan to buy your home, comprehensive, current information about different neighborhoods, including recent transactions, data about apartment prices, rental yields, social benchmarks, education quality etc., an option for clients to photograph and document apartments, a user-friendly mortgage calculator and a service offering correspondence with a mortgage banker.
- Notification Box service: Receiving Bank notifications of account activity in a personal notification box via the Bank's website.
- Cell phone service: Disseminating banking and financial information through cell phones.
- **IVR service**: This service, available 24 hours a day, is provided to clients who authenticate using their personal password to obtain computer-based information in response to frequently-asked queries.

Business Strategy

Service strategy at the Bank is based on the understanding that personal, human contact with a banker offering a high level of professional service is at the core of client needs. The Bank's branch network is a key component in creating that personal contact with the banker – and must be supported by a current, efficient digital technology environment.

The Bank sees the importance of further development of the household segment and intends to maintain and establish its leadership position in the retail sector. The key goals in the household segment and the resultant business strategy are presented below:

- Increasing household market share by broadening the client base, mainly among mortgage clients, as a platform for achieving growth in market share and revenues.
- Retaining a market leadership position in the mortgage market, while focusing on areas with high profitability, by providing valuable proposals to clients, based on the synergy between the mortgage, commercial and financial activities.
- Expanding activity in the branch network and converting all the branches into sales units in the household segment, for traditional banking activity and mortgage activity, and for cross-selling to clients.
- Continued development of products aimed at focused population groups, in order to increase volumes of activity.
- Leveraging the ties between the business banking segment in the construction and real estate industry and between the mortgages segment. In this area, emphasis is placed on maximizing the marketing of mortgages to the buyers of homes in projects built by the real estate segment's clients.
- Increasing the Bank's market share in the Arab segment, the Jewish Orthodox segment and among retirees.

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.

Competition in the segment and changes to it

Banking and Finance, credit cards and the capital market

The number of competitors in the household segment is the number of banks operating in the economy, with the focus on the five commercial bank groups. In recent years, the retail banking market sees strong competition among banks. Generally, one can state that the retail banking products offered by the different banks are similar, and therefore, competition focuses on the quality of service, the rates of the margins and commissions paid by the clients.

In 2017, branch closures and elimination of teller positions at branches of some banks continued, with clients referred to digital solutions. Consequently and in conformity with legislation dated August 2016 of the Banking Act (Licensing) (Amendment no. 22), 2016, any banking corporation seeking to close a permanent branch is required to obtain permission from the Supervisor of Banks after filing a written justification and application to do so.

In addition to the inter-bank competition, intensified efforts are discerned by non-banking entities (mainly insurance companies, credit card companies) that also approach this population segment with offers to provide credit. The credit card companies, together with retail chains and other entities, are also taking measures to issue credit cards directly to clients, not through a bank – This trend accelerated in the final months of 2017, due to several significant agreements signed by credit card companies and major retail chains.

In the capital market sector, the competitors also include private investment houses, in addition to insurance companies.

In January 2017, the Knesset enacted the Increased Competition and Reduced Concentration in Israeli Banking Act. This legislation includes separation of control over credit card companies by the two top banks, including provisions and fledgling protection for the credit card companies to be separated; provisions with regard to creating IT infrastructure and mandatory sale of IT services and operations, as well as leasing of real estate used for IT services and operations used primarily by the bank; provisions whereby a clearing house would be required to allow settlement by a guest clearing house, in conformity with rules to be specified by the Governor of the Bank of Israel with consent of the Minister of Finance and provisions with regard to guest clearing house and bundled clearing house. Additional provisions enacted relate to a service for comparison of financial costs.

In January 2018, a draft bill was issued, governing transfer of accounts between banks, in conjunction with the Arrangements Act. Pursuant to the draft bill, within three months it would be possible for any bank client to transfer the financial activity in their bank account from the bank currently handling such financial activity to another bank, within seven days of receipt of such request.

Mortgages

Most of the mortgage activity in Israel is conducted through ten banks operating in this field. For dozens of years, the Bank has been the leader in the mortgage sector, in terms of the volume of loans issued and the balance of the loans portfolio.

The Bank has adopted different means to deal with the competitive environment in which the mortgages sector operates, including extensive advertising, use of marketers in the field, development and institution of new products, maintaining a presence in the new-homes market, by financing residential construction projects, etc. Another facet of the Bank's dealing with the competition in the mortgage sector is investing resources in constant improvement of its professional standard and the service it provides to clients, emphasizing a personal connection and multiple channels.

Private Banking Segment

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

The products and services offered to clients of this segment are as follows:

- **Banking and finance** – A wide range of banking and finance products are offered to this segment’s clients, in addition to ordinary banking services, while formulating an investment strategy suitable for each client, tailored to his character and special needs, as well as an array of advanced investment products.
- **Capital market** - this product includes client operations in the capital market, including buying, selling and custodial services of various securities, and provision of services with respect to securities (receipt of interest, dividends, bonus etc.) This also includes mutual fund distribution services.
- **Credit cards** - the Bank offers to segment clients a range of exclusive credit cards issued by Israeli credit card companies.

Major markets and distribution channels

The markets addressed by this segment are clients with high financial wealth (both Israelis and foreign residents).

Competition in the segment and changes to it

The concept of the unique services defined by the Bank as "private banking" prevails throughout the global and international banking system, and also in Israel. However, it should be noted that the criteria that determine whether one belongs to this segment, the service approach and its specific nature change, and do not rest on identical principles in all the banks. Also, accordingly, the volume of the Bank's activities in this segment relative to its competitors is not known, and public information is not available about the proportionate share in the private banking system of the different banks.

In addition to local banks, there is competition in this segment from foreign banks and non-banking entities, such as investment houses, types of funds (from Israel and overseas) and insurance companies.

In order to deal with current competition in this segment, the Bank invests substantial resources in the professional training of its employees, in providing high quality service and in maintaining strong ties with the client, in the organization of professional conferences for the segment's select clients, in introduction of specialized and unique products to the segment's clients, and in efforts to identify and attract new clients on a regular basis.

Micro and Small Business Segment

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

Below is a description of the notable products in the small business segment and the primary services offered within the scope of these products.

Banking and finance

Within the scope of this product, the Bank provides the following services:

Loans for various purposes: Business loans, loans against the discounting of checking, credit vouchers etc.

Import / export activities: Foreign currency operations, adaptation of credit facilities to the nature of the client's activities using technological means, such as: on line Electronic Data Interchange (EDI).

Investments: Diverse operations related to investments, such as deposits of various types and for various terms.

Management of checking account facilities: The facilities are determined according to the client's needs, turnover and judgment of the Bank.

Capital market

This product includes client activities in the capital market, including buying, selling and custody of various securities and services provided for such securities (receiving interest, dividends, bonuses etc.) This also includes mutual fund distribution services and provident fund operating services.

Credit cards

The Bank offers to segment clients a range of credit cards issued by Israeli credit card companies.

Loans for small businesses, guaranteed by the State

In May 2016, Bank Mizrahi Tefahot launched its financial partnership with HaPhoenix and with Altshuler Shacham, selected as one of the winning bidders in a tender to provide loans to small and medium businesses, guaranteed by the State, by providing loans in a range of tracks under this heading.

Major markets and distribution channels

The main marketing and distribution factors in the segment are the Bank's branches and direct channels. There is no dependence on outside marketing channels. For details of these marketing and distribution factors, see description of the household segment.

Business Strategy

Increasing focus and expanding operations in business segments, including the micro and small business segment is at the heart of the Bank's business strategy. This is done while constantly assessing risk and controls at the client, segment and economy levels.

Below are the key goals in the small business segment and the business strategy deriving from these goals:

Increasing marketing activity vis-à-vis clients, while segmenting the clients by occupation, size of operation and individual needs.

Maximize potential profitability for each client by adopting a comprehensive view of client activity, creating a comprehensive relationship based on credit products and marketing of other products – depending on client attributes.

Expanded activity in State fund for small and medium businesses.

Expand geographic deployment of services provided to segment clients.

Competition in the segment and changes to it

Competition in the small business segment is primarily within the banking system. However, over the past years, public action was taken to reinforce the market share of non-bank credit providers (such as institutional investors, non-bank credit cards and other financing companies) by including institutional investors in a new tender issued by the State Fund for Small and Medium Business. The Bank's principal methods for dealing with the competition are active marketing, personal ties with the client, providing personal service and comprehensive professional solutions for the full range of client financial needs.

Medium business segment

For more information about the supervisory definition and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Brief description of segment attributes (using the "management approach")

The medium business segment primarily includes medium-sized private and public companies (Middle Market), with turnover between NIS 30 and 120 million.

This segment operates across all economic sectors, primarily industry, commerce and services, construction and real estate.

Clients in this segment are primarily served by the Bank's Business Division, primarily by the Business Sector, operating three business centers nation-wide, with additional service provided by the Bank's business centers and extensive branch network.

Each center has the professional resources required to address all client needs. These centers operate in coordination with the Bank's branch network, which handles operating aspects of client activity. Thus, clients enjoy personal, professional service which provides a response to all their banking needs, as well as benefit from the extensive branch network.

Segment clients primarily 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. These clients, too, enjoy service at the branch convenient to them, with regard to operating aspects as well as the specialized, professional service of the construction and real estate sector.

Clients in this segment use a range of banking services, associated with a relatively high ratio of required collateral compared to Business Banking segment clients.

Clients are mostly active on the local market. However, clients also conduct foreign trade transactions (import / export) of significant volume.

Products and services

Segment clients are offered customized products and services, in the banking and finance sector. Within this framework, the Bank issues different kinds of credit, both loans and current credit for working capital purposes: foreign trade services – importing, exporting, documentary credit; bank guarantees, etc.; transactions in foreign currency, including trading in derivatives, factoring services and investment in deposits and in securities.

Major markets and distribution channels

The segment primarily engages in marketing and distribution using three business hubs operating under the Business Division, as well as business centers and Bank branches throughout Israel. Client relations management and recruiting of new clients are conducted by special professionals at the business centers, who are in charge of this and are in constant contact with clients. Client recruitment is carried out in close co-operation with Bank branches operating in the Retail Division.

Operations in this segment include development of marketing and business operations based on understanding client needs and customizing comprehensive banking solutions to these needs; providing professional, rapid and efficient service; offering a range of products and solutions customized for client needs with controlled management of risk arising from segment operations, including by specifying financial covenants to monitor clients' financial robustness.

Clients may also use the direct banking channels and customary banking channels.

Business Strategy

The Bank's business strategy emphasizes the significant expansion of the client base and growth in the activities of the medium business segment.

The Bank intends to continue significantly expanding operations in this segment, primarily by recruiting new clients and expanding banking services to current clients and to clients for which the Bank is a secondary bank.

Competition in the segment and changes to it

Segment clients conduct their financial activity primarily within the banking system, so that competition for this client segment is significant, since all banks compete for this target audience. Non-banking finance providers have a smaller share of this segment, mostly in the factoring business and in credit card companies.

The Bank considers expansion of this segment's business to be an important major objective and therefore invests resources in handling these companies by providing comprehensive, professional solutions for client needs, maintaining a personal relationship and providing fast, efficient service.

Large business segment

For more information about the supervisory definition and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Brief description of segment attributes (using the "management approach")

The segment specializes in providing complete banking and financing services to the largest companies, in a range of sectors, with turnover exceeding NIS 120 million.

The major sectors served are: industry, commerce, construction and real estate.

This segment includes market-leading clients with large-scale operations, some of which are multi-nationals or companies with local operations which address overseas markets.

Segment clients are served under responsibility of the Bank's Business Division, primarily by the Large Corporation Sector.

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.

All clients receive additional (operating) service from the Bank's extensive branch network in Israel and overseas.

In its activities in this segment, the Bank emphasizes expansion of the current client base and improved profitability through expansion of activity in financing areas with very high profitability relative to capital, such as trading room transactions, including transactions in derivatives and other products provided to clients by the trading room.

Products and services

Segment clients are offered a range of banking and finance products, including: Various types of credit – on call, short-, medium- and long-term loans, guarantees, international trade transactions (financing for credit insurance, import, export and documentary credit) as well as factoring. These services are provided with support from a specialized sector at the Bank, which can customize for each client the products relevant for their business and attributes, financing through organizing or participating in syndications, financing of infrastructure projects, mergers and acquisitions as well as transactions involving derivatives.

Below is a description of the notable products in the business banking segment and the primary services offered within the scope of these products.

Credit to large corporations in Israel and overseas

The Bank provides banking services to multi-national clients based in Israel.

In this context, the Bank provides foreign currency, foreign trade and factoring services as well as service at the Bank's overseas branches.

Products related to real estate

In this sector, the Bank offers loans to finance the purchase and construction of real estate, mainly residential construction products in areas of high demand, while insisting on the applications of tests prescribed in order to maintain the quality of the loan portfolio, and these include ties with customers having financial strength and stability, transactions characterized by favorable safety cushions for the Bank, and management using methods that reduce the risk.

The main services provided to clients of the real estate sector are:

- **Credit for construction** – in this sector, the Bank provides credit, in particular short- and medium-term loans, used to finance land acquisition and investment in construction, as well as various types of bank guarantees.
- **Financing for construction projects** - construction project financing is a unique service, provided by the Bank exclusively to clients in this sector. Within this framework, the client is offered a package of financial and banking services, suited to the specific needs of each project and based on its characteristics. This includes allotment of credit facilities for land acquisition, construction loans, financial guarantees, performance guarantees and guarantees to home buyers in projects. The Bank issues construction financing mainly by the closed financial support method, in which the Bank channels the financing sources, including the buyers' monies deposited with it, in a manner that advances completion of the project.
- **Purchase groups** - a purchase group is a collection of individuals, gathered for the purpose of jointly acquiring land and buying construction services on said land. Alternatively, existing land owners join forces to jointly construct, by ordering construction services.

The Bank provides dedicated financing for projects of this type, and assists them from preliminary stages of forming the group, through completion of construction.

Arranging and leading syndications – The Bank sees an objective in expansion of its business in initiating, leading, organizing and managing syndication transactions – to help turn the Bank into a major player in the business credit market. To this end, the Bank has established a department specialized in leading and participating in syndication transactions. By leading and organizing syndication transactions, the Bank provides a solution for businesses requiring significant credit while maintaining risk within the Bank's risk appetite.

Major markets and distribution channels

The main marketing and distribution parties in this segment are the managers and client managers in the Business Banking Division, supported by the Bank's branches and business centers.

In order to provide an optimal response to segment client needs, the servicing of major business banking clients in this segment was placed under the Corporation Sector of the Bank's Business Division, divided into departments and teams having specific industry specialization. The teams work in cooperation with professional Bank departments involved in factoring, foreign trade, capital market, trading room operations etc. – in order to provide a comprehensive solution for client needs.

Operations in this segment include providing fast and effective professional services that offers a comprehensive solution adapted for all of the client's banking needs. This is done while by a variety of innovative financial products and solutions.

These operations are backed by a strong capacity for analysis of client needs and their financial standing, as well as identifying risk associated with client relationships due, *inter alia*, to anticipated changes in the economy and in the client sector.

Business Strategy

The Bank's business strategy for the large business segment is designed to increase the number of clients and to expand business with existing clients. This is to be done while maximizing the economic potential of the capital by focusing on activities having high profitability relative to the capital needed for them, through, inter alia, the following activities:

Implement an approach based on total outlook on the business client, leveraging credit products and offering other products to establish a comprehensive client relationship.

Segment business clients by size, sector of operation and other attributes in order to optimally specify their business needs and to provide an appropriate, professional solution.

Given the legal complexity of transactions in recent years, *inter alia* in combination projects and in urban renewal projects (evacuation-construction schemes and National Zoning Plan 38), these require custom specialization.

Emphasis on profitability and return on uses.

The risk in realizing the strategy stated above is mainly a reduction in the volume of activity with certain clients, from which the Bank's profit is relatively low, or a relatively high risk associated with doing business with these clients.. In contrast, the overall profitability of the Bank could rise, as it focuses on profitable clients and expansion of activity with them, while utilizing the Bank's capital resources.

Note that macro-economic change poses significant challenges to credit management, at the Bank in general and in the Business Banking segment in particular, with some segment clients exposed, directly or indirectly, to extensive financial and economic operations in Israel and overseas, as well as to capital raising capacity on financial markets. Therefore, the Bank allocates significant resources to enhancing means for testing and control of exposure, aimed at tightening supervision of the credit portfolio.

Competition in the segment and changes to it

Competition in the business banking segment is with large and mid-sized banks in Israel, and occasionally with overseas banks, and for some services – the entire capital market. In recent years, institutional investors and insurance companies have expanded their business with such clients, by focusing on providing significant long-term credit.

Alternatives for the products and services offered by the Bank to clients of the Business Banking segment include raising capital and debt through public and private offerings. The Bank's key asset for dealing with the competition is the existing human infrastructure and the experience gained in providing professional service and adapting banking solutions to the client's needs, occasionally in co-operation within consortia with other institutions.

The Bank's main methods for dealing with the competition are to provide professional service that is fast and effective, while offering optimal solutions for the customer's needs in a diverse array of its financial activities. As well as customizing complex financial solutions in response to client needs.

As part of its operations in this segment, the Bank places emphasis on the best possible personal service to the business client and adapting it to the client's needs according to his unique characteristics, while focusing on industry expertise and providing specific professional advice in specialty areas.

Similar to competition for corporate financing, the competition for providing banking services to construction and real estate clients has seen non-banking entities enter into this area, as well. These entities have started providing assistance to projects on their own, without cooperation with any banks.

The Bank’s primary methods for dealing with the competition in the area of construction and real estate services are based on providing comprehensive professional solutions for the clients’ needs, readily available and fast service, and maintaining close and personal ties with clients. This is achieved mainly via dedicated business departments specializing in the construction and real estate sector.

Institutional investor segment

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

The Bank has agreements in place to provide operating services to provident fund management companies, some of which are associated with the sale of provident funds previously owned by the Bank. As for mutual funds, the Bank has agreements in place to provide services to mutual fund management companies.

The segment also provides comprehensive service to management companies of provident funds and mutual funds.

Banking services also include credit of various types and transactions involving derivatives.

Major markets and distribution channels

The key marketing and distribution agents for this segment are managers and account managers at the Business Banking Division, the Finance Division and the Planning and Operations Division, in order to provide an optimal response to segment client needs, the servicing of major business banking clients in this segment was placed under the Corporation Sector of the Bank's Business Division, the Commercial Sector of the Finance Division and the Provident Fund Operations Sector of the Planning and Operations Division, teams work in cooperation with professional Bank departments involved in capital market, trading room operations etc. – in order to provide a comprehensive solution for client needs.

Business Strategy

The Bank's business strategy for this segment is designed to increase the number of clients and to expand business with existing clients. This is to be done while maximizing the economic potential of the capital by focusing on activities having high profitability relative to the capital needed for them,

The risk in realizing the strategy stated above is mainly a reduction in the volume of activity with certain clients, from which the Bank's profit is relatively low, or a relatively high risk associated with doing business with these clients.. In contrast, the overall profitability of the Bank could rise, as it focuses on profitable clients and expansion of activity with them, while utilizing the Bank's capital resources.

Competition in the segment and changes to it

With regard to providing execution services on the Tel Aviv Stock Exchange to institutional investors, there is significant competition between local banks and stock exchange members.

As for transactions involving derivatives, there is also competition with foreign banks with which some institutional investors have opened direct accounts.

Financial Management Segment

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

The trading room provides trading services to Bank clients in OTC (mostly: foreign currency, interest, options) and in brokerage of foreign and local securities, with local and overseas entities as counter-parties.

OTC trading – the transactions which may be conducted through the trading room: buy / sell foreign currency, options and interest derivatives. The Bank is licensed for market making in USD/NIS and in Israeli Government debentures.

Securities trading – trading securities to provide a solution for Bank clients' activity on the local market and on world markets. The Trading Department consists of two parts – trading of Israeli securities and trading of foreign securities; both provide execution services for equities, debentures, options and negotiable futures and mutual funds.

Major markets and distribution channels

The trading room provides services for global currencies and securities, primarily in developed nations. The trading room includes a Client Marketing Unit, which provides distribution services for trading room products.

Business Strategy

Asset and liability management operations have the key objective of active management of exposure to market risk and of the debenture portfolio, aimed at optimal management of financing profitability, while maintaining appropriate, controlled exposure to market- and liquidity risk, which reflects the Bank's risk appetite, subject to limits specified by decisions of the Board of Directors and management.

The main activity in the debenture portfolio is efficient management of excess Bank liquidity in NIS and in foreign currency, compared to an alternative, risk-free investment. The policy on excess liquidity management is based on requirements for liquidity risk management, in conformity with Proper Banking Conduct Directive 342 and Proper Banking Conduct Directive 221 – liquidity coverage ratio. (For more information about the liquidity model and restrictions imposed by management and by the Board of Directors, see chapter "Risks overview" of the Report of the Board of Directors and Management and the Detailed Risks Management Report on the Bank website). Threshold criteria were also prescribed for nostro debenture activity, based on the credit risk inherent in the portfolio's activity, to diversify investments and to increase the liquidity there of. Debenture operations are subject to compliance with credit limits specified by the Bank for countries, banks and companies – with the bulk of these operations involving risk exposure to the State of Israel.

As for management of market risk exposure, the Bank actively manages the negotiable portfolio in order to generate gain at the specified risk level. The bank portfolio is regularly managed and monitored in order to improve interest revenues, subject to the risk appetite. The volume of activity and risk must meet the market risk exposure limits prescribed by the Board of Directors and management. For more information about risk limitations and management of market risk exposure, see the Detailed Risks Management Report on the Bank website.

The segment also acts to raise financial sources as needed for Bank operations, while complying with liquidity ratio targets and capital ratio targets, as per decisions of the Board of Directors. This would be achieved by raising deposits with different linkage bases and for different terms, and by issuing subordinated notes and contingent subordinated notes (Tier II capital). For more information see chapter "Developments in financing sources" and chapter "Developments in capital structure" of the Report of the Board of Directors and Management.

One of the tools used by the segment in managing liquidity and exposure to market risk is the issuance of subordinated notes, inter alia, through the subsidiary, Mizrahi-Tefahot Issuance Company Ltd., as provided below in the chapter "Developments in capital structure" of the Report of the Board of Directors and Management.

The segment includes the Bank’s trading room operations in financial and capital markets. These operations include market making in all standard derivatives trading over-the-counter in Israel and back-to-back trading in complex derivatives. The trading room also serves major local and foreign clients trading in securities in stock exchanges in Israel and overseas. The Bank strives to position itself as a leader in the OTC market in Israel, while maintaining the risk level specified in Bank policy and adapting operations to local and global regulation. Furthermore, the Bank constantly strives to expand its operations by expanding the client base and intensifying business activity and client relationships, inter alia, by improving cooperation between Bank departments operating within the trading room, development of new transaction types and investing in acquiring professional knowledge.

A critical success factor in this operating segment is the Bank's ability to understand the macro and micro factors affecting the market trends and conditions, for correctly identifying the market conditions and the ability to act quickly in opening and closing positions. In addition, professionalism of staff in this area and technology systems in support of the various activities, identification of needs of other units as well as co-operation on between different Bank units.

Management of the financial segment and its various components requires highly professional skills, supported by appropriate IT systems and by advanced models for management of transactions and risk. These are all guided by the policies which includes clear restrictions and rules, and are controlled using advanced means of control. In particular, with regard to Bank exposure to other financial institutions in Israel and overseas, in exposure to different financial products and in exposure to clients whose financial robustness may be particularly sensitive. For more details of Bank exposure to foreign financial institutions, see chapter "Risks Overview" of the Report of the Board of Directors and Management .

Competition in the segment and changes to it

The financial management segment includes operations of the trading room. This area faces a high level of competition with the primary competitors: Israel's top four bank groups, as well as foreign banks.

Operating results of overseas operations

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

Details of the affiliates and their business are as follows:

Swiss subsidiary – UMB (Switzerland) Ltd. – specializes in private banking services and in extending loans for purchase of real estate in Israel. The subsidiary operates through one branch and is owned by the wholly-owned Bank holding company incorporated in Holland – UMOHC B.V. (hereinafter: ("the holding company"). The Swiss subsidiary is subject to the regulatory laws in Switzerland.

Bank's overseas branches – Overseas branches offer their customers banking services, in accordance with the local laws and regulations. The branches are subject to the local and Israeli regulation.

- **Los Angeles Branch** – The branch is primarily engaged in commercial banking, participating in syndicated loans and receiving deposits. Deposits with this branch are insured by the Federal Deposit Insurance Corporation(FDIC). The branch's clients are local, Israeli and international clients.
- **London Branch** – The branch is engaged mainly in business banking, including participation in loan syndicates, financing of foreign trade, credit, receiving deposits, foreign currency trade and providing personal banking services, excluding advisory service on securities. The branch's clients are local, Israeli and international clients.

International private banking branches in Israel – The Bank operates four special branches, located in Jerusalem, Tel Aviv, Netanya and Ashdod, serving foreign resident and new immigrant clients. These branches provide full banking services to their clients, primarily private banking. The branches are under supervision by supervisory entities and relevant authorities in Israel and report to the Private Banking and International Operations sector.

Representative offices – The major activities of representative offices are marketing of Bank services and representation of the Bank overseas. The Bank operates representative offices in Mexico and Germany.

Major markets and distribution channels

The major markets are local clients, mostly from the Jewish community, located in countries where the Bank's overseas affiliates do business, as well as clients resident in Israel whose financial and business needs include banking services provided overseas.

Major distribution channels include participation in professional conferences in countries where the affiliates are located, local advertising to the Jewish community, marketing of the Bank by Bank representatives among the local Jewish community and referrals from current clients.

Business Strategy

The Bank's overseas affiliates operate in a competitive environment of local and international banks operating in the same country, but are focused on providing banking services on a more limited scale, compared to local and international banks. Competition is focused on service quality, response time and maximizing the client-Bank relationship. Each international operations affiliate has a unique target audience. Critical success factors are based on providing fast, personal service at an international level. Service provided to clients is based on understanding their personal needs and providing individual solutions based on intensive knowledge of local markets in order to find the appropriate range of products.

In order to compete with current competition in this segment, extensive resources are dedicated to recruiting high-quality staff with extensive experience, in professional training of staff, and in offering a high-quality range of products compared to global competition. The Bank is also focused on providing high-quality service and maintaining strong client relationships, organizing professional events for select clients and efforts to locate and recruit new clients on a day-to-day basis.

The Bank strives to develop business by existing affiliates and to create strategic alliances with leading financial institutions in international banking and jointly work with them. The Bank also reviews options for offering services appropriate for each affiliate, which respond to varying needs in each market along with technology, business and regulatory changes.

International operations involve several unique risk factors:

- Operation under specific statutory and regulatory regimes of each country.
- Risk associated with challenges to controlling remote affiliates from the head office.
- Business risks (credit and market risks) are impacted by local factors, which may differ from the environment and factors in Israel.

Each overseas affiliate operates subject to local laws and regulations, and is regularly assisted by local legal counsel who specialize in banking operations applicable for each affiliate. The Bank has also established and maintains a supervisory and control process over operations of its affiliates, through relevant risk managers at the Bank in Israel, as well as using external professional consultants on behalf of the Bank in Israel.

Competition in the segment and changes to it

In recent years, competition with affiliates of Israeli banks overseas has diminished. Furthermore, global regulatory changes have resulted in a change in business focus and changes to client preferences.

Appendixes to annual financial statements

Table of Contents

Appendix 1 – Revenue and Expense Rates – of the Bank and its Subsidiaries[1]
For the year ended December 31,

Reported amounts (NIS in millions)

A. Average balances and interest rates – assets

	2017 Average balance[2]	2017 Interest revenues	2017 Revenue rate In %	2016 Average balance[2]	2016 Interest revenues	2016 Revenue rate In %	2015 Average balance[2]	2015 Interest revenues	2015 Revenue rate In %
Interest-bearing assets									
Loans to the public[3]									
In Israel	171,527	[7]5,840	3.40	161,072	[7]5,011	3.11	149,239	[7]4,585	3.07
Outside of Israel	3,031	149	4.92	3,195	146	4.57	2,665	106	3.98
Total	174,558	5,989	3.43	164,267	5,157	3.14	151,904	4,691	3.09
Loans to the Government									
In Israel	204	4	1.96	187	3	1.60	288	9	3.13
Outside of Israel	140	7	5.00	151	7	4.64	–	–	–
Total	344	11	3.20	338	10	2.96	288	9	3.13
Deposits with banks									
In Israel	828	4	0.48	685	1	0.15	1,745	3	0.17
Outside of Israel	319	4	1.25	308	4	1.30	427	3	0.70
Total	1,147	8	0.70	993	5	0.50	2,172	6	0.28
Deposits with central banks									
In Israel	35,294	30	0.09	30,702	26	0.08	20,357	21	0.10
Outside of Israel	4,065	44	1.08	3,925	20	0.51	3,319	8	0.24
Total	39,359	74	0.19	34,627	46	0.13	23,676	29	0.12
Securities loaned or purchased in resale agreements									
In Israel	56	–	–	88	–	–	174	–	–
Outside of Israel	–	–	–	–	–	–	–	–	–
Total	56	–	–	88	–	–	174	–	–
Debentures held to maturity and available for sale[4]									
In Israel	9,367	119	1.27	7,925	71	0.90	11,799	150	1.27
Outside of Israel	1,047	18	1.72	1,084	18	1.66	1,137	17	1.50
Total	10,414	137	1.32	9,009	89	0.99	12,936	167	1.29
Debentures held for trading[5]									
In Israel	105	3	2.86	355	4	1.13	326	4	1.23
Outside of Israel	–	–	–	–	–	–	–	–	–
Total	105	3	2.86	355	4	1.13	326	4	1.23
Total interest-bearing assets	225,983	6,222	2.75	209,677	5,311	2.53	191,476	4,906	2.56
Receivables for credit card operations	3,224			3,136			3,030		
Other non-interest bearing assets[6]	5,213			4,022			4,625		
Total assets	234,420			216,835			199,131		
Total interest-bearing assets attributable to operations outside of Israel	8,602	222	2.58	8,663	195	2.25	7,548	134	1.78

See remarks below.

Appendix 1 – Revenue and Expense Rates – of the Bank and its Subsidiaries[(1)] -continued
For the year ended December 31,

Reported amounts (NIS in millions)

B. Average balances and interest rates – liabilities and equity

	2017 Average balance[(2)]	2017 Interest revenues	2017 Revenue rate In %	2016 Average balance[(2)]	2016 Interest revenues	2016 Revenue rate In %	2015 Average balance[(2)]	2015 Interest revenues	2015 Revenue rate In %
Interest-bearing liabilities									
Deposits from the public									
In Israel									
On-call	20,473	21	0.10	8,013	24	0.30	6,295	8	0.13
Term deposits	113,991	1,193	1.05	119,220	991	0.83	114,058	932	0.82
Outside of Israel									
On-call	577	–	–	628	–	–	758	–	–
Term deposits	4,525	47	1.04	4,166	30	0.72	2,216	22	0.99
Total	139,566	1,261	0.90	132,027	1,045	0.79	123,327	962	0.78
Deposits from the Government									
In Israel	56	2	3.57	53	2	3.77	58	2	3.45
Outside of Israel	–	–	–	–	–	–	–	–	–
Total	56	2	3.57	53	2	3.77	58	2	3.45
Deposits from banks									
In Israel	1,536	11	0.72	822	12	1.46	828	12	1.45
Outside of Israel	2	–	–	6	–	–	–	–	–
Total	1,538	11	0.72	828	12	1.45	828	12	1.45
Securities loaned or sold in conjunction with repurchase agreements									
In Israel	–	–	–	–	–	–	116	–	–
Outside of Israel	–	–	–	–	–	–	–	–	–
Total	–	–	–	–	–	–	116	–	–
Debentures and subordinated notes									
In Israel	28,260	599	2.12	25,092	472	1.88	21,652	392	1.81
Outside of Israel	–	–	–	–	–	–	–	–	–
Total	28,260	599	2.12	25,092	472	1.88	21,652	392	1.81
Other liabilities									
In Israel	86	2	2.33	105	2	1.90	349	4	1.15
Outside of Israel	–	–	–	–	–	–	–	–	–
Total	86	2	2.33	105	2	1.90	349	4	1.15
Total interest-bearing liabilities	169,506	1,875	1.11	158,105	1,533	0.97	146,330	1,372	0.94
Non-interest bearing deposits from the public	41,778			37,442			30,788		
Payables for credit card transactions	3,224			3,136			3,030		
Other non-interest bearing liabilities[(8)]	6,064			5,203			7,126		
Total liabilities	220,572			203,886			187,274		
Total equity resources	13,848			12,949			11,857		
Total liabilities and equity resources	234,420			216,835			199,131		
Interest margin			1.65			1.56			1.62
Net return[(9)] on interest-bearing assets									
In Israel	217,381	4,172	1.92	201,014	3,613	1.80	183,928	3,422	1.86
Outside of Israel	8,602	175	2.03	8,663	165	1.90	7,548	112	1.48
Total	225,983	4,347	1.92	209,677	3,778	1.80	191,476	3,534	1.85
Total interest-bearing liabilities attributable to operations outside of Israel	5,104	47	0.92	4,800	30	0.63	2,974	22	0.74

See remarks below.

Appendix 1 – Revenue and Expense Rates – of the Bank and its Subsidiaries[(1)] -continued

For the year ended December 31,

Reported amounts (NIS in millions)

C. Average balances and interest rates – additional information about interest-bearing assets and liabilities attributed to operations in Israel

	2017 Average balance[(2)]	2017 Interest revenues	2017 Revenue rate In %	2016 Average balance[(2)]	2016 Interest revenues	2016 Revenue rate In %	2015 Average balance[(2)]	2015 Interest revenues	2015 Revenue rate In %
Israeli currency – non-linked									
Total interest-bearing assets	153,835	4,114	2.67	138,152	3,620	2.62	117,783	3,453	2.93
Total interest-bearing liabilities	109,668	(791)	(0.72)	98,553	(620)	(0.63)	85,504	(557)	(0.65)
Interest margin			1.95			1.99			2.28
Israeli currency – linked to the CPI									
Total interest-bearing assets	50,996	1,542	3.02	50,921	1,202	2.36	52,518	1,019	1.94
Total interest-bearing liabilities	37,578	(821)	(2.18)	36,983	(682)	(1.84)	37,147	(626)	(1.69)
Interest margin			0.84			0.52			0.25
Foreign currency (including Israeli currency linked to foreign currency)									
Total interest-bearing assets	12,550	344	2.74	11,941	294	2.46	13,627	300	2.20
Total interest-bearing liabilities	17,156	(216)	(1.26)	17,769	(201)	(1.13)	20,705	(167)	(0.81)
Interest margin			1.48			1.33			1.39
Total – operations in Israel									
Total interest-bearing assets	217,381	6,000	2.76	201,014	5,116	2.55	183,928	4,772	2.59
Total interest-bearing liabilities	164,402	(1,828)	(1.11)	153,305	(1,503)	(0.98)	143,356	(1,350)	(0.94)
Interest margin			1.65			1.57			1.65

See remarks below.

Appendix 1 – Revenue and expense rates of the Bank and of its subsidiaries[1]

For the year ended December 31,

Reported amounts (NIS in millions)

D. Analysis of change in interest revenues and expenses

	2017 compared to 2016 Increase (decrease) due to change[10] Quantity	2017 compared to 2016 Increase (decrease) due to change[10] Price	2017 compared to 2016 Net change	2016 compared to 2015 Increase (decrease) due to change[10] Quantity	2016 compared to 2015 Increase (decrease) due to change[10] Price	2016 compared to 2015 Net change
Interest-bearing assets						
Loans to the public						
In Israel	356	473	829	368	58	426
Outside of Israel	(8)	11	3	24	16	40
Total	348	484	832	392	74	466
Other interest-bearing assets						
In Israel	21	34	55	14	(96)	(82)
Outside of Israel	1	23	24	5	16	21
Total	22	57	79	19	(80)	(61)
Total interest revenues	370	541	911	411	(6)	405
Interest-bearing liabilities						
Deposits from the public						
In Israel	65	134	199	55	20	75
Outside of Israel	3	14	17	11	(3)	8
Total	68	148	216	66	17	83
Other interest-bearing liabilities						
In Israel	79	47	126	57	21	78
Outside of Israel	–	–	–	–	–	–
Total	79	47	126	57	21	78
Total interest expenses	147	195	342	123	38	161

(1) Information in these tables is after effect of hedging financial derivatives.

(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 the average balance of debentures available for sale, for the one-year periods ended December 31, 2017, 2016 and 2015, we deducted (added) the average balance of unrealized gains (losses) from adjustment to fair value of debentures available for sale, included in equity under Other Comprehensive Income, under "Adjustments with respect to presentation of securities available for sale at fair value", amounting to NIS (17) million, NIS (3) million and NIS (2) million, respectively.

(5) From the average balance of debentures held for trading, for the one-year periods ended December 31, 2017, 2016 and 2015, we added (deducted) the average balance of unrealized gains (losses) from adjustment to fair value of debentures held for trading, amounting to NIS (1) million, NIS (2) million and NIS 4 million, respectively.

(6) Includes derivatives, other non-interest bearing assets, net of provision for credit losses.

(7) Commissions amounting to NIS 228, 271 and 456 million were included in interest revenues for the year ended December 31, 2017, 2016 and -2015, respectively.

(8) Includes derivatives.

(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.

Appendix 2 – Multi-period information

Consolidated Statement of Profit and Loss – Multi-period information

For the years ended December 31, 2013 – 2017

Reported amounts (NIS in millions)

	2017	2016	2015	2014	2013
Interest revenues	6,222	5,311	4,906	5,347	6,442
Interest expenses	1,875	1,533	1,372	1,972	2,978
Interest revenues, net	4,347	3,778	3,534	3,375	3,464
Expenses with respect to credit losses	192	200	211	173	288
Interest revenues, net after expenses with respect to credit losses	4,155	3,578	3,323	3,202	3,176
Non-interest revenues					
Non-interest financing revenues	136	295	358	173	14
Commissions	1,423	1,433	1,426	1,395	1,458
Other revenues	94	134	74	44	27
Total non-interest revenues	1,653	1,862	1,858	1,612	1,499
Operating and other expenses					
Payroll and associated expenses	2,326	2,071	1,944	1,866	1,823
Maintenance and depreciation of buildings and equipment	742	693	692	715	690
Other expenses	543	535	590	458	438
Total operating and other expenses	3,611	3,299	3,226	3,039	2,951
Pre-tax profit	2,197	2,141	1,955	1,775	1,724
Provision for taxes on profit	806	833	761	657	593
After-tax profit	1,391	1,308	1,194	1,118	1,131
Share in profit (loss) of associates, after tax	–	–	–	5	(4)
Net profit:					
Before attribution to non-controlling interests	1,391	1,308	1,194	1,123	1,127
Attributable to non-controlling interests	(44)	(42)	(60)	(31)	(44)
Attributable to shareholders of the Bank	1,347	1,266	1,134	1,092	1,083
Diluted earnings per share[(1)] (in NIS)					
Basic earnings per share:					
Total net profit attributable to shareholders of the Bank	5.80	5.46	4.90	4.74	4.74
Diluted earnings per share:					
Total net profit attributable to shareholders of the Bank	5.76	5.46	4.89	4.71	4.71

(1) Share of NIS 0.1 par value.

Addendum 2 – Multi-period information – Continued

Consolidated Balance Sheet – Multi-period information

As of December 31, 2013 – 2017

Reported amounts (NIS in millions)

	2017	2016	2015	2014	2013
Assets					
Cash and deposits with banks	41,130	41,725	30,489	26,798	26,060
Securities	10,133	10,262	11,845	14,259	7,000
Securities loaned or purchased in resale agreements	76	9	71	107	70
Loans to the public	182,602	172,779	160,604	148,912	139,880
Provision for credit losses	(1,484)	(1,438)	(1,400)	(1,343)	(1,315)
Loans to the public, net	181,118	171,341	159,204	147,569	138,565
Loans to Governments	456	330	316	307	305
Investments in associated companies	32	34	36	52	60
Buildings and equipment	1,403	1,585	1,583	1,570	1,536
Intangible assets and goodwill	87	87	87	87	87
Assets with respect to derivatives	3,421	3,584	3,527	5,602	3,606
Other assets	1,716	1,498	2,000	2,162	2,256
Total assets	239,572	230,455	209,158	198,513	179,545
Liabilities and Equity					
Deposits from the public	183,573	178,252	162,380	152,379	141,244
Deposits from banks	1,125	1,537	1,166	1,258	2,041
Deposits from the Government	51	50	58	55	62
Securities loaned or sold in conjunction with repurchase agreements	–	–	–	223	–
Debentures and subordinated notes	29,923	27,034	23,719	20,580	16,443
Liabilities with respect to derivatives	3,082	3,566	3,634	6,497	3,538
Other liabilities	7,491	6,692	5,786	6,217	6,058
Total liabilities	225,245	217,131	196,743	187,209	169,386
Shareholders' equity attributable to shareholders of the Bank	13,685	12,714	11,847	10,797	9,681
Non-controlling interests	642	610	568	507	478
Total equity	14,327	13,324	12,415	11,304	10,159
Total liabilities and equity	239,572	230,455	209,158	198,513	179,545

Appendix 3 – Multi-quarter information

Consolidated Statement of Profit and Loss by Quarter – for 2017

Reported amounts (NIS in millions)

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest revenues	1,651	1,300	1,915	1,356
Interest expenses	515	289	742	329
Interest revenues, net	1,136	1,011	1,173	1,027
Expenses with respect to credit losses	60	41	42	49
Interest revenues, net after expenses with respect to credit losses	1,076	970	1,131	978
Non-interest revenues				
Non-interest financing revenues (expenses)	55	61	21	(1)
Commissions	367	346	353	357
Other revenues	42	28	12	12
Total non-interest revenues	464	435	386	368
Operating and other expenses				
Payroll and associated expenses	610	650	568	498
Maintenance and depreciation of buildings and equipment	188	187	181	186
Other expenses	141	135	128	139
Total operating and other expenses	939	972	877	823
Pre-tax profit	601	433	640	523
Provision for taxes on profit	222	161	231	192
After-tax profit	379	272	409	331
Share in net profits of associates, after tax	–	–	1	(1)
Net profit:				
Before attribution to non-controlling interests	379	272	410	330
Attributable to non-controlling interests	(14)	(11)	(10)	(9)
Attributable to shareholders of the Bank	365	261	400	321
Diluted earnings per share[(1)] (in NIS)				
Basic earnings per share				
Total net profit attributable to shareholders of the Bank	1.57	1.12	1.72	1.38
Diluted earnings per share				
Total net profit attributable to shareholders of the Bank	1.56	1.11	1.71	1.37

(1) Share of NIS 0.1 par value.

Appendix 3 – Multi-quarter information – Continued

Consolidated Statement of Profit and Loss by Quarter - for 2016

Reported amounts (NIS in millions)

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest revenues	1,254	1,601	1,588	868
Interest expenses	306	545	574	108
Interest revenues, net	948	1,056	1,014	760
Expenses with respect to credit losses	81	59	57	3
Interest revenues, net after expenses with respect to credit losses	867	997	957	757
Non-interest revenues				
Non-interest financing revenues (expenses)	119	40	69	67
Commissions	356	360	352	365
Other revenues	14	20	11	89
Total non-interest revenues	489	420	432	521
Operating and other expenses				
Payroll and associated expenses	566	508	520	477
Maintenance and depreciation of buildings and equipment	171	177	171	174
Other expenses	132	130	145	128
Total operating and other expenses	869	815	836	779
Pre-tax profit	487	602	553	499
Provision for taxes on profit	212	218	200	203
After-tax profit	275	384	353	296
Share in net profit (loss) of associates, after tax	(1)	1	–	–
Net profit:				
Before attribution to non-controlling interests	274	385	353	296
Attributable to non-controlling interests	(9)	(12)	(13)	(8)
Attributable to shareholders of the Bank	265	373	340	288
Diluted earnings per share[(1)] (in NIS)				
Basic earnings per share				
Total net profit attributable to shareholders of the Bank	1.14	1.61	1.47	1.24
Diluted earnings per share				
Total net profit attributable to shareholders of the Bank	1.03	1.36	1.42	1.05

(1) Share of NIS 0.1 par value.

Appendix 3 – Multi-quarter information – Continued

Consolidated balance sheet as of the end of each quarter in 2017

Reported amounts (NIS in millions)

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Assets				
Cash and deposits with banks	41,130	42,578	39,146	41,683
Securities	10,133	10,938	10,560	11,791
Securities loaned or purchased in resale agreements	76	2	6	46
Loans to the public	182,602	180,086	178,593	174,533
Provision for credit losses	(1,484)	(1,465)	(1,460)	(1,465)
Loans to the public, net	181,118	178,621	177,133	173,068
Loans to the Government	456	426	312	312
Investments in associated companies	32	33	33	33
Buildings and equipment	1,403	1,359	1,391	1,550
Intangible assets and goodwill	87	87	87	87
Assets with respect to derivatives	3,421	3,808	4,384	3,951
Other assets	1,716	1,726	2,004	1,550
Total assets	239,572	239,578	235,056	234,071
Liabilities and Equity				
Deposits from the public	183,573	184,221	180,680	180,722
Deposits from banks	1,125	1,462	1,454	1,474
Deposits from the Government	51	60	57	56
Debentures and subordinated notes	29,923	29,129	27,851	26,924
Liabilities with respect to derivatives	3,082	3,293	4,093	4,143
Other liabilities	7,491	7,387	7,028	7,118
Total liabilities	225,245	225,552	221,163	220,437
Equity attributable to equity holders of the Bank	13,685	13,399	13,276	13,015
Non-controlling interests	642	627	617	619
Total equity	14,327	14,026	13,893	13,634
Total liabilities and equity	239,572	239,578	235,056	234,071

Appendix 3 – Multi-quarter information – Continued

Consolidated balance sheet as of the end of each quarter in 2016

Reported amounts (NIS in millions)

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Assets				
Cash and deposits with banks	41,725	40,753	36,842	38,193
Securities	10,262	9,407	8,419	9,013
Securities loaned or purchased in resale agreements	9	16	46	151
Loans to the public	172,779	170,024	166,914	163,451
Provision for credit losses	(1,438)	(1,404)	(1,399)	(1,378)
Loans to the public, net	171,341	168,620	165,515	162,073
Loans to the Government	330	353	363	323
Investments in associated companies	34	34	35	36
Buildings and equipment	1,585	1,537	1,545	1,546
Intangible assets and goodwill	87	87	87	87
Assets with respect to derivatives	3,584	3,267	3,460	3,922
Other assets	1,498	1,446	1,446	1,465
Total assets	230,455	225,520	217,758	216,809
Liabilities and Equity				
Deposits from the public	178,252	173,748	169,621	165,001
Deposits from banks	1,537	1,255	1,183	1,416
Deposits from the Government	50	53	53	55
Securities loaned or sold in conjunction with repurchase agreements	–	–	–	–
Debentures and subordinated notes	27,034	27,253	24,337	26,859
Liabilities with respect to derivatives	3,566	3,520	3,787	4,878
Other liabilities	6,692	6,365	5,806	5,928
Total liabilities	217,131	212,194	204,787	204,137
Equity attributable to equity holders of the Bank	12,714	12,726	12,384	12,098
Non-controlling interests	610	600	587	574
Total equity	13,324	13,326	12,971	12,672
Total liabilities and equity	230,455	225,520	217,758	216,809

Appendix 4 – Additional information

Subsidiaries in which the Bank holds less than 50% of means of control

Had the Bank not consolidated the financial statements of Bank Yahav, the consolidated financial statements (excluding Bank Yahav) would have been similar to the Bank's (solo) financial statements as presented in Note 36 to the financial statements, except for the following material changes:

Balance sheet highlights (as of December 31, 2017)

- The balance of investment in associates would have been lower by NIS 1.6 billion.
- The balance of deposits from the public would have been lower by NIS 27.3 billion.
- The balance of debentures and subordinated notes would have been higher by NIS 26.4 billion.

Profit and loss highlights (for 2017)

- Total non-interest revenues would have been higher by NIS 122 million.
- The share of net profit of associates, after tax effect, would have been lower by NIS 78 million.

Balance sheet highlights (as of December 31, 2016)

- The balance of investment in associates would have been lower by NIS 1.6 billion.
- The balance of deposits from the public would have been lower by NIS 24.3 billion.
- The balance of debentures and subordinated notes would have been higher by NIS 23.5 billion.

Profit and loss highlights (for 2016)

- Total non-interest revenues would have been higher by NIS 130 million.
- The share of net profit of associates, after tax effect, would have been lower by NIS 90 million.

Glossary and index of terms included on the annual financial statements

Below is a summary of terms included on the financial statements and and index for these terms

1. Terms with regard to risks management at the Bank and to capital adequacy

ABC	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.
	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.
B	Basel – Basel II / Basel III – Framework for assessment of capital adequacy and risk management, issued by the Basel Committee on Bank Supervision.
C	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.
E	Standard approach – An approach used to calculate the required capital with respect to credit risk, market risk or operating 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".
J	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.
K	Subordinated notes – Notes whose rights are subordinated to claims by other Bank creditors, except for other obligations of the same type.
M	Stress tests – A title for various methods used to assess the financial standing of a banking corporation under a n extreme scenario.
	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 sent to the Board of Directors quarterly.
N	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.
	Risk assets – These consist of credit risk, operating risk and market risk, calculated using the standard approach as stated in Proper Banking Conduct Directives 201-211.
O	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.
S	Loan To Value Ratio (LTV) – The ratio between the approved facility when extended and the asset value.

2. Terms with regard to banking and finance

ABC	OTC – Over the Counter – Transaction involving financial instruments which is conducted over the counter and not on a stock exchange.
A	Off-balance sheet credit – Contracting for providing credit and guarantees (excluding derivatives).
	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.
H	Indebtedness – On- and off-balance sheet credit, as defined in Proper Banking Conduct Directive 313.
	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.
	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.
	Problematic debt – Debt classified under one of the following negative classifications: special supervision, inferior or impaired.
J	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.
M	Financial instrument – A contract that creates a financial asset for one entity and a financial liability or capital instrument for another entity.
	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.
N	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.
O	Syndication – A loan extended jointly by a group of lenders.
S	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.

3. Terms with regard to regulatory directives

ABC	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).
	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.
	EMIR - European Market Infrastructure Regulation – EU regulations adopted in order to increase stability, transparency and efficiency of derivative markets.

Index