Mizrahi-Tefahot Bank

Quarterly Condensed Financial Statements
As of September 30, 2019

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

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Mizrahi-Tefahot Bank

Report of the Board of Directors and management

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Condensed Report of the Board of Directors and Management to Financial Statements as of September 30, 2019

Introduction

The Board of Directors of Mizrahi Tefahot Bank Ltd., at its meeting held on November 18, 2019, resolved to approve and publish the Report of the Board of Directors and Management, the Risks Report and Other Supervisory Disclosures and the condensed consolidated financial statements of Mizrahi Tefahot Bank Ltd. and its subsidiaries as of September 30, 2019.

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

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

For most topics, the Supervisor of Banks' directives are based on generally acceptable accounting principles for US banks (see also Note 1 to these financial statements as of December 31, 2018 and Note 1 to these condensed financial statements).

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

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

This additional information includes:

- Detailed Risks Report in conformity with disclosure requirements of Basel Pillar 3 and in conformity with additional recommendations by the Financial Stability Board (FSB).
- Details of equity instruments issued by the Bank
- Financial statements in XBRL file.

In conformity with the Equal Rights to Handicapped Persons Regulations (Service Accessibility Adaptations), 2013, the website also provides accessible reports.

Forward-Looking Information

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

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

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

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

Overview, targets and strategy

This chapter describes major developments in the Bank Group, its operating segments for the first nine months of 2019, performance, risk to which the Bank is exposed as well as targets and strategy. This chapter should be read, as needed, in conjunction with the chapter "Overview, targets and strategy" in the 2018 audited annual financial statements.

Condensed financial information and key performance indicators for the Bank Group

	For the quarter ended						
	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
	NIS in millions						
Statement of profit and loss – highlights							
Interest revenues, net	1,214	1,543	1,231	1,260	1,236	1,345	1,081
Non-interest financing revenues	147	89	57	121	105	129	90
Commissions and other revenues	400	395	409	396	378	375	373
Total revenues	**1,761**	**2,027**	**1,697**	**1,777**	**1,719**	**1,849**	**1,544**
Expenses with respect to credit losses	70	99	76	77	61	90	82
Operating and other expenses	998	1,011	986	(1)1,211	936	(1)1,325	912
Of which: Payroll and associated expenses	650	648	636	683	598	557	569
Pre-tax profit	693	917	635	489	722	434	550
Provision for taxes on profit	251	318	213	268	250	212	192
Net profit(2)	**422**	**576**	**404**	**(1)202**	**454**	**(1)207**	**343**

	For the nine months ended September 30		For the year ended December 31,
	2019	2018	2018
	NIS in millions		
Statement of profit and loss – highlights			
Interest revenues, net	3,988	3,662	4,922
Non-interest financing revenues	293	324	445
Commissions and other revenues	1,204	1,126	1,522
Total revenues	**5,485**	**5,112**	**6,889**
Expenses with respect to credit losses	245	233	310
Operating and other expenses	2,995	(1)3,173	(1)4,384
Of which: Payroll and associated expenses	1,934	1,724	2,407
Pre-tax profit	2,245	1,706	2,195
Provision for taxes on profit	782	654	922
Net profit(2)	**1,402**	**1,004(1)**	**1,206(1)**

(1) Operating and other expenses for 2018 include a provision, amounting to NIS 546 million, with respect to the investigation by the US Department of Justice (NIS 425 million in the second quarter of 2018 and NIS 121 million in the fourth quarter of 2018).
The Bank's net operating profit, excluding extraordinary items, i.e. excluding the provisions with respect to the investigation and taking into account the provisions for bonus payments in line with profitability from business operations in that period and related tax expenses, amounted to:
In the second quarter of 2018: NIS 472 million.
In the fourth quarter of 2018: NIS 378 million.
In the first nine months of 2018: NIS 1,269 million.
In all of 2018: NIS 1,647 thousand.
(2) 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.

Net profit for the Group in the first nine months of 2019 amounted to NIS 1,402 million, compared to reported net profit of NIS 1,004 million in the corresponding period last year – an increase by 39.6%. Net profit excluding extraordinary items[(1)] in the corresponding period last year amounted to NIS 1,269 million, an increase by 10.5%.

Net profit in the first nine months reflects annualized return on equity of 12.4%, compared to reported return on equity at 9.7% (excluding extraordinary items[(1)]: 12.3%) and 8.5% return in 2018 (excluding extraordinary items[(1)]: 11.6%).

Group net profit in the third quarter of 2019 amounted to NIS 422 million, compared to NIS 454 million in the corresponding period last year. Net profit in the third quarter was affected by the decrease in the CPI in this quarter, compared to the increase in the CPI in the corresponding period last year. The difference in CPI between the corresponding quarters, at 0.9%, accounts for a difference of NIS 113 million in Bank revenues between these quarters – see "Analysis of developments in revenues, expenses and other comprehensive income" below.

The following major factors affected Group profit in the first nine months and in the third quarter of 2019 over the corresponding period last year:

- Increase in revenues from current operations:

  In the first nine months of 2019, operations continued to grow, as reflected in the increase in net financing revenues from current operations and in commission revenues.

- The (known) CPI increased by only 0.5% in the first nine months of 2019, compared to an increase by 1.1% in the corresponding period last year.

  In the third quarter of 2019, the CPI decreased by 0.7%, compared to an increase by 0.2% in the corresponding period last year. The difference in CPI between the corresponding quarters, at 0.9%, accounts for a difference of NIS 113 million in Bank revenues between these quarters.

  For more information see under "Analysis of Development in financing revenues from current operations" below.

- Increase in operating and other expenses:

  Operating and other expenses in the first nine months of 2018 include a provision amounting to NIS 425 million with respect to the investigation by the US DOJ.

  Total operating expenses in the first nine months and in the third quarter of 2019 include an increase in provision for remuneration components (bonuses and options for employees), in line with higher profitability.

  See below for explanation of changes in each operating expense component.

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(1) Operating and other expenses for 2018 include a provision, amounting to NIS 546 million, with respect to the investigation by the US Department of Justice (NIS 425 million in the second quarter of 2018 and NIS 121 million in the fourth quarter of 2018).
The Bank's net operating profit, excluding extraordinary items, i.e. excluding provisions with respect to the investigation and taking into account the provisions for bonus payments in line with profitability from business operations in that period and related tax expenses, amounted to:

	As of						
	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
	NIS in millions						
Balance sheet – key items							
Balance sheet total	267,001	264,223	260,011	257,873	248,831	246,593	242,805
Loans to the public, net	202,578	200,728	196,271	194,381	189,796	187,055	183,628
Cash and deposits with banks	47,125	48,700	48,396	45,162	42,423	42,380	43,156
Securities	10,566	8,816	9,130	11,081	10,093	9,926	9,057
Buildings and equipment	1,384	1,375	1,387	1,424	1,360	1,364	1,378
Deposits from the public	207,832	205,188	204,777	199,492	192,943	189,900	187,066
Debentures and subordinated notes	30,442	31,596	27,721	30,616	29,769	30,034	29,864
Deposits from banks	673	554	619	625	655	875	885
Shareholders' equity[1]	15,755	15,740	15,121	14,681	14,441	13,986	13,890

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

- Total assets as of September 30, 2019 amounted to NIS 267.0 billion – an increase by NIS 18.2 billion or 7.3% compared to September 30, 2018.
- Loans to the public, net as of September 30, 2019 amounted to NIS 202.6 billion – an increase by NIS 12.8 billion or 6.7% compared to September 30, 2018.
- Deposits from the public as of September 30, 2019 amounted to NIS 207.8 billion – an increase by NIS 14.9 billion or 7.7% compared to September 30, 2018.
- Shareholder equity as of September 30, 2019 amounted to NIS 15.8 billion – an increase by NIS 1.3 billion or 9.1% compared to September 30, 2018. Shareholders' equity as of September 30, 2019 was similar to shareholders' equity as of June 30, 2019, due to dividends paid in this quarter with respect to earnings in the first two quarters of this year. See also chapter "Capital adequacy" below.

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

Key financial ratios (in percent)

	For the quarter ended						
	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Key performance benchmarks							
Net profit return on equity(1)(2)	11.1	15.8	11.3	5.7(8)	13.4	6.1(8)	10.3
Net profit return on risk assets(1)(2)(3)	1.06	1.48	1.06	0.54	1.24	0.60	0.97
Return on average assets(2)	0.64	0.88	0.63	0.32	0.74	0.34	0.57
Deposits from the public to loans to the public, net	102.6	102.2	104.3	102.6	101.7	101.5	101.9
Ratio of Tier I capital to risk components	10.13	10.23	10.12	10.01	10.11	9.95	10.16
Leverage ratio(4)	5.62	5.67	5.54	5.42	5.47	5.38	5.43
(Quarterly) liquidity coverage ratio(5)	122	118	120	116	121	120	125(9)
Ratio of revenues to average assets(2)	2.68	3.13	2.65	2.84	2.80	3.06	2.57
Operating expenses to total revenues (Cost-income ratio)(6)	56.7	49.9	58.1	68.1(8)	54.5	71.7(8)	59.1
Basic earnings per share (in NIS)	1.80	2.46	1.73	0.87	1.95	0.89	1.47
Key credit quality benchmarks							
Ratio of balance of provision for credit losses to total loans to the public	0.81	0.80	0.80	0.80	0.81	0.81	0.81
Ratio of impaired debts or debts in arrears 90 days or longer to loans to the public	1.29	1.28	1.25	1.23	1.17	1.12	1.09
Expenses with respect to credit losses to loans to the public, net for the period(2)	0.14	0.20	0.15	0.16	0.13	0.19	0.18
Ratio of net accounting write-offs to average loans to the public(2)	0.07	0.13	0.14	0.12	0.09	0.11	0.13
Additional information							
Share price (in NIS) at end of the quarter	86.40	82.00	74.60	63.14	62.26	67.17	67.03
Dividends per share (in Agorot)(7)	(11)167	-(10)	-(10)	-(10)	-(10)	59	47
Ratio of net interest revenues to average assets(2)	1.84	2.38	1.92	2.00	2.01	2.22	1.79
Ratio of commissions to average assets(2)	0.58	0.57	0.59	0.61	0.59	0.59	0.60

	For the nine months ended September 30		For the year ended December 31,
	2019	2018	2018
Key performance benchmarks			
Net profit return on equity(1)(2)	12.4	9.7(8)	8.5(8)
Net profit return on risk assets(1)(2)(3)	1.20	0.93	0.83
Return on average assets(2)	0.71	0.55	0.49
Ratio of revenues to average assets(2)	2.80	2.80	2.79
Operating expenses to total revenues (Cost-income ratio)(6)	54.6	62.1(8)	63.6(8)
Basic earnings per share (in NIS)	5.99	4.31	5.17
Key credit quality benchmarks			
Expenses with respect to credit losses to loans to the public, net for the period(2)	0.16	0.16	0.16
Ratio of net accounting write-offs to average loans to the public(2)	0.11	0.11	0.11
Additional information			
Dividends per share (in Agorot)(7)	167	106(10)	106(10)
Ratio of net interest revenues to average assets(2)	2.03	2.00	1.99
Ratio of commissions to average assets(2)	0.58	0.60	0.60

Financial ratios indicate:

- Net profit return in the first nine months was 12.4%, compared to return excluding extraordinary items[(8)] of 12.3% in the corresponding period last year, and compared to the 11.6% return excluding extraordinary items[(8)] in all of 2018, despite the lower impact of CPI on financing revenues in the first nine months of 2019.
- Cost-income ratio for the first nine months of 2019 was lower than 55%.

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.

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

(2) Calculated on annualized basis.

(3) Net profit to average risk assets.

(4) Leverage Ratio – ratio of Tier I capital (according to Basel rules) to total exposure. This ratio is calculated in conformity with Proper Conduct of Banking Business 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 Conduct of Banking Business Directive 221, in terms of simple averages of daily observations during the reported quarter.

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

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

(8) Operating and other expenses for 2018 include a provision, amounting to NIS 546 million, with respect to the investigation by the US Department of Justice (NIS 425 million in the second quarter of 2018 and NIS 121 million in the fourth quarter of 2018). The Bank's return on equity and cost-income ratio, excluding extraordinary items with respect to the investigation and with respect to provisions for bonus payments in line with profitability from business operations in that period and related tax expenses, was:

Return on equity the second quarter of 2018	14.1%.
Return on equity in the fourth quarter of 2018:	10.7%.
Return on equity for the first nine months of 2018	12.3%.
Return on equity in all of 2018:	11.6%.
Cost-income ratio in the second quarter of 2018	53.2%.
Cost-income ratio in the fourth quarter of 2018:	61.3%.
Cost-income ratio for the first nine months of 2018	55.5%.
Cost-income ratio in all of 2018:	57.2%.

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

(10) No dividends were declared from the second quarter of 2018 through the first quarter of 2019.

(11) In the second quarter of 2019, a dividend was declared with respect to earnings in the first half of 2019.

Major risks

The Bank's risks mapping process produced a listing of the following major risks: Credit risk (and credit concentration), market risk, interest risk (and, in particular, interest risk in the bank portfolio), liquidity risk, operational risk, including information security and cyber risk, IT risk and legal risk, compliance and regulatory risk, cross-border and AML risk, reputational risk and strategic-business risk. The Bank regularly reviews the risk mapping, so as to ensure that it covers all of its business operations, market conditions and regulatory requirements.
For further details see chapter "Major risks" of the 2018 Report of the Board of Directors and Management.
For more information about developments in risks, see chapter "Risks overview" below and the detailed Risks Management Report on the Bank website.
See below for estimated potential effect of the various risk factors on the Bank Group in chapter "Risks overview".

Business goals and strategy

For more information about the Bank's business goals and strategy for 2017-2021, see chapter "Business goals and strategy" of the 2018 Report of the Board of Directors and Management.

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 April 11, 2019, 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 16 to the financial statements for additional information.

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.

Developments in financing sources

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

Deposits

The Bank distinguishes between different source types by term and by client type. The Bank reviews depositor concentration; management and the Board of Directors have specified restrictions and guidelines with regard to concentration risk which apply to individual depositors, liquid means with regard to major / institutional depositors and resource composition. Quantitative and qualitative indicators to be regularly monitored, which estimate change in concentration risk –have been specified as part of liquidity risk management.
Deposits from the public for the Group as of September 30, 2019 amounted to NIS 207.8 billion, compared to NIS 199.5 billion at end of 2018: an increase by 4.2%. Deposits from the public in the NIS-denominated, non-CPI linked segment increased in the first nine months of 2019 by 5.2%; deposits in the CPI-linked segment increased by 4.7%; and deposits denominated in or linked to foreign currency increased by 0.3%. For more information see chapter "Analysis of development of assets, liabilities, capital and capital adequacy" below.

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.
On August 4, 2019, Tefahot Issuance published a shelf prospectus, dated August 5, 2019, for issuance of obligatory notes.
On June 23, 2019, Tefahot Issuance issued a new series of NIS-denominated debentures (Series 49), linked to the CPI, with total par value of NIS 3.0 billion, for consideration amounting to NIS 3.0 billion. Tefahot Issuance also issued a new series of contingent convertible (CoCo) subordinated notes (Series 50), with loss-absorption provisions through principal write-off, linked to the CPI, with par value of NIS 0.7 billion, for consideration amounting to NIS 0.7 billion.
On October 29, 2019, after the balance sheet date, Tefahot Issuance issued a new series of NIS-denominated CPI-linked debentures (Series 51), with total par value of NIS 2.5 billion, for consideration amounting to NIS 2.6 billion. Tefahot Issuance also issued a new series of CPI-linked contingent convertible (CoCo) subordinated notes (Series 50) by way of series expansion, with loss-absorption provisions through principal write-off, with par value of NIS 0.4 billion, for consideration amounting to NIS 0.4 billion.
In addition to Tefahot Issue operations, the Bank itself has a shelf prospectus effective as from September 25, 2016 (dated September 26, 2016), extended by ISA through September 24, 2019. The Bank is preparing to issue a new shelf prospectus.
In the first nine months of 2019, the Bank did not issue any securities pursuant to this prospectus.
As of the date of these financial statements, total debentures and subordinated notes amounted to NIS 30.4 billion, compared to NIS 30.6 billion as of December 31, 2018.

Complex capital instruments

Contingent convertible (CoCo) subordinated notes

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), as of September 30, 2019, amounted to NIS 2.9 billion, compared to NIS 2.2 billion as of December 31, 2018.
For more information about issue of CoCo contingent subordinated notes by Tefahot Issuance, see above.

Other complex capital instruments

Capital note which does not qualify as supervisory capital pursuant to Basel III directives and is gradually written down, as of September 30, 2019 amounted to NIS 2.0 billion, similar to December 31, 2018.

Other notes

Subordinated notes, which are not considered complex capital instruments (included in Tier II capital for the purpose of maintaining minimum capital ratio and gradually reduced subject to transition provisions), as of September 30, 2019, amounted to NIS 1.1 billion, compared to NIS 1.6 billion as of December 31, 2018.

Significant developments in management of business operations

Addendum to the agreement with Bank Igud shareholders

In conformity with the resolution by the Bank’s Board of Directors dated November 27, 2017, the Bank signed an agreement with controlling shareholders of Bank Igud Le-Israel Ltd. (hereinafter: "Igud"), who jointly hold 47.63% of Igud's issued and paid-up share capital, to acquire the shares of Bank Igud and to merge it with the Bank by way of exchange of shares (hereinafter: "the **agreement**"). Moreover, prior to signing this agreement, notice was received from another Igud shareholder who holds (through Trustees) 27.12% of Igud's issued and paid-in share capital (hereinafter: "the **other shareholder**"). According to this agreement, as noted in the 2017 Report of the Board of Directors and Management, 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 stated in the agreement.

On May 30, 2018, the Acting Director General of the Antitrust Authority decided to object to the merger (hereinafter: "the Decision"). On August 5, 2018, the Bank and the Shareholders signed an addendum to the Agreement (hereinafter: "Addendum no. 1"), whereby the parties and Igud would appeal the Decision. Such appeal was filed on September 6, 2018. It was further agreed that the extended effective date would be 12 months after the signing date of the Addendum (hereinafter: "the Extended Effective Date") and if, by the Extended Effective Date, a verdict would be issued denying the appeal, or should no verdict be given with regard to the appeal, then the Agreement would be null and void. On July 8, 2019, the parties to the agreement signed Addendum no. 2 to the agreement (hereinafter: "Addendum no. 2").

Pursuant to Addendum no. 2, the Extended Effective Date was extended to November 30, 2019; however, if by this date no verdict will have been given in the appeal proceeding, either party may notify the other party of postponement of the Extended Effective Date to December 31, 2019 (hereinafter: "the Postponed Effective Date"). The parties further agreed that the Bank may terminate the agreement should the Bank Board of Directors resolve, by the Extended Effective Date or by the Postponed Effective Date, that Igud conducted or was party to an extraordinary transaction (as this term is defined in Section 1 of the Corporate Law, 1999), as well as for the causes listed in section 5.1 of the immediate report dated August 5, 2018. Furthermore, pursuant to Addendum no. 2, should the Bank of Israel not consent to extend the Trust Period with regard to holdings of the other shareholder through the Postponed Effective Date, either party may terminate the agreement such that neither of the parties, employees, officers, managers, shareholders or affiliated companies thereof shall bear any obligation due to the agreement and/or claims made against the other parties to the agreement, employees, advisors, officers, managers, shareholders of affiliated companies thereof.

For more information about the agreement with Bank Igud shareholders, see chapter "Significant developments in management of business operations" in the Report of the Board of Directors and Management for 2017, Immediate Report dated May 30, 2018 reference 2018-01-053347, Immediate Report dated June 25, 2018, reference 2018-01-060643, Immediate Report dated August 5, 2018, reference 2018-01-072859, Immediate Report dated July 8, 2019, reference 2019-01-070000).

Sale of assets and liabilities in mortgage portfolio

In the first quarter of 2019, the Bank and an institutional investor signed an agreement for sale of 80% of assets and liabilities in a housing loan portfolio valued in total at NIS 0.7 billion. The loan portfolio sold includes loans with LTV ratios not exceeding 60%.

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*).

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

Award of tender for custodian services

In the fourth quarter of 2018, the Bank prevailed in a tender proceeding for provision of custodian services to a large institutional investor and consequently, accepted a significant volume of client assets.

For more information about 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, see chapter "Material developments in revenues, expenses and other comprehensive income (Other off-balance sheet activity)" below.

Significant developments in IT

Given current developments in the financial market, the age of current Bank systems and transition of Yahav Bank to a new platform, the Bank concluded the review of transition of the Bank's core capital market system to the capital market module of the new platform and launched this project in the first quarter of 2019. The project is making progress and is in the detailed design stage.

Another significant project has been recently launched, to replace the CRM system in order to empower personalized service for each client.

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 Mexico City and in Germany. 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 is reviewing the overall network of its overseas affiliates and is acting to close the affiliates in Mexico City and in Germany and has discontinued activity of the Bank's mobile representatives overseas.

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 the 2018 financial statements.

Other matters

Corporate social responsibility

On August 1, 2019, the Bank issued its 2018 Corporate Social Responsibility Report.
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

Amendment of Bylaws

On April 2, 2019, the General Meeting of Bank shareholders approved an amendment of Bank Bylaws, with regard to appointment of Board members (other than external Board members) by the General Meeting and their term in office. For more information see report dated April 2, 2019 (reference: 2019-01-031993).

Legal Proceedings

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

Explanation and analysis of results and business standing

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

Trends, phenomena and material changes

Significant Events in the Bank Group's Business

Addendum to the agreement with Bank Igud shareholders

For more information about an addendum to the agreement with Bank Igud shareholders, see chapter "Business goals and strategy" above.

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

On April 11, 2019, the Bank's Board of Directors approved, after approval by the Bank's Remuneration Committee, an option allotment to Bank officers and to other managers at the Bank and at its subsidiaries. See Note 16 to the financial statements for additional information.

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

Major developments in the banking industry in Israel and overseas

For more information about trends in recent years in the banking sector in Israel and overseas, see chapter "Explanation and analysis of results and business standing" of the Report of the Board of Directors and Management for 2018.

Other developments in 2019:

In 2018, a trend of monetary cut-back became apparent in some developed markets, reflected in higher interest rates and reduced quantitative expansion. As from mid-2019, this trend was reversed with a renewal of expansive monetary policy, given the more moderate economic activity and higher risk in the global economy. In the USA, the FED lowered its interest rate three times this year, from 2.25%-2.5% to 1.5%-1.75%. In Europe, the ECB announced it would not be raising monetary interest rates in 2019. In September, the deposit interest rate was lowered by 0.1%, to -0.5%, concurrently with renewed debenture buying at EUR 20 billion per month.

Developments in the Israeli economy and in the global economy in the third quarter and in the first nine months of 2019

Israeli economy

Real Developments

In the first half of 2019, GDP grew at 3.4%, following 2.8% growth in the second half of 2018 and 3.4% in all of 2018. The GDP growth rate in the first half of 2019 was favorably affected by the following: Growth of private consumption due, *inter alia*, to auto purchases brought forward prior to higher “green” tax rates, further growth in export of services and higher investment in fixed assets. GDP growth excluding taxes on imports, which is a benchmark for economic growth excluding auto imports, was 3.1% in the first half of 2019.
The Bank of Israel Composite Index increased in the first nine months of this year at an annualized rate of 2.7%, compared to an increase of 3.5% and 3.9% in 2018 and 2017, respectively. The Bank of Israel estimates that in the first three quarters of 2019, the economy grew in line with its potential growth rate.

Inflation and exchange rates

In the first nine months of 2019, the Consumer Price Index rose by 0.6%, compared to 1.1% in the corresponding period last year. The higher CPI resulted primarily from higher prices for housing, education and culture, home maintenance, transportation and communication. The higher prices were partially offset by lower prices of clothing and footwear. In the twelve months ended September 2019, the CPI increased by 0.3%..

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

	September 30, 2019	December 31, 2018	Change in %
Exchange rate of:			
USD (in NIS)	3.482	3.748	(7.1)
EUR (in NIS)	3.805	4.292	(11.3)

On November 12, 2019, the USD/NIS exchange rate was 3.511 – a 0.8% devaluation since September 30, 2019. The EUR/NIS exchange rate on this date was 3.868 – a devaluation of 1.7% since September 30, 2019.

Monetary policy

In 2019 to date, the Bank of Israel interest rate remained unchanged at 0.25%. The Bank of Israel's monetary policy year-to-date was impacted by the following: the economy reaching its potential growth rate, following continued strong growth in private consumption along with stagnation in exportation of goods; short-term inflationary expectations slightly lower and close to the lower bound of the price stability target; the stronger NIS vs. the currency basket year to date; increased risk to the global economy due to exacerbation of the trade war between the USA and China; higher political risk in Europe; slower growth of the world's major economies; downward revision of the growth forecasts in these economies; and adoption of expansive monetary policy by major central banks.

In early October 2019, the Bank of Israel announced that it believes interest rates in Israel would not be raised for a long time, and may even be lowered.

Fiscal policy

In the first nine months of 2019, the government budget recorded a NIS 30.9 billion cumulative deficit, compared to a NIS 23.8 billion cumulative budget deficit in the corresponding period last year. The deficit rate as percentage of GDP for the 12 months ended in September 2019 was 3.3%, (3.8% excluding the effect of taxes deferred from September to October last year), compared to a deficit target of 2.9% for 2019 and 2.9% for 2019. In the first nine months of 2019, expenditure by Government ministries increased by 7.5% compared to the corresponding period last year.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, in the first eight months of 2019 demand for new apartments (apartments sold and apartments constructed not for sale) was 32.8 thousand apartments, an increase by 29% over the corresponding period last year and an increase by 15% over the corresponding period in 2017. The increase is due, *inter alia*, to transactions by first-time home owners who bought apartments under the "Resident Pricing" program. In the first nine months of 2019, housing loans given to the public amounted to NIS 50.4 billion, compared to NIS 43.7 billion in the corresponding period last year and NIS 39.8 billion in the corresponding period in 2017 – an increase by 15% and 27%, respectively.
According to data from the Central Bureau of Statistics, owned housing prices, in terms of twelve months ended August 2019, increased by 1.3%, compared to a decrease by 1.6% in 2018 and an increase by 1.5% in the corresponding period last year.

Capital market

Trading on global equity markets in the third quarter of 2019 was positive, led by stock exchanges in the USA and by major equity benchmarks in the Israeli market.

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

	2019			2018			
CPI	**Third Quarter**	**Second Quarter**	**First Quarter**	**Fourth Quarter**	**Third Quarter**	**Second Quarter**	**First Quarter**
Tel-Aviv 35	1.1	3.6	5.4	(10.9)	8.3	5.6	(4.9)
Tel-Aviv 125	3.2	4.7	6.4	(10.2)	9.0	4.0	(4.0)
Tel-Aviv 90	9.2	7.1	10.2	(9.0)	9.9	(1.3)	(1.7)

The average daily trading volume of shares and convertible securities in the third quarter of 2019 amounted to NIS 1.4 billion on average – similar to the average trading volume for the corresponding period last year. In the first nine months of 2019, the average daily trading volume amounted to NIS 1.3 billion, compared to NIS 1.4 billion in the corresponding period last year.

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

	2019			2018			
CPI	**Third Quarter**	**Second Quarter**	**First Quarter**	**Fourth Quarter**	**Third Quarter**	**Second Quarter**	**First Quarter**
General debentures	2.6	1.7	3.2	(1.6)	0.8	(0.5)	(0.1)
CPI-indexed Government debentures	3.5	2.1	3.5	(1.6)	0.4	(0.5)	0.3
Non-linked Government debentures	3.5	1.4	2.3	(0.4)	0.2	(1.1)	0.2
Tel Bond 20	2.0	1.9	4.3	(2.4)	1.1	0.6	(0.4)
Tel Bond 40	1.1	2.1	3.2	(1.9)	1.1	0.7	(0.4)

Global economy

The US economy grew in the third quarter of 2019 at an annualized 1.9%, compared to 2.0% in the previous quarter and compared to 2.9% for all of 2018, led by growth in private consumption, despite lower investment in fixed assets. In the first nine months of 2019, the retail commerce index improved, but the industrial output index and the purchasing manager index were more moderate, given continued trend tensions with China. The labor market, on the other hand, provided some positive data: Unemployment remained below 4%, the participation rate was slightly higher and real wages continued to grow at 3%. Due to concern over more moderate economic activity, the FED lowered interest rates three times this year, to 1.5%-1.75%.

In the third quarter of 2019, GDP in the Euro Zone grew at an annualized 1.1%, compared to 1.2% in the previous quarter and compared to 1.8% growth in all of 2018. In the first nine months of this year, the industrial output index continued to decline, as did the purchasing manager index and the expectation benchmarks. Following slower economic activity in Europe, the ECB lowered the deposit interest rate in September to -0.5% and launched a monetary expansion by buying debentures valued at EUR 20 billion monthly. The European Union agreed to the UK's request to delay its exit to January 31, 2020. In an attempt to resolve the stalemate over Brexit, the UK parliament called for early elections to be held on December 12, 2019.

China's economy grew in the third quarter of 2019 at an annualized 6.0%, compared to 6.2% in the previous quarter and compared to 6.6% for all of 2018. The growth rates of industrial output and retail commerce indexes were more moderate in the first nine months of 2019. The purchasing manager index declined, indicating a decline in economic activity, for the sixth month in a row.

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

	2019			2018			
CPI	**Third Quarter**	**Second Quarter**	**First Quarter**	**Fourth Quarter**	**Third Quarter**	**Second Quarter**	**First Quarter**
Dow Jones	1.2	2.6	11.2	(11.8)	9.0	0.7	(2.5)
S&P 500	1.2	3.8	13.1	(14.3)	7.2	2.9	(1.2)
NASDAQ 100	1.0	4.0	16.6	(17.0)	8.3	7.0	2.9
DAX	0.2	7.6	9.2	(13.8)	(0.5)	1.7	(6.4)
FTSE 100	(0.2)	2.0	8.2	(10.4)	(1.7)	8.2	(8.2)
CAC	2.5	3.5	13.1	(13.9)	3.2	3.0	(2.7)
Nikkei	2.3	0.3	6.0	(17.0)	8.1	4.0	(5.8)

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 process, 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 risk, IT risk and reputation risk. As noted, the risks mapping is regularly reviewed to ensure that it encompasses all business operations at the Bank, market conditions and regulatory requirements.

For more information, 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 Risks Report for the third quarter of 2019 and for 2018, available on the Bank website:

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

Independent Auditors' review report

The Independent Auditor has drawn attention in their review report to Note 10.B.3. with regard to lawsuits filed against the Bank and its subsidiary, including requests to recognize them as class actions

Events after the balance sheet date

- For more information about dividend distribution with respect to earnings of the third quarter of 2019, see chapter "Analysis of developments in assets, liabilities, equity and capital adequacy" below and the statement of changes to shareholder equity and the Note "Events after the balance sheet date" of these condensed financial statements.
- For more information about debenture issuance by Mizrahi Tefahot Issue Company Ltd., see chapter "Developments in financing sources" above.

Changes to critical accounting policies and to critical accounting estimates

As stated in Note 1.B to these financial statements, the group-based provision for credit losses is based, *inter alia*, on historical loss rates in various economic sectors, divided into problematic and non-problematic debt, for the 9 years ended on the report date.

As set forth in Note 1.C.2 to these financial statement, the US Financial Accounting Standards Board ("FASB") issued ASU 2017-12, an update to Section 815 of the Codification with regard to derivatives and hedge accounting. The amendment includes changes to provisions concerning measurement and designation of qualified hedging ratios and presentation requirements for the hedging results.

Material developments in revenues, expenses and other comprehensive income

Net profit for the Group in the first nine months of 2019 amounted to NIS 1,402 million, compared to reported net profit of NIS 1,004 million in the corresponding period last year – an increase by 39.6%. Net profit excluding extraordinary items(1) in the corresponding period last year amounted to NIS 1,269 million, an increase by 10.5%.

Net profit in the first nine months reflects annualized return on equity of 12.4%, compared to reported return on equity at 9.7% (excluding extraordinary items(1): 12.3%) and 8.5% return in 2018 (excluding extraordinary items(1): 11.6%).

Group net profit in the third quarter of 2019 amounted to NIS 422 million, compared to NIS 454 million in the corresponding period last year. Net profit in the third quarter was affected by the decrease in the CPI in this quarter, compared to the increase in the CPI in the corresponding period last year. The difference in CPI between the corresponding quarters, at 0.9%, accounts for a difference of NIS 113 million in Bank revenues between these quarters, as set forth below.

Analysis of developments in revenues, expenses and other comprehensive income

Net interest revenues and non-interest financing revenues (2) from current operations in the third quarter of 2019 amounted to NIS 1,361 million, compared to NIS 1,341 million in the corresponding period last year, an increase by 1.5%.

Net interest revenues and non-interest financing revenues (2) in the first nine months of 2019 amounted to NIS 4,281 million, as described below, compared to NIS 3,986 million in the corresponding period last year, an increase by 7.4%.

Net interest revenues and non-interest financing revenues(2) from current operations in the third quarter of 2019 amounted to NIS 1,372 million, as described below, compared to NIS 1,253 million in the corresponding period last year, an increase by 9.5%.

Net interest revenues and non-interest financing revenues(2) from current operations in the first nine months of 2019 amounted to NIS 4,078 million, as described below, compared to NIS 3,615 million in the corresponding period last year, an increase by 12.8%.

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

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

	2019			2018				Change in %
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Third quarter of 2019 to third quarter of 2018
Interest revenues, net	1,214	1,543	1,231	1,260	1,236	1,345	1,081	
Non-interest financing revenues(2)	147	89	57	121	105	129	90	
Total financing revenues	**1,361**	**1,632**	**1,288**	**1,381**	**1,341**	**1,474**	**1,171**	**1.5**
Less:								
Effect of CPI	(81)	235	(42)	17	32	172	(39)	
Revenues from collection of interest on problematic debts	6	9	12	12	9	8	12	
Gains from realized debentures and available-for-sale securities and gains from debentures held for trading, net	30	1	12	2	11	–	2	
Effect of accounting treatment of derivatives at fair value and others(3)(4)	34	30	(43)	26	36	73	55	
Total effects from other than current operations	**(11)**	**275**	**(61)**	**57**	**88**	**253**	**30**	
Total financing revenues from current operations	**1,372**	**1,357**	**1,349**	**1,324**	**1,253**	**1,221**	**1,141**	**9.5**

	First nine months		
	2019	2018	Change in %
Interest revenues, net	3,988	3,662	
Non-interest financing revenues(2)	293	324	
Total financing revenues	**4,281**	**3,986**	**7.4**
Less:			
Effect of CPI	112	165	
Revenues from collection of interest on problematic debts	27	29	
Gains from realized debentures and available-for-sale securities and gains from debentures held for trading, net	43	13	
Effect of accounting treatment of derivatives at fair value and others(3)(4)	21	164	
Total effects from other than current operations	**203**	**371**	
Total financing revenues from current operations	**4,078**	**3,615**	**12.8**

(1) Operating and other expenses for 2018 include a provision, amounting to NIS 546 million, with respect to the investigation by the US Department of Justice (NIS 425 million in the second quarter of 2018 and NIS 121 million in the fourth quarter of 2018).
The Bank's net operating profit, excluding extraordinary items, i.e. excluding provisions with respect to the investigation and taking into account the provisions for bonus payments in line with profitability from business operations in that period and related tax expenses, amounted to:

(2) 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.

(3) 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.

(4) Including the effect of recording gain from shares not held for trading:
– In the first quarter of 2019: NIS 16 million.
– In the second quarter of 2019: NIS 16 million.
– In the third quarter of 2019: NIS 30 million.

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

	Third Quarter			
Operating segment	**2019**	**2018**	**Change amount**	**Change rate (In %)**
Individuals:				
Households – housing loans	429	389	40	10.3
Households – other	339	312	27	8.7
Private banking	21	18	3	16.7
Total – individuals	**789**	**719**	**70**	**9.7**
Business operations:				
Small and micro businesses	295	263	32	12.2
Medium businesses	75	61	14	23.0
Large businesses	130	134	(4)	(3.0)
Institutional investors	25	30	(5)	(16.7)
Total – business operations	**525**	**488**	**37**	**7.6**
Financial management	(7)	79	(86)	–
Total activity in Israel	**1,307**	**1,286**	**21**	**1.6**
Overseas operations	54	55	(1)	(1.8)
Total	**1,361**	**1,341**	**20**	**1.5**

	First nine months			
Operating segment	**2019**	**2018**	**Change amount**	**Change rate (In %)**
Individuals:				
Households – housing loans	1,247	1,118	129	11.5
Households – other	1,011	917	94	10.3
Private banking	65	54	11	20.4
Total – individuals	**2,323**	**2,089**	**234**	**11.2**
Business operations:				
Small and micro businesses	862	742	120	16.2
Medium businesses	218	178	40	22.5
Large businesses	393	393	–	–
Institutional investors	87	90	(3)	(3.3)
Total – business operations	**1,560**	**1,403**	**157**	**11.2**
Financial management	230	337	(107)	(31.8)
Total activity in Israel	**4,113**	**3,829**	**284**	**7.4**
Overseas operations	168	157	11	7.0
Total	**4,281**	**3,986**	**295**	**7.4**

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

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

	Third Quarter			First nine months		
Linkage segment	**2019**	**2018**	**Change in %**	**2019**	**2018**	**Change in %**
Israeli currency – non-linked	175,052	161,296	8.5	169,699	160,884	5.5
Israeli currency – linked to the CPI	56,944	52,852	7.7	56,135	52,222	7.5
Foreign currency (including Israeli currency linked to foreign currency)	12,184	15,164	(19.7)	13,576	13,641	(0.5)
Total	**244,180**	**229,312**	**6.5**	**239,410**	**226,747**	**5.6**

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

The decrease in average foreign currency balances is due to diversion of uses to the NIS segment, as part of the Bank's asset and liability management.

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

	Third Quarter		First nine months	
Linkage segments	**2019**	**2018**	**2019**	**2018**
Israeli currency – non-linked	2.05	1.95	2.08	1.93
Israeli currency – linked to the CPI	1.44	1.25	1.22	1.12
Foreign currency	1.04	1.06	0.73	1.19
Total	**1.72**	**1.73**	**1.75**	**1.70**

(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.

Changes to interest rate spreads:

In the non-linked NIS-denominated segment and in the CPI-linked NIS-denominated segment – higher financing margins compared to the corresponding period last year.

In the foreign currency segment – higher FED interest rates in the reported period compared to 2018, from 1.5% in early 2018 to 2%-2.5% in the first nine months of 2019 resulted in higher cost of sources, with revenues from derivative operations, against such uses, are not included in the interest rate differences mentioned above. Including such revenues, there was no significant change in interest rate spread in foreign currency.

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

Expenses with respect to credit losses for the Group amounted to NIS 70 million in the third quarter of 2019, or an annualized rate of 0.14% of total loans to the public, net, compared with NIS 61 million in the corresponding period last year – an annualized rate of 0.13% of total loans to the public, net.

Expenses with respect to credit losses for the Group amounted to NIS 245 million in the first nine months of 2019, or an annualized rate of 0.16% of total loans to the public, net, compared with NIS 233 million in the corresponding period last year – an annualized rate of 0.16% of total loans to the public, net in the corresponding period last year:

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

	Third Quarter		First nine months	
	2019	**2018**	**2019**	**2018**
Provision for credit losses on individual basis (including accounting write-offs)				
Increased expenses	90	88	316	264
Reduced expenses	(53)	(53)	(150)	(120)
Total individual provision	**37**	**35**	**166**	**144**
Provision for credit losses on Group basis:				
By extent of arrears	5	11	10	15
Other	28	15	69	74
Total expenses with respect to credit losses	**70**	**61**	**245**	**233**
Expenses with respect to credit losses as percentage of total loans to the public, net (annualized)	**0.14%**	**0.13%**	**0.16%**	**0.16%**
Of which: With respect to commercial loans other than housing loans	**0.33%**	**0.27%**	**0.41%**	**0.40%**
Of which: With respect to housing loans	**0.04%**	**0.05%**	**0.03%**	**0.04%**

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

	Third Quarter		First nine months	
Operating segment	**2019**	**2018**	**2019**	**2018**
Individuals:				
Households – housing loans	13	17	32	34
Households – other	21	32	72	81
Private banking	1	–	1	1
Total – individuals	**35**	**49**	**105**	**116**
Business operations:				
Small and micro businesses	44	32	110	103
Medium businesses	3	(11)	19	(1)
Large businesses	(8)	(6)	20	13
Institutional investors	(3)	(1)	(6)	–
Total – business operations	**36**	**14**	**143**	**115**
Financial management	1	(1)	(2)	1
Total activity in Israel	**72**	**62**	**246**	**232**
Overseas operations	(2)	(1)	(1)	1
Total	**70**	**61**	**245**	**233**

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

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

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

Non-interest revenues amounted to NIS 547 million in the third quarter of 2019, compared with NIS 483 million in the corresponding period last the third – an increase by NIS 64 million. Non-interest revenues in the first nine months of 2019 amounted to NIS 1,497 million, compared to NIS 1,450 million in the corresponding period last year, an increase by NIS 47 million. See explanation below.

Non-interest financing expenses in the third quarter of 2019 amounted to NIS 147 million, compared to NIS 105 million in the corresponding period last year.
Non-interest financing revenues in the first nine months of 2019 amounted to NIS 293 million, compared to NIS 324 million in the corresponding period last year.
Non-interest financing revenues in the first nine months of 2019 include gain from shares not held for trading amounting to NIS 62 million, of which NIS 30 million in the third quarter.
This item includes, inter alia, the effect of fair value, gains (losses) from transactions in debentures and securities, as well as linkage differentials on CPI derivatives and the effect of interest accrual (time value) inherent in derivative assets, where the corresponding revenues (expenses) are recognized as interest revenues, in conformity with accounting rules. See analysis of financing revenues from current operations above.

Commission revenues in the third quarter of 2019 amounted to NIS 387 million, compared to NIS 366 million in the corresponding period last year – an increase by 5.7%.
Commission revenues in the first nine months of 2019 amounted to NIS 1,143 million, compared to NIS 1,091 million in the corresponding period last year – an increase by 4.8% – due to continued business expansion.

Other revenues in the third quarter of 2019 amounted to NIS 13 million, compared to NIS 12 million in the corresponding period last year.
Other revenues in the first nine months of 2019, amounted to NIS 61 million compared with NIS 35 million in the corresponding period last year – an increase by NIS 25 million.
For the first nine months of 2019, this includes capital gains amounting to NIS 26 million, from realization of assets in conjunction with asset reorganization and improvements to the Bank's branch network.

Operating and other expenses amounted to NIS 998 million in the third quarter of 2019, compared with NIS 936 million in the corresponding period last year – an increase by 6.6%.
Operating and other expenses in the first nine months of 2019, amounted to NIS 2,995 million compared with NIS 3,173 million in the corresponding period last year, including a provision amounting to NIS 425 million with respect to the US DOJ investigation. Operating and other expenses in the first nine months of 2019, excluding the provision with respect the US DOJ investigation, increased by 9.0% compared to the corresponding period last year.
See details by operating expense component below.

Payroll and associated expenses amounted to NIS 650 million in the third quarter of 2019, compared with NIS 598 million in the corresponding period last year – an increase by 8.7%.
Payroll and associated expenses amounted to NIS 1,934 million in the first nine months of 2019, compared with NIS 1,724 million in the corresponding period last year – an increase by 12.2%.
Beyond the current growth in payroll expenses, the provision for remuneration components (bonuses and options for employees) increased, in line with higher profitability compared to the corresponding period last year.

Maintenance and depreciation expenses for buildings and equipment amounted to NIS 193 million in the third quarter of 2019, compared with NIS 186 million in the corresponding period last year – an increase by 3.8%.
Maintenance and depreciation expenses for buildings and equipment amounted to NIS 578 million in the first nine months of 2019, compared with NIS 561 million in the corresponding period last year – an increase by 3.0%.

Other expenses in the third quarter of 2019 amounted to NIS 155 million, compared to NIS 152 million in the corresponding period last year – an increase by 2.0%.
Other expenses in the first nine months of 2019, amounted to NIS 483 million compared with NIS 888 million in the corresponding period last year, which included a provision amounting to NIS 425 million with respect to the US DOJ investigation. Other expenses in the first nine months of 2019 increased by 4.3% compared to the corresponding period last year (excluding the provision with respect to the investigation).

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

	2019			2018			
	Third Quarter	Second quarter of	First Quarter	Fourth Quarter	Third Quarter	Second quarter of	First Quarter
Cost-income ratio	56.7	49.9	58.1	(2)68.1	54.5	(2)71.7	59.1

	First nine months		All of
	2019	2018	2018
Cost-income ratio	54.6	(2)62.1	(2)63.6

(1) Total operating and other expenses to total operating and financing revenues and expenses with respect to credit losses.
(2) Operating and other expenses for 2018 include a provision, amounting to NIS 546 million, with respect to the investigation by the US Department of Justice (NIS 425 million in the second quarter of 2018 and NIS 121 million in the fourth quarter of 2018). The Bank's cost-income ratios, excluding extraordinary items, i.e. excluding the provisions with respect to the investigation and taking into account the provisions for bonus payments in line with profitability from business operations in that period and related tax expenses, amounted to:
In the second quarter of 2018: 53.2%.
In the fourth quarter of 2018: 61.3%.
In the first nine months of 2018: 55.5%.
In all of 2018: 57.2%.

Pre-tax profit for the Group in the third quarter of 2019 amounted to NIS 693 million, compared to NIS 722 million in the corresponding period last year, a decrease by NIS 29 million.
Pre-tax profit for the Group in the first nine months of 2019 amounted to NIS 2,245 million, compared to NIS 1,706 million in the corresponding period last year, an increase by NIS 539 million. See detailed explanation above.

The rate of provision for taxes on profit in the third quarter of 2019 was 36.2%. The rate of provision for taxes on profit was affected, *inter alia*, by disallowed expenses for tax purposes with respect to the Bank's employee stock option plan, recorded in the reported period and absent in the corresponding period last year.
The rate of provision for taxes on profit in the first nine months of 2019 was 34.8%.

Bank share of after-tax profit of associated companies – in the third quarter of 2019 there was no profit with respect to associated companies, similar to the corresponding period last year.
Bank share of after-tax profit of associates – in the first nine months of 2019 there was no profit with respect to associates, compared to a profit of NIS 1 million in the corresponding period last year.

The share of the non-controlling interests in net results of subsidiaries attributable to Yahav Bank in the third quarter of 2019 amounted to NIS 20 million, compared to NIS 18 million in the corresponding period last year.
The share of the non-controlling interests in net results of subsidiaries attributable to Yahav Bank in the first nine months of 2019 amounted to NIS 61 million, compared to NIS 49 million in the corresponding period last year.

The increase in Yahav Bank earnings is due to an increase in business, improved financing margins and stable expenses.

Net profit attributable to shareholders of the Bank in the third quarter of 2019 amounted to NIS 422 million, compared to NIS 454 million in the corresponding period last year.
Net profit attributable to shareholders of the Bank in the first nine months of 2019 amounted to NIS 1,402 million, compared to NIS 1,004 million in the corresponding period last year.

Other comprehensive income (loss) attributable to shareholders of the Bank in the third quarter of 2019 amounted to income of NIS 34 million, compared to income of NIS 1 million in the corresponding period last year.
Other comprehensive income (loss) attributable to shareholders of the Bank in the first nine months of 2019 amounted to income of NIS 28 million, compared to other comprehensive loss of NIS 1 million in the corresponding period last year. The change is primarily due to adjustments with respect to employees' benefits and to adjustments with respect to presentation of debentures available for sale at fair value. For more information see Note 4 to the financial statements.

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

	2019			2018			
	Third Quarter	Second quarter of	First Quarter	Fourth Quarter	Third Quarter	Second quarter of	First Quarter
Net return on equity	11.1	15.8	11.3	(5)5.7	13.4	(5)6.1	10.3
Ratio of Tier I capital to risk components at end of quarter	10.13	10.23	10.12	10.01	10.11	9.95	10.16
(Quarterly) liquidity coverage ratio	122	118	120	116	121	120	(6)125
Leverage ratio at end of quarter	5.62	5.67	5.54	5.42	5.47	5.38	5.43

	First nine months		All of
	2019	2018	2018
Net return on equity	12.4	(5)9.7	(5)8.5

(1) Annualized return.
(2) Return on average shareholders' equity, including "total capital resources", as presented in reporting of revenue and expense rates, less average balance of minority interests and less/plus the average balance of unrealized gains/losses from adjustment to fair value of debentures held for trading as well as gains/losses from debentures available for sale.
(3) Liquidity Coverage Ratio – ratio of total High-Quality Liquid Assets to net cash outflow. This ratio is calculated in conformity with Proper Conduct of Banking Business Directive 221, in terms of simple averages of daily observations during the reported quarter.
(4) Leverage Ratio – ratio of Tier I capital, according to Basel rules, to total exposure. This ratio is calculated in conformity with Proper Conduct of Banking Business Directive 218
(5) Operating and other expenses for 2018 include a provision, amounting to NIS 546 million, with respect to the investigation by the US Department of Justice (NIS 425 million in the second quarter of 2018 and NIS 121 million in the fourth quarter of 2018). The Bank's net profit return on equity, excluding extraordinary items, i.e. excluding the provisions with respect to the investigation and taking into account the provisions for bonus payments in line with profitability from business operations in that period and related tax expenses, amounted to:
In the second quarter of 2018: 14.1%.
In the fourth quarter of 2018: 10.7%.
In the first nine months of 2018: 12.3%.
In all of 2018: 11.6%.
(6) Includes the effect of implementation of Bank of Israel guidelines to apply a reduced withdrawal rate with respect to operational deposits, as from the first quarter of 2018.

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

	Third Quarter		First nine months		All of
	2019	2018	2019	2018	2018
Basic earnings per share	1.80	1.95	5.99	4.31	5.17
Diluted earnings per share	1.79	1.94	5.96	4.28	5.15
Dividends per share	(1)167	(2) -	167	(2)106	(2)106

(1) In the second quarter of 2019, a dividend was declared with respect to earnings in the first half of 2019.
(2) No dividends were declared from the second quarter of 2018 through the first quarter of 2019.

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

Assets and liabilities

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

				Change in % over	
	September 30,	**December 31,**	**September 30,**	**September 30,**	**December 31,**
	2019	**2018**	**2018**	**2018**	**2018**
Balance sheet total	267,001	248,831	257,873	7.3	3.5
Cash and deposits with banks	47,125	42,423	45,162	11.1	4.3
Loans to the public, net	202,578	189,796	194,381	6.7	4.2
Securities	10,566	10,093	11,081	4.7	(4.6)
Buildings and equipment	1,384	1,360	1,424	1.8	(2.8)
Deposits from the public	207,832	192,943	199,492	7.7	4.2
Deposits from banks	673	655	625	2.7	7.7
Debentures and subordinated notes	30,442	29,769	30,616	2.3	(0.6)
Shareholders' equity	15,755	14,441	14,681	9.1	7.3

Cash and deposits with banks – the balance of cash and deposits with banks increased in the first nine months of 2019 by NIS 2.0 billion. The increase in the 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 September 30, 2019 accounted for 76% of total assets, compared to 75% at the end of 2018. Loans to the public, net for the Group in the first nine months of 2019 increased by NIS 8.2 billion, or 4.2%.

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

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

				Change in % over	
	September 30,	**December 31,**	**September 30,**	**September 30,**	**December 31,**
	2019	**2018**	**2018**	**2018**	**2018**
Israeli currency					
Non-linked	135,403	126,471	129,087	7.1	4.9
CPI-linked	56,569	52,212	53,339	8.3	6.1
Foreign currency and foreign currency linked	10,606	11,113	11,955	(4.6)	(11.3)
Total	**202,578**	**189,796**	**194,381**	**6.7**	**4.2**

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

				Change in % over	
	September 30,	December 31,	September 30,	September 30,	December 31,
	2019	2018	2018	2018	2018
Individuals:					
Households – housing loans	132,371	123,848	126,105	6.9	5.0
Households – other	21,310	20,480	20,932	4.1	1.8
Private banking	108	85	98	27.1	10.2
Total – individuals	**153,789**	**144,413**	**147,135**	**6.5**	**4.5**
Business operations:					
Small and micro businesses	20,830	18,428	18,977	13.0	9.8
Medium businesses	7,041	6,055	6,585	16.3	6.9
Large businesses	16,007	15,876	16,236	0.8	(1.4)
Institutional investors	1,129	1,247	1,331	(9.5)	(15.2)
Total – business operations	**45,007**	**41,606**	**43,129**	**8.2**	**4.4**
Overseas operations	3,782	3,777	4,117	0.1	(8.1)
Total	**202,578**	**189,796**	**194,381**	**6.7**	**4.2**

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

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

Reported amounts			**As of September 30, 2019**			**As of September 30, 2018**			**As of December 31, 2018**
(NIS in millions)			**Credit risk[1]**			**Credit risk[1]**			**Credit risk[1]**
	On balance sheet	**Off balance sheet**	**Total**	**On balance sheet**	**Off balance sheet**	**Total**	**On balance sheet**	**Off balance sheet**	**Total**
1. Problematic credit risk									
Impaired credit risk	1,198	68	1,266	876	59	935	1,101	64	1,165
Inferior credit risk	143	–	143	311	–	311	152	–	152
Credit risk under special supervision[2]	2,166	79	2,245	1,759	35	1,794	1,724	48	1,772
Total problematic credit risk	**3,507**	**147**	**3,654**	**2,946**	**94**	**3,040**	**2,977**	**112**	**3,089**
Of which: Non-impaired debts in arrears 90 days or longer[2]	1,427			1,359			1,316		
2. Non-performing assets[3]	**1,156**			**843**			**1,058**		

(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 1,369 million (as of September 30, 2018 – NIS 1,293 million; as of December 31, 2018 – NIS 1,241 million).

(3) Assets not accruing interest.

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

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

Credit risk is composed of on-balance-sheet risk and off-balance-sheet credit risk, which are weighted by nature of the borrower and credit type, as per Bank of Israel directives. On-balance-sheet risk includes balances of loans to the public, derivative instruments purchased by the public and Group investment in public debentures. Off-balance-sheet credit risk includes guarantees and transactions in off-balance-sheet instruments, obligations to provide credit and unutilized credit facilities. Total credit risk to the public for the Bank Group as of September 30, 2019 amounted to NIS 263 billion, compared to NIS 254 billion as of December 31, 2018 – an increase by 3.7%.

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

				Change in % over	
	September 30,		December 31,	September 30,	December 31,
	2019	2018	2018	2018	2018
Off balance sheet financial instruments other than derivatives[1]:					
Unutilized debitory account and other credit facilities in accounts available on demand	15,436	17,714	15,586	(12.9)	(1.0)
Guarantees to home buyers	11,130	10,865	10,544	2.4	5.6
Irrevocable commitments for loans approved but not yet granted	18,970	14,493	16,730	30.9	13.4
Unutilized revolving credit card facilities	7,983	7,542	7,574	5.8	5.4
Commitments to issue guarantees	8,243	7,535	7,482	9.4	10.2
Guarantees and other liabilities	7,952	7,208	7,945	10.3	0.1
Loan guarantees	2,506	2,294	2,388	9.2	4.9
Documentary credit	202	315	292	(35.9)	(30.8)
Financial derivatives[2]:					
Total par value of derivative financial instruments	243,177	233,196	246,375	4.3	(1.3)
(On-balance sheet) assets with respect to derivative instruments	2,717	2,604	3,240	4.3	(16.1)
(On-balance sheet) liabilities with respect to derivative instruments	2,920	2,836	3,661	3.0	(20.2)

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

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

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

Securities – the balance of investment in securities decreased in the first nine months of 2019 by NIS 0.5 billion, and increased by NIS 0.5 billion compared to the corresponding period last year. The decrease in total investment in securities is within asset and liability management of the Bank.

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

	Carrying amount	Amortized cost (for shares – cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value(1)
					September 30, 2019
Debentures held to maturity	4,043	4,043	65	(1)	4,107
Debentures available for sale	5,989	5,945	53(2)	(2)(9)	5,989
Investment in shares not held for trading(4)	157	111	46(3)	–	157
Debentures held for trading	377	376	1(3)	–	377
Total securities	**10,566**	**10,475**	**165**	**(10)**	**10,630**
					September 30, 2018
Securities held to maturity	3,436	3,436	41	(2)	3,475
Securities available for sale	6,484	6,589	(2)12	(2)(117)	6,484
Securities held for trading	173	174	–	(3)(1)	173
Total securities	**10,093**	**10,199**	**53**	**(120)**	**10,132**
					December 31, 2018
Securities held to maturity	3,917	3,917	29	(6)	3,940
Securities available for sale	6,876	6,965	6(2)	(95)(2)	6,876
Securities held for trading	288	288	–	–	288
Total securities	**11,081**	**11,170**	**35**	**(101)**	**11,104**

(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.
(4) For more information about application of Public Reporting Directives with regard to classification and measurement of financial instruments, see Note 1.C.2 to the financial statements.

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

				Change in % over	
	September 30,	December 31,	September 30,	September 30,	December 31,
	2019	2018	2018	2018	2018
Israeli currency					
Non-linked	4,501	4,161	4,661	8.2	(3.4)
CPI-linked	619	376	418	64.6	48.1
Foreign currency and foreign currency linked	5,289	5,464	5,910	(3.2)	(10.5)
Non-monetary items	157	92	92	70.7	70.7
Total	**10,566**	**10,093**	**11,081**	**4.7**	**(4.6)**

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

	Carrying amount as of		
	September 30, 2019	September 30, 2018	December 31, 2018
Government debentures:			
Government of Israel	7,404	7,869	8,625
Government of USA	2,679	1,654	1,862
Total government debentures	**10,083**	**9,523**	**10,487**
Debentures of banks in developed nations[1]:			
USA	70	176	74
Germany	44	71	186
Other	212	214	224
Total debentures of banks in developed nations	**326**	**461**	**484**
Corporate debentures (composition by economic sector):			
Public and community services	–	10	10
Financial services	–	7	8
Total corporate debentures	**–**	**17**	**18**
Investment in shares not held for trading	**157**	**92**	**92**
Of which: Shares for which no fair value is available	[2]57	[3]91	[3]91
Total securities	**10,566**	**10,093**	**11,081**

(1) Includes exposure to Multi-party Development Banks (MDB).

(2) Generally shown at cost (net of impairment), adjusted for changes in observed prices in ordinary transactions for similar or identical investments of the same issuer. For more information about application of Public Reporting Directives with regard to classification and measurement of financial instruments, see Note 1.C.2 to the financial statements.

(3) Shown at cost.

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

Buildings and equipment – The balance of buildings and equipment increased in the first nine months of 2019 by NIS 40 million. The decrease in buildings and equipment is due to current change with respect to depreciation and to new investments, primarily in technology.

Deposits from the public – these account for 78% of total consolidated balance sheet as of September 30, 2019, compared to 77% as of December 31, 2018. In the first nine months of 2019, deposits from the public with the Bank Group increased by NIS 8.3 billion, or 4.2% (increase by 7.7% over the corresponding period last year).

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

				Change in % over	
	September 30,		December 31,	September 30,	December 31,
	2019	2018	2018	2018	2018
Israeli currency					
Non-linked	153,246	143,425	145,705	6.8	5.2
CPI-linked	15,119	13,866	14,443	9.0	4.7
Foreign currency and foreign currency linked	39,467	35,652	39,344	10.7	0.3
Total	**207,832**	**192,943**	**199,492**	**7.7**	**4.2**

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

				Change in % over	
	September 30,		December 31,	September 30,	December 31,
	2019	**2018**	**2018**	**2018**	**2018**
Individuals:					
Households – other	86,049	79,523	82,119	8.2	4.8
Private banking	14,464	13,036	13,777	11.0	5.0
Total – individuals	**100,513**	**92,559**	**95,896**	**8.6**	**4.8**
Business operations:					
Small and micro businesses	26,016	20,481	22,664	27.0	14.8
Medium businesses	8,394	8,151	8,332	3.0	0.7
Large businesses	25,276	25,773	29,460	(1.9)	(14.2)
Institutional investors	42,802	40,714	37,712	5.1	13.5
Total – business operations	**102,488**	**95,119**	**98,168**	**7.7**	**4.4**
Overseas operations	4,831	5,265	5,428	(8.2)	(11.0)
Total	**207,832**	**192,943**	**199,492**	**7.7**	**4.2**

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

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

	September 30,		December 31,
	2019	**2018**	**2018**
Maximum deposit			
Up to 1	73,306	67,623	69,559
Over 1 to 10	49,878	44,670	47,240
Over 10 to 100	28,264	27,714	26,703
Over 100 to 500	21,459	23,218	18,658
Above 500	34,925	29,718	37,332
Total	**207,832**	**192,943**	**199,492**

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

Deposits from banks – The balance of deposits from banks as of September 30, 2019 amounted to NIS 0.7 billion, compared to NIS 0.6 billion as of December 31, 2018.

Debentures and subordinated notes – The balance of debentures and subordinated notes as of September 30, 2019 amounted to NIS 30.4 billion, a decrease by NIS 0.2 billion compared to the balance as of December 31, 2018. See also chapter "Developments in financing sources" above.

Capital, capital adequacy and leverage

Shareholders' equity attributable to shareholders of the Bank – Shareholders' equity attributable to equity holders of the Bank as of September 30, 2019 amounted to NIS 15.8 billion, compared to NIS 14.7 billion and NIS 14.4 billion as of December 31, 2018 and as of September 30, 2018, an increase by 7.3% and 9.1%, respectively.

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

	September 30,		December 31,
	2019	**2018**	**2018**
Share capital and premium[(1)]	2,218	2,196	2,197
Capital reserve from benefit from share-based payment transactions	63	49	48
Total cumulative other loss[(2)(3)]	(318)	(384)	(346)
Retained earnings[(4)]	13,792	12,580	12,782
Total	**15,755**	**14,441**	**14,681**

(1) For more information about share issuance, see condensed statement of changes to shareholders' equity.
(2) For more information about other comprehensive income (loss), see Note 4 to the financial statements.
(3) Includes actuarial liability with respect to employees' retirement program, see Notes 22 and 25 to the 2018 financial statements.
(4) For more information about developments in revenues and expenses accumulated to retained earnings in the reported period, see chapter "Material developments in revenues, expenses and other comprehensive income".

The ratio of shareholders' equity to total assets for the Group as of September 30, 2019 was 590% compared to 5.69% as of December 31, 2018 and 5.80% as of September 30, 2018.

Capital adequacy

Supervisory capital

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

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

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

Additional Tier I capital consists of equity instruments which fulfill the requirements specified in the directives. As of September 30, 2019, the Bank had no equity instruments included in additional Tier I capital.

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

Subordinated notes, recognized as Tier II capital instruments under the previous directives, no longer qualify as supervisory capital under the current directives (primarily due to lacking loss absorption provisions) and are amortized over the term of the transitional provisions through 2021.

Capital planning at the Bank

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

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

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

Change in Tier I capital by NIS 100 million would result in a change in Tier I capital adequacy ratio of 0.06%. Change in risk assets by NIS 1 billion would result in a change in Tier I capital adequacy ratio of 0.06%.

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 scenarios 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 September 30,		As of December 31,
	2019	**2018**	**2018**
Capital for purpose of calculating the capital ratio			
Tier I shareholders' equity	16,244	14,951	15,172
Tier I capital	16,244	14,951	15,172
Tier II capital	5,799	4,874	5,515
Total capital	**22,043**	**19,825**	**20,687**
Weighted risk asset balances			
Credit risk	148,494	137,095	140,572
Market risks	1,778	1,462	1,494
Operational risk	10,034	9,315	9,561
Total weighted risk asset balances	**160,306**	**147,872**	**151,627**

Ratio of capital to risk components

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 Conduct of Banking Business Directives 201-211. As per instructions of the Supervisor of Banks, the Bank is required to maintain a minimum Tier I capital ratio of no less than 9% and a minimum total equity ratio of no less than 12.5% of weighted total of risk components of its balance sheet assets and off-balance-sheet items. The Supervisor of Banks' instructions specifies the manner of calculation of total capital and total risk components

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

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 9.83% and 13.33%, respectively.

For more information about the Board of Directors resolutions with regard to capital to risk components ratio and to dividend distribution policy, see Note 24 to the 2018 financial statements and the chapter "Analysis of composition of assets, liabilities, capital and capital adequacy" (Dividend distribution policy) below.

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

	September 30, 2019	**September 30, 2018**	**December 31,2018**
Ratio of Tier I capital to risk components	10.13	10.11	10.01
Ratio of total capital to risk components	13.75	13.41	13.64
Minimum Tier I capital ratio required by Supervisor of Banks	9.83	9.84	9.84
Total minimum capital ratio required by the directives of the Supervisor of Banks	13.33	13.34	13.34

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

	As of September 30, 2019		As of September 30, 2018		As of December 31, 2018	
Exposure group	**Weighted risk asset balances**	**Capital requirement(1)**	**Weighted risk asset balances**	**Capital requirement(2)**	**Weighted risk asset balances**	**Capital requirement(3)**
Sovereign debts	215	29	876	117	223	30
Public sector entity debts	216	29	494	66	197	26
Banking corporation debts	707	94	794	106	712	95
Corporate debts	43,615	5,814	41,066	5,478	42,166	5,625
Debts secured by commercial real estate	3,496	466	2,418	323	2,523	337
Retail exposure to individuals	16,213	2,161	14,861	1,982	15,154	2,022
Loans to small businesses	7,282	971	7,022	937	7,468	996
Residential mortgages	70,789	9,436	64,616	8,620	66,663	8,893
Other assets	5,495	732	4,595	613	4,890	652
Total	**148,028**	**19,732**	**136,742**	**18,242**	**139,996**	**18,676**

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

	As of September 30, 2019		As of September 30, 2018		As of December 31, 2018	
	Weighted risk asset balances	**Capital requirement(1)**	**Weighted risk asset balances**	**Weighted risk asset balances**	**Capital requirement(1)**	**Weighted risk asset balances**
Market risk	1,778	236	1,462	195	1,494	198
CVA risk with respect to derivatives(4)	466	62	353	47	576	77
Operational Risk(5)	10,034	1,338	9,315	1,243	9,561	1,275
Total	**12,278**	**1,636**	**11,130**	**1,485**	**11,631**	**1,550**
Total risk assets	**160,306**	**21,368**	**147,872**	**19,727**	**151,627**	**20,226**

(1) The capital requirement was calculated at 13.33% of risk asset balances.
(2) The capital requirement was calculated at 13.34% of risk asset balances.
(3) The capital requirement was calculated at 13.34% of risk asset balances.
(4) Credit Value Adjustments – mark to market with respect to credit risk of counter-party, in conformity with Basel III provisions.
(5) Capital allocation with respect to operational risk was calculated using the standard approach.

Leverage ratio

The Bank applies Proper Banking Conduct Regulation 218 with regard to leverage ratio, which adopts the Basel Committee recommendations with regard to leverage.

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

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

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

	As of September 30,		As of December 31,
	2019	**2018**	**2018**
1. Consolidated data			
Tier I capital	16,244	14,951	15,172
Total exposure	288,965	273,087	279,827
			In %
Leverage ratio	5.62	5.47	5.42
Minimum leverage ratio required by the Supervisor of Banks	5.00	5.00	5.00
2. Significant subsidiaries			
Yahav Bank for Government Employees Ltd. and its subsidiaries			
Leverage ratio	5.42	5.40	5.38
Minimum leverage ratio required by the Supervisor of Banks	4.70	4.70	4.70

Dividends

Dividends distribution policies

For more information about the Bank's revised dividend policy for 2018-2021, see chapter "Dividends" in the Report of the Board of Directors and Management for 2018.

Dividends distribution

Dividends declaration

On November 18, 2019, the Bank’s Board of Directors resolved to distribute dividends amounting to NIS 168.8 million, or 40% of earnings in the third quarter of 2019, in conformity with the Bank's dividend policy.

The dividends are 719.6% of issued share capital, i.e. NIS 0.7196 per NIS 0.1 par value share. The effective date for dividends payment is November 26, 2019 and the payment date is December 3, 2019. The final dividends per share is subject to changes due to realized convertible securities of the Bank.

Below are details of dividends distributed by the Bank since 2018 (in reported amounts):

Declaration date	Payment date	Dividends per share	Dividends as percent of profit	Total dividends paid
		(Agorot)		(NIS in millions)
February 26, 2018	March 26, 2018	47.03	0.30	109.5
May 7, 2018	June 5, 2018	58.91	0.40	137.2
Total dividends distributed in 2018[(1)]				**246.7**
August 12, 2019	August 27, 2019	167.21	0.40[(3)]	392.0
Total dividends distributed in 2019[(2)]				**392.0**

(1) Total dividends distributed with respect to 2018 earnings – NIS 137.2 million.
(2) Total dividends distributed with respect to 2019 earnings – NIS 392.0 million.
(3) Dividend rate as percentage of net profit in the first half of 2019.

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):

				Change in % over	
	September 30,		December 31,	September 30,	December 31,
	2019	2018	2018	2018	2018
Securities(1)(2)	432,452	247,076	233,600	75.0	85.1
Assets of provident funds for which the Group provides operating services	90,964	82,113	79,865	10.8	13.9
Assets held in trust by the Bank Group	70,975	75,926	70,153	(6.5)	1.2
Assets of mutual funds for which the Bank provides operating services	12,883	17,204	14,514	(25.1)	(11.2)
Other assets under management(3)	15,338	14,364	14,260	6.8	7.6

(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) The increase in securities is due to the Bank prevailing in a tender for provision of custodian services, see chapter "Significant developments in management of business operations" above.

(3) Including:

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

Financial Information by Operating Segments

According to the Public Reporting Regulation with regard to supervisory operating segments, 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 "other", 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 set forth in Note 12 to the financial statements.

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

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

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

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

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

For more information and detailed description of the segments, see chapter "Other Information about the Bank and Management thereof" on the 2018 financial statements.

Financial Information by Supervisory Operating Segments:

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

	Net profit		Share of total net profit (in %)	
	First nine months		First nine months	
	2019	**2018**	**2019**	**2018**
Individuals:				
Households – housing loans	552	501	39.3	37.3
Households – other	37	42	2.6	3.1
Private banking	(1)	(338)	–	–
Total – individuals	**588**	**205**	**41.9**	**40.4**
Business operations:				
Small and micro businesses	315	259	22.5	19.3
Medium businesses	113	95	8.1	7.1
Large businesses	220	216	15.7	16.1
Institutional investors	21	21	1.5	1.6
Total – business operations	**669**	**591**	**47.8**	**44.1**
Financial management	59	129	4.2	9.6
Total activity in Israel	**1,316**	**925**	**93.9**	**94.1**
Overseas operations	86	79	6.1	5.9
Total	**1,402**	**1,004**	**100.0**	**100.0**

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

Household segment

The supervisory definition

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

Differences between the management approach and the supervisory definition

- Some individual clients attributed to the private banking segment using the "management approach" are classified to the household segment using supervisory segments. The difference is primarily due to clients' financial assets used for client classification – the Bank threshold for client classification according to the "management approach" is NIS 1 million, lower than the supervisory definition.
- As a rule, individual clients are attributed to the household segment. According to the supervisory approach, individual clients with high indebtedness or with business attributes are classified to the business operating segments, rather than to the household segment.

Operating results in the household segment

	For the nine months ended September 30					
	2019			2018		
	NIS in millions					
	Other	Housing loans	Total	Other	Housing loans	Total
Profit and profitability						
Total interest revenues, net	1,011	1,247	2,258	917	1,118	2,035
Non-interest financing revenues	–	–	–	–	–	–
Commissions and other revenues	389	119	508	385	119	504
Total revenues	**1,400**	**1,366**	**2,766**	**1,302**	**1,237**	**2,539**
Expenses with respect to credit losses	72	32	104	81	34	115
Operating and other expenses	1,221	487	1,708	1,113	432	1,545
Profit before provision for taxes	107	847	954	108	771	879
Provision for taxes	37	295	332	38	270	308
After-tax profit	70	552	622	70	501	571
Net profit:						
Attributable to non-controlling interests	(33)	–	(33)	(28)	–	(28)
Attributable to shareholders of the banking corporation	**37**	**552**	**589**	**42**	**501**	**543**
Balance sheet – key items:						
Loans to the public (end balance)	21,565	133,042	154,607	20,727	124,507	145,234
Loans to the public, net (end balance)	21,310	132,371	153,681	20,480	123,848	144,328
Deposits from the public (end balance)	86,049	–	86,049	79,523	–	79,523
Average balance of loans to the public	20,577	129,626	150,203	19,635	122,704	142,339
Average balance of deposits from the public	84,237	–	84,237	77,267	–	77,267
Average balance of risk assets	18,832	73,982	92,814	17,782	68,176	85,958
Credit margins and deposit margins:						
Margin from credit granting operations	620	1,192	1,812	608	1,067	1,675
Margin from activities of receiving deposits	390	–	390	306	–	306
Other	1	55	56	3	51	54
Total interest revenues, net	**1,011**	**1,247**	**2,258**	**917**	**1,118**	**2,035**

Contribution of the household segment (in conformity with supervisory definitions) to Group profit in the first nine months of 2019 amounted to NIS 589 million, compared to NIS 543 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Contribution of housing loans (including general-purpose loans secured by a lien on a residential apartment) in the first nine months of 2019 amounted to NIS 552 million, compared to NIS 501 million in the corresponding period last year.

Total interest revenues, net amounted to NIS 1,247 million, compared to NIS 1,118 million in the corresponding period last year, an increase by 11.5% – primarily due to an increase of NIS 6.9 billion in the average loan balance and to increase in lending margins.

In the first nine months of 2019, the Bank recognized expenses with respect to credit losses amounting to NIS 32 million, compared to NIS 34 million in the corresponding period last year.

Operating expenses amounted to NIS 487 million, compared to NIS 432 million in the corresponding period last year. Beyond the current growth in payroll expenses, the provision for remuneration components (bonuses and options for employees) increased, in line with higher profitability compared to the corresponding period last year. For more information see chapter "Explanation and analysis of results and business standing" above.

Contribution of other household operations (other than housing loans) in the first nine months of 2019 amounted to a profit of NIS 37 million, compared to a profit of NIS 42 million in the corresponding period last year. Interest revenues, net increased by NIS 94 million. The increase is primarily due to increase in loans and deposits. Commissions and other revenues amounted to NIS 389 million, compared to NIS 385 million in the corresponding period last year.

Expenses with respect to credit losses amounted to NIS 72 million, compared to NIS 81 million in the corresponding period last year.

Operating expenses amounted to NIS 1,221 million, compared to NIS 1,113 million in the corresponding period last year. Total expenses in the third quarter and in the first nine months of 2019 include an increase in provision for remuneration components (bonuses and options for employees), in line with higher profitability. For more information see chapter "Explanation and analysis of results and business standing" above.

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

	For the three months ended September 30,					
	2019			2018		
	NIS in millions					
	Other	Housing loans	Total	Other	Housing loans	Total
Profit and profitability						
Total interest revenues, net	339	429	768	312	389	701
Non-interest financing revenues	–	–	–	–	–	–
Commissions and other revenues	134	42	176	130	39	169
Total revenues	**473**	**471**	**944**	**442**	**428**	**870**
Expenses with respect to credit losses	21	13	34	32	17	49
Operating and other expenses	408	163	571	377	136	513
Profit before provision for taxes	44	295	339	33	275	308
Provision for taxes	16	107	123	11	96	107
After-tax profit	28	188	216	22	179	201
Net profit:						
Attributable to non-controlling interests	(13)	–	(13)	(10)	–	(10)
Attributable to shareholders of the banking corporation	**15**	**188**	**203**	**12**	**179**	**191**
Balance sheet – key items:						
Loans to the public (end balance)	21,565	133,042	154,607	20,727	124,507	145,234
Loans to the public, net (end balance)	21,310	132,371	153,681	20,480	123,848	144,328
Deposits from the public (end balance)	86,049	–	86,049	79,523	–	79,523
Average balance of loans to the public	20,865	131,758	152,623	19,633	124,642	144,275
Average balance of deposits from the public	85,643	–	85,643	78,925	–	78,925
Average balance of risk assets	18,905	75,631	94,536	18,140	69,026	87,166
Credit margins and deposit margins:						
Margin from credit granting operations	209	409	618	204	369	573
Margin from activities of receiving deposits	130	–	130	108	–	108
Other	–	20	20	–	20	20
Total interest revenues, net	**339**	**429**	**768**	**312**	**389**	**701**

Private Banking Segment

The supervisory definition

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

Differences between the management approach and the supervisory definition

- Some individual clients attributed to the private banking segment using the "management approach" are classified to the household segment using supervisory segments. The difference is primarily due to clients' financial assets used for client classification – the Bank threshold for client classification according to the "management approach" is NIS 1 million, lower than the supervisory definition.
- The private banking segment according to the management approach also includes businesses with liquid assets in excess of NIS 8 million. These clients are classified to the business operating segments under the supervisory approach.

Operating results of private banking segment

	For the nine months ended September 30		For the three months ended September 30,	
	2019	2018	2019	2018
				NIS in millions
Profit and profitability				
Total interest revenues, net	65	54	21	18
Non-interest financing revenues	–	–	–	–
Commissions and other revenues	7	7	2	2
Total revenues	**72**	**61**	**23**	**20**
Expenses with respect to credit losses	1	1	1	–
Operating and other expenses	72	491[(1)]	24	19
Profit (loss) before provision for taxes	(1)	(431)	(2)	1
Reduction of provision for taxes	–	(93)	(1)	–
Net profit (loss)	**(1)**	**(338)**	**(1)**	**1**
Balance sheet – key items:				
Loans to the public (end balance)	109	86	109	86
Loans to the public, net (end balance)	108	85	108	85
Deposits from the public (end balance)	14,464	13,036	14,464	13,036
Average balance of loans to the public	89	95	107	89
Average balance of deposits from the public	13,791	12,335	14,091	12,717
Average balance of risk assets	27	30	25	23
Credit margins and deposit margins:				
Margin from credit granting operations	–	1	–	–
Margin from activities of receiving deposits	65	53	21	18
Other	–	–	–	–
Total interest revenues, net	**65**	**54**	**21**	**18**

(1) Reclassified.

Operating results of the private banking segment (in conformity with supervisory definitions) in the first nine months of 2019 amounted to a loss of NIS 1 million, compared to a loss of NIS 338 million in the corresponding period last year.

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

Operating expenses amounted to NIS 72 million, compared to NIS 491 million in the corresponding period last year. Operating and other expenses in the first nine months of 2019 include legal expenses. Furthermore, operating and other expenses in the first nine months of 2018 include a provision amounting to NIS 425 million with respect to the investigation by the US DOJ. For more information see Note 10.B.4 to the financial statements.

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

Micro and Small Business Segment

The supervisory definition

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

Differences between the management approach and the supervisory definition

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

Operating results of micro and small business segment

	For the nine months ended September 30		For the three months ended September 30,	
	2019	**2018**	**2019**	**2018**
				NIS in millions
Profit and profitability				
Total interest revenues, net	862	742	295	263
Non-interest financing revenues	–	–	–	–
Commissions and other revenues	289	272	97	91
Total revenues	**1,151**	**1,014**	**392**	**354**
Expenses with respect to credit losses	110	103	44	32
Operating and other expenses	553	509	183	177
Profit before provision for taxes	488	402	165	145
Provision for taxes	170	141	60	51
After-tax profit	**318**	**261**	**105**	**94**
Net profit attributed to non-controlling interests	(3)	(2)	(1)	–
Net profit attributable to shareholders of the banking corporation	**315**	**259**	**104**	**94**
Balance sheet – key items:				
Loans to the public (end balance)	21,195	18,765	21,195	18,765
Loans to the public, net (end balance)	20,830	18,428	20,830	18,428
Deposits from the public (end balance)	26,016	20,481	26,016	20,481
Average balance of loans to the public	20,176	17,860	20,716	18,508
Average balance of deposits from the public	24,878	19,941	25,778	20,593
Average balance of risk assets	19,332	17,205	19,582	17,767
Credit margins and deposit margins:				
Margin from credit granting operations	732	645	252	226
Margin from activities of receiving deposits	109	79	36	29
Other	21	18	7	8
Total interest revenues, net	**862**	**742**	**295**	**263**

Contribution of the small and micro business segment (in conformity with supervisory definitions) to Group profit in the first nine months of 2019 amounted to NIS 315 million, compared to NIS 259 million in the corresponding period last year, an increase by 21.6%.

Below are key factors affecting the change in segment contribution:

Interest revenues, net amounted to NIS 862 million, compared to NIS 742 million in the corresponding period last year – an increase by 16.2%, primarily due to increase in lending and deposit business.

Commissions and other revenues amounted to NIS 289 million, compared to NIS 272 million in the corresponding period last year.

Conversely, expenses with respect to credit losses amounted to NIS 110 million, compared to NIS 103 million in the corresponding period last year.

Operating expenses amounted to NIS 553 million, compared to NIS 509 million in the corresponding period last year – an increase by NIS 44 million. Total expenses in the third quarter and in the first nine months of 2019 include an increase in provision for remuneration components (bonuses and options for employees), in line with higher profitability. For more information see chapter "Explanation and analysis of results and business standing" above.

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

Medium business segment

The supervisory definition

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

Differences between the management approach and the supervisory definition

- The commercial banking segment, according to management approach, includes businesses with turnover between NIS 30 million and NIS 120 million. This means that some commercial banking clients (under 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.
- In general, as from 2019 new clients are classified in conformity with the supervisory definition, resulting in better alignment of the management approach with the supervisory approach, as noted above.

Operating results of medium business segment

	For the nine months ended September 30		For the three months ended September 30,	
	2019	2018	2019	2018
				NIS in millions
Profit and profitability				
Total interest revenues, net	218	178	75	61
Non-interest financing revenues	–	–	–	–
Commissions and other revenues	67	57	24	20
Total revenues	**285**	**235**	**99**	**81**
Expenses (reduction of expenses) with respect to credit losses	19	(1)	3	(11)
Operating and other expenses	92	90	30	33
Profit before provision for taxes	174	146	66	59
Provision for taxes	61	51	24	20
Net profit	**113**	**95**	**42**	**39**
Balance sheet – key items:				
Loans to the public (end balance)	7,153	6,134	7,153	6,134
Loans to the public, net (end balance)	7,041	6,055	7,041	6,055
Deposits from the public (end balance)	8,394	8,151	8,394	8,151
Average balance of loans to the public	7,045	6,130	7,269	6,108
Average balance of deposits from the public	8,351	7,526	8,453	7,814
Average balance of risk assets	8,099	7,026	8,463	6,916
Credit margins and deposit margins:				
Margin from credit granting operations	178	144	63	48
Margin from activities of receiving deposits	35	30	11	11
Other	5	4	1	2
Total interest revenues, net	**218**	**178**	**75**	**61**

Contribution of the medium business segment (in conformity with the supervisory definitions) to Group profit in the first nine months of 2019 amounted to NIS 113 million, compared to NIS 95 million in the corresponding period last year.

Interest revenues, net increased by 22.5%, primarily due to a 12.7% increase in credit and deposit volumes in this segment and to increase in financing margins.

Commission and other revenues increased by NIS 10 million compared to the corresponding period last year.

Expenses with respect to credit losses amounted to an expense of NIS 19 million, compared to a decrease in expenses of NIS 1 million in the corresponding period last year.

Operating expenses amounted to NIS 92 million, compared to NIS 90 million in the corresponding period last year.

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

Large business segment

The supervisory definition

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

Differences between the management approach and the supervisory definition

- The business banking segment, according to management approach, includes businesses with turnover in excess of NIS 120 million. This means that some business banking clients (under the management approach) whose turnover is below NIS 250 million are classified to the medium business segment using the supervisory approach.
- Institutional investors served, under the management approach, by business banking are presented as a separate segment under supervisory operating segments.
- In general, as from 2019 new clients are classified in conformity with the supervisory definition, except for institutional investors, as noted above, resulting in better alignment of the management approach with the supervisory approach, as noted above.

Operating results of large business segment

	For the nine months ended September 30		For the three months ended September 30,	
	2019	**2018**	**2019**	**2018**
				NIS in millions
Profit and profitability				
Total interest revenues, net	393	393	130	134
Non-interest financing revenues	–	–	–	–
Commissions and other revenues	112	83	42	28
Total revenues	**505**	**476**	**172**	**162**
Expenses (reduction of expenses) with respect to credit losses	20	13	(8)	(6)
Operating and other expenses	148	131	50	45
Profit before provision for taxes	337	332	130	123
Provision for taxes	117	116	47	43
Net profit	**220**	**216**	**83**	**80**
Balance sheet – key items:				
Loans to the public (end balance)	16,214	16,067	16,214	16,067
Loans to the public, net (end balance)	16,007	15,876	16,007	15,876
Deposits from the public (end balance)	25,276	25,773	25,276	25,773
Average balance of loans to the public	16,931	16,306	16,697	17,640
Average balance of deposits from the public	26,638	25,575	25,186	25,283
Average balance of risk assets	22,925	21,045	23,925	21,860
Credit margins and deposit margins:				
Margin from credit granting operations	325	330	108	113
Margin from activities of receiving deposits	54	52	18	16
Other	14	11	4	5
Total interest revenues, net	**393**	**393**	**130**	**134**

Contribution of the large business segment (in conformity with the supervisory definitions) to Group profit in the first nine months of 2019 amounted to NIS 220 million, compared to NIS 216 million in the corresponding period last year.
Total interest revenues, net amounted to NIS 393 million, similar to the corresponding period last year.
Commissions and other revenues increased by NIS 29 million, primarily due to the effect of commissions on financing transactions.
Expenses with respect to credit losses amounted to expenses of NIS 20 million, compared to expenses of NIS 13 million in the corresponding period last year.
Operating expenses amounted to NIS 148 million, compared to NIS 131 million in the corresponding period last year – an increase by NIS 17 million. Total expenses in the third quarter and in the first nine months of 2019 include an increase in provision for remuneration components (bonuses and options for employees), in line with higher profitability, 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 12 to the financial statements.

Institutional investor segment

The supervisory definition

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

Differences between the management approach and the supervisory definition

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

Operating results of institutional investor segment

	For the nine months ended September 30		For the three months ended September 30,	
	2019	2018	2019	2018
				NIS in millions
Profit and profitability				
Total interest revenues, net	87	90	25	30
Non-interest financing revenues	–	–	–	–
Commissions and other revenues	27	32	9	10
Total revenues	**114**	**122**	**34**	**40**
Reduced expenses with respect to credit losses	(6)	–	(3)	(1)
Operating and other expenses	88	90	29	29
Profit before provision for taxes	32	32	8	12
Provision for taxes	11	11	3	4
Net profit	**21**	**21**	**5**	**8**
Balance sheet – key items:				
Loans to the public (end balance)	1,134	1,255	1,134	1,255
Loans to the public, net (end balance)	1,129	1,247	1,129	1,247
Deposits from the public (end balance)	42,802	40,714	42,802	40,714
Average balance of loans to the public	1,058	1,329	930	1,381
Average balance of deposits from the public	40,706	40,056	43,608	41,106
Average balance of risk assets	2,084	2,516	1,572	2,600
Credit margins and deposit margins:				
Margin from credit granting operations	14	25	5	9
Margin from activities of receiving deposits	72	62	20	19
Other	1	3	–	2
Total interest revenues, net	**87**	**90**	**25**	**30**

Contribution of the institutional investor segment (according to supervisory definitions) to Group profit in the first nine months of 2019 amounted to NIS 21 million, similar to the corresponding period last year.

Interest revenues, net, amounted to NIS 87 million, compared to NIS 90 million in the corresponding period last year.

Commissions and other revenues decreased by NIS 5 million compared to the corresponding period last year. In the first nine months of 2018, significant transactions were carried out in foreign securities, which were not repeated in the current period.

Expenses with respect to credit losses decreased by NIS 6 million.

Operating expenses amounted to NIS 88 million, compared to NIS 90 million in the corresponding period last year.

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

Financial Management Segment

The supervisory definition

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

Differences between the management approach and the supervisory definition

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

Operating results of the financial management segment

	For the nine months ended September 30		For the three months ended September 30,	
	2019	**2018**	**2019**	**2018**
				NIS in millions
Profit and profitability				
Total interest revenues (expenses), net	(57)	21	(152)	(26)
Non-interest financing revenues	287	316	145	105
Commissions and other revenues	174	151	42	51
Total revenues	**404**	**488**	**35**	**130**
Expenses (reduction of expenses) with respect to credit losses	(2)	1	1	(1)
Operating and other expenses	277	262[1]	93	103
Profit (loss) before provision for taxes	129	225	(59)	28
Provision (reduced provision) for taxes	45	78	(22)	10
After-tax profit (loss)	84	147	(37)	18
Share of banking corporation in earnings of associated companies	–	1	–	–
Net profit (loss) before attribution to non-controlling interests	84	148	(37)	18
Net profit attributed to non-controlling interests	(25)	(19)	(6)	(7)
Net profit (loss) attributable to shareholders of the banking corporation	**59**	**129**	**(43)**	**11**
Balance sheet – key items:				
Average balance of risk assets	6,772	6,418	7,322	6,411
Credit margins and deposit margins:				
Margin from credit granting operations	–	–	–	–
Margin from activities of receiving deposits	–	–	–	–
Other	(57)	21	(152)	(26)
Total interest revenues, net	**(57)**	**21**	**(152)**	**(26)**

(1) Reclassified.

Contribution of the financial management segment (in conformity with supervisory definitions) to Group profit in the first nine months of 2019 amounted to a profit of NIS 59 million, compared to NIS 129 million in the corresponding period last year.
Below are key factors affecting the change in segment contribution:
Interest revenues (expenses), net amounted to expenses of NIS 57 million, compared to revenues of NIS 21 million in the corresponding period last year – a decrease by NIS 78 million, primarily due to decrease in the CPI.
Non-interest financing revenues decreased by NIS 29 million compared to the corresponding period last year, primarily due to effect of the accounting treatment of derivatives at fair value and other effects. Furthermore, non-interest financing revenues in the first nine months of 2019 include gain from realized debentures and available-for-sale securities, as well as gain from shares not held for trading. See also analysis of evolution of financing revenues in chapter "Material developments in revenues, expenses and other comprehensive income".
Total commissions and other revenues amounted to NIS 174 million, compared to NIS 151 million in the corresponding period last year, an increase by NIS 23 million primarily due to capital gain in the first nine months of 2019 amounting to

NIS 26 million from realized assets in conjunction with asset reorganization and improvements to the branch network in the first nine months of 2019.
Operating and other expenses amounted to NIS 277 million, compared to NIS 262 million in the corresponding period last year. Operating expenses in the third quarter and in the first nine months of 2019 include an increase in provision for remuneration components (bonuses and options for employees), in line with higher profitability. For more information see 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 12 to the financial statements.

Overseas operations

The supervisory definition

The Bank's overseas operations are presented separately, divided into operations involving individuals and business operations.
Differences between the management approach and the supervisory definition
Business and individual clients at overseas branches classified into the various operating segments in conformity with the management approach, are classified into the overseas operations segment in the disclosure of supervisory operating segments.
Business and individual clients at overseas branches are presented as a separate segment under supervisory operating segments and under the management approach are managed by the various operating segments – mostly private and business banking.

Operating results of overseas operations

	For the nine months ended September 30		For the three months ended September 30,	
	2019	**2018**	**2019**	**2018**
				NIS in millions
Profit and profitability				
Total interest revenues, net	162	149	52	55
Non-interest financing revenues	6	8	2	–
Commissions and other revenues	20	20	8	7
Total revenues	**188**	**177**	**62**	**62**
Expenses (reduction of expenses) with respect to credit losses	(1)	1	(2)	(1)
Operating and other expenses	57	55	18	17
Profit before provision for taxes	132	121	46	46
Provision for taxes	46	42	17	15
Net profit	**86**	**79**	**29**	**31**
Balance sheet – key items:				
Loans to the public (end balance)	3,813	3,807	3,813	3,807
Loans to the public, net (end balance)	3,782	3,777	3,782	3,777
Deposits from the public (end balance)	4,831	5,265	4,831	5,265
Average balance of loans to the public	3,213	3,268	2,685	3,300
Average balance of deposits from the public	5,527	5,290	6,041	5,286
Average balance of risk assets	4,166	3,878	4,040	4,085
Credit margins and deposit margins:				
Margin from credit granting operations	82	77	25	27
Margin from activities of receiving deposits	9	11	3	4
Other	71	61	24	24
Total interest revenues, net	**162**	**149**	**52**	**55**

Contribution of overseas operations to Group profit in the first nine months of 2019 amounted to NIS 86 million, compared to NIS 79 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 149 million in the corresponding period last year, primarily due to increase in lending margins and other margins.
Non-interest financing revenues decreased by NIS 2 million, primarily due to available-for-sale debentures realized in the corresponding period last year.
In the current period, expenses with respect to credit losses decreased by NIS 1 million, compared to an expense of NIS 1 million in the corresponding period last year.
For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 12 to the financial statements.

Major Investee companies

The contribution of investees to net operating profit in the first nine months of 2019 amounted to NIS 126 million, compared with NIS 149 million in the corresponding period last year. These data include impact of changes in exchange rates on the balance of investment in overseas investee companies, covered by the Bank's own sources.

Excluding the aforementioned effect of exchange rates, contribution of investee companies amounted to NIS 147 million, compared to NIS 135 million in the corresponding period last year, with most of this increase due to increased earnings at Yahav Bank – see explanation under "Investee companies" below.

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

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

The Group's share of Yahav Bank's net profit in the first nine months of 2019 amounted to NIS 61 million, compared to NIS 49 million in the corresponding period last year. Yahav Bank's net profit return on equity in the first nine months of 2019 was 11.4% on annualized basis, compared to 10.1% in the corresponding period last year. **The increase in Yahav Bank earnings is due to an increase in business, improved financing margins and stable expenses.**

Yahav Bank's balance sheet total as of September 30, 2019 amounted to NIS 27,531 million, compared to NIS 25,928 million as of December 31, 2018 – an increase by NIS 1,603 million, or 6.2%. Net loans to the public as of September 30, 2019 amounted to NIS 10,368 million, compared to NIS 10,162 million as of December 31, 2018 – an increase by NIS 476 million, or 4.7%. Net deposits from the public as of September 30, 2019 amounted to NIS 23,536 million, compared to NIS 22,289 million as of December 31, 2018 – an increase by NIS 1,247 million, or 5.6%.

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

Tefahot Insurance is an insurance agency wholly owned by the Bank, which sells life insurance policies and property insurance policies of clients obtaining mortgages from the Bank. Net profit of Tefahot Insurance Agency in the first nine months of 2019 amounted to NIS 49 million, compared to NIS 46 million in the corresponding period last year.

Net profit return on equity in the first nine months of 2019 was 7.7%, compared to 8.2% in the corresponding period last year.

Other investee companies operating in Israel

Other investee companies operating in Israel, wholly controlled by the Bank and supported by Bank infrastructure, contributed to the Bank's net profit in the first nine months of 2019 NIS 12 million, net – compared to NIS 18 million in the corresponding period last year. Of this, NIS 7 million (compared to NIS 10 million in the corresponding period last year) from trustee operations of the subsidiary, Mizrahi Tefahot Trust Company Ltd.

United Mizrahi Bank (Switzerland) Ltd.

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

Net profit of Mizrahi Bank Switzerland in the first nine months of 2019 amounted to CHF 1.1 million, compared to CHF 0.5 million in the corresponding period last year. Mizrahi Bank Switzerland's balance sheet total as of September 30, 2019 amounted to CHF 135 million, compared to CHF 138 million as of December 31, 2018.

Interest revenues and net interest revenues in the first nine months of 2019 amounted to CHF 1.7 million, compared to CHF 1.5 million in the corresponding period last year. Pre-tax revenues in the first nine months of 2019 amounted to CHF 1.1 million, compared to CHF 0.7 million in the corresponding period last year. Pre-tax income net of exchange rate effects in the first nine months of 2019 amounted to CHF 3.9 million, compared to CHF 2.6 million in the corresponding period last year.

The balance of loans to the public as of September 30, 2019 amounted to CHF 83 million, compared to CHF 80 million as of December 31, 2018. Deposits with banks as of September 30, 2019 amounted to CHF 48 million, compared to CHF 56 million as of December 31, 2018. Deposits from the public as of September 30, 2019 amounted to CHF 92 million, compared to CHF 65 million as of December 31, 2018.

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.

Investments in shares

The Bank manages nostro investments in shares. As from January 1, 2019, shares in which the Bank invested are presented as shares not held for trading in the Bank's securities portfolio and under investment in associated companies, where the Bank has a material investment in such entity.

Most of the investments (which are not negotiable and have no fair value available) are generally presented at cost (net of impairment), adjusted for changes in observed prices in ordinary transactions for similar or identical investments of the same issuer. Other investments (negotiable and with fair value available) are presented at market value thereof, and unrealized changes to fair value are recognized on the statement of profit and loss.

Bank investments in shares as of September 30, 2019 amounted to NIS 172 million, compared to NIS 124 million and NIS 125 million as of September 30, 2018 and as of December 31, 2018, respectively. Bank net gain from investment in shares in the first nine months of 2019 amounted to NIS 62 million, compared to NIS 16 million in the corresponding period last year.

For details of investments in shares not held for trade in the Bank's portfolio, see Note 5 to the financial statements.

For more information about application of Public Reporting Directives with regard to classification and measurement of financial instruments, see Note 1.C.2 to the financial statements.

Risks overview

This chapter includes a concise overview and analysis of developments of major risks to which the Bank is exposed. If needed, this chapter should be read in conjunction with the chapter "Risks overview" in the 2018 audited annual financial statements. A detailed Risks Management Report which includes disclosure requirements of Basel Pillar 3 and additional information about risks, provided based on recommendations by the Financial Stability Board (FSB) is provided on the Bank website.

Developments in risks and risks management

Day-to-day activities in a variety of balance sheet and off-balance-sheet financial instruments expose the Group to various financial risks, such as: market risk, interest risk in the banking portfolio, liquidity risk, credit risk and non-financial risk, such as. operational risk (including information and cyber security risk and technology risk) as well as compliance and regulatory risk. The risks management and control policies, in various aspects, are designated to support achievement of the Group's business goals while limiting exposure to such risks.

In the third quarter of 2019, the Bank's risk profile is low, similar to the risk profile in the first and second quarters of 2019 and at the end of 2018. The benchmarks are at a safe distance from the risk appetite specified by the Board of Directors and in conformity with business operations, based on the strategic plan outline and on current work plans. The Bank regularly reviews the risk benchmarks and adapts them to current business operations as necessary, subject to and in line with the Bank's overall risk appetite for various risks.

Risks description

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

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

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

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

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

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

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

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

The Bank has in place an extensive framework for management and control of the risks to which the Bank is exposed, including an organizational structure to support management and control of such risks. Risks management at the Group is conducted from a comprehensive viewpoint of Bank operations in Israel and at overseas affiliates and in conformity with directives of the Supervisor of Banks with regard to risk management and control, as set forth in Proper Conduct of Banking Business Directives and in particular, in Directive 310 "Risk management" by the Bank of Israel, and in conformity with the framework set forth in Basel Pillar II, including the required changes as Basel III became effective.

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

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

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

Description of risk appetite and risks management

Risk appetite defines the overall risk level which the Bank is willing and capable of assuming, and is a high-level determination of where the Bank wishes to be in terms of risk (cost) vs. reward (consideration / benefit) from a forward-looking aspect. The Bank's risk appetite is specified for all material risks using quantitative and qualitative restrictions; the quantitative restrictions are mostly specified as percentage of Tier I shareholder equity at the Bank. Risk appetite is defined for most risks in the normal course of business and under stress scenarios, based on the outcome of various stress scenarios applied by the Bank, and in line with the Bank's risk strategy and on basic principles of the Bank's business and strategic plan and on the required liquidity and capital for achieving the strategic objectives. 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 expected 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.

Stress scenarios

Stress scenarios are risk management techniques used to assess Bank exposure to risks, both currently and from a forward-looking viewpoint. Stress scenarios provide another important tool, in addition to these approaches, benchmarks and models, as part of risk management and control at the Bank. Stress scenario outcomes are used by the Bank to challenge the risk appetite and the capital planning. Stress scenarios also flag material risk concentrations. The Bank has a wide range of calculation methodologies for conducting stress scenarios. The primary uses of stress scenarios and guidelines for setting them are specified in the policy document "General framework policy for risk management and control". The Bank extensively uses the results of stress scenarios to estimate the potential impact of various risks to the Bank's business and financial targets, as part of the capital planning process and the ICAAP document. The ICAAP process reviews whether the Bank has sufficient capital to fulfill the strategic plan, which is challenged by a range of stress scenarios at various severity levels. These stress scenarios impact Bank profitability by causing potential loss due to material risks for Bank operations: credit risk, credit concentration risk, market risk and interest risk in the bank portfolio, operational risk including information and cyber security risk, technology risk as well as other risks. The stress scenarios strongly emphasize the Bank's mortgage portfolio and business lending operations. Results of the Bank's most recent capital planning, submitted to the Bank of Israel in December 2018, based on data for the second half of 2018, based on the Bank's strategic plan and for a three-year planning horizon, indicates that the Bank has a sufficient capital absorption cushion to face the range of risks associated with Bank operations, even in case of stress events. Results of the Uniform Scenario, similar to results of the various stress scenarios conducted by the Bank, indicate that the potential impact on Bank performance under such scenario is low relative to the Bank's capital and annual profit.

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	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	Low-medium	
Inflation risk	Low-medium	
Exchange rate risk	Low	
Liquidity risk	Low-medium	Manager, Financial Division
Overall effect of operational risk	Medium	Manager, Risks Control Division
Cyber and information security	Medium	Manager, Risks Control Division
Information technology risk	Medium	Manager, Mizrahi-Tefahot Technolog Division Ltd.
Legal risk	Low-medium	Chief Legal Counsel
Compliance and regulatory risk	Low-medium	Manager, Risks Control Division
AML risk and terrorism financing	Low-medium	Manager, Risks Control Division
Cross-border risk	Low-medium	Manager, Risks Control Division
Reputation risk(1)	Low	Manager, Marketing, Promotion and Business Development Division
Business-strategic risk(2)	Low-medium	President & CEO

(1) The risk of impairment of the Bank's results due to negative reports about the Bank.
(2) The definition of business-strategic risk includes the capital planning and management process.

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

In the third quarter of 2019, the Bank's risk profile is low, similar to the risk profile in the first and second quarters of 2019 and at the end of 2018. Risks with a risk level other than Low typically arise from inherent risk in Bank operations, and are in line with the specified risk appetite principles. The potential loss due to unexpected events, relative to the Bank's capital and profit, is low. Bank profitability is stable, i.e. profit volatility is low and the capital cushion available to the Bank is sufficient even under stress scenarios.

The Bank conducts processes for risk identification and measurement, base on a range of methodologies to assess risk levels and exposure to various risks, in the normal course of business and under stress scenarios. The Bank applies quantitative measurement methods (models, benchmarks / indicators, scenarios and sensitivity analysis, *inter alia*) and qualitative measurement methods (expert assessments and surveys).

For more information see the Risks Report for the third quarter of 2019 and the 2018 Risks Report, available on the Bank's website.

Credit risk

Risk description and development

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

In the third quarter of 2019, the overall effect of credit risk remained Low-Medium, with risk in the housing loan portfolio categorized as Low.

As from the second half of 2018, clients of the Retail Division are rated using advanced custom models. These models quantify the probability of default (PD) and the loss given default (LGD) for small businesses and individual clients of the Retail Division. Actual current management at the Retail Division is primarily based on the MADHOM system (for client management, rating and pricing). The credit risk profile of individual clients, in view of the risk appetite determined based also on the internal model, shows a low-medium risk level that is stable over time. Individual clients served by the Business Division are rated using advanced models.

In the third quarter of 2019, the Bank continued to deploy, implement and use advanced models under development for optimal analysis and management of retail credit.

Analysis of developments in credit quality and problematic credit risk

Significant exposure to groups of borrowers

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

As of September 30, 2019, the Bank had no borrower group which meets the aforementioned criteria.

For more information about significant exposures to borrower groups, see chapter "Credit Risk" in the 2018 Report of the Board of Directors and Management.

Major borrowers

Below is the sector composition of the top 6 borrowers for the Group as of September 30, 2019 (NIS in millions):

Borrower no.	Sector	On-balance sheet credit risk(1)	Off balance sheet credit risk(1)	Total credit risk(1)
1.	Construction	261	697	958
2.	Institutional investors	15	837	852
3.	Construction	169	525	694
4.	Institutional investors	–	686	686
5.	Construction	36	641	677
6.	Construction	101	533	634

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

Leveraged financing

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

1. Credit for an equity transaction would be classified according to one of the following rules:

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

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

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

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

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

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

Credit for equity transactions (NIS in millions):

	September 30, 2019				September 30, 2018				December 31, 2018			
Economic sector of acquired company	**Balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**	**Balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**	**Balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**
Information and communications	49	26	75	–	54	27	81	–	55	28	83	–
Commerce	151	–	151	–	–	–	–	–	–	–	–	–
Total	**200**	**26**	**226**	**–**	**54**	**27**	**81**	**–**	**55**	**28**	**83**	**–**

Credit to leveraged companies (NIS in millions):

	September 30, 2019				September 30, 2018				December 31, 2018			
Economic sector of borrower	**Balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**	**Balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**	**Balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**
Industry and production	–	–	–	–	90	1	91	1	61	–	61	1
Mining and excavation	–	–	–	–	117	–	117	–	–	–	–	–
Construction and real estate	364	–	364	–	459	–	459	–	420	–	420	–
Commerce	203	72	275	–	221	64	285	–	236	46	282	–
Information and communications	–	199	199	–	40	110	150	–	40	90	130	–
Financial services	120	–	120	3	155	–	155	–	156	–	156	6
Public and community services	86	5	91	–	71	5	76	–	71	5	76	–
Total	**773**	**276**	**1,049**	**3**	**1,153**	**180**	**1,333**	**1**	**984**	**141**	**1,125**	**7**

Developments in problematic credit risk

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

	Total credit risk		
	September 30, 2019	September 30, 2018	December 31, 2018
Problematic credit risk:			
Impaired credit risk	1,266	935	1,165
Inferior credit risk	143	311	152
Credit risk under special supervision – housing	1,369	1,293	1,251
Credit risk under special supervision – other	876	501	521
Total problematic credit risk	**3,654**	**3,040**	**3,089**

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

	September 30, 2019	September 30, 2018	December 31, 2018
Ratio of impaired loans to the public to total loans to the public	0.6	0.5	0.6
Ratio of impaired loans to the public to total non-housing loans	1.6	1.2	1.5
Ratio of problematic loans to the public to total non-housing loans	2.9	2.4	2.4
Ratio of housing loans in arrears 90 days or longer to total loans to the public (1)(2)	0.7	0.7	0.7
Ratio of problematic credit risk to total credit risk with respect to the public	1.4	1.2	1.2

(1) This non-housing rate is negligible.

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

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

Analysis of provision for credit losses

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

	For the three months ended September 30, 2019					
	Provision for credit losses					
	Loans to the public				Banks and govern-ments	Total
	Commercial	Housing	Individual – other	Total		
Balance of provision for credit losses at start of period	793	660	265	1,718	1	1,719
Expenses with respect to credit losses	34	13	22	69	1	70
Net accounting write-offs	(11)	(2)	(21)	(34)	–	(34)
Balance of provision for credit losses at end of period	**816**	**671**	**266**	**1,753**	**2**	**1,755**
	For the three months ended September 30, 2018					
Balance of provision for credit losses at start of period	735	643	253	1,631	3	1,634
Expenses with respect to credit losses	15	17	30	62	(1)	61
Net accounting write-offs	(15)	(1)	(25)	(41)	–	(41)
Balance of provision for credit losses at end of period	**735**	**659**	**258**	**1,652**	**2**	**1,654**
	For the nine months ended September 30, 2019					
Balance of provision for credit losses at start of period	766	644	263	1,673	4	1,677
Expenses with respect to credit losses	142	32	73	247	(2)	245
Net accounting write-offs	(92)	(5)	(70)	(167)	–	(167)
Balance of provision for credit losses at end of period	**816**	**671**	**266**	**1,753**	**2**	**1,755**
	For the nine months ended September 30, 2018					
Balance of provision for credit losses at start of period	699	630	245	1,574	1	1,575
Expenses with respect to credit losses	118	34	80	232	1	233
Net accounting write-offs	(82)	(5)	(67)	(154)	–	(154)
Balance of provision for credit losses at end of period	**735**	**659**	**258**	**1,652**	**2**	**1,654**

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

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

	September 30, 2019	September 30, 2018	December 31, 2018
Ratio of provision for credit losses to total loans to the public	0.9	0.9	0.9
Ratio of provision for credit losses to total credit risk with respect to the public	0.7	0.7	0.7
	First nine months		
	2019	**2018**	**2018**
Ratio of expenses with respect to credit losses to average balance of loans to the public, gross	0.2	0.2	0.2
Ratio of net write-offs to average balance of loans to the public, gross	0.1	0.1	0.1
Ratio of expenses with respect to credit losses to average balance of loans to the public, net	0.2	0.2	0.2
Of which: With respect to commercial loans other than housing loans(1)	0.4	0.4	0.4
Ratio of net write-offs to average balance of loans to the public, net	0.1	0.1	0.1

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

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

The household segment is a key growth engine and a significant component of the Bank's strategic plan for 2017-2021. The individual client segment is highly diversified – by number of clients and by geographic location. Most clients in this segment are salaried employees with an individual account or joint household account. A recession in non-banking operations is a major risk factor for household activity and higher unemployment may increase the number of clients who face difficulties.

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

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

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

	As of September 30,		As of December 31,
	2019	**2018**	**2018**
Debts			
Checking balances	1,979	2,139	2,158
Utilized credit card balances	4,129	3,702	3,768
Auto loans – adjustable interest	738	1,124	1,038
Auto loans – fixed interest	854	762	734
Other loans and credit – variable interest	12,198	11,324	11,557
Other loans and credit – fixed interest	208	195	218
Total debt (on-balance sheet credit)	**20,106**	**19,246**	**19,473**
Unutilized facilities, guarantees and other commitments			
Checking accounts – unutilized facilities	4,266	3,985	3,998
Credit cards – unutilized facilities	6,521	6,190	6,238
Guarantees	228	224	228
Other liabilities	23	34	32
Total unutilized facilities, guarantees and other commitments (off-balance sheet credit)	**11,038**	**10,433**	**10,496**
Total credit risk to individuals	**31,144**	**29,679**	**29,969**
Of which:			
Bullet / balloon loans[(3)]	452	499	492
Financial asset portfolio and other collateral against credit risk[(4)]			
Financial assets portfolio:			
Deposits[(5)]	3,668	3,221	3,392
Securities[(5)]	211	229	205
Other monetary assets	343	400	388
Other collateral[(6)]	557	795	697
Total financial assets portfolio and other collateral against credit risk	**4,779**	**4,645**	**4,682**

(1) As defined in Proper Conduct of Banking Business 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) Loans with a grace period for principal longer than one year.
(4) Amounts presented are the financial assets portfolio and other collateral, only up to client debt amount.
(5) Reclassified.
(6) Collateral is after applying the safety factor, in conformity with Bank factors accounted for when extending credit. The decrease is primarily due to downward revision of safety factors for vehicles and the maximum vehicle age accounted for in calculating the collateral value.

Below is composition by size of borrower indebtedness[1]:

Loan ceiling and credit risk (NIS in thousands)		As of September 30, 2019		As of September 30, 2018		As of December 31, 2018	
		Number of Borrowers	Total credit risk	Number of Borrowers	Total credit risk	Number of Borrowers	Total credit risk
	Up to 10	299,661	629	281,525	550	273,164	473
Above 10	Up to 20	88,946	1,279	87,094	1,234	87,473	1,234
Above 20	Up to 40	118,172	3,398	117,158	3,358	117,331	3,349
Above 40	Up to 80	123,935	7,045	119,681	6,803	120,070	6,805
Above 80	Up to 150	82,331	8,849	77,358	8,319	77,903	8,364
Above 150	Up to 300	40,779	8,263	37,709	7,592	38,609	7,776
Above 300		3,681	1,681	2,967	1,823	3,827	1,968
Total		**757,505**	**31,144**	**723,492**	**29,679**	**718,377**	**29,969**

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

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

Income	As of September 30, 2019		As of September 30, 2018		As of December 31, 2018	
	NIS in millions	In %	NIS in millions	In %	NIS in millions	In %
Accounts with no fixed income for the account[2]	1,384	6.9	1,269	6.6	1,208	6.2
Less than NIS 10 thousand[2]	4,651	23.1	4,929	25.6	5,338	27.4
Between NIS 10 thousand and NIS 20 thousand	7,394	36.8	6,957	36.1	7,073	36.3
Over NIS 20 thousand	6,677	33.2	6,091	31.7	5,854	30.1
Total	**20,106**	**100**	**19,246**	**100**	**19,473**	**100**

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

(2) Reclassified.

Below is composition of on-balance sheet credit by remaining term to maturity[1]:

Term to maturity	As of September 30, 2019		As of September 30, 2018		As of December 31, 2018	
	NIS in millions	In %	NIS in millions	In %	NIS in millions	In %
Up to 1 year	3,552	25.4	3,571	26.6	3,590	26.5
Over 1 year to 3 years	4,691	33.5	4,664	34.8	4,641	34.3
Over 3 years to 5 years	2,568	18.3	2,375	17.7	2,394	17.7
Over 5 years to 7 years	1,499	10.7	1,354	10.1	1,398	10.3
Over 7 years[2]	1,688	12.1	1,441	10.8	1,524	11.2
Total	**13,998**	**100**	**13,405**	**100**	**13,547**	**100**

(1) Excluding checking account and credit cards.

(2) 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.

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

	As of September 30, 2019			As of September 30, 2018			As of December 31, 2018		
	Credit risk(1)			Credit risk(1)			Credit risk(1)		
	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total
Balance of problematic credit risk	223	2	225	220	3	223	229	4	233
Problematic credit risk rate(2)	1.11%	0.02%	0.72%	1.14%	0.03%	0.75%	1.18%	0.04%	0.78%

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

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

	First nine months		2018
	2019	2018	
Expenses with respect to credit losses as percentage of total loans to the public to individuals	0.48%	0.57%	0.56%

Data for credit risk to individuals show that:

- Total debts by individuals (on-balance sheet credit) increased by 4.4% compared to September 30, 2018 and by 3.2% compared to December 31, 2018, primarily due to increase in loans and other credit.
- There was no significant change to composition of debts by individuals in the third quarter of 2019.

  As of September 30, 2019:
  Checking accounts – 9.9%
  Credit cards 20.5%
  Auto loans – 7.9%
  Other loans and credit 61.7%

- Of all debts (on-balance sheet credit) as of September 30, 2019, 23.7% is secured by financial assets and other collateral in the client's account (similar to rates as of September 30, 2018 and as of December 31, 2018).

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

Credit risk in construction and real estate economic sector in Israel

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

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

	September 30, 2019						
	Credit risk to the public[(1)]						
	Credit risk			Total problematic credit risk		Balance of provision for credit losses	
	On balance sheet[(2)]	Off balance sheet[(3)]	Total	Impai-red	Other proble-matic[(4)]	Balance sheet credit risk	Off-balance sheet credit risk
Secured by real estate in Israel:							
Housing	9,685	14,393	24,078	93	–	75	34
Commercial and industrial	5,578	1,255	6,833	53	383	44	2
Total secured by real estate in Israel	**15,263**	**15,648**	**30,911**	**146**	**383**	**119**	**36**
Not secured by real estate in Israel	2,407	2,712	5,119	129	51	40	8
Total for construction and real estate economic sector in Israel	**17,670**	**18,360**	**36,030**	**275**	**434**	**159**	**44**
Of which: Designated for project assistance	8,977	13,055	22,032	72	21	75	31

	September 30, 2018[(5)]						
Secured by real estate in Israel:							
Housing	9,243	17,163	26,406	22	28	75	30
Commercial and industrial	4,346	769	5,115	45	8	54	2
Total secured by real estate in Israel	**13,589**	**17,932**	**31,521**	**67**	**36**	**129**	**32**
Not secured by real estate in Israel	2,845	3,156	6,001	150	68	44	13
Total for construction and real estate economic sector in Israel	**16,434**	**21,088**	**37,522**	**217**	**104**	**173**	**45**
Of which: Designated for project assistance	8,788	15,039	23,827	1	23	65	31

	December 31, 2018						
Secured by real estate in Israel:							
Housing	9,904	13,167	23,071	31	33	71	24
Commercial and industrial	4,849	1,013	5,862	52	6	68	2
Total secured by real estate in Israel	**14,753**	**14,180**	**28,933**	**83**	**39**	**139**	**26**
Not secured by real estate in Israel	2,261	2,908	5,169	146	69	42	13
Total for construction and real estate economic sector in Israel	**17,014**	**17,088**	**34,102**	**229**	**108**	**181**	**39**
Of which: Designated for project assistance	9,211	11,470	20,681	1	26	70	26

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

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

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

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

(5) Reclassified.

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

	September 30, 2019			September 30, 2018			December 31, 2018		
	Credit risk[1]			Credit risk[1][2]			Credit risk[1]		
	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total
Real estate collateral in Israel									
Real estate yet to be completely constructed:									
Raw land	5,374	1,957	7,331	6,470	4,556	11,026	5,035	430	5,465
Real estate under construction	5,793	12,668	18,461	4,454	12,473	16,927	5,867	12,752	18,619
Real estate completely constructed	4,096	1,023	5,119	2,665	903	3,568	3,851	998	4,849
Total credit secured by real estate in Israel	**15,263**	**15,648**	**30,911**	**13,589**	**17,932**	**31,521**	**14,753**	**14,180**	**28,933**
Not secured by real estate in Israel	2,407	2,712	5,119	2,845	3,156	6,001	2,261	2,908	5,169
Total credit risk for construction and real estate	**17,670**	**18,360**	**36,030**	**16,434**	**21,088**	**37,522**	**17,014**	**17,088**	**34,102**

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

(2) Reclassified.

Credit risk data for the construction and real estate clients sector as of September 30, 2019 show that 51% of the on-balance sheet credit risk and 71% 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, Haifa, Be'er Sheva and Jerusalem. Most of the off-balance sheet credit is due to guarantees provided to home buyers pursuant to the Sale Act.

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

The share of the construction and real estate sector in Israel out of total credit risk to the public at the Bank as of September 30, 2019, as presented below (Credit Risk by Economic Sector) is 13.9%.

Note that according to Proper Conduct of Banking Business Directive 315, the rate of indebtedness of the construction and real estate sector (for calculation of sector concentration) is 10.50% (excluding liabilities, including contingent liabilities to extend credit or to provide guarantees and amounts of Sales Act guarantees for which the Bank has obtained an insurance policy).

Credit risk by economic sector – Consolidated

As of September 30, 2019

Reported amounts (NIS in millions)

					Credit losses[3]		
	Total credit risk[1]	Of which: Credit performance rating[4]	Of which: Problematic credit risk[5]	Of which: Impaired credit risk	Expenses with respect to credit losses	Net accounting write-offs	Balance of provision for credit losses
Industry	9,885	9,418	467	335	50	25	147
Construction and real estate – construction[6]	31,775	31,477	298	242	(8)	(16)	173
Construction and real estate – real estate operations	4,255	3,844	411	33	(26)	(1)	30
Commerce	11,210	10,851	359	218	59	49	190
Financial services	9,346	9,210	136	133	27	2	94
Other sectors	16,108	15,840	268	146	45	33	146
Total commercial	**82,579**	**80,640**	**1,939**	**1,107**	**147**	**92**	**780**
Private individuals – housing loans	144,310	142,889	1,421	52	32	5	670
Private individuals – other	31,281	30,733	225	84	73	70	266
Total public – activity in Israel	**258,170**	**254,262**	**3,585**	**1,243**	**252**	**167**	**1,716**
Banks in Israel and Government of Israel	8,446	8,446	–	–	–	–	–
Total activity in Israel	**266,616**	**262,708**	**3,585**	**1,243**	**252**	**167**	**1,716**
Total public – activity overseas	5,175	5,106	69	23	(5)	–	37
Overseas banks and governments	12,284	12,284	–	–	(2)	–	2
Total activity overseas	**17,459**	**17,390**	**69**	**23**	**(7)**	**–**	**39**
Total	**284,075**	**280,098**	**3,654**	**1,266**	**245**	**167**	**1,755**

(1) On- and off-balance sheet credit risk, including with respect to derivative instruments (NIS in millions): Debts[2] – 212,192; debentures – 10,409; securities borrowed or acquired in conjunction with resale agreements – 64; Assets with respect to derivative instruments – 2,717; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 58,693.

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

(4) Credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policies.

(5) 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.

(6) Includes on-balance sheet credit risk amounting to NIS 1,665 million and off-balance sheet credit risk amounting to NIS 2,363 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 5,224 million for which insurance has been acquired to cover the Sales Act guarantee portfolio from international re-insurers.

Credit Risk by Economic Sector – Consolidated – continued

As of September 30, 2018

Reported amounts (NIS in millions)

					Credit losses[3]		
	Total credit risk[1]	Of which: Credit performance rating[4]	Of which: Problematic credit risk[5]	Of which: Impaired credit risk	Expenses with respect to credit losses	Net accounting write-offs	Balance of provision for credit losses
Industry	9,192	8,788	404	257	18	12	117
Construction and real estate – construction[6]	34,568	34,171	294	201	4	(9)	173
Construction and real estate – real estate operations	2,954	2,927	27	16	(3)	–	45
Commerce	11,090	10,776	314	210	70	40	180
Financial services	12,498	12,315	183	13	(1)	4	63
Other sectors	14,295	14,065	230	110	30	35	120
Total commercial[7]	**84,597**	**83,042**	**1,452**	**807**	**118**	**82**	**698**
Private individuals – housing loans	131,608	130,264	1,344	52	34	5	658
Private individuals – other	29,866	29,359	223	71	82	69	258
Total public – activity in Israel	**246,071**	**242,665**	**3,019**	**930**	**234**	**156**	**1,614**
Banks in Israel and Government of Israel	9,060	9,060	–	–	–	–	–
Total activity in Israel	**255,131**	**251,725**	**3,019**	**930**	**234**	**156**	**1,614**
Total public – activity overseas	5,690	5,669	21	5	(2)	(2)	38
Overseas banks and governments	10,708	10,708	–	–	1	–	2
Total activity overseas	**16,398**	**16,377**	**21**	**5**	**(1)**	**(2)**	**40**
Total	**271,529**	**268,102**	**3,040**	**935**	**233**	**154**	**1,654**

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

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

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

(4) Credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policies.

(5) 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.

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

(7) Reclassified.

Credit Risk by Economic Sector – Consolidated – continued

As of December 31, 2018

Reported amounts (NIS in millions)

					Credit losses[3]		
	Total credit risk[1]	Of which: Credit performance rating[4]	Of which: Problematic credit risk[5]	Of which: Impaired credit risk	Expenses with respect to credit losses	Net accounting write-offs	Balance of provision for credit losses
Industry	9,977	9,555	422	279	33	18	122
Construction and real estate – construction[6]	30,901	30,604	297	203	(1)	(8)	165
Construction and real estate – real estate operations	3,201	3,161	40	26	(1)	(4)	55
Commerce	11,010	10,663	347	234	74	44	180
Financial services	11,954	11,774	180	168	6	5	69
Other sectors	14,338	14,098	240	113	49	42	134
Total commercial	**81,381**	**79,855**	**1,526**	**1,023**	**160**	**97**	**725**
Private individuals – housing loans	135,960	134,650	1,310	60	36	22	643
Private individuals – other	30,245	29,752	233	77	109	91	263
Total public – activity in Israel	**247,586**	**244,257**	**3,069**	**1,160**	**305**	**210**	**1,631**
Banks in Israel and Government of Israel	9,850	9,850	–	–	–	–	–
Total activity in Israel	**257,436**	**254,107**	**3,069**	**1,160**	**305**	**210**	**1,631**
Total public – activity overseas	6,324	6,304	20	5	2	(2)	42
Overseas banks and governments	9,097	9,097	–	–	3	–	4
Total activity overseas	**15,421**	**15,401**	**20**	**5**	**5**	**(2)**	**46**
Total	**272,857**	**269,508**	**3,089**	**1,165**	**310**	**208**	**1,677**

(1) On- and off-balance sheet credit risk, including with respect to derivative instruments (NIS in millions): Debts[2] – 202,053; debentures – 10,988; securities borrowed or acquired in conjunction with resale agreements – 26; Assets with respect to derivative instruments – 3,240; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 56,550.

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

(4) Credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policies.

(5) 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.

(6) Includes on-balance sheet credit risk amounting to NIS 2,023 million and off-balance sheet credit risk amounting to NIS 2,241 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 4,794 million for which insurance has been acquired to cover the portfolio of Sale Law guarantees and performance guarantees pursuant to the Sale Law from international re-insurers.

Exposure to foreign countries – Consolidated[1]

Reported amounts (NIS in millions)

Key exposure to foreign countries

Country	September 30, 2019			September 30, 2018			December 31, 2018		
	Exposure								
	On balance sheet(2)	Off-balance sheet(2)(3)(4)	Total	On balance sheet(2)	Off-balance sheet(2)(3)(4)	Total	On balance sheet(2)	Off-balance sheet(2)(3)(4)	Total
USA	10,898	406	11,304	9,153	562	9,715	6,639	519	7,158
France	1,429	2,137	3,566	1,354	3,388	4,742	1,384	2,092	3,476
UK	2,478	883	3,361	1,836	1,112	2,948	2,133	1,182	3,315
Germany	204	2,807	3,011	320	4,196	4,516	321	2,651	2,972
Other	2,818	1,297	4,115	2,513	1,105	3,618	2,518	1,105	3,623
Total exposure to foreign countries	**17,827**	**7,530**	**25,357**	**15,176**	**10,363**	**25,539**	**12,995**	**7,549**	**20,544**
Of which: Total exposure to Greece, Portugal, Spain, Italy	57	31	88	60	66	126	35	66	101
Of which: Total exposure to LDC countries	423	91	514	448	139	587	433	130	563
Of which: Total exposure to foreign countries facing liquidity issues	–	–	–	–	–	–	–	–	–

(1) Based on final risk, after effect of guarantees, liquid collateral and credit derivatives.
(2) On- and off-balance sheet credit risk 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 limits, in conformity with Proper Conduct of Banking Business Directive 313.
(4) The balance of off-balance sheet exposure includes NIS 5,224 million, primarily with respect to acquiring insurance from international reinsurers for the portfolio of Sales Act guarantees for borrowers in the real estate sector in Israel. For more information about revision of the Credit Conversion Factor (CCF) applied to guarantees to secure investments by apartment buyers pursuant to the Sale Act. See Note 9 to the financial statements.

Credit exposure to foreign financial institutions

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

	On-balance sheet credit risk(3)		Off balance sheet credit risk(4)	Current credit exposure	
External credit rating	Before offset of deposits with respect to master netting agreements(5)	After offset of deposits with respect to master netting agreements(6)		Before offset of deposits with respect to master netting agreements	After offset of deposits with respect to master netting agreements(5)
					September 30, 2019
AAA to AA-	1,035	992	5,345	6,380	6,337
A+ to A-	224	101	277	501	378
BBB+ to BBB-	23	13	6	29	19
BB+ to B-	–	–	26	26	26
Lower than B-	–	–	–	–	–
Unrated	8	8	–	8	8
Total credit exposure to foreign financial institutions	**1,290**	**1,114**	**5,654**	**6,944**	**6,768**
					September 30, 2018
AAA to AA-	628	539	8,180	8,808	8,719
A+ to A-	60	28	784	844	812
BBB+ to BBB-	12	10	56	68	66
BB+ to B-	–	–	20	20	20
Lower than B-	–	–	–	–	–
Unrated	1	1	–	1	1
Total credit exposure to foreign financial institutions	**701**	**578**	**9,040**	**9,741**	**9,618**
					December 31, 2018
AAA to AA-	927	820	5,040	5,967	5,860
A+ to A-	26	10	271	297	281
BBB+ to BBB-	3	3	57	60	60
BB+ to B-	–	–	20	20	20
Lower than B-	–	–	–	–	–
Unrated	1	1	–	1	1
Total credit exposure to foreign financial institutions	**957**	**834**	**5,388**	**6,345**	**6,222**

As of September 30, 2019, September 30, 2018 and December 31, 2018 there was no problematic credit risk, net. Problematic credit risk – credit risk for impaired, inferior credit or credit under special supervision.

(1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the former. Bank exposure is almost entirely to banks and investment banks primarily incorporated in the UK, USA, Germany, Switzerland and France.
(2) After deduction of provision for credit losses.
(3) Bank deposits, loans to the public, investment in debentures, securities borrowed or acquired in conjunction with resale agreements and other assets with respect to derivative instruments.
(4) The balance of off-balance sheet exposure to financial institutions includes NIS 5,224 million as of September 30, 2019 (as of September 30, 2018: NIS 7,918 million; as of December 31, 2018: NIS 4,794 million) with respect to acquiring insurance from international reinsurers for the portfolio of Sales Act guarantees for borrowers in the real estate sector in Israel as well as guarantees and additional commitments to extend credit, including guarantees to secure indebtedness of third parties.
(5) Presented net of fair value of liabilities with respect to derivative instruments 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 more information with regard to credit exposure composition with respect to derivative instruments vis-à-vis banks and dealers/brokers (domestic and foreign), see Note 11.B. to the financial statements.

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

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

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

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

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

Housing credit risk and its development

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

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

Risk appetite and risk profile in mortgage segment

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

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

The Bank constantly monitors the risk profile of the mortgage portfolio and its development over time, in view of the specified risk appetite. In particular, this monitoring is conducted through the Bank's quarterly risks document which is presented to and approved by Bank manage, the Board of Directors and its Risks Management Committee. Such monitoring reveals that leading risk benchmarks continue to remain relatively low. These benchmarks include: LTV ratios, repayment ratio, rate of obligo in default and, in particular, the rate of arrears for new loans (one year since origination), which is testimony to the high quality of underwriting at the Bank. Note that the average LTV ratio for the Bank's mortgage portfolio (at end of September 2019) was 52.5% reflecting the LTV ratio upon loan origination – see more details below). The Bank also estimates the "actual" LTV ratio for the portfolio, based on changes to property values, based on estimates by the Central Bureau of Statistics against the outstanding portfolio balances. This ratio is lower than the original LTV ratio due to the constantly higher housing prices, reflected by the mortgage inventory in the portfolio. These data support the Bank's estimate that the potential for loss due to the Bank's mortgage portfolio, even in scenarios involving material decline in housing prices, is low. In addition, the Bank regularly reviews its mortgage portfolio under stress conditions, including under significant change in macro-economic conditions, using multiple methodologies. The outcome of stress testing indicates that portfolio risk has decreased and that the potential impact of a severe stress event in the market is low.

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

	Loans granted (NIS in millions)		
	First nine months		Rate of change
	2019	2018	In %
Mortgages issued (for housing and any purpose)			
From the Bank's funds	17,634	15,801	11.6
From funds of the Finance Ministry			
Directed loans	276	205	34.6
Standing loans and grants	65	54	20.4
Total new loans	**17,975**	**16,060**	**11.9**
Refinanced loans	2,394	1,646	45.4
Total loans originated	**20,369**	**17,706**	**15.0**
Number of borrowers (includes refinanced loans)	34,235	32,399	5.7

Below are details of various risk attributes of the housing loan portfolio(1) as of September 30, 2019 (NIS in millions):

LTV ratio	Repayment ratio out of regular income	Loan age(2) (time elapsed since loan grant)						
		Up to 3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Up to 60%	Up to 35%	3,168	9,045	11,466	26,304	19,146	6,632	75,761
	35%-50%	249	812	1,204	4,016	5,191	1,448	12,920
	50%-80%	–	–	4	32	1,281	516	1,833
	Over 80%	–	–	–	–	104	89	193
60%-75%	Up to 35%	1,675	4,106	4,538	13,989	8,701	1,472	34,481
	35%-50%	108	300	404	1,663	1,759	382	4,616
	50%-80%	–	–	–	13	329	136	478
	Over 80%	–	–	–	–	12	20	32
Over 75%	Up to 35%	142	565	517	408	857	1,046	3,535
	35%-50%	5	38	39	50	192	339	663
	50%-80%	–	–	–	–	23	105	128
	Over 80%	–	–	–	–	1	23	24
Total		**5,347**	**14,866**	**18,172**	**46,475**	**37,596**	**12,208**	**134,664**
Of which:								
Loans granted with original amount over NIS 2 million		323	1,011	1,085	2,657	1,748	266	7,090
Percentage of total housing loans		6.0%	6.8%	6.0%	5.7%	4.6%	2.2%	5.3%
Loans bearing variable interest:								
Non-linked, at prime lending rate		1,543	4,331	5,153	12,631	11,834	4,946	40,438
CPI-linked(3)		5	40	22	69	2,263	2,262	4,661
In foreign currency(3)		106	380	638	1,120	1,426	312	3,982
Total		**1,654**	**4,751**	**5,813**	**13,820**	**15,523**	**7,520**	**49,081**
Non-linked loans at prime lending rate, as percentage of total housing loans		28.9%	29.1%	28.4%	27.2%	31.5%	40.5%	30.0%
CPI-linked loans bearing variable interest as percentage of total housing loans		0.1%	0.3%	0.1%	0.1%	6.0%	18.5%	3.5%
Loans with LTV over 75% as percentage of total housing loans		2.7%	4.1%	3.1%	1.0%	2.9%	12.4%	3.2%

(1) Balance of housing loans after provision by extent of arrears.

(2) The loan balances presented above are aged based on the date of loan origination, and include under the same age group any loan balances actually provided at a later date.

Furthermore, loan refinancing does not modify the loan age, i.e. the loan balance is attributed to the original loan origination date.

This treatment also applies to refinancing of "directed" loans originally guaranteed by the State and refinanced to loans for which the Bank is responsible.

(3) Pursuant to directives by the Supervisor of Banks, these include loans for which the interest rate is adjusted more frequently than once every 5 years.

Attributes of the Bank's housing loan portfolio

The Bank's policies with regard to mortgages are based on a conservative approach, limiting specific risk for each loan by reviewing various attributes. These attributes include: LTV ratio, ratio of repayment to regular borrower income, and borrower capacity to make current repayments even under scenarios involving a change in interest rates. Whenever loans are granted with attributes which do not meet one or more of the standards set by the Bank for these attributes, the Bank requires additional bolstering for the loan, such as guarantors for the loan, proven repayment capacity not based on regular borrower income etc. In recent years, due to expansion of the housing market and relatively low interest environment, the Bank has enhanced measures taken to monitor and mitigate risk, as reflected by a significant decrease in loan risk factors, as detailed below (all data below as of September 30, 2019).

LTV ratio

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

The average loan-to-value ratio for the Bank's mortgage portfolio as of September 30, 2019 was 52.5%, compared to 52.8% on September 30, 2018 and to 52.6% on December 31, 2018. Out of the total loan portfolio of the Bank, amounting to NIS 134.7 million, some 96.8% were granted with an original LTV ratio under 75%, which secures the loan even in case of an extreme 25% decrease in value of the property pledged as collateral.

The LTV ratio in this report is the historical LTV ratio calculated upon loan approval, and does not account for any current repayments which reduce the loan balance nor any changes in value of properties pledged as collateral. The significant increase in housing prices, as from late 2008 and, conversely, reduced loan balances due to current repayments result in a decrease in the current "actual" LTV ratio and, as noted above, based on changes to property values as estimated by the Central Bureau of Statistics, against current portfolio balances. This ratio is lower than the historical LTV ratio. Total loans granted at LTV ratios over 75% in the past two years amounted to NIS 1.3 billion, or only 1% of the total housing loan portfolio.

Note, in this regard, that the Bank's average LTV ratio as of September 30, 2019, 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 4.1%. For loans originated one to 5 years ago – by 6.8%; for loans originated over 5 years ago – by 19.6%; for all loans in total – by 11.2%.

The percentage of loans granted with a high LTV ratio (over 75%) out of total housing loan portfolio of the Bank to 3.1% for loans granted 1-2 years ago, 4.1% for loans granted 3-12 months ago and 2.7% for loans granted in the third quarter of 2019.

Repayment as percentage of regular income

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

The average repayment ratio for the Bank's housing loan portfolio is 26.1%. Some 84.5% of the Bank's mortgage portfolio were granted to borrowers with a repayment ratio under 35% (the average repayment ratio for these borrowers is 23.2%). Some 13.5% of the mortgage portfolio was granted to borrowers with a repayment ratio of 35% to 50% (the average repayment ratio for these borrowers is 39.3%). Some 1.8% of mortgages was granted to borrowers with a repayment ratio of 50% to 80% (the average repayment ratio for these borrowers is 59.4%), and only 0.2% was granted to borrowers with a repayment ratio over 80% (the average repayment ratio for these borrowers is 92.1%).

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 11 billion, or only 8.2% 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 7.1 billion on September 30, 2019, or only 5.3% of the Bank's housing loan portfolio.

Provision by extent of arrears

Below are details of the provision for credit losses with respect to housing loans for which a minimum provision for credit losses was made by extent of arrears, in accordance with appendix to Proper Conduct of Banking Business Directive 314, as of September 30, 2019 (NIS in millions):

	Extent of arrears							
		In arrears 90 days or longer					Balance with respect to refinanced loans in arrears[2]	Total
	In arrears 30 to 89 days[1]	90 days to 6 months	6-15 months	15-33 months	Over 33 months	Total over 90 days		
Amount in arrears	9	21	17	15	206	259	37	305
Of which: Balance of provision for interest[3]	–	–	–	1	114	115	6	121
Recorded debt balance	630	786	283	100	123	1,292	78	2,000
Balance of provision for credit losses [4]	–	–	36	48	86	170	38	208
Debt balance, net	**630**	**786**	**247**	**52**	**37**	**1,122**	**40**	**1,792**

(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 also the 2018 Risks Report available on the Bank website.

Operational risk

Risk description and development

Operational risk is defined by the Bank of Israel as the risk of loss due to inappropriateness or failure of internal procedures, people, systems or due to external events.

The Bank has defined a framework for management of operational risks, which includes a definition of corporate governance that specifies the roles and responsibilities of the lines of defense and the importance of deploying an appropriate operational risk management culture at the Bank.

The Bank actively handles operational risk in order to support operations of the business units, to improve major business processes associated with their operations and thus, to increase business value, rather than only reduce expected loss due to operational risk.

Information security and cyber risk – Information security risk is risk arising from faults in protection of the Bank's computer systems and information stored there. Cyber risk arises from an event including an attack on computer systems by or on behalf of internal or external adversaries of the Bank.

IT risk – risk arising from failure of the Bank's IT systems as a result of deficient availability and performance of these systems, incorrect performance and lack of support by the systems for the Bank's business needs.

Legal risk – Risk of loss due to exposure to fines, lawsuits and/or punitive action due to breach of contract or disagreements. Legal risk includes risks arising from legal exposure due to Bank conduct with its various interested parties (such as: clients, suppliers and other third parties).

The Bank applies Proper Conduct of Banking Business Directive 355 concerning "Management of business continuity". In the third quarter of 2019, the Bank continued to follow its annual work plan, conducted a wide range of drills, including a technology drill conducted at the secondary computer site (DRP) and a major annual drill which covered components including the following: Exercise of emergency financial forum, exercise of situation room under various scenarios, exercise of crisis management forum and employee relocation to the Bank's backup site in Lod.

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 approved strategy and comprehensive cyber defense policies and has specified the defense lines for their implementation , has appointed an Information Security and Cyber Defense Manager, reporting to the Manager, Risks Control Division – responsible, *inter alia*, for setting policies 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.
Direct banking systems at the Bank include information security processes in conformity with Proper Conduct of Banking Business Directive 367, including authentication mechanisms, transmission of information to clients and identification of exceptional transactions.
In the third quarter of 2019, risk remained Medium. In this quarter, a small number of fraud attempts against clients were identified (through fishing attacks), which resulted in stealing their account credentials in order to conduct unauthorized transactions in their accounts. Thanks to defensive measures applied by the Bank, despite these fraud attempts, there were no unauthorized transactions in client accounts.

The Bank continues to reinforce the defense mechanisms applied in Bank systems, in order to further limit the ability to defraud clients and to conduct un-authorized transactions in client accounts. These actions were taken as part of debriefing processes and lessons learned by the Bank with regard to this emerging threat.

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.

Given current developments in the financial market, the age of current Bank systems and transition of Yahav Bank to a new platform, the Bank concluded the review of transition of the Bank's core capital market system to the capital market module of the new platform and launched this project in the first quarter of 2019.

Another significant project has been recently approved, to replace the CRM system in order to empower personalized service for each client.

Legal risk

Legal risk includes absence of potential for legal enforcement of an agreement and includes, but is not limited to exposure to fines or penalties arising from supervisory action, as well as from individual arrangements. Legal risk also includes risks arising from legal exposure due to Bank conduct with its various stakeholders (such as: clients, suppliers and other third parties).
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.
In the first nine months of 2019, legal risk remained Low-Medium, similar to the estimate in the 2018 annual report.

For more information about operational risk, see also the 2018 Risks Report available on the Bank website.

Market risk and interest risk

Risk description and development

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

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

The market risk in the negotiable portfolio is minimal, in line with Bank policy. The Bank structure, which is weighted towards the mortgage portfolio, produces long-term uses for which the Bank requires sources. Assessment of Bank exposure to interest risks in the third quarter of 2019 remained at Low-Medium, see explanation below.

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

	First nine months		All of
	2019	2018	2018
At end of period	508	563	537
Maximum value during period	(JUN) 626	(FEB) 640	(FEB) 640
Minimum value during period	(MAR) 431	(JAN) 549	(DEC) 537

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

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

Analysis of interest risk in bank portfolio

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

						September 30, 2019
						Change in fair value
	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	Dollar	EUR	Other	Total
2% increase	488	(1,545)	209	76	13	(759)
Decrease of 2%	(1,660)	1,080	(235)	(49)	(14)	(878)
						September 30, 2018
2% increase	(249)	(1,954)	47	(37)	1	(2,192)
Decrease of 2%	721	2,367	(30)	41	(1)	3,098
						December 31, 2018
2% increase	(289)	(2,076)	46	(43)	(1)	(2,363)
Decrease of 2%	757	2,522	(30)	48	–	3,297

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

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

Credit balances in checking accounts are attributed in line with common practice in conformity with the Basel directives, i.e. over an average term of 3-4 years for different client types.

In 2018, the Bank conducted an extensive review of the risk estimation methodology, in line with common practice for application of Basel guidelines. Consequently, Bank policy, including measurement methods and the resulting risk limits, was significantly revised in the first quarter of 2019, so as to more reliably reflect the interest exposure, including dynamic effects of behavioral options inherent in the mortgage portfolio and in deposits, which are dependent on interest. Moreover, the capitalization curves were revised from zero curves to transfer price curves.

Consequently, the interest risk measured decreased significantly.

The Bank has specified a risk appetite at 13.5% of capital, under a standard stress shock scenario, a PV02 scenario – i.e. a concurrent 2% shift in the curves. The Bank has also specified management guidelines at lower risk levels and for scenarios reflecting the normal course of business.

Quantitative information about interest risk – Sensitivity analysis

Net adjusted fair value(1) of financial instruments of the Bank and its subsidiaries thereof:

	As of September 30, 2019			As of September 30, 2018		
	NIS	Foreign currency(2)	Total	NIS	Foreign currency(2)	Total
Net adjusted fair value(1)	13,587	83	13,670	11,027	(139)	10,888
Of which: Banking portfolio	(6,338)	18,915	12,577	(3,497)	13,469	9,973

Impact of change scenarios in interest rates on net adjusted fair value(1) of the Bank and its subsidiaries :

	As of September 30, 2019			As of September 30, 2018		
	NIS	Foreign currency(2)	Total	NIS	Foreign currency(2)	Total
Concurrent changes						
Concurrent 1% increase	355	155	510	189	128	317
Of which: Banking portfolio	341	171	512	194	130	324
Concurrent 1% decrease	(299)	(168)	(467)	(135)	(134)	(269)
Of which: Banking portfolio	(285)	(183)	(468)	(144)	(140)	(284)
Non-concurrent changes						
Steeper(3)	(208)	13	(195)	(59)	(11)	(70)
Shallower(4)	353	33	386	115	47	162
Short-term interest increase	428	115	543	94	112	206
Short-term interest decrease	(396)	(221)	(617)	(97)	(116)	(213)

(1) Net fair value of financial instruments, except for non-monetary items, after effect of liability with respect to employee rights and attribution of on-call deposits to terms.
(2) Includes Israeli currency linked to foreign currency.
(3) Short-term interest decrease and long-term interest increase.
(4) Short-term interest increase and long-term interest decrease.

Impact of change scenarios in interest rates on net interest revenues and non-interest financing revenues:

	As of September 30, 2019			As of September 30, 2018		
	Interest revenues	Non-interest financing revenues(1)	Total	Interest revenues	Non-interest financing revenues(1)	Total
Concurrent changes						
Concurrent 1% increase	572	423	995	445	365	810
Of which: Banking portfolio	686	377	1,063	445	404	849
Concurrent 1% decrease	(72)	(423)	(495)	(272)	(365)	(637)
Of which: Banking portfolio	(186)	(377)	(563)	(272)	(404)	(676)

(1) Includes the effect of fair value, gain (loss) from transactions in debentures and the effect of interest accrual for transactions in derivatives.

Revenue sensitivity was calculated based on attribution of current account balances based on the model commonly used by the Bank.

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

Analysis of CPI and exchange rate exposures

Below is analysis of the sensitivity of Bank Group capital to changes in major exchange rates and in the CPI (before tax effect) as of September 30, 2019, capital increase (erosion) (NIS in millions):

	Scenarios				Historical stress scenario[1]	
	10% increase	5% increase	5% decrease	10% decrease	Maximum increase	Maximum decrease
CPI[2]	1,475.4	737.7	(779.7)	(1,559.3)	154.4	(139.9)
Dollar	47.6	20.7	(8.1)	(10.2)	9.1	(5.6)
Pound Sterling	(2.8)	(1.4)	1.5	3.0	(0.8)	1.9
Yen	(0.1)	(0.3)	0.7	2.7	(0.3)	0.4
EUR	4.7	3.1	(4.6)	(16.1)	1.6	(1.8)
Swiss Franc	0.3	0.1	(0.1)	(0.3)	0.4	(0.2)

(1) Stress scenarios were calculated based on daily changes in the exchange rate and monthly changes in the CPI, in the last 10 years.
(2) Capital sensitivity to a 3% increase / decrease in the CPI is NIS 442.6 million and NIS (467.8) million, respectively.

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

Share price risk

For more information about share price risk, see the 2018 Risks Report available on the Bank website.

For information about equity investments in the bank portfolio, see Note 5 to these financial statements and Notes 12 and 15.A to the 2018 financial statements.

Liquidity and financing risk

Risk description and development

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

Liquidity risk is managed subject to the limitations of the Board of Directors and Management in an effort to minimize the losses deriving from an investment of surplus liquidity in assets that are highly liquid, but have a low yield.
In the first nine months of 2019, there were no deviations from the Board of Directors' limitations recorded and no material extraordinary events were observed.
For more information about liquidity risk, see also the 2018 Risks Report available on the Bank website.

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

The Bank's main financing sources are stable and diverse sources for different time horizons – retail and business deposits, long-term deposits from financial institutions and issues of debentures and notes. The Bank sees the great importance of diversification of its financing sources and acts proactively to identify sources for longer terms, including through a wide range of deposits offered by the Bank to its clients, deposits with unique attributes, which allow clients to benefit from relatively high interest over the long term with optional liquidity during the deposit term. In the current quarter, the Bank continued diversifying its financing sources and reducing concentration risk. In the first nine months of 2019, concentration risk for financing sources remained low.

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

For more information about financing risk, see also the 2018 Risks Report available on the Bank website.

Liquidity coverage ratio

In conformity with Proper Conduct of Banking Business Directive 221 "Liquidity coverage ratio", the minimum regulatory requirement is 100%. As part of its risks management policy, the Bank's Board of Directors specified that additional safety cushions are to be maintained, beyond the regulatory minimum ratio; so that the target liquidity coverage ratio for the Bank and the Group in 2019 would by 5% higher than the minimum required. This ratio is managed and reported for all currencies in aggregate and for NIS separately, both at Bank level and on Group basis. The ratio for the Bank solo and the consolidated ratio are calculated daily and reported as the average of daily observations over 90 days prior to the report date. This directive is in addition to liquidity risk management using internal models, as stipulated by Directive 342, as described above.

The average (consolidated) liquidity coverage ratio for the third quarter of 2019 was 122%. As noted above, there were no deviations from limitations for this ratio recorded in the first nine months of 2019.

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

As of September 30, 2019, the balance of the three largest depositor groups at the Bank Group amounted to NIS 9.0 billion.

Soliciting sources and Bank liquidity status – In the first nine months of 2019, there was an increase in the Bank's balance of deposits from the public. The balance of deposits from the public rose from NIS 199.5 billion on December 31, 2018 to NIS 207.8 billion on September 30, 2019, an increase by 4.2%.

In the non-linked segment, total deposits from the public amounted to NIS 153.2 billion, an increase by 5.2% compared to end of 2018. In the CPI-linked sector, deposits from the public amounted to NIS 15.1 billion, an increase by 4.7%, and in the foreign currency sector – to NIS 39.5 billion, an increase by 0.3% compared to end of 2018.

For more information about liquidity coverage ratio, see also the Risks Report available on the Bank website.

Other risks

Compliance and regulatory risk

Risk description and its development

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

Compliance risk remained unchanged in the third quarter of 2019 and is defined as low-medium.

This risk assessment is due, inter alia, to further addressing of risks classified as high and to further enhancement of controls and training and continued improvement in efficiency of work processes in this area.

For more information about compliance and regulation risk, see also the 2018 Risks Report available on the Bank website.

Cross-border risk

Risk description and development

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

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

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

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

Cross-border risk remained unchanged in the first nine months of 2019 and is defined as low-medium. The Bank manages risk by, *inter alia*, revising procedures, automating work processes, delivering training and assigning specialized branches to do business with such clients.

The Bank regularly improves, updates and validates existing information about Bank clients. The Bank filed two reports in conformity with CRS regulations with respect to 2017 and 2018, and reported in conformity with FATCA regulations with respect to 2018.

For more information about cross-border risk, see also the 2018 Risks Report available on the Bank website.

AML risk and terrorism financing

Risk description and its development

AML and terror financing risk is the risk of imposition of legal or regulatory sanctions, of material financial loss or of damage to reputation and image, which the Bank may incur due to non And financing terrorism-compliance with AML and terror financing provisions.
The Bank has near-zero risk appetite with regard to AML risk.
AML risk remained unchanged in the first nine months of 2019, at Low-Medium, due to continued intensive training and deployment activity, along with risk-focused controls and taking effective action to avoid recurrence of extraordinary events and compliance failures. The technology-based system for identifying and reporting unusual activity is in regular use at branches and allows for close monitoring of banking activity.
For more information about AML risk and terrorism financing, see the 2018 Risks Management Report available on the Bank website.

Reputation risk

Risk description and its development

The Bank has mapped reputation risk as a material risk, because past events indicate that impact to the reputation of a financial institution may result in significant loss of value. Reputation risk is a stand-alone risk, but may also arise from materialization of other risks at the Bank, such as materialization of an operational risk event. Furthermore, impact to Bank reputation may bring about the materialization of other risks, in particular liquidity risk – with growing demand by clients to withdraw deposits.
In the first nine months of 2019 there were no events which negatively impacted the Bank's reputation.
For more information about reputation risk, see also the 2018 Risks Report available on the Bank website.

Business-strategic risk

Risk description and its development

Business-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.

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. On May 30, 2018, the acting Anti-Trust Supervisor issued a decision objecting to the merger of Bank Igud with and into Bank Mizrahi-Tefahot. Since the conditions precedent for publication of the Tender Offer have not been fulfilled, in conformity with provisions of the Agreement, the Agreement is deemed null and void as of June 27, 2018 ("the Effective Date"), and none of the parties has any obligations pursuant to the Agreement nor any claim against the other parties to the Agreement. On August 5, 2018, the Bank and shareholders of Bank Igud signed an addendum to the agreement, whereby the parties agreed to extend the Extended Effective Date to one year after signing the Addendum to the agreement, and the parties and Igud would appeal the decision. Such an appeal was filed with the Anti-Trust Court on September 6, 2018 and the Anti-Trust Authority has filed its response. On July 8, 2019, the parties signed Addendum no. 2 to the agreement, whereby the agreement would be terminated if a verdict rejecting the appeal would be issued by November 30, 2019; if no such verdict is issued on the appeal by said date, either party may notify the other party of postponement of the Effective Date to December 31, 2019. Realization of the Igud acquisition transaction, should it be realized, would challenge the Bank, due to the operating merger of the two banks, along with continued achievement of objectives in Mizrahi Tefahot's current strategic plan.

For more information about the agreement and Addendum with Bank Igud shareholders, see chapter "Significant developments in management of business operations" in the Report of the Board of Directors and Management for 2017, Immediate Report dated May 30, 2018, reference 2018-01-053347, Immediate Report dated June 25, 2018, reference 2018-01-060643, Immediate Report dated August 5, 2018, reference 2018-01-072859, Immediate Report dated July 8, 2019, reference 2019-01-070000.

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 which are under the Bank's control.

For more information about an addendum to the agreement with Bank Igud shareholders, see chapter "Significant developments in management of business operations" above.

For more information about strategic-business risk, see also the 2018 Risks Report available on the Bank website.
For more information about environmental risk, see chapter "Risks Overview" of the 2018 Report of the Board of Directors and Management.

Policies and critical accounting estimates, controls and procedures

Policies and critical accounting estimates

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

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

The significant accounting policies are detailed in Note 1 to the 2018 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.

For more information about accounting policies on critical matters, see chapter "Policies and critical accounting estimates" of the 2018 Report of the Board of Directors and Management.

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

Controls and Procedures

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

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

Evaluation of controls and procedures with regard to disclosure

Further to adjustment of controls and procedures with regard to disclosure concerning the change in layout of the financial statements, made in 2018, in the first nine months of 2019 additional adjustments were made with regard to quarterly financial statements. Bank management, together with the Bank President & CEO and the Chief Accountant of the Bank, evaluated the effectiveness of the Bank's disclosure controls and procedures as of September 30, 2019. Based on this evaluation, the Bank President & CEO and the Chief Accountant of the Bank concluded that at the end of the period ended September 30, 2019, the disclosure controls and procedures are effective for recording, processing, summarizing and reporting the information that the Bank is required to disclose in the quarterly report, in accordance with the Public Reporting Regulations of the Supervisor of Banks, on the date stipulated in these Regulations.

Changes to internal controls

In the third quarter of 2019, no change occurred in the Bank's internal controls over financial reporting that had a material effect, or can reasonably be expected to have a material effect on the Bank's internal controls over financial reporting.

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

Approval date:
Ramat Gan

November 18, 2019

Certification by the President & CEO – Disclosure and internal control

As of September 30, 2019

Certification

I, ELDAD FRESHER, certify that:

1. I have reviewed the quarterly report of Bank Mizrahi Tefahot Ltd. ("the Bank") for the quarter ended September 30, 2019 ("the Report").
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact nor omit to state any material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, would not be misleading with respect to the period covered by the Report.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of the dates and for the periods presented in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure(1) and to the Bank's internal controls over financial reporting(1) as well as:
    A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those entities, particularly during the period in which the Report is being prepared;

    B. We have set such internal controls over financial reporting, or had it set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks;

    C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and

    D. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during this quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and
5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank's independent auditors, the Board of Directors and the Audit and Balance Sheet Committees of the Board of Directors of the Bank:
    A. All significant deficiencies and material weaknesses in the determination or operation of internal controls over financial reporting which are reasonably likely to impair the Bank's ability to record, process, summarize and report financial information; and

    B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal controls over financial reporting.

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

Eldad Fresher
President & CEO
November 18, 2019

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

Certification by the Chief Accountant – Disclosure and internal control

As of September 30, 2019

Certification

I, MENAHEM AVIV, certify that:

1. I have reviewed the quarterly report of Bank Mizrahi Tefahot Ltd. ("the Bank") for the quarter ended September 30, 2019 ("the Report").
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact nor omit to state any material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, would not be misleading with respect to the period covered by the Report.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of the dates and for the periods presented in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure(1) and to the Bank's internal controls over financial reporting(1) as well as:
   A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those entities, particularly during the period in which the Report is being prepared;

   B. We have set such internal controls over financial reporting, or had it set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks;

   C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and

   D. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during this quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and
5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank's independent auditors, the Board of Directors and the Audit and Balance Sheet Committees of the Board of Directors of the Bank:
   A. All significant deficiencies and material weaknesses in the determination or operation of internal controls over financial reporting which are reasonably likely to impair the Bank's ability to record, process, summarize and report financial information; and

   B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal controls over financial reporting.

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

Menahem Aviv
Vice-president, Chief Accountant

November 18, 2019

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

Deloitte.

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

Introduction

We have reviewed the enclosed financial information of Bank Mizrahi Tefahot Ltd. ("the Bank"), consisting of the condensed consolidated interim balance sheet as of September 30, 2019, the condensed consolidated interim statements of profit and loss, comprehensive income, changes to shareholder equity and cash flows for the nine-month and three-month periods then ended. The Board of Directors and management are responsible for preparation and presentation of financial information for these interim periods, in accordance with generally accepted accounting practice in Israel (Israeli GAAP) for interim financial reporting and in accordance with directives and guidance of the Supervisor of Banks. We are responsible for expressing our conclusion as to the financial information for this interim period based on our review.

We did not review the condensed financial information of certain consolidated subsidiaries, whose assets included in consolidation constitute 5.92% of total consolidated assets as of September 30, 2019, and whose net interest revenues before expenses with respect to credit losses included in the consolidated statements of profit and loss constitute 8.45% and 9.76% of total consolidated net interest revenues before expenses with respect to credit losses, respectively, for the nine-month and three-month period then ended. The condensed financial information for the interim periods of the aforementioned companies was reviewed by other Independent Auditors. We have been provided with their review reports and our conclusions, in as much as it relates to the financial information with respect to those companies, is based on the review reports by those other Independent Auditors.

Review scope

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

Conclusion

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

Without qualifying our conclusion, we draw your attention to Note 10.B.3 with regard to lawsuits filed against the Bank and its subsidiary, including requests to recognize them as class actions

Brightman Almagor Zohar & Co.

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

Tel Aviv, November 18, 2019

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Mizrahi-Tefahot Bank

Condensed Financial Statements as of September 30, 2019

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Condensed consolidated statements of profit and loss

Reported amounts (NIS in millions)

		For the three months ended September 30		For the nine months ended September 30		For the year ended December 31,
		2019	2018	2019	2018	2018
	Note		(unaudited)		(unaudited)	(audited)
Interest revenues	2	1,532	1,832	5,865	5,518	7,359
Interest expenses	2	318	596	1,877	1,856	2,437
Interest revenues, net		1,214	1,236	3,988	3,662	4,922
Expenses with respect to credit losses	6,13	70	61	245	233	310
Interest revenues, net after expenses with respect to credit losses		**1,144**	**1,175**	**3,743**	**3,429**	**4,612**
Non-interest revenues						
Non-interest financing revenues	3	147	105	293	324	445
Commissions		387	366	1,143	1,091	1,475
Other revenues		13	12	61	35	47
Total non-interest revenues		**547**	**483**	**1,497**	**1,450**	**1,967**
Operating and other expenses						
Payroll and associated expenses		650	598	1,934	1,724	2,407
Maintenance and depreciation of buildings and equipment		193	186	578	561	747
Other expenses		155	152	483	888	1,230
Total operating and other expenses		**998**	**936**	**2,995**	**3,173**	**4,384**
Pre-tax profit		693	722	2,245	1,706	2,195
Provision for taxes on profit		251	250	782	654	922
After-tax profit		**442**	**472**	**1,463**	**1,052**	**1,273**
Share of profits of associated companies, after tax effect		–	–	–	1	1
Net profit:						
Before attribution to non-controlling interests		442	472	1,463	1,053	1,274
Attributable to non-controlling interests		(20)	(18)	(61)	(49)	(68)
Attributable to shareholders of the Bank		**422**	**454**	**1,402**	**1,004**	**1,206**

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, November 18, 2019

Condensed consolidated statement of profit and loss – Continued

Reported amounts (NIS in millions)

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2019	2018	2019	2018	2018
		(unaudited)		(unaudited)	(audited)
Earnings per share[1] (in NIS)					
Basic earnings					
Net profit attributable to shareholders of the Bank	1.80	1.95	5.99	4.31	5.17
Weighted average number of ordinary shares used to calculate basic earnings (thousand of shares)	234,438	233,206	234,126	232,993	233,079
Diluted earnings					
Net profit attributable to shareholders of the Bank	1.79	1.94	5.96	4.28	5.15
Weighted average number of ordinary shares used to calculate diluted earnings (thousands of shares)	235,262	234,335	235,060	234,323	234,317

(1) Share of NIS 0.1 par value.

Condensed consolidated statements of comprehensive income

Reported amounts (NIS in millions)

	Note	For the three months ended September 30, 2019	For the three months ended September 30, 2018	For the nine months ended September 30, 2019	For the nine months ended September 30, 2018	For the year ended December 31, 2018
		(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
Net profit:						
Before attribution to non-controlling interests		442	472	1,463	1,053	1,274
Attributable to non-controlling interests		(20)	(18)	(61)	(49)	(68)
Net profit attributable to shareholders of the Bank		**422**	**454**	**1,402**	**1,004**	**1,206**
Other comprehensive income (loss) before taxes	4					
Adjustments for presentation of available-for-sale securities at fair value, net[1]		5	(5)	133	(84)	(68)
Adjustments from translation of financial statements of investments in associated companies[2]		–	–	–	1	1
Net gains (losses) with respect to cash flows hedging		5	3	6	(1)	–
Adjustment of liabilities with respect to employees' benefits[3]		(66)	3	(106)	84	121
Total other comprehensive income (loss), before tax		**(56)**	**1**	**33**	**–**	**54**
Related tax effect		19	–	(11)	–	(18)
Other comprehensive income (loss) after taxes[4]						
Other comprehensive income (loss), before attribution to non-controlling interest		(37)	1	22	–	36
Less other comprehensive income (loss) attributed to non-controlling interests		(3)	–	(6)	1	(1)
Other comprehensive income (loss) attributable to equity holders of the Bank, after taxes		**(34)**	**1**	**28**	**(1)**	**37**
Comprehensive income:						
Before attribution to non-controlling interests		405	473	1,485	1,053	1,310
Attributable to non-controlling interests		(17)	(18)	(55)	(50)	(67)
Comprehensive income attributable to shareholders of the Bank		**388**	**455**	**1,430**	**1,003**	**1,243**

(1) For more information about application of Public Reporting Directives with regard to classification and measurement of financial instruments, see Note 1.C.2.

(2) Adjustments from translation of financial statements of associated companies.

(3) 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.

(4) For more information see Note 4 to the financial statements – Cumulative Other Comprehensive Income (Loss).

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

Condensed consolidated balance sheets

Reported amounts (NIS in millions)

	Note	As of September 30, 2019	2018	As of December 31, 2018
		(unaudited)		(audited)
Assets				
Cash and deposits with banks		47,125	42,423	45,162
Securities[1][2]	5	10,566	10,093	11,081
Securities loaned or acquired in resale agreements		64	115	26
Loans to the public	6,13	204,225	191,348	195,956
Provision for credit losses	6,13	(1,647)	(1,552)	(1,575)
Loans to the public, net	6,13	202,578	189,796	194,381
Loans to Governments		589	569	630
Investments in associated companies		32	32	32
Buildings and equipment		1,384	1,360	1,424
Intangible assets and goodwill		87	87	87
Assets with respect to derivative instruments	11	2,717	2,604	3,240
Other assets		1,859	1,752	1,810
Total assets		**267,001**	**248,831**	**257,873**
Liabilities and Equity				
Deposits from the public	7	207,832	192,943	199,492
Deposits from banks		673	655	625
Deposits from the Government		34	44	42
Debentures and subordinated notes		30,442	29,769	30,616
Liabilities with respect to derivative instruments	11	2,920	2,836	3,661
Other liabilities [3]		8,586	7,451	8,047
Total liabilities		**250,487**	**233,698**	**242,483**
Shareholders' equity attributable to shareholders of the Bank		15,755	14,441	14,681
Non-controlling interests		759	692	709
Total equity		**16,514**	**15,133**	**15,390**
Total liabilities and equity		**267,001**	**248,831**	**257,873**

(1) Of which: NIS 6,466 million at fair value on consolidated basis (September 30, 2018 – NIS 6,566 million; December 31, 2018 – NIS 7,073 million).

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

(3) Of which: Provision for credit losses with respect to off balance sheet credit instruments amounting to NIS 106 million (on September 30, 2018 – NIS 100 million, on December 31, 2018 – NIS 98 million).

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

Condensed Statements of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

	Share capital and premium(1)	Capital reserve from benefit from share-based payment transactions	Total paid-up share capital and capital reserves	Cumulative other comprehensive income (loss) (3)	Retained earnings (4)	Total share-holder equity	Non-controlling interests	Total equity
	For the three months ended September 30, 2019 (unaudited)							
Balance as of June 30, 2019	2,218	44	2,262	(284)	13,762	15,740	742	16,482
Net profit for the period	–	–	–	–	422	422	20	442
Dividends paid(5)	–	–	–	–	(392)	(392)	–	(392)
Benefit from share-based payment transactions	–	19	19	–	–	19	–	19
Realization of share-based payment transactions(2)	–	–	–	–	–	–	–	–
Other comprehensive income (loss), net, after tax	–	–	–	(34)	–	(34)	(3)	(37)
Balance as of September 30, 2019	**2,218**	**63**	**2,281**	**(318)**	**13,792**	**15,755**	**759**	**16,514**
	For the three months ended September 30, 2018 (unaudited)							
Balance as of June 30, 2018	2,191	54	2,245	(385)	12,126	13,986	674	14,660
Net profit for the period	–	–	–	–	454	454	18	472
Realization of share-based payment transactions(2)	5	(5)	–	–	–	–	–	–
Other comprehensive income (loss), net, after tax	–	–	–	1	–	1	–	1
Balance as of September 30, 2018	**2,196**	**49**	**2,245**	**(384)**	**12,580**	**14,441**	**692**	**15,133**

(1) Share premium generated prior to March 31, 1986.
(2) In the third quarter of 2019, 21,465 ordinary NIS 0.1 par value shares were issued for exercise of options pursuant to the Employee Stock Option Plan. In the third quarter of 2018, 221,262 ordinary NIS 0.1 par value shares were issued for exercise of options pursuant to the Employee Stock Option Plan.
(3) For details see Note 4 – Cumulative Other Comprehensive Income.
(4) For more information about various limitations on distributions of dividends, see Note 24 to the 2018 financial statements.
(5) On August 27, 2019, the Bank paid dividends amounting to NIS 392 million, in conformity with a decision by the Bank Board of Directors.
(6) On November 18, 2019, after the balance sheet date, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 168.8 million, or 40% of earnings in the third quarter of 2019. According to accounting rules, this amount will be deducted from retained earnings in the fourth quarter of 2019.

Condensed Statement of Changes in Shareholders' Equity – Continued

Reported amounts (NIS in millions)

	Share capital and premium[(1)]	Capital reserve from benefit from share-based payment transactions	Total paid-up share capital and capital reserves	Cumulative other compre-hensive income (loss) [(3)]	Retained earnings [(4)]	Total share-holder equity	Non-contro-lling interests	Total equity
	For the nine months ended September 30, 2019 (unaudited)							
Balance as of December 31, 2018	2,197	48	2,245	(346)	12,782	14,681	709	15,390
Net profit for the period	–	–	–	–	1,402	1,402	61	1,463
Dividends paid[(6)]	–	–	–	–	(392)	(392)	–	(392)
Benefit from share-based payment transactions	–	36	36	–	–	36	–	36
Realization of share-based payment transactions[(2)]	21	(21)	–	–	–	–	–	–
Dividends attributable to non-controlling interest in subsidiary	–	–	–	–	–	–	(5)	(5)
Other comprehensive income (loss), net, after tax	–	–	–	28	–	28	(6)	22
Balance as of September 30, 2019	**2,218**	**63**	**2,281**	**(318)**	**13,792**	**15,755**	**759**	**16,514**
	For the nine months ended September 30, 2018 (unaudited)							
Balance as of December 31, 2017	2,180	65	2,245	(383)	11,823	13,685	642	14,327
Net profit for the period	–	–	–	–	1,004	1,004	49	1,053
Dividends paid[(5)]	–	–	–	–	(247)	(247)	–	(247)
Realization of share-based payment transactions[(2)]	16	(16)	–	–	–	–	–	–
Other comprehensive income (loss), net, after tax	–	–	–	(1)	–	(1)	1	–
Balance as of September 30, 2018	**2,196**	**49**	**2,245**	**(384)**	**12,580**	**14,441**	**692**	**15,133**
	For the year ended December 31, 2018 (audited)							
Balance as of December 31, 2017	2,180	65	2,245	(383)	11,823	13,685	642	14,327
Net profit for the period	–	–	–	–	1,206	1,206	68	1,274
Dividends paid[(5)]	–	–	–	–	(247)	(247)	–	(247)
Realization of share-based payment transactions[(2)]	17	(17)	–	–	–	–	–	–
Other comprehensive income (loss), net, after tax	–	–	–	37	–	37	(1)	36
Balance as of December 31, 2018	**2,197**	**48**	**2,245**	**(346)**	**12,782**	**14,681**	**709**	**15,390**

(1) Share premium generated prior to March 31, 1986.
(2) In the first nine months of 2019, the Bank issued 1,016,690 ordinary NIS 0.1 par value shares for exercise of options pursuant to the Employee Stock Option Plan, and issued 85,880 ordinary NIS 0.1 par value shares to the Bank President & CEO each.
In the first nine months of 2018, the Bank issued 649,977 ordinary NIS 0.1 par value shares For exercise of options pursuant to the Employee Stock Option Plan, and issued 30,580 ordinary NIS 0.1 par value shares to the Bank President & CEO each.
In 2018, the Bank issued 699,128 ordinary shares of NIS 0.1 par value each, For exercise of options pursuant to the Employee Stock Option Plan, and issued 30,580 ordinary NIS 0.1 par value shares to the Bank President & CEO each.
(3) For details see Note 4 – Cumulative Other Comprehensive Income.
(4) For more information about various limitations on distributions of dividends, see Note 24 to the 2018 financial statements.
(5) On March 26, 2018 and June 5, 2018, the Bank paid dividends amounting to NIS 109.5 and 137.2 million, respectively, in conformity with a decision by the Bank,s Board of Directors.
(6) On August 27, 2019, the Bank paid dividends amounting to NIS 392 million, in conformity with a decision by the Bank Board of Directors.
(7) On November 18, 2019, after the balance sheet date, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 168.8 million, or 40% of earnings in the third quarter of 2019. According to accounting rules, this amount will be deducted from retained earnings in the fourth quarter of 2019.

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

Condensed statements of cash flows

Reported amounts (NIS in millions)

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2019	2018	2019	2018	2018
		(unaudited)		(unaudited)	(audited)
Cash flows provided by current operations					
Net profit	442	472	1,463	1,053	1,274
Adjustments					
Share of the Bank in undistributed earnings of associated companies	–	–	–	(1)	(1)
Depreciation of buildings and equipment	62	57	185	178	238
Expenses with respect to credit losses	70	61	245	233	310
Gain from sale of securities available for sale	(22)	(11)	(32)	(18)	(18)
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	(7)	1	(11)	4	1
Realized and unrealized loss (gain) from adjustments to fair value of shares not held for trading	(30)	–	(47)	–	–
Gain from sale of buildings and equipment	–	–	(26)	–	–
Impairment of assets held for sale	–	–	1	1	–
Expenses arising from share-based payment transactions	19	–	36	–	–
Deferred taxes, net	7	(5)	17	(77)	(111)
Change in employees' provisions and liabilities	4	15	27	40	63
Adjustments with respect to exchange rate differentials	79	15	222	(65)	(129)
Accrual differences included with investment and financing operations	(12)	156	425	80	67
Net change in current assets					
Assets with respect to derivative instruments	(596)	853	528	816	181
Securities held for trading	43	247	(78)	32	(80)
Other assets, net	(145)	(83)	(53)	122	49
Net change in current liabilities					
Liabilities with respect to derivative instruments	644	(528)	(741)	(246)	579
Other liabilities	410	(251)	372	1	551
Net cash provided by current operations	**968**	**999**	**2,533**	**2,153**	**2,974**

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

Condensed statements of cash flows – Continued

Reported amounts (NIS in millions)

	For the three months ended September 30, 2019	2018	For the nine months ended September 30, 2019	2018	For the year ended December 31, 2018
		(unaudited)		(unaudited)	(audited)
Cash flows provided by investment activities					
Net change in deposits with banks	116	151	266	79	52
Net change in loans to the public	(1,714)	(3,276)	(8,428)	(10,926)	(15,522)
Net change in loans to Governments	69	126	79	6	(56)
Net change in securities loaned or acquired in resale agreements	(5)	(93)	(38)	(39)	50
Acquisition of debentures held to maturity	(1,342)	(346)	(1,642)	(925)	(1,396)
Proceeds from redemption of securities held to maturity	–	–	1,422	723	723
Acquisition of securities available for sale	(1,958)	(267)	(4,798)	(2,042)	(2,459)
Proceeds from sale of securities available for sale	684	156	3,400	836	838
Proceeds from redemption of securities available for sale	705	–	1,877	1,449	1,695
Proceeds from sale of loan portfolios	–	557	577	2,324	2,350
Purchase of loan portfolios – public	(206)	(64)	(585)	(312)	(377)
Purchase of loan portfolios – Government	(38)	(90)	(38)	(118)	(118)
Acquisition of buildings and equipment	(70)	(53)	(168)	(135)	(259)
Proceeds from sale of buildings and equipment	1	–	53	–	–
Proceeds from realized investment in associated companies	–	–	–	1	1
Net cash provided by investment activities	**(3,758)**	**(3,199)**	**(8,023)**	**(9,079)**	**(14,478)**
Cash flows provided by financing operations					
Net change in deposits from the public	2,644	3,043	8,340	9,370	15,919
Net change in deposits from banks	119	(220)	48	(470)	(500)
Net change in deposits from Government	(2)	(3)	(8)	(7)	(9)
Issuance of debentures and subordinated notes	–	–	3,700	–	711
Redemption of debentures and subordinated notes	(927)	(411)	(3,742)	(413)	(415)
Dividends paid to shareholders	(392)	–	(392)	(247)	(247)
Dividends paid to external shareholders in subsidiaries	–	–	(5)	–	–
Net cash provided by financing operations	**1,442**	**2,409**	**7,941**	**8,233**	**15,459**
Increase in cash	(1,348)	209	2,451	1,307	3,955
Cash balance at beginning of the period	48,237	41,675	44,581	40,497	40,497
Effect of changes in exchange rate on cash balances	(79)	(15)	(222)	65	129
Cash balance at end of the period	**46,810**	**41,869**	**46,810**	**41,869**	**44,581**
Interest and taxes paid / received					
Interest received	2,104	1,886	6,504	5,048	6,837
Interest paid	949	515	2,238	1,240	2,219
Dividends received	–	–	16	6	7
Income taxes received	–	–	178	98	97
Income taxes paid	305	275	876	810	1,145
Appendix A – Non-cash Transactions					
Acquisition of buildings and equipment	(3)	–	–	–	14
Sales of buildings and equipment	5	–	(5)	–	–

Note 1 – Reporting Principles and Accounting Policies

A. Overview

On November 18, 2019, the Bank Board of Directors authorized publication of these condensed financial statements as of September 30, 2019.

The condensed financial statements are prepared in accordance with Israeli GAAP for financial reporting for interim periods and in accordance with directives of the Supervisor of Banks, and do not include all information required in annual financial statements. These condensed financial statements should be read in conjunction with the audited financial statements as of December 31, 2018.

As noted in the annual report, for most topics, the Supervisor of Banks' directives are based on generally acceptable accounting practices of 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 of US banks.

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

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

B. Use of estimates

As stated in Note 1.D.6)D. In the 2018 financial statements, the group-based provision for credit losses for 2018 was based, *inter alia*, on historical loss rates in various economic sectors, divided into problematic and non-problematic debt, for the 8 years ended on December 31, 2018, in conformity with directives of the Supervisor of Banks. In conformity with the revised directives, the range was increased to 9 years in 2019.

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

As from reporting periods starting on January 1, 2019 (unless otherwise noted), the Bank applies the following new accounting standards and directives:

1. ASU 2017-08 "Receivables"
2. Reporting by banking corporations and credit card issuers in Israel, in conformity with generally accepted accounting principles in the USA with regard to derivatives and hedging, classification and measurement of financial instruments.

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

1. ASU 2017-08 "Receivables"

In March 2017, the US Financial Accounting Standards Board ("FASB") issued ASU 2017-08 with regard to amortization of premium for debt instruments purchased at cost of an early repayment option, an update to Topic 310-20 of the Codification with regard to Receivables – non-reimbursable commissions and other costs (hereinafter: “the Amendment”).

Pursuant to the Amendment, the amortization period of premium on debt instruments with optional early redemption by the issuer is to be calculated based on the earliest redemption date.

The Bank applies these changes.

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

Note 1 – Reporting Principles and Accounting Policies – continued

2. Reporting by banking corporations and credit card issuers in Israel, in conformity with generally accepted accounting principles in the USA with regard to derivatives and hedging, classification and measurement of financial instruments.

On August 30, 2018, the Supervisor of Banks issued a circular concerning reporting by banking corporations and credit card issuers in Israel, in conformity with generally accepted accounting principles in the USA with regard to derivatives and hedging, classification and measurement of financial instruments, cash flow statement and other topics.

Derivative instruments and hedging

In August 2017, the US Financial Accounting Standards Board ("FASB") issued ASU 2017-12, an update to Section 815 of the Codification with regard to derivatives and hedge accounting. The amendment includes changes to provisions concerning measurement and designation of qualified hedging ratios and presentation requirements for the hedging results. The amendment expands the ability of banking corporations to hedge risk components and creates a parallel between recognition and presentation of hedging instruments and hedged items on the financial statements. The amendment eliminates the need to refer separately to the "non-effective portion" of hedging relations. If amounts are excluded from the assessment of hedging effectiveness, the amendment allows such amounts to be postponed on Other Comprehensive Income, but when recognized, these amounts are to be presented on the same line of the profit and loss statement to which effects of the hedged instrument are charged. Furthermore, the amendment simplifies the application of accounting directives with regard to hedging, by providing for easier assessment of hedge effectiveness and documentation requirements. The updates to the provisions adopt, in Public Reporting Directives, the generally accepted accounting principles for banks in the USA as specified in the update. Furthermore, the disclosure format was aligned with the one commonly used on financial statements of banks in the USA.

The new directives are applied as from January 1, 2019. Application of these directives has no material impact on the Bank's financial statements. Changes to classification of revenues or expenses in the statement of profit and loss and changes to required disclosure in the financial statements were applied prospectively.

Classification and measurement of financial instruments

The circular includes updates to the provisions which adopt, in Public Reporting Directives, the generally accepted accounting principles for banks in the USA as specified in ASU 2016-01. Key changes to Public Reporting Directives with regard to classification and measurement of financial instruments are as follows:

- Changes to fair value of shares available for sale, with available fair value, which have yet to be realized, are to be recognized in the statement of profit and loss, rather than in Other Comprehensive Income.
- investments in shares with no fair value available, which are currently presented at cost (net of impairment), shall generally be presented at cost (net of impairment) adjusted for changes in observed prices of shares of the same issuer.
- Methods to determine fair value for the Note on fair value of financial instruments were revised.

The new directives are applied as from January 1, 2019. Consequently, in the first nine months of 2019, the Bank recognized revenues amounting to NIS 62 million in total with respect to the effect of recording gain from shares not held for trading. Provisions with regard to investment in equity instruments with no fair value available and changes to required disclosures on the financial statements were applied prospectively.

Note 1 – Reporting Principles and Accounting Policies – continued

D. New accounting standards and new directives by the Supervisor of Banks prior to their implementation

Standard / update topic	Issue date	Start date	Issued by	Standard summary	Effect on the Bank's financial statements
ASU 2017-04 Impairment of goodwill	Januar y 2017	Januar y 1, 2020	US Financial Accounting Standards Board ("FASB")	A two-stage test should be applied for each reporting unit, whereby impairment of goodwill is to be recognized as the amount of the difference between the fair value of the reported unit and its carrying amount, taking into account the effect of taxes on income. However, the impairment loss may not exceed the goodwill allocated to the reporting unit.	No material effect is expected.
Adoption of updates to US GAAP for banks with regard to provision for credit losses ASU 2016-13	March 2018	Januar y 1, 2022	**Supervisor of Banks**	Provision for credit losses is to be calculated in conformity with the expected loss over the credit term. This is *in lieu* of estimation of the loss incurred and yet to be identified; estimation of the provision for credit losses shall include significant use of forward-looking information, reflecting reasonable forecasts with regard to future economic events; the new rules for calculating the provision for credit losses shall apply to loans (including housing loans), debentures held to maturity and certain off-balance sheet credit exposures.	The Bank is preparing to implement the updates.
Reporting by banking corporations and credit card issuers in Israel, in conformity with generally accepted accounting principles in the USA with regard to leases	July 2018	Januar y 1, 2020	**Supervisor of Banks**	Banking corporations that lease assets for a term longer than 12 months shall recognize these on the balance sheet, even in case of an operating lease; for operational lease transactions, an asset shall be recorded on the balance sheet reflecting the corporation's right to use the leased asset, against a liability to make lease payments; as for capital adequacy, risk assets with respect to leases recognized on the balance sheet shall be weighted at 100% for the purpose of minimum capital ratio.	The Bank is preparing to implement the updates. The Bank estimates that application of these directives is expected to result in an increase of NIS 0.7 billion in the balance of assets and to an identical increase in liabilities with respect to a lease as of the initial application date.
Updated standard with regard to changes to disclosure requirements of defined benefit plans ASU 2018-14	Augus t 2018	Januar y 1, 2021	US Financial Accounting Standards Board ("FASB")	Elimination of the required presentation of estimated amounts under Other Comprehensive Income expected to be deducted from cumulative Other Comprehensive Income to the Statement of Profit and Loss as an expense in the following year; Elimination of the required presentation of future annual benefit amounts covered by insurance contracts and significant transactions between the entity or related parties and the plan; details to be provided of reasons for material gain or loss associated with change in liability with respect to defined benefit in the period; Clarification of disclosure requirements for entities with two or more plans.	No effect on the financial statements, other than change to presentation in the Note on employees' rights.

Note 1 – Reporting Principles and Accounting Policies – continued

D. New accounting standards and new directives by the Supervisor of Banks prior to their implementation - cont.

Standard / update topic	Issue date	Start date	Issued by	Standard summary	Effect on the Bank's financial statements
Updated standard with regard to changes to disclosure requirements of fair value measurement ASU 2018-13	August 2018	January 1, 2020	US Financial Accounting Standards Board ("FASB")	The following requirements have been eliminated: Presentation of amounts and reasons for transfer between Level 1 and Level 2 of the fair value ranking; disclosure of information on bank policy on determining when such transfers are deemed to have occurred; providing a verbal description of sensitivity to changes in un-observed data for repeated fair value measurements classified as Level 3 of the fair value ranking; required presentation of changes to Other Comprehensive Income unrealized in the period for assets held at end of the period.	The Bank is preparing to implement the updates.
Extension of transitional provision regarding implementation of provisions of Section 830 of the Codification "Foreign currency matters"	January 2019	December 31, 2021	Supervisor of Banks	The transitional provision instructs banking corporations not to include exchange rate differentials with respect to available-for-sale debentures as part of fair value adjustment of such debentures, but rather to continue treating these as stipulated in the Public Reporting Directives prior to adoption of Section 830 of the Codification "Foreign currency", through December 31, 2021.	No material effect is expected.
Accounting treatment of recoveries and optional extensions in measurement of expected credit losses ASU 2019-04	April 2019	January 1, 2022	US Financial Accounting Standards Board ("FASB")	Estimated expected credit losses would include expected recoveries of financial assets, including recoveries of amounts subject to accounting write-off and amounts previously written off; contractual optional extensions or renewals which are not cancellable unconditionally by the lender to be included in determination of the contractual period used as basis for measurement of expected credit losses.	The Bank is preparing to implement the updates.

Note 2 – Interest revenues and expenses

Reported amounts (NIS in millions)

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2019	**2018**	**2019**	**2018**	**2018**
		(unaudited)		**(unaudited)**	**(audited)**
A. Interest revenues[1]					
From loans to the public	1,421	1,743	5,537	5,282	7,049
From loans to Governments	8	8	25	18	25
From deposits with the Bank of Israel and from cash	51	32	161	71	102
From deposits with banks	4	2	14	5	9
From securities loaned or acquired in resale agreements[2]	–	–	–	–	–
From debentures	48	47	128	142	174
Total interest revenues	**1,532**	**1,832**	**5,865**	**5,518**	**7,359**
B. Interest expenses (revenues)					
On deposits from the public	331	412	1,387	1,216	1,628
On deposits from governments	–	–	–	–	2
On deposits from banks	3	3	9	7	11
On debentures and subordinated notes	(16)	180	478	631	793
On other liabilities	–	1	3	2	3
Total interest expenses	**318**	**596**	**1,877**	**1,856**	**2,437**
Total interest revenues, net	**1,214**	**1,236**	**3,988**	**3,662**	**4,922**
C. Details of net effect of hedging derivative instruments on interest revenues[3]	(7)	3	(40)	5	4
D. Details of interest revenues on accrual basis from debentures					
Held to maturity	4	9	31	29	45
Available for sale	44	36	94	110	126
Held for trading	–	2	3	3	3
Total included under interest revenues	**48**	**47**	**128**	**142**	**174**

(1) Includes effect of hedging relationships.

(2) Balance lower than NIS 1 million,

(3) Details of effect of hedging derivative instruments: on interest revenues, net

Note 3 – Non-interest financing revenues

Reported amounts (NIS in millions)

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2019	**2018**	**2019**	**2018**	**2018**
		(unaudited)		**(unaudited)**	**(audited)**
A. Non-interest financing revenues (expenses) with respect to non-trading operations					
1. From activity in derivative instruments					
Non-effective element of hedging ratios(1)	–	1	–	–	1
Net revenues (expenses) with respect to ALM derivative instruments(2)	(378)	–	(1,035)	941	1,413
Total from activity in derivative instruments	**(378)**	**1**	**(1,035)**	**941**	**1,414**
2. From investment in debentures					
Gains from sale of debentures available for sale(3)	22	2	32	8	8
Total from investment in debentures	**22**	**2**	**32**	**8**	**8**
3. Exchange rate differences, net	**445**	**73**	**1,165**	**(701)**	**(1,081)**
4. Gains from investment in shares					
Gains from sale of shares not held for trading	–	9	1	10	10
Provision for impairment of shares not held for trading	–	–	(1)	(1)	–
Dividends from shares not held for trading	–	–	16	6	7
Unrealized gains / losses(5)	30	–	46	–	–
Total from investment in shares	**30**	**9**	**62**	**15**	**17**
5. Net gains with respect to loans sold					
Total non-interest financing revenues with respect to non-trading purposes	**119**	**85**	**224**	**263**	**358**
B. Non-interest financing revenues (expenses)with respect to trading operations(4)					
Net revenues with respect to other derivative instruments	21	21	58	65	88
Realized gains (losses) from adjustment to fair value of debentures held for trading, net	8	(2)	11	(2)	(1)
Unrealized gains (losses) from adjustment to fair value of debentures held for trading, net	(1)	1	–	(2)	–
Total from trading operations(6)	**28**	**20**	**69**	**61**	**87**
Details of non-interest financing revenues (expenses) with respect to trading operations, by risk exposure					
Interest exposure	–	–	–	–	–
Foreign currency exposure	25	20	64	57	81
Exposure to shares	3	1	5	5	6
Exposure to commodities and others	–	(1)	–	(1)	–
Total	**28**	**20**	**69**	**61**	**87**

(1) Excludes effect of hedging relationships. For more information about adoption of updates to US GAAP for banks with regard to derivatives and hedging operations (ASU 2017-12), see Note 1.C.2.

(2) Derivative instruments which constitute part of the Bank's asset and liability management system, which were not intended as hedges.

(3) Reclassified from Cumulative Other Comprehensive Income.

(4) Includes exchange rate differentials resulting from trading operations.

(5) Including gains / losses from measurement at fair value of shares for which fair value is available, and upward / downward adjustment of shares for which no fair value is available.

(6) For interest revenues from investments in debentures held for trading, see Note 2.D.

Note 4 – Cumulative other comprehensive income (loss)

Reported amounts (NIS in millions)

A. Changes to cumulative other comprehensive income (loss), after tax effect

	Other comprehensive income (loss), before attribution to non-controlling interests						
	Adjustments for presentation of available-for-sale securities at fair value, net[1]	Translation adjustments[2]	Net gains (losses) from cash flow hedges	Adjustments with respect to employees' benefits	Total	Other comprehensive income attributed to non-controlling interests	Other comprehensive income (loss) attributable to shareholders of the Bank
	For the three months ended September 30, 2019 (unaudited)						
Balance as of June 30, 2019	26	(1)	5	(335)	(305)	(21)	(284)
Net change in the period	3	–	3	(43)	(37)	(3)	(34)
Balance as of September 30, 2019	**29**	**(1)**	**8**	**(378)**	**(342)**	**(24)**	**(318)**
	For the three months ended September 30, 2018 (unaudited)						
Balance as of June 30, 2018	(67)	(1)	1	(334)	(401)	(16)	(385)
Net change in the period	(3)	–	2	2	1	–	1
Balance as of September 30, 2018	**(70)**	**(1)**	**3**	**(332)**	**(400)**	**(16)**	**(384)**
	For the nine months ended September 30, 2019 (unaudited)						
Balance as of December 31, 2018	(58)	(1)	4	(309)	(364)	(18)	(346)
Net change in the period	87	–	4	(69)	22	(6)	28
Balance as of September 30, 2019	**29**	**(1)**	**8**	**(378)**	**(342)**	**(24)**	**(318)**
	For the nine months ended September 30, 2018 (unaudited)						
Balance as of December 31, 2017	(15)	(2)	4	(387)	(400)	(17)	(383)
Net change in the period	(55)	1	(1)	55	–	1	(1)
Balance as of September 30, 2018	**(70)**	**(1)**	**3**	**(332)**	**(400)**	**(16)**	**(384)**
	For the year ended December 31, 2018 (audited)						
Balance as of December 31, 2017	(15)	(2)	4	(387)	(400)	(17)	(383)
Net change in the period	(43)	1	–	78[3]	36	(1)	37
Balance as of December 31, 2018	**(58)**	**(1)**	**4**	**(309)**	**(364)**	**(18)**	**(346)**

(1) For more information about application of Public Reporting Directives with regard to classification and measurement of financial instruments, see Note 1.C.2.

(2) Translation adjustments of financial statements of associated companies whose functional currency differs from that of the Bank.

(3) Primarily consists of the effect of higher interest rates in the period on the actuarial liability, as well as deduction of the capital reserve from the streamlining program.

Note 4 – Cumulative other comprehensive income (loss) – continued

Reported amounts (NIS in millions)

B. Changes in items of cumulative other comprehensive income (loss) before and after tax effect

	For the three months ended September 30					
			2019			2018
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
						(unaudited)
Change in items of other comprehensive income (loss), before attribution to non-controlling interests:						
Adjustments for presentation of available-for-sale securities at fair value, net[(1)]						
Net unrealized gains (losses) from adjustments to fair value	27	(10)	17	(3)	1	(2)
Losses (gains) with respect to available-for-sale securities reclassified to the statement of profit and loss[(2)]	(22)	8	(14)	(2)	1	(1)
Net change in the period	**5**	**(2)**	**3**	**(5)**	**2**	**(3)**
Translation adjustments						
Adjustments from translation of financial statements[(3)]	–	–	–	–	–	–
Net change in the period	**–**	**–**	**–**	**–**	**–**	**–**
Cash flows hedges						
Net losses from cash flow hedges	5	(2)	3	3	(1)	2
Net (gains) losses with respect to cash flow hedges reclassified to the statement of profit and loss[(4)]	–	–	–	–	–	–
Net change in the period	**5**	**(2)**	**3**	**3**	**(1)**	**2**
Employees' benefits						
Net actuarial gain (loss) for the period	(75)	26	(49)	(9)	3	(6)
Net losses reclassified to the statement of profit and loss	9	(3)	6	12	(4)	8
Net change in the period	**(66)**	**23**	**(43)**	**3**	**(1)**	**2**
Total net change in the period	**(56)**	**19**	**(37)**	**1**	**–**	**1**
Total net change in the period attributable to non-controlling interests	**(5)**	**2**	**(3)**	**–**	**–**	**–**
Total net change in the period attributable to shareholders of the Bank	**(51)**	**17**	**(34)**	**1**	**–**	**1**

(1) For more information about application of Public Reporting Directives with regard to classification and measurement of financial instruments, see Note 1.C.2.

(2) Pre-tax amount included in the statement of profit and loss under "Non-interest financing revenues". For details, see Note 3.A.2.

(3) Translation adjustments of financial statements of associated companies whose functional currency differs from that of the Bank.

(4) Pre-tax amount included in the statement of profit and loss under "Interest revenues". For details, see Note 3.A.1.

Note 4 – Cumulative other comprehensive income (loss) – continued

Reported amounts (NIS in millions)

C. Changes in items of cumulative other comprehensive income (loss) before and after tax effect (Continued)

	For the nine months ended September 30,						For the year ended December 31,		
	2019			2018			2018		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
	(unaudited)						(audited)		
Change in items of other comprehensive income (loss), before attribution to non-controlling interests:									
Adjustments for presentation of available-for-sale securities at fair value, net[1]									
Net unrealized gains (losses) from adjustments to fair value	165	(57)	108	(76)	26	(50)	(60)	22	(38)
Losses (gains) with respect to available-for-sale securities reclassified to the statement of profit and loss[2]	(32)	11	(21)	(8)	3	(5)	(8)	3	(5)
Net change in the period	**133**	**(46)**	**87**	**(84)**	**29**	**(55)**	**(68)**	**25**	**(43)**
Translation adjustments									
Adjustments from translation of financial statements[3]	–	–	–	1	–	1	1	–	1
Net change in the period	**–**	**–**	**–**	**1**	**–**	**1**	**1**	**–**	**1**
Cash flows hedges									
Net losses from cash flow hedges	6	(2)	4	(1)	–	(1)	–	–	–
Net (gains) losses with respect to cash flow hedges reclassified to the statement of profit and loss[4]	–	–	–	–	–	–	–	–	–
Net change in the period	**6**	**(2)**	**4**	**(1)**	**–**	**(1)**	**–**	**–**	**–**
Employees' benefits									
Net actuarial gain (loss) for the period	(133)	46	(87)	57	(20)	37	85	(31)	[5]54
Net losses reclassified to the statement of profit and loss	27	(9)	18	27	(9)	18	36	(12)	24
Net change in the period	**(106)**	**37**	**(69)**	**84**	**(29)**	**55**	**121**	**(43)**	**78**
Total net change in the period	**33**	**(11)**	**22**	**–**	**–**	**–**	**54**	**(18)**	**36**
Total net change in the period attributable to non-controlling interests	**(9)**	**3**	**(6)**	**1**	**–**	**1**	**(1)**	**–**	**(1)**
Total net change in the period attributable to shareholders of the Bank	**42**	**(14)**	**28**	**(1)**	**–**	**(1)**	**55**	**(18)**	**37**

(1) For more information about application of Public Reporting Directives with regard to classification and measurement of financial instruments, see Note 1.C.2.

(2) Pre-tax amount included in the statement of profit and loss under "Non-interest financing revenues". For details, see Note 3.A.2.

(3) Translation adjustments of financial statements of associated companies whose functional currency differs from that of the Bank.

(4) Pre-tax amount included in the statement of profit and loss under "Interest revenues". For details, see Note 3.A.1.

(5) Primarily consists of the effect of higher interest rates in the period on the actuarial liability, as well as deduction of the capital reserve from the streamlining program.

Note 5 – Securities

September 30, 2019 (unaudited)

Reported amounts (NIS in millions)

	Carrying amount	Amortized cost	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[1]
(1) Debentures held to maturity					
of Government of Israel	4,043	4,043	65	(1)	4,107
Total debentures held to maturity	**4,043**	**4,043**	**65**	**(1)**	**4,107**
			Cumulative other comprehensive income		
	Carrying amount	**Amortized cost**	**Gains**	**Losses**	**Fair value[1]**
(2) Debentures available for sale					
Of the Government of Israel[2]	2,984	2,937	49	(2)	2,984
Of foreign governments [2][3]	2,679	2,685	1	(7)	2,679
Of foreign financial institutions[4]	326	323	3	–	326
Total debentures available for sale	**5,989**	**5,945**	**[5]53**	**[5](9)**	**5,989**
	Carrying amount	**Cost**	**Unrealized gains from adjustments to fair value**	**Unrealized losses from adjustments to fair value**	**Fair value[1]**
(3) Investment in shares not held for trading	**157**	**111**	**[6]46**	**–**	**157**
Of which: Shares for which no fair value is available[7]	57	57	–	–	57
Total securities not held for trading	**10,189**	**10,099**	**164**	**(10)**	**10,253**
	Carrying amount	**Amortized cost**	**Unrealized gains from adjustments to fair value**	**Unrealized losses from adjustments to fair value**	**Fair value[1]**
(4) Debentures held for trading					
of Government of Israel	377	376	1	–	377
Total debentures held for trading	**377**	**376**	**[6]1**	**–**	**377**
Total securities	**10,566**	**10,475**	**165**	**(10)**	**10,630**

(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 642 million and securities provided as collateral to lenders, amounting to NIS 89 million.
(3) US government debentures.
(4) Includes exposure to Multi-party Development Banks (MDB).
(5) Included in shareholders' equity in "adjustments on presentation of debentures available for sale at fair value".
(6) Charged to statement of profit and loss but not yet realized.
(7) Generally shown at cost (net of impairment), adjusted for changes in observed prices in ordinary transactions for similar or identical investments of the same issuer. For more information about application of Public Reporting Directives with regard to classification and measurement of financial instruments, see Note 1.C.2

Remarks:
– For more information about operations involving investments in debentures – see Notes 2.D, 3.A.2 and 3.B to the financial statements. For more information about investments in shares – see Note 3.A.4 to the financial statements.
– The distinction between Israeli and foreign debentures was made in conformity with the country of residence of the authority which issued the security.

Note 5 – Securities – Continued

September 30, 2018 (unaudited)

Reported amounts (NIS in millions)

	Carrying amount	Amortized cost	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[1]
Debentures held to maturity					
of Government of Israel	3,436	3,436	41	(2)	3,475
Total debentures held to maturity	**3,436**	**3,436**	**41**	**(2)**	**3,475**

	Carrying amount	Amortized cost (for shares – cost)	Cumulative other comprehensive income: Gains	Cumulative other comprehensive income: Losses	Fair value[1]
Debentures available for sale					
Of the Government of Israel[2]	4,260	4,290	12	(42)	4,260
Of foreign governments [2][3]	1,654	1,720	–	(66)	1,654
Of foreign financial institutions[4]	461	469	–	(8)	461
Of others overseas	17	18	–	(1)	17
Total debentures available for sale	**6,392**	**6,497**	**12**	**(117)**	**6,392**
Shares[5]	92	92	–	–	92
Total securities available for sale	**6,484**	**6,589**	[6]**12**	[6] **(117)**	**6,484**

	Carrying amount	Amortized cost	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[1]
Debentures held for trading					
of Government of Israel	173	174	–	(1)	173
Total debentures held for trading	**173**	**174**	**–**	[7] **(1)**	**173**
Total securities	**10,093**	**10,199**	**53**	**(120)**	**10,132**

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) Of which: Securities pledged to lenders, amounting to NIS 527 million and securities provided as collateral to lenders, amounting to NIS 73 million.
(3) US government debentures.
(4) Includes exposure to Multi-party Development Banks (MDB).
(5) Includes shares which have no available fair value, stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 91 million.
(6) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".
(7) Charged to statement of profit and loss but not yet realized.

Remarks:
– For more information about operations involving investments in debentures – see Notes 2.D, 3.A.2 and 3.B to the financial statements. For more information about investments in shares – see Note 3.A.4 to the financial statements.
– The distinction between Israeli and foreign debentures was made in conformity with the country of residence of the authority which issued the security.

Note 5 – Securities – Continued

As of December 31, 2018 (audited)

Reported amounts (NIS in millions)

	Carrying amount	Amortized cost	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[1]
(1) Debentures held to maturity					
of Government of Israel	3,917	3,917	29	(6)	3,940
Total debentures held to maturity	**3,917**	**3,917**	**29**	**(6)**	**3,940**

	Carrying amount	Amortized cost (for shares – cost)	Cumulative other comprehensive income – Gains	Cumulative other comprehensive income – Losses	Fair value[1]
(2) Debentures available for sale					
Of the Government of Israel[2]	4,420	4,452	6	(38)	4,420
Of foreign governments [2][3]	1,862	1,915	–	(53)	1,862
Of foreign financial institutions[4]	484	487	–	(3)	484
Of others overseas	18	19	–	(1)	18
Total debentures available for sale	**6,784**	**6,873**	**6**	**(95)**	**6,784**
Shares[5]	92	92	–	–	92
Total securities available for sale	**6,876**	**6,965**	[6]**6**	[6] **(95)**	**6,876**

	Carrying amount	Amortized cost	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[1]
(3) Debentures held for trading					
of Government of Israel	288	288	–	–	288
Total debentures held for trading	**288**	**288**	**–**	**–**	**288**
Total securities	**11,081**	**11,170**	**35**	**(101)**	**11,104**

(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 519 million and securities provided as collateral to lenders, amounting to NIS 111 million.
(3) US government debentures.
(4) Includes exposure to Multi-party Development Banks (MDB).
(5) Includes shares which have no available fair value, stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 91 million.
(6) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".

Remarks:
- For more information about operations involving investments in debentures – see Notes 2.D, 3.A.2 and 3.B to the financial statements. For more information about investments in shares – see Note 3.A.4 to the financial statements.
- The distinction between Israeli and foreign debentures was made in conformity with the country of residence of the authority which issued the security.

Note 5 – Securities – Continued

Reported amounts (NIS in millions)

(5) Fair value and unrealized losses, by time period and impairment rate, of debentures (2018: securities) available for sale and held to maturity, which include unrealized loss:

	Less than 12 months				12 months or more			
	Fair value[1]	Unrealized losses 0%-20%	Unrealized losses 20%-40%	Total	Fair value[1]	Unrealized losses 0%-20%	Unrealized losses 20%-40%	Total
					As of September 30, 2019 (unaudited)			
Debentures held to maturity								
of Government of Israel	[5]224	1	–	1	–	–	–	–
Total – debentures held to maturity	**224**	**1**	**–**	**1**	**–**	**–**	**–**	**–**
Debentures available for sale								
of Government of Israel	126	1	–	1	10	1	–	1
Of foreign governments[2]	189	1	–	1	985	6	–	6
Total debentures available for sale	**315**	**2**	**–**	**2**	**995**	**7**	**–**	**7**
					As of September 30, 2018 (unaudited)			
Debentures held to maturity								
of Government of Israel	[5]559	2	–	2	–	–	–	–
Total – debentures held to maturity	**559**	**2**	**–**	**2**	**–**	**–**	**–**	**–**
Debentures available for sale								
of Government of Israel	2,108	38	–	38	653	4	–	4
Of foreign governments[2]	618	11	–	11	933	55	–	55
Of foreign financial institutions[3]	460	8	–	8	–	–	–	–
Of others overseas	–	–	–	–	10	1	–	1
Total securities available for sale	**3,186**	**57**	**–**	**57**	**1,596**	**60**	**–**	**60**
					As of December 31, 2018 (audited)			
Debentures held to maturity								
of Government of Israel	[5]1,247	6	–	6	–	–	–	–
Total – debentures held to maturity	**1,247**	**6**	**–**	**6**	**–**	**–**	**–**	**–**
Debentures available for sale								
of Government of Israel	2,725	34	–	34	678	4	–	4
Of foreign governments[2]	429	3	–	3	1,345	50	–	50
Of foreign financial institutions[3]	150	[4]–	–	–	186	3	–	3
Of others overseas	–	–	–	–	10	1	–	1
Total securities available for sale	**3,304**	**37**	**–**	**37**	**2,219**	**58**	**–**	**58**

(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) US government debentures.
(3) Includes exposure to Multi-party Development Banks (MDB).
(4) Balance lower than NIS 1 million,
(5) Amortized cost.

(6) Asset-backed and mortgage-backed securities

As of September 30, 2019, September 30, 2018 and December 31, 2018, there was no balance of asset-backed or mortgage-backed securities.

Note 6 – Credit risk, loans to the public and provision for credit losses

Reported amounts (NIS in millions)

A. Debts[1], loans to the public and balance of provision for credit losses

	September 30, 2019 (unaudited)					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Recorded debt balance of debts [1]						
reviewed on individual basis	41,633	52	739	42,424	7,967	50,391
reviewed on group basis	8,903	133,259	19,639	161,801	–	161,801
Of which: By extent of arrears	1,563	133,259	–	134,822	–	134,822
Total debts	**50,536**	**133,311[2]**	**20,378**	**204,225**	**7,967**	**212,192**
Of which:						
Impaired debts under restructuring	289	–	65	354	–	354
Other impaired debts	773	52	19	844	–	844
Total impaired debts	**1,062**	**52**	**84**	**1,198**	**–**	**1,198**
Debts in arrears 90 days or longer	37	1,369	21	1,427	–	1,427
Other problematic debts	764	–	118	882	–	882
Total problematic debts	**1,863**	**1,421**	**223**	**3,507**	**–**	**3,507**
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	606	2	28	636	2	638
reviewed on group basis	114	669	228	1,011	–	1,011
Of which: Provision by extent of arrears[3]	6	669	–	675	–	675
Total provision for credit losses	**720**	**671**	**256**	**1,647**	**2**	**1,649**
Of which: With respect to impaired debts	**171**	**2**	**20**	**193**	**–**	**193**

	September 30, 2018 (unaudited)					
Recorded debt balance of debts[1]						
reviewed on individual basis	37,823	52	695	38,570	7,627	46,197
reviewed on group basis	9,236	124,726	18,816	152,778	–	152,778
Of which: By extent of arrears	1,563	124,726	–	126,289	–	126,289
Total debts	**47,059**	**124,778**	**19,511**	**191,348**	**7,627**	**198,975**
Of which:						
Impaired debts under restructuring	133	–	53	186	–	186
Other impaired debts	620	52	18	690	–	690
Total impaired debts	**753**	**52**	**71**	**876**	**–**	**876**
Debts in arrears 90 days or longer	41	1,293	25	1,359	–	1,359
Other problematic debts	587	–	124	711	–	711
Total problematic debts	**1,381**	**1,345**	**220**	**2,946**	**–**	**2,946**
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	537	3	29	569	2	571
reviewed on group basis	108	656	219	983	–	983
Of which: Provision by extent of arrears[3]	5	656	–	661	–	661
Total provision for credit losses	**645**	**659**	**248**	**1,552**	**2**	**1,554**
Of which: With respect to impaired debts	**126**	**3**	**19**	**148**	**–**	**148**

(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 7,507 million (as of September 30, 2018 – NIS 6,872 million).

(3) Includes balance of provision in excess of that required by extent of arrears, assessed on individual basis, amounting to NIS 19 million (as of September 30, 2018 – NIS 18 million), and assessed on group basis, amounting to NIS 467 million (as of September 30, 2018 – NIS 436 million).

Note 6 – Credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

A. Debts[1], loans to the public and balance of provision for credit losses – Continued

	As of December 31, 2018 (audited)					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Recorded debt balance of debts[1]						
reviewed on individual basis	40,377	60	674	41,111	6,097	47,208
reviewed on group basis	8,801	126,970	19,074	154,845	–	154,845
Of which: By extent of arrears	1,806	126,970	–	128,776	–	128,776
Total debts	**49,178**	**127,030[2]**	**19,748**	**195,956**	**6,097**	**202,053**
Of which:						
Impaired debts under restructuring	290	–	58	348	–	348
Other impaired debts	674	60	19	753	–	753
Total impaired debts	**964**	**60**	**77**	**1,101**	**–**	**1,101**
Debts in arrears 90 days or longer	42	1,251	23	1,316	–	1,316
Other problematic debts	431	–	129	560	–	560
Total problematic debts	**1,437**	**1,311**	**229**	**2,977**	**–**	**2,977**
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	563	2	28	593	4	597
reviewed on group basis	115	642	225	982	–	982
Of which: Provision by extent of arrears[3]	6	642	–	648	–	648
Total provision for credit losses	**678**	**644**	**253**	**1,575**	**4**	**1,579**
Of which: With respect to impaired debts	**149**	**2**	**19**	**170**	**–**	**170**

(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 7,028 million.

(3) Includes balance of provision beyond that required by extent of arrears, calculated on individual basis amounting to NIS 17 million, and calculated on group basis amounting to NIS 445 million. For more information see Note 6.D.1.

Note 6 – Credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Change in balance of provision for credit losses

	For the three months ended September 30, 2019 (unaudited)					
	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	793	660	265	1,718	1	1,719
Expenses with respect to credit losses	34	13	22	69	1	70
Accounting write-offs[1]	(45)	(2)	(35)	(82)	–	(82)
Recovery of debts written off for accounting purposes in previous years[1]	34	–	14	48	–	48
Net accounting write-offs	(11)	(2)	(21)	(34)	–	(34)
Balance of provision for credit losses at end of period	**816**	**671**	**266**	**1,753**	**2**	**1,755**
Of which: With respect to off balance sheet credit instruments	**96**	**–**	**10**	**106**	**–**	**106**

	For the three months ended September 30, 2018 (unaudited)					
Balance of provision for credit losses at start of period	735	643	253	1,631	3	1,634
Expenses with respect to credit losses	15	17	30	62	(1)	61
Accounting write-offs[1]	(51)	(2)	(40)	(93)	–	(93)
Recovery of debts written off for accounting purposes in previous years[1]	36	1	15	52	–	52
Net accounting write-offs	(15)	(1)	(25)	(41)	–	(41)
Balance of provision for credit losses at end of period	**735**	**659**	**258**	**1,652**	**2**	**1,654**
Of which: With respect to off balance sheet credit instruments	**90**	**–**	**10**	**100**	**–**	**100**

	For the nine months ended September 30, 2019 (unaudited)					
Balance of provision for credit losses at start of period	766	644	263	1,673	4	1,677
Expenses with respect to credit losses	142	32	73	247	(2)	245
Accounting write-offs[1]	(170)	(6)	(116)	(292)	–	(292)
Recovery of debts written off for accounting purposes in previous years[1]	78	1	46	125	–	125
Net accounting write-offs	(92)	(5)	(70)	(167)	–	(167)
Balance of provision for credit losses at end of period	**816**	**671**	**266**	**1,753**	**2**	**1,755**
Of which: With respect to off balance sheet credit instruments	**96**	**–**	**10**	**106**	**–**	**106**

	For the nine months ended September 30, 2018 (unaudited)					
Balance of provision for credit losses at start of period	699	630	245	1,574	1	1,575
Expenses with respect to credit losses	118	34	80	232	1	233
Accounting write-offs[1]	(153)	(6)	(114)	(273)	–	(273)
Recovery of debts written off for accounting purposes in previous years[1]	71	1	47	119	–	119
Net accounting write-offs	(82)	(5)	(67)	(154)	–	(154)
Balance of provision for credit losses at end of period	**735**	**659**	**258**	**1,652**	**2**	**1,654**
Of which: With respect to off balance sheet credit instruments	**90**	**–**	**10**	**100**	**–**	**100**

(1) Accounting write-offs presented in the Note primarily consist of write-offs of a technical nature, due to passage of time of clients being in arrears, in conformity with US standards applicable to the Bank in this regard. Thus, for example, the balance of the provision for large impaired debts will typically be written off after two years. Debt measured on a group basis will be written off after 150 days in arrears. This means that the Bank's collection efforts may sometimes take longer when compared to the timing for write-off according to accounting rules. Consequently, relatively high balances of "accounting write-offs" and relatively high balances of "Recovery of debts written off in previous years" are presented.

Note 7 – Deposits from the Public

Reported amounts (NIS in millions)

A. Deposit types by location and depositor type

	September 30,		December 31,
	2019	2018	2018
		(unaudited)	(audited)
In Israel			
On-call			
Non interest-bearing	52,528	47,076	47,674
Interest-bearing	26,024	22,003	22,667
Total on-call	**78,552**	**69,079**	**70,341**
Term deposits	124,449	118,599	123,723
Total deposits in Israel[(1)]	**203,001**	**187,678**	**194,064**
Outside of Israel			
On-call			
Non interest-bearing	485	551	652
Interest-bearing	4	4	4
Total on-call	**489**	**555**	**656**
Term deposits	4,342	4,710	4,772
Total deposits overseas	**4,831**	**5,265**	**5,428**
Total deposits from the public	**207,832**	**192,943**	**199,492**
(1) Includes:			
Deposits from individuals	**100,513**	**92,559**	**95,896**
Deposits from institutional investors	**42,802**	**40,714**	**37,712**
Deposits from corporations and others	**59,686**	**54,405**	**60,456**

B. Deposits from the public by size

	September 30,		December 31,
	2019	2018	2018
		(unaudited)	(audited)
Maximum deposit			
Up to 1	73,306	67,623	69,559
Over 1 to 10	49,878	44,670	47,240
Over 10 to 100	28,264	27,714	26,703
Over 100 to 500	21,459	23,218	18,658
Above 500	34,925	29,718	37,332
Total	**207,832**	**192,943**	**199,492**

Note 8 – Employees' Rights

Description of benefits

1. Employment terms of the vast majority of Group employees and managers are determined by provisions of collective bargaining agreements. Pension liabilities to these employees, except for Yahav Bank employees, are covered by regular deposits to pension, provident and severance-pay funds, which release the Bank from severance-pay liabilities for those employees by law. For more information about various benefits to Bank employees and managers, see Note 22 to the financial statements as of December 31, 2018.

2. Remuneration policy for all Bank employees other than officers

   On March 20, 2017, the Board of Directors resolved, after receiving the recommendation from the Remuneration Committee, to approve a revised remuneration policy for all Bank employees, other than officers who are subject to the revised remuneration policy for Bank officers, as noted above (hereinafter: "the revised remuneration policy for all Bank employees"). For more information see Note 22.A.5. to the 2018 financial statements.

3. On November 11, 2019, the Bank announced it was convening a General Meeting of shareholders with an agenda including approval of the revised remuneration policy for Bank officers and approval of terms of office and employment of the Bank President & CEO, Mr. Eldad Fresher. For more information see report dated November 11, 2019 (reference: 2019-01-096900).

4. Net benefit cost components recognized in profit and loss with respect to defined-benefit and defined-contribution pension plans (NIS in millions):

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31,
	2019	2018	2019	2018	2018
		(unaudited)		(unaudited)	(audited)
Under payroll and associated expenses					
Cost of service[1]	12	13	36	39	51
Under other expenses					
Cost of interest[2]	12	10	35	30	42
Expected return on plan assets[3]	(1)	(1)	(3)	(3)	(5)
Deduction of non-allowed amounts:					
Net actuarial loss[4]	9	12	27	27	36
Total under other expenses	20	21	59	54	73
Total benefit cost, net	**32**	**34**	**95**	**92**	**124**
Total expense with respect to defined-contribution pension	38	34	111	101	135
Total expenses recognized in profit and loss	**70**	**68**	**206**	**193**	**259**

	Forecast For[5]	Actual deposits For the three months ended September 30		For the nine months ended September 30		For the year ended December 31,
	2019	2019	2018	2019	2018	2018
			(unaudited)		(unaudited)	(audited)
Deposits	1.7	1.5	1.4	4.9	4.6	6

(1) Cost of service is the current accrual of the future employee benefit in the period.
(2) Cost of interest is the amount recognized in the period, set based on the increase in obligation with respect to expected benefit due to passage of time.
(3) Expected return is the expected return on plan assets, determined based on expected long-term rates of return on plan assets and based on the established market value of plan assets.
(4) Deduction of net gain or loss previously recognized in Cumulative Other Comprehensive Income.
(5) Estimated deposits to be paid into defined-benefit pension plans through end of 2019.

Note 9 – Capital Adequacy, liquidity and leverage

Reported amounts (NIS in millions)

A. Capital adequacy

Calculated in accordance with Proper Conduct of Banking Business Directives 201-211 "Measurement and Capital dequacy"

	As of September 30,		As of December 31,
	2019	**2018**	**2018**
	(unaudited)		(audited)
1. Consolidated data			
A. Capital for purpose of calculating minimum capital ratio			
Tier I shareholders' equity	16,244	14,951	15,172
Tier I capital	16,244	14,951	15,172
Tier II capital	5,799	4,874	5,515
Total capital	**22,043**	**19,825**	**20,687**
B. Weighted risk asset balances			
Credit risk	148,494	137,095	140,572
Market risks	1,778	1,462	1,494
Operational risk	10,034	9,315	9,561
Total weighted risk asset balances(1)	**160,306**	**147,872**	**151,627**
C. Ratio of capital to risk components			
			In %
Ratio of Tier I capital to risk components	10.13	10.11	10.01
Ratio of Tier I capital to risk components	10.13	10.11	10.01
Ratio of total capital to risk components	13.75	13.41	13.64
Minimum Tier I capital ratio required by Supervisor of Banks(2)	9.83	9.84	9.84
Total minimum capital ratio required by the Supervisor of Banks(2)	13.33	13.34	13.34
2. Significant subsidiaries			
Yahav Bank for Government Employees Ltd. and its subsidiaries			
Ratio of Tier I capital to risk components	9.55	9.49	9.36
Ratio of Tier I capital to risk components	9.55	9.49	9.36
Ratio of total capital to risk components	13.34	13.53	13.29
Minimum Tier I capital ratio required by Supervisor of Banks	9.00	9.00	9.00
Total minimum capital ratio required by the Supervisor of Banks	12.50	12.50	12.50

(1) Of the total weighted balance of risk assets, NIS 153 million was deducted due to adjustments with respect to the streamlining plan (September 30, 2018: NIS 210 million; December 31, 2018: NIS 178 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 9 – Capital adequacy, liquidity and leverage – Continued

Reported amounts (NIS in millions)

A. Capital adequacy – Continued

Calculated in accordance with Proper Conduct of Banking Business Directives 201-211 "Measurement and Capital Adequacy" – continued

	As of September 30, 2019	As of September 30, 2018	As of December 31, 2018
	(unaudited)	(unaudited)	(audited)
3. Capital components for calculating the capital ratio (on consolidated data)			
A. Tier I shareholders' equity			
Shareholders' equity	16,514	15,133	15,390
Differences between shareholders' equity and Tier I capital	(310)	(282)	(286)
Total Tier I capital before supervisory adjustments and deductions	**16,204**	**14,851**	**15,104**
Supervisory adjustments and deductions:			
Goodwill	(87)	(87)	(87)
Supervisory adjustments and other deductions	(15)	(9)	(13)
Total supervisory adjustments and deductions, before adjustments with respect to the streamlining plan – Tier I capital	**(102)**	**(96)**	**(100)**
Total adjustments with respect to the streamlining program(1)	142	196	168
Total Tier I capital after supervisory adjustments and deductions	**16,244**	**14,951**	**15,172**
B. Tier II capital			
Tier II capital: Instruments, before deductions	4,244	3,376	4,012
Tier II capital: Provisions, before deductions	1,555	1,498	1,503
Total Tier II capital, before deductions	**5,799**	**4,874**	**5,515**
Deductions:			
Total deductions – Tier II capital	–	–	–
Total Tier II capital	**5,799**	**4,874**	**5,515**
Total capital	**22,043**	**19,825**	**20,687**

4. Effect of transitional provisions on Tier I capital ratio:

	As of September 30, 2019	As of September 30, 2018	As of December 31, 2018
			In %
Ratio of capital to risk components			
Ratio of Tier I capital to risk components, before effect of transitional provision of Directive 299 and before effect of adjustments with respect to the streamlining plan(2)	10.03	9.96	9.88
Effect of transitional provisions, before effect of adjustments with respect to the streamlining plan	–	–	–
Effect of adjustments with respect to the streamlining plan	0.10	0.15	0.13
Ratio of Tier I capital to risk components after application of transitional provisions	10.13	10.11	10.01

(1) Of which, NIS 108 million with respect to streamlining program concerning employees and NIS 34 million with respect to streamlining program concerning real estate (on September 30, 2018: NIS 142 million with respect to streamlining program concerning employees and NIS 54 million with respect to streamlining program concerning real estate; on December 31, 2018: NIS 120 million with respect to streamlining program concerning employees and NIS 48 million with respect to streamlining program concerning real estate).
(2) Before effect of transitional provisions concerning adoption of US GAAP with regard to employees' rights.

Note 9 – Capital adequacy, liquidity and leverage – Continued

Reported amounts (NIS in millions)

B. Liquidity coverage ratio

Calculated in accordance with Proper Conduct of Banking Business Directive 221 "Liquidity coverage ratio"

	As of September 30,		As of December 31,
	2019	**2018**	**2018**
	(unaudited)		(audited)
	In %		
1. Consolidated data			
Liquidity coverage ratio[1]	122	121	116
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100	100
2. Bank data			
Liquidity coverage ratio[1]	122	121	116
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100	100
3. Significant subsidiaries			
Yahav Bank for Government Employees Ltd. and its subsidiaries			
Liquidity coverage ratio[1]	260	237	185
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100	100

(1) In terms of simple average of daily observations during the reported quarter.

C. Leverage ratio

Calculated in conformity with Proper Conduct of Banking Business Directive 218 "Leverage ratio"

	As of September 30,		As of December 31,
	2019	**2018**	**2018**
	(unaudited)		(audited)
1. Consolidated data			
Tier I capital[1]	16,244	14,951	15,172
Total exposure	288,965	273,087	279,827
			In %
Leverage ratio	5.62	5.47	5.42
Minimum leverage ratio required by the Supervisor of Banks[2]	5.00	5.00	5.00
2. Significant subsidiaries			
Yahav Bank for Government Employees Ltd. and its subsidiaries			
Leverage ratio	5.42	5.40	5.38
Minimum leverage ratio required by the Supervisor of Banks[2]	4.70	4.70	4.70

(1) For effect of transitional 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.

D. The Bank applies the capital adequacy directives based on the Basel directives, as issued by the Supervisor of Banks in Proper Conduct of Banking Business Directives 201-211 and in the Q&A file.

For more information about the Supervisor of Banks' directives regarding capital adequacy, see Note 25 to the 2018 financial statements.

Note 10 – Contingent Liabilities and Special Commitments

Reported amounts (NIS in millions)

A. Other liabilities and special commitments

	September 30, 2019	September 30, 2018	December 31, 2018
	(unaudited)	(unaudited)	(audited)
1. Computerization and software service contracts	392	272	296
2. Acquisition and renovation of buildings	23	12	8
3. Long-term rental and lease contracts – rent for buildings, equipment and vehicles(1)(2)(3):			
First year	148	183	201
Second year	217	186	191
Third year	204	181	182
Fourth year	194	175	176
Fifth year	188	173	172
Sixth year and thereafter	1,649	1,629	1,602
Total rent for buildings and equipment	**2,600**	**2,527**	**2,524**

4. Credit sales operations

The following table provides a summary of credit sales operations at the Bank:

	For the three months ended September 30 2019	For the three months ended September 30 2018	For the nine months ended September 30 2019	For the nine months ended September 30 2018	For the year ended December 31, 2018
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
Carrying amount of credit sold	–	536	571	2,326	2,326
Consideration received in cash	–	518	577	2,324	2,350
Consideration received in securities	–	–	–	–	–
Total consideration	–	544	577	2,350	2,350
Total net gain with respect to credit sold	**–**	**–**	**–**	**–**	**–**

(1) The Bank and subsidiaries have rented buildings and equipment for the long term for which the rental payments are subject to linkage conditions.

(2) Includes IT and operating services provided to Yahav Bank by the 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, Yahav Bank uses a core banking system which includes banking services in various channels, based on the bank's lines of business. Yahav Bank also receives operating services from the company with respect to IT systems it provides, as well as additional outsourced services.

Yahav Bank's contract with the company is a long-term one and Yahav Bank may optionally extend it for additional terms of up to 30 years.

(3) Rent is assuming exercise of optional lease extensions, if the Bank is expected to exercise such options to the maximum extent possible.

Note 10 – Contingent Liabilities and Special Commitments – continued

B. Contingent liabilities and other commitments

1. For details of other contingent liabilities and commitments by the Bank group, see Note 26 to the 2018 financial statements. Below is a description of material changes relative to the Note provided in the 2018 annual report.

2. Various claims are pending against the Bank and its subsidiaries, namely, claims of customers, as well as motions for recognition of various class actions. In the estimation of the management of the Bank, based on the estimation of the managements of its subsidiaries and on the opinion of their legal counsel as to assessment of the possible outcome of the pending claims and motions for approval of claims as class action lawsuits (with regard to lawsuits brought against the Bank), the financial statements include appropriate provisions, where necessary, to cover possible damages.

   Below are details of material claims, including motions for class action status and claims where the claim amount (excluding interest and expenses) exceeds 1% of the Bank's shareholder equity, in which developments and changes have occurred compared to the description included in the 2018 financial statements:

   A) In May 2011, the Bank received a claim and motion for approval of class action status. The claim concerns two alleged claims made against the Bank – firstly, late reporting to the Court Order Execution Service of payments made to reduce debt which is subject to proceedings at the Court Order Execution Service. Secondly, failure to indicate on the reporting forms the number of the principal to be reduced by the reported credit, and the number of the interest calculation rule applied to the reported payment amount. The lawsuit and motion allege that, by late reporting to the Court Order Execution Service and by failure to provide the aforementioned indications on the reporting forms, the Bank misleads clients, causes clients not to be credited with interest in line with the date of their payment and in accordance with the correct interest rate, creates a situation in which the debt on Court Order Execution Service files is higher than the real debt, and over-charges in payments. The lawsuit and motion further allege that the Enforcement and Collection Authority and the Court Order Execution Service admit that under crediting occurs in case of late reporting and failure to provide the required indications on the reporting form.

   The plaintiff claims he is unable to estimate the damage incurred by the entire class of plaintiffs, but believes (on a basis which is not clear to the Bank) that it amounts to hundreds of millions of NIS.

   On January 9, 2012, the Bank filed its response to the motion, describing in detail the factual and legal defense claims made by the Bank. On May 20, 2012, the plaintiff filed their response to the Bank's response to the motion. In view of new claims made by the plaintiff in their response to the Bank's response, the Bank filed a further, more detailed response on August 15, 2012.

   On October 17, 2012 and on October 29, 2012, the Court held preliminary hearings in this case.

   The parties have agreed and launched a reconciliation process aimed to try and resolve their differences. The reconciliation process was concurrent with regard to other motions filed against other banks for the same cause, as well as with regard to other motions for class action status filed against the Bank and against other banks for causes related to debt management in Court Order Execution Service files.

   The parties negotiated directly from August 2014 and in January 2016, due to a specific disagreement, the negotiations between the parties were terminated. They were resumed soon thereafter, in an attempt to reached an agreed arrangement.

   On August 29, 2016, a Court hearing took place and the Court resolved that the parties to this lawsuit and to the lawsuit described in section B. below, should file a settlement agreement and motion for approval thereof, no later than October 30, 2016. The resolution dated November 7, 2016 allowed the parties an extension to file a settlement agreement and motion for approval thereof, no later than November 30, 2016. On January 16, 2017, a hearing concerning the settlement agreement took place. On March 28, 2017, a hearing took place with regard to the settlement agreement and in particular, concerning the issue of Court action and its scope On June 12, 2017, the parties filed the draft settlement agreement with the Court, asking for the Court's assistance in the matter of the aforementioned Court action. On June 15, 2017, another hearing on this disagreement took place.

Note 10 – Contingent Liabilities and Special Commitments – continued

In accordance with the Court ruling of July 4, 2017, on August 13, 2017, the parties submitted the final agreed version of the settlement agreement.

On November 7, 2017, the parties submitted to the Court the signed settlement agreement and its appendices with the application for approval thereof. On March 8, 2018 and on April 10, 2018, further hearings took place, at which the Court raised questions regarding the settlement agreement in general and in particular, the issue of maintaining information confidentiality by the Enforcement and Collection Authority. On May 28, 2018, a further hearing took place, at which the Court asked, *inter alia*, for clarifications regarding the motion by the Bank dated May 22, 2018 with regard to the need for maintaining data confidentiality, as well as clarifications with regard to other sections of the settlement agreement. A clarification notice from the bank with regard to sections of the settlement agreement was filed on July 5, 2018.

On October 10, 2018, the plaintiff filed a motion to bring forward the approval of this settlement; consequently, on November 6, a hearing took place at which the Court ordered that a notice would be published with regard to the motion for approval and that such motion would be sent for comments to the Attorney General and to the Supervisor of Banks. Notice of the motion for approval has been issued, as noted. On May 26, 2019, representatives of the Enforcement Authority and the parties attended a meeting and agreed on the outline for carrying out the agreement. On June 16, 2019, a notice was filed with the Court, along with an agreed motion to approve the aforementioned outline. On July 2, 2019, a Court hearing took place to discuss the various motions in this case, after which a resolution was handed down to have the various motions referred for comments by the Attorney General; a hearing is scheduled for September 25, 2019. On September 25, 2019, a hearing took place, at which the notice by the Attorney General, whereby they would object to two issues in the agreement (confidentiality provision and professional fees) was discussed. A further hearing is scheduled for December 11, 2019.

B) In December 2012, an action and a motion for recognition as a class action were filed with the Tel Aviv District Court, with regard to setting rates of arrears interest charged by the Bank in Court Order Execution Service cases filed against debtors. According to the plaintiff, the Bank charges interest significantly higher than the maximum interest rate on checking accounts. The plaintiff is unable to estimate the amount claimed.

The parties agreed to add this motion to the reconciliation process on-going with regard to other motions which also concern collection processes conducted by the Bank against clients in debt, as stated in section A. above and on January 4, 2016, a resolution was issued to refer the above claim for hearing by the same party as the above claims.

As for the motion for approval of class action status, a compromise was reached in conjunction with the motion for approval of class action status listed in section A) above.

C) In August 2011, a claim and motion for class action status was filed with the Central District Court amounting to "hundreds of millions of NIS". No specific amount was specified in the statement of claim. The plaintiff seeks a verdict, pursuant to the Class Action Lawsuit Act, whereby the claim would be made on behalf of all Bank clients whose account was charged legal fees not approved by any legal jurisdiction, or whose account was charged unlawful interest with respect to approved legal fees.

In February 2012, the Bank filed its response to the motion and in August 2012, the plaintiff filed their response to the Bank's response to the motion.

In November 2012, the parties launched a reconciliation process designed to try and settle their disagreements. The reconciliation process was concurrent with regard to other motions filed against other banks for the same cause, as well as with regard to other motions for class action status filed against the Bank and against other banks for causes related to debt management in Court Order Execution Service files. The parties negotiated directly from August 2014 and in January 2016, due to a specific disagreement, the negotiations between the parties were terminated. They were resumed soon thereafter, in an attempt to reached an agreed arrangement. On January 6, 2016, the Bank filed a motion seeking a preliminary ruling on its claim with regard to the statute of limitations with regard to the cause of claim of alleged class members and/or of most of them. The plaintiff's response was filed on January 26, 2016 and the Bank's response was filed on February 1, 2016. On February 14, 2016, a resolution was handed down whereby, inter alia, the claim with regard to the statute of limitations would be adjudicated at the end of the process.

Following direct negotiations between the parties, the parties reached an agreed settlement brought for approval by the Court on November 14, 2016.

Note 10 – Contingent Liabilities and Special Commitments – continued

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 Attorney General's position, and the plaintiff filed their response to the Attorney General's position.

On October 2, 2017, a hearing was held with regard to the Attorney General's position. On May 28, 2018, a further hearing took place, at which the Court asked for further clarifications with regard to the settlement agreement. At the end of this hearing it was agreed that the Court would issue its ruling in absence of the parties. On September 17, 2018, a partial verdict was issued, whereby the Court approved the settlement agreement reached by the parties, despite the objection by the Attorney General's representative. In this partial verdict, the Bank's claim of the statute of limitations was accepted. Moreover, dates were set for publishing the approval of the agreement and for filing claims with regard to legal fees and remuneration.

On October 25, 2018, the Bank filed a motion for approval of a notice to be published with regard to approval of the agreement. On October 31, 2018, the plaintiff announced that they did not intend to appeal the verdict and consent to publication of the notice in the format as provided by the Bank.

On December 5, 2018, the plaintiff filed their arguments with regard to compensation and legal fees. On January 8, 2019, the Bank filed its arguments. On May 26, 2019, the Attorney General notified the Court that they were leaving the decision with regard to legal fees to the Court's discretion. On July 4, 2019, a resolution was made with regard to legal fees. The Bank is acting to implement the settlement agreement.

D) 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 Yahav Bank, alleging unlawful commissions charged by the banks with regard to conversion and transfer of foreign currency (this claim is identical to the aforementioned one).

A motion has been filed to combine heating of this motion with the first aforementioned motion and the Court has agreed to said motion and has combined both claims.

Note 10 – Contingent Liabilities and Special Commitments – continued

On December 23, 2014. the Bank filed its response to each of the motions for class action status. The plaintiffs filed their response to the combined response to the two aforementioned motions, in which they attributed part of the claim amount to each of the plaintiffs; the Bank's alleged share for both these claims amounted to NIS 1.145 billion in principal.

On March 8, 2015, a pre-trial hearing of this case took place, after which the Court set deadlines for completion of the statements of claim by all parties.

On April 23, 2015, the plaintiffs filed, in conformity with the Court decision, a summary motion for approval of class action status, based on the current motions. The Bank filed its response to the summary motion on October 18, 2015.

On October 25, 2015, another pre-trial hearing took place. In this hearing, the Court combined the hearing of motions filed against the credit card companies and the Postal Bank with those filed against the banks. Evidentiary hearings took place in March 2016. The plaintiffs filed their summations in April 2016. Given the banks' motion to dismiss the plaintiffs' summation, an extension was granted for the banks to file their summations within 60 days after the decision on the motion to dismiss. On August 10, 2016, the Court accepted the motion by the banks and ordered the summation by the plaintiffs to be dismissed; on September 4, 2016, the plaintiffs filed new summations; and on January 17, 2017, the Bank filed its summation and the plaintiffs filed their response summations. On March 1, 2018, a verdict was handed down rejecting the motions and requiring the defendants to pay the expenses. On March 18, 2018, concurrently with filing of the appeal, the plaintiffs filed a motion to delay execution of the verdict (payment of expenses) and a motion seeking exemption from a bond deposit and a motion to add evidence in the appeal. On May 23, 2018, the Supreme Court ruled that the payment of expenses would be delayed pending a ruling on the appeal. The plaintiffs filed their summations and on January 7, 2019, the Bank filed its summation.

On April 1, 2019, a hearing took place in this appeal. At the end of this hearing, the Court handed down a verdict denying the appeal.

E) 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, 2018, the Court issued its ruling, allowing class action proceedings with regard to one commission only (the commission charged for issue of a bank guarantees) and rejecting the motion for class action status with regard to the other commissions listed in the motion for approval. Dates were scheduled

for filing a statement of claim and a response statement. As ruled by the Court, the plaintiff filed a motion to confirm a substitute class representative. On January 6, 2019, the Court ruled to accept the substitute class representative. On January 20, 2019, the Court approved for publication the notice with regard to approval of class action status. On March 23, 2019, a Court hearing took place, and the parties agreed to launch a reconciliation process; a hearing is scheduled for November 26, 2019. Consequently, the parties have launched a reconciliation process.

Note 10 – Contingent Liabilities and Special Commitments – continued

F) 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. On September 26, 2019, a verdict was handed down, rejecting the motion for class action status and erasing the individual claim. On November 4, 2019, the Bank attorney received an appeal of this verdict, filed by the plaintiff.

G) In November 2017, a claim and motion for class action status were filed with the District Court Center–Lod against the Bank, in the amount of NIS 437.3 million alleging charging of excess interest on housing loans, due to reduction of the loan component based on the prime lending rate which is allegedly misleading and lacking proper disclosure.

According to the plaintiffs, the Bank refrained from providing its customers with a housing loan, in which the loan component based on the prime lending rate is the maximum permitted by Bank of Israel directives (33.3%), in order to increase the amount which the Bank may provide in supplementary, costlier loans.

The plaintiffs note that they do not deny or challenge the fact that the Bank has discretion in granting housing loans and the approved composition of the loan, but rather the manner in which the Bank exercises its discretion and its extended fiduciary, trust and disclosure duties.

The Bank filed its response on March 29, 2018 and the plaintiffs have filed their response to the Bank's response. A pre-trial hearing took place on July 2, 2018, after which the Court suggested the parties seek mediation. The direct discussions by the parties failed. The case was returned to the Court. The parties have reached agreement on proceeding, whereby this case would be ruled based on the existing material in the case, without calling any witnesses. Consequently, on January 13 the plaintiffs filed their summation and on March 28, 2019, the Bank filed its summations. Resolutions in this case are still pending.

H) In December 2017, a claim and motion for approval of class action status was filed with the Central District Court amounting to NIS 124 million. The claim involves setting of interest rate in housing loans bearing adjustable interest – debentures. The plaintiffs allege that the Bank issues an approval in principle to the client, listing the debenture base as the only mechanism for interest calculation in the adjustable interest track - debentures for the term of the loan. However,

the loan agreement includes another mechanism titled "Emergency Protection Mechanism" for setting the interest rate, in addition to the original mechanism, without providing proper disclosure. It is further alleged that the condition stipulated by the Bank in the agreement, with regard to triggering of the Emergency Protection Mechanism, is unfair and gives the Bank an unreasonable advantage over its clients.

the Bank filed its response on July 25, 2018. The plaintiff filed its response to the Bank's response on January 6, 2019.

On February 27, 2019, a pre-trial hearing took place, and the Court scheduled a further pre-trial hearing to allow the parties to conduct preliminary proceedings. The Court also proposed that the parties try to reach agreement. As proposed by the Court, the parties have launched mediation proceedings, which have yet to be completed.

Note 10 – Contingent Liabilities and Special Commitments – continued

I) In September 2018, a lawsuit and motion for class action status was filed with the Tel Aviv Yafo District Court in the amount of NIS 180 million (estimate). Claim and motion for approval of class action status amounting to NIS 180 million (estimated).

The motion alleges over-charging of commission upon early repayment of housing loans consisting of multiple tracks, some of which have generated positive capitalization differences and some of which have generated negative capitalization differences, where the Bank fails to offset the capitalization differences of the different tracks against each other, in contravention of provisions of the Banking Ordinance (Early repayment of Housing Loan), 2002.

The plaintiffs seek a ruling, pursuant to the Class Action Lawsuit Act, whereby the lawsuit would be filed on behalf of all Bank clients who have and/or would repay a mortgage by full or partial early repayment and one of their tracks generated a negative capitalization balance not offset against the early repayment fee, as stipulated by law. In March, the plaintiff's attorney informed the Court of their intention to replace the expert opinion filed with the motions, with an opinion from another expert. Consequently, the deadline for filing the Bank's response to the motion was postponed by agreement to April 29, 2019. Due to disagreement on the text of the opinion, the filing of the response will be delayed pending a motion by the plaintiff to amend the motion for approval. On June 3, 2019, the parties reached a litigation agreement.

The Bank's response to the motion was filed on October 29, 2019 and a preliminary hearing is scheduled for January 5, 2020.

For all claims against the Bank Group in individual amounts over NIS 2 million, excluding claims listed in section 2 above, there is additional, non-remote exposure for which no provision was made, amounting to NIS 13 million.

3. Motions for class action status and a motion for approval of a derivative claim are pending against the Bank and subsidiaries, where the amount claimed is material, as itemized below, which, in the opinion of the Bank's management, based on the opinion of their legal counsel (with regard to lawsuits brought against the Bank), the prospects for which cannot be estimated on the date of the financial statements, so that no provision was made for these.

A) 1. In March 2015, a motion for approval of derivative claim was filed with the District Court in Tel Aviv ("the motion") on behalf of the Bank and its subsidiary, UMB (Switzerland) Ltd. ("Mizrahi Switzerland") against past and incumbent officers of the Bank and of Mizrahi Switzerland, at a minimum amount of NIS 95 million, for damage allegedly sustained by Mizrahi Group due to the defendants' deeds and omissions with regard to providing assistance to US clients in avoiding taxes in the USA. The plaintiff claims that defendants should reimburse the Bank for the damage they have caused to Mizrahi Group in general and to the Bank in particular.

On March 24, 2015, a Bank shareholder filed a motion in conjunction with the aforementioned proceeding, seeking to join as a party to that proceeding and to delay the hearing or, alternatively, to dismiss it out of hand, given the motion for document discovery filed by that shareholder in December 2014 with the Tel Aviv District Court against the Bank and its officers pursuant to provisions of Section 198a of the Companies Law 1999 ("the motion for discovery"). In conjunction with the motion for discovery, the plaintiff asked the Court to instruct the Bank and the other defendants to provide to the plaintiff various documents with regard to on-going proceedings in the USA, so as to allow the plaintiff to review potential filing of a motion for derivative defense (on behalf of the Bank in the USA) or filing of a motion for approval of a derivative claim (against executives and employees of the Bank). The plaintiff claims in the motion for discovery that the process of the motion for discovery is a pending process which has priority over the motion for approval – which is why hearing of the motion for approval should be delayed and even dismissed out of hand.

On May 10, 2015, the Court approved, in conjunction with the motion for approval, a hearing arrangement agreed by the parties in this case, with regard to dates for filing statements of claim whereby, *inter alia*, at this stage the deadlines for filing the defendants' responses to the motion for approval would be suspended and soon after a decision is given, *inter alia*, with regard to the aforementioned motion to join and subject to it, the schedule for filing these responses would be set considering, *inter alia*, the progress made in proceedings with the Department of Justice in the USA.

Note 10 – Contingent Liabilities and Special Commitments – continued

It should be noted, with regard to the motion for discovery, that on May 3, 2015, a preliminary hearing of this motion took place wherein the Court approved the agreement reached by the parties, that the hearing of the actual motion for discovery would currently be suspended, pending completion of document discovery for filing with authorities in the USA. In December 2015, the Court resolved that the motion for approval would be dismissed, but the dismissal would be delayed that should the motion for discovery be allowed and should the plaintiff of the motion for discovery file a motion for approval 90 days after receiving the documents in a timely manner as instructed by the Court in its resolution, the motion for approval would be dismissed. Should the discovery motion be dismissed, or should a motion for approval not be filed by 90 days after receiving the documents – the motion for approval would be considered a preliminary motion to any other motion, if filed.

On April 18, 2016, the Court resolved to postpone the hearing of the motion pending conclusion of the investigation and reporting of its outcome.

On April 12, 2017, the Court directed the Attorney General to inform the Court in 45 days' time of their intention to join the proceeding.

On 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 defendants filed their responses to the Attorney General's position.

On September 19, 2017 Court approved a procedural arrangement reached by the parties in the case, whereby the hearing of this case will be suspended at this stage, subject to the defendants reporting to the Court and to the plaintiff as from December 31, 2017, once every 90 days, of the investigation by the US DOJ. Updates with regard to the investigation process were given on March 29, 2018 and on June 27, 2018.

On October 2, 2018, the Bank provided an update to the Court with regard to the investigation process, enclosing the report made public in the Bank's financial statements as of June 30, 2018 whereby, *inter alia*, the Bank started negotiations with the US DOJ, the outcome of which cannot yet be estimated. Consequently, the Court scheduled the case for follow-up in 90 days.

On December 31, the Bank filed another update with the Court with regard to the investigation; the next update is due on March 31, 2019.

On March 14, 2019, the Bank filed an update notice with the Court, whereby on March 12, 2019, the Bank and the US Department of Justice signed a Deferred Prosecution Agreement to conclude the investigation.

2. On March 17, 2019, a Bank shareholder filed a motion with the Tel Aviv District Court, against the Bank, UMB (Switzerland) Ltd. ("Mizrahi Switzerland") and Mizrahi Tefahot Trust Company Ltd., seeking a document discovery order pursuant to Section 198a of the Companies Law, 1999 ("Motion for Late Disclosure"), to instruct the Bank and the other defendants to disclose to the plaintiff various documents with regard to the investigation proceedings that took place in the USA and with regard to the Deferred Prosecution Agreement signed with the US Department of Justice to conclude the investigation. The plaintiff alleges that the findings of this investigation constitute prima faciae evidence, justifying the issue of the document discovery order, and that all requested documents are (or may be) relevant for filing a motion for approval of a derivative claim against officers and the independent auditors, with regard to damage incurred by the Bank due to the investigation and the penalty consequently imposed on the Bank.

   On March 24, the plaintiff filed a motion to combine the hearing of the two aforementioned motions, to which the Bank objected. On April 8, the Bank (and Mizrahi Tefahot Trust Company Ltd.) filed a motion to dismiss one of these motions. On April 15, 2019, the Court granted the motion by the parties and postponed the date for filing the Bank's response to the late discovery motion, to be submitted within 60 days after final resolution of the question as to which o the discovery motions with regard to the US investigation would proceed. On April 18, 2019, the Court handed down a resolution on the motions and the various responses filed by the parties, setting dates for filing the plaintiffs' responses to the motion to dismiss filed by the Bank. On June 24, 2019, a further Court hearing took place of the motion to dismiss filed by the Bank. On August 14, 2019, the Court issued its resolution, whereby the later motion for discovery should be erased. On September 10, 2019, the plaintiff in this motion appealed to the Supreme Court the resolution to dismiss. A hearing of this appeal is scheduled for August 3, 2020 and the parties were ordered to file their summations.

   On October 10, 2019, the District Court resolved that the late motion for discovery would be separated from the case and would be dismissed, and that the parties to the motion for discovery, as set forth in section 1 above, would file a litigation agreement with regard to further litigation of this motion, no later than December 1, 2019.

   See also section 4 with regard to an investigation by the US Department of Justice concerning Bank Group business with its US clients.

Note 10 – Contingent Liabilities and Special Commitments – continued

B) In December 2018, a claim and motion for class action status was filed with the Tel-Aviv District Court, in the total amount of NIS 280 million, against the Bank, Bank Leumi, Bank HaPoalim, Bank Discount and against insurance companies Harel, HaPhoenix and Menorah, alleging unlawful over-charging of insurance premium for superfluous insurance policies issued to the building owner, even though at the time of their issue, the same or another insurance company already had issued insurance policies covering the same building for the same period.

The plaintiffs set their individual and joint damage at NIS 280 million. They claim that the damage with respect to each bank, should the defendants seek proportionate liability, is based on their market shares – with at least half of the damage to be attributed to the banks and the remainder – to the insurers.

The Bank filed its response to the motion on June 10, 2019. A pre-trial hearing is scheduled for January 5, 2020.

C) In June 2019, a motion for class action status was filed with the Tel Aviv-Yafo District Court against the Bank and 5 other banks.

This motion involves allegedly unlawful over-charging of currency conversion differences and transaction fees with respect to foreign currency conversion transactions and lack of proper disclosure, in breach of multiple laws.

With regard to charging of currency conversion differences, the motion alleges that when clients conduct a foreign currency conversion transaction, the defendants charge for currency conversion differences that are not listed in the price list, hence these are charged without lawful authorization. The motion further alleges that because this charge is not visible to clients, clients cannot tell the cost of the currency conversion service.

With regard to the transaction fee, the motion alleges that the Bank (and 2 other defendants) calculate this fee after adding the currency conversion differences, thereby over-charging for the transaction fee.

The motion further alleges that the defendants are party to a restrictive trade practice.

The motion defined the class as all persons or legal entities who used the defendants' services for currency conversion transactions, as well as the general public in Israel, which was directly and indirectly impacted by the aforementioned breach.

The damage incurred by the class, according to the motion, amounted to NIS 8 billion; the share attributable to the Bank amounted to NIS 1.745 billion. The Bank filed a motion to dismiss the motion out of hand. On October 27, 2019, the plaintiff filed a motion to erase the motion to to dismiss. As resolved by the Court on October 26, 2019, the parties were granted an extension to file the defendants' response to the motion for approval.

4) Further to section 12 of Note 26 to the financial statements as of December 31, 2018, on April 10, 2019 the Bank made the total payment of USD 195 million, pursuant to the DPA signed March 12, 2019 by the Bank, Mizrahi Switzerland and Mizrahi Tefahot Trust Company with the US Department of Justice to conclude the investigation with regard to Bank Group business with its US clients.

5) Income tax assessment

Further to Note 8 to the financial statements as of December 31, 2018, on April 28, 2019, the Bank and the Assessing Officer signed an agreement with regard to the issue of profit tax liability for operations of overseas branches, for the period 2011-2013 and the issue of wages tax liability with respect to pay of local employees at overseas branches of the Bank, for the period 2009-2014.

According to this agreement, the Bank undertakes to pay to the Income Tax Authority the tax principal with respect to the issue of payroll tax for 2014 only, as final settlement of the entire tax with respect to this issue, as well as the tax with respect to the issue of profit tax with respect to overseas branches for tax years 2011-2017.

The Bank had made appropriate provisions for these issues, as well as the provision made on these financial statements.

Note 10 – Contingent Liabilities and Special Commitments – continued

C. Guarantees by maturity date

The following are guarantees issued by the Bank, by maturity date:

	As of September 30, 2019				
	Expiring in 12 months or sooner	**Expiring in 1 to 3 years**	**Expiring in 3 to 5 years**	**Expiring in over 5 years**	**Total**
Loan guarantees	1,929	406	42	129	2,506
Guarantees to home buyers	8,831	2,277	22	–	11,130
Guarantees and other liabilities	4,756	823	86	2,859	8,524
Commitments to issue guarantees	3,153	4,314	776	–	8,243
Total guarantees	**18,669**	**7,820**	**926**	**2,988**	**30,403**

	As of September 30, 2018				
	Expiring in 12 months or sooner	**Expiring in 1 to 3 years**	**Expiring in 3 to 5 years**	**Expiring in over 5 years**	**Total**
Loan guarantees	1,601	445	111	137	2,294
Guarantees to home buyers	8,988	1,864	13	–	10,865
Guarantees and other liabilities	3,659	1,100	195	2,254	7,208
Commitments to issue guarantees	3,106	4,142	287	–	7,535
Total guarantees	**17,354**	**7,551**	**606**	**2,391**	**27,902**

	As of December 31, 2018				
	Expiring in 12 months or sooner	**Expiring in 1 to 3 years**	**Expiring in 3 to 5 years**	**Expiring in over 5 years**	**Total**
Loan guarantees	1,731	380	120	157	2,388
Guarantees to home buyers	8,999	1,531	14	–	10,544
Guarantees and other liabilities	4,252	891	169	2,633	7,945
Commitments to issue guarantees	2,905	4,291	286	–	7,482
Total guarantees	**17,887**	**7,093**	**589**	**2,790**	**28,359**

Note 11 – Derivative instruments and hedging activities

Reported amounts (NIS in millions)

A) Activity on consolidated basis

	September 30, 2019 (unaudited)			September 30, 2018 (unaudited)		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
	NIS in millions			NIS in millions		
1. Stated amounts of derivative instruments						
Interest contracts						
Forward contracts	1,575	100	1,675	3,558	–	3,558
Options written	17	–	17	18	–	18
Options purchased	1,010	229	1,239	653	73	726
Swaps(1)	8,714	31,336	40,050	8,246	33,155	41,401
Total(2)	**11,316**	**31,665**	**42,981**	**12,475**	**33,228**	**45,703**
Of which: Hedging derivatives(3)	**3,960**	**–**	**3,960**	**3,284**	**–**	**3,284**
Currency contracts						
Forward contracts(4)(6)	57,940	51,789	109,729	53,560	52,914	106,474
Options written	–	23,777	23,777	–	22,452	22,452
Options purchased	201	20,441	20,642	4	20,038	20,042
Swaps	3,360	2,765	6,125	4,293	2,987	7,280
Total	**61,501**	**98,772**	**160,273**	**57,857**	**98,391**	**156,248**
Of which: Hedging derivatives(3)	**–**	**–**	**–**	**–**	**–**	**–**
Contracts for shares						
Options written	99	8,475	8,574	95	5,010	5,105
Options purchased(5)	32	8,478	8,510	33	5,012	5,045
Swaps	–	1,547	1,547	–	4,053	4,053
Total	**131**	**18,500**	**18,631**	**128**	**14,075**	**14,203**
Commodities and other contracts						
Forward contracts	21	–	21	38	–	38
Options written	–	10,326	10,326	–	8,035	8,035
Options purchased	–	10,326	10,326	–	8,035	8,035
Total	**21**	**20,652**	**20,673**	**38**	**16,070**	**16,108**
Credit contracts						
Bank is guarantor	279	–	279	290	–	290
Bank is beneficiary	340	–	340	644	–	644
Total	**619**	**–**	**619**	**934**	**–**	**934**
Total stated amount	**73,588**	**169,589**	**243,177**	**71,432**	**161,764**	**233,196**

(1) Of which: Swaps for which the banking corporation pays a fixed interest rate amounting to NIS 26,994 million (as of September 30, 2018: NIS 27,803 million).
(2) Of which: NIS/CPI swaps amounting to NIS 8,388 million (as of September 30, 2018: NIS 8,965 million).
(3) The Bank conducts fair value hedging and cash flow hedging through interest rate swap contracts and NIS/CPI swap contracts, respectively.
(4) Of which: Foreign currency spot swaps amounting to NIS 8,257 million (as of September 30, 2018: NIS 5,526 million).
(5) Of which: Traded on the Stock Exchange, amounting to NIS 8,477 million (as of September 30, 2018: NIS 5,010 million).
(6) Including diversion between the negotiable portfolio and the banking portfolio, primarily due to proactive internal transactions as part of asset and liability management.

Note 11 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

A. Activity on consolidated basis – continued

	As of December 31, 2018 (audited)		
	Derivatives not held for trading	Derivatives held for trading	Total
	NIS in millions		
1. Stated amounts of derivative instruments			
Interest contracts			
Forward contracts	2,388	300	2,688
Options written	19	–	19
Options purchased	–	75	75
Swaps[1]	8,851	30,859	39,710
Total[2]	**11,258**	**31,234**	**42,492**
Of which: Hedging derivatives[3]	**3,202**	**–**	**3,202**
Currency contracts			
Forward contracts[4][6]	57,167	62,694	119,861
Options written	–	19,230	19,230
Options purchased	–	16,408	16,408
Swaps	4,367	2,842	7,209
Total	**61,534**	**101,174**	**162,708**
Of which: Hedging derivatives[3]	**–**	**–**	**–**
Contracts for shares			
Options written	–	11,127	11,127
Options purchased[5]	–	11,170	11,170
Swaps	–	4,321	4,321
Total	**–**	**26,618**	**26,618**
Commodities and other contracts			
Forward contracts	44	–	44
Options written	–	6,783	6,783
Options purchased	–	6,783	6,783
Total	**44**	**13,566**	**13,610**
Credit contracts			
Bank is guarantor	300	–	300
Bank is beneficiary	647	–	647
Total	**947**	**–**	**947**
Total stated amount	**73,783**	**172,592**	**246,375**

(1) Of which: Swaps for which the banking corporation pays a fixed interest rate amounting to NIS 26,980 million.
(2) Of which: NIS/CPI swaps amounting to NIS 9,083 million.
(3) The Bank conducts fair value hedging and cash flow hedging through interest rate swap contracts and NIS/CPI swap contracts, respectively.
(4) Of which: Foreign currency spot swaps amounting to NIS 6,508 million.
(5) Of which: Traded on the Stock Exchange, amounting to NIS 11,170 million.
(6) Including diversion between the negotiable portfolio and the banking portfolio, primarily due to proactive internal transactions as part of asset and liability management.

Note 11 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

A. Activity on consolidated basis – continued

	September 30, 2019 (unaudited)					
	Assets with respect to derivatives, gross			Liabilities with respect to derivatives, gross		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
2. Fair value of derivative instruments, gross						
Interest contracts	200	536	736	313	622	935
Of which: Hedging derivatives	17	–	17	100	–	100
Currency contracts(1)	446	1,313	1,759	486	1,294	1,780
Of which: Hedging derivatives	–	–	–	–	–	–
Contracts for shares	2	218	220	2	199	201
Commodities and other contracts	1	–	1	1	–	1
Credit contracts	7	–	7	5	–	5
Total assets / liabilities with respect to derivatives, gross(2)	**656**	**2,067**	**2,723**	**807**	**2,115**	**2,922**
Fair value amounts offset on the balance sheet	–	–	–	–	–	–
Carrying amount of assets / liabilities with respect to derivative instruments	**656**	**2,067**	**2,723**	**807**	**2,115**	**2,922**
Of which: Carrying amount with respect to derivative instruments not subject to a master netting agreement or to similar agreements	185	283	468	326	380	706

	September 30, 2018 (unaudited)					
	Assets with respect to derivatives, gross			Liabilities with respect to derivatives, gross		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
2. Fair value of derivative instruments, gross						
Interest contracts	292	455	747	317	434	751
Of which: Hedging derivatives	12	–	12	54	–	54
Currency contracts(1)	880	720	1,600	1,212	651	1,863
Of which: Hedging derivatives	–	–	–	–	–	–
Contracts for shares	1	255	256	–	216	216
Commodities and other contracts	3	–	3	3	–	3
Credit contracts	4	–	4	3	–	3
Total assets / liabilities with respect to derivatives, gross(2)	**1,180**	**1,430**	**2,610**	**1,535**	**1,301**	**2,836**
Fair value amounts offset on the balance sheet	–	–	–	–	–	–
Carrying amount of assets / liabilities with respect to derivative instruments	**1,180**	**1,430**	**2,610**	**1,535**	**1,301**	**2,836**
Of which: Carrying amount with respect to derivative instruments not subject to a master netting agreement or to similar agreements	333	462	795	632	445	1,077

(1) Including diversion between the negotiable portfolio and the banking portfolio, primarily due to proactive internal transactions as part of asset and liability management.
(2) Of which: Gross fair value of assets with respect to embedded derivatives amounting to NIS 6 million (as of September 30, 2018: NIS 6 million); Gross fair value of liabilities with respect to embedded derivatives amounting to NIS 2 million

Note 11 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

A. Activity on consolidated basis – continued

	As of December 31, 2018 (audited)					
	Assets with respect to derivatives, gross			Liabilities with respect to derivatives, gross		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
2. Fair value of derivative instruments, gross						
Interest contracts	227	412	639	316	387	703
Of which: Hedging derivatives	8	–	8	44	–	44
Currency contracts[(1)]	958	1,173	2,131	1,415	978	2,393
Of which: Hedging derivatives	–	–	–	–	–	–
Contracts for shares	–	470	470	8	554	562
Commodities and other contracts	1	–	1	1	–	1
Credit contracts	3	–	3	10	–	10
Total assets / liabilities with respect to derivatives, gross[(2)]	**1,189**	**2,055**	**3,244**	**1,750**	**1,919**	**3,669**
Fair value amounts offset on the balance sheet	–	–	–	–	–	–
Carrying amount of assets / liabilities with respect to derivative instruments	**1,189**	**2,055**	**3,244**	**1,750**	**1,919**	**3,669**
Of which: Carrying amount with respect to derivative instruments not subject to a master netting agreement or to similar agreements	613	1,050	1,663	484	190	674

(1) Including diversion between the negotiable portfolio and the banking portfolio, primarily due to proactive internal transactions as part of asset and liability management.
(2) Of which: Gross fair value of assets with respect to embedded derivatives amounting to NIS 4 million; Gross fair value of liabilities with respect to embedded derivatives amounting to NIS 8 million.

B. Accounting hedges

	For the three months endedSeptember 30, 2019			For the nine months ended September 30, 2019		
	(unaudited)			(unaudited)		
	Amounts recognized in Other Compre-hensive Income (loss) from derivatives	Interest revenues (expenses)	Total	Amounts recognized in Other Compre-hensive Income (loss) from derivatives	Interest revenues (expenses)	Total
Interest contracts						
Derivatives used to hedge cash flows[(1)]	3	24	**27**	4	7	**11**
Derivatives used to hedge fair value[(2)]	8	(6)	**2**	8	(21)	**(13)**
Total	**11**	**18**	**29**	**12**	**(14)**	**(2)**

(1) Reflects amounts included in assessment of hedge effectiveness.
(2) Reflects amounts excluded from assessment of hedge effectiveness, for which the difference between the change in fair value and the periodic write-down is recognized on Other Comprehensive Income (Loss).

Note 11 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

C. Credit risk on financial derivative instruments according to counter-party to the contract – Consolidated

	September 30, 2019 (unaudited)					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivative instruments	**47**	**1,620**	**22**	**8**	**1,026**	**2,723**
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk with respect to financial instruments	–	(1,116)	–	–	(224)	(1,340)
Mitigation of credit risk with respect to cash collateral received	–	(338)	–	(2)	(222)	(562)
Net amount of assets with respect to derivative instruments	**47**	**166**	**22**	**6**	**580**	**821**
Off-balance sheet credit risk on derivative instruments(1)	217	1,041	73	–	561	1,892
Mitigation of off-balance sheet credit risk	–	(428)	–	–	(100)	(528)
Net off-balance sheet credit risk with respect to derivative instruments	**217**	**613**	**73**	**–**	**461**	**1,364**
Total credit risk on derivative instruments	**264**	**779**	**95**	**6**	**1,041**	**2,185**
Carrying amount of liabilities with respect to derivative instruments	**49**	**1,431**	**22**	**–**	**1,420**	**2,922**
Gross amounts not offset in the balance sheet:						
Financial instruments	–	(1,116)	–	–	(224)	(1,340)
Pledged cash collateral	–	(226)	–	–	–	(226)
Net amount of liabilities with respect to derivative instruments	**49**	**89**	**22**	**–**	**1,196**	**1,356**

	September 30, 2018 (unaudited)					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivative instruments	**44**	**1,221**	**10**	**5**	**1,330**	**2,610**
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk with respect to financial instruments	–	(959)	–	–	(154)	(1,113)
Mitigation of credit risk with respect to cash collateral received	–	(162)	–	–	(269)	(431)
Net amount of assets with respect to derivative instruments	**44**	**100**	**10**	**5**	**907**	**1,066**
Off-balance sheet credit risk on derivative instruments(1)	106	1,113	357	–	896	2,472
Mitigation of off-balance sheet credit risk	–	(506)	–	–	(112)	(618)
Net off-balance sheet credit risk with respect to derivative instruments	**106**	**607**	**357**	**–**	**784**	**1,854**
Total credit risk on derivative instruments	**150**	**707**	**367**	**5**	**1,691**	**2,920**
Carrying amount of liabilities with respect to derivative instruments	**54**	**1,600**	**10**	**47**	**1,125**	**2,836**
Gross amounts not offset in the balance sheet:						
Financial instruments	–	(959)	–	–	(154)	(1,113)
Pledged cash collateral	–	(494)	–	(16)	–	(510)
Net amount of liabilities with respect to derivative instruments	**54**	**147**	**10**	**31**	**971**	**1,213**

(1) The difference, if positive, between the total amounts with respect to derivative instruments (including with respect to derivative instruments with negative fair value) included under borrower indebtedness, as calculated for restrictions on indebtedness of a borrower, before mitigation of credit risk, and the carrying amount of assets with respect to derivative instruments of the borrower.

Note 11 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

C) Credit risk on financial derivative instruments according to counter-party to the contract – Consolidated – continued

	As of December 31, 2018 (audited)					
	Stock exchanges	**Banks**	**Dealers/ Brokers**	**Governments and central banks**	**Others**	**Total**
Carrying amount of assets with respect to derivative instruments	**95**	**1,093**	**31**	**–**	**2,025**	**3,244**
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk with respect to financial instruments	–	(810)	–	–	(524)	(1,334)
Mitigation of credit risk with respect to cash collateral received	–	(137)	–	–	(217)	(354)
Net amount of assets with respect to derivative instruments	**95**	**146**	**31**	**–**	**1,284**	**1,556**
Off-balance sheet credit risk on derivative instruments[1]	163	1,564	279	–	997	3,003
Mitigation of off-balance sheet credit risk	–	(594)	–	–	(57)	(651)
Net off-balance sheet credit risk with respect to derivative instruments	**163**	**970**	**279**	**–**	**940**	**2,352**
Total credit risk on derivative instruments	**258**	**1,116**	**310**	**–**	**2,224**	**3,908**
Carrying amount of liabilities with respect to derivative instruments	**96**	**2,378**	**31**	**60**	**1,104**	**3,669**
Gross amounts not offset in the balance sheet:						
Financial instruments	–	(810)	–	–	(524)	(1,334)
Pledged cash collateral	–	(1,533)	–	(60)	–	(1,593)
Net amount of liabilities with respect to derivative instruments	**96**	**35**	**31**	**–**	**580**	**742**

1) The difference, if positive, between the total amounts with respect to derivative instruments (including with respect to derivative instruments with negative fair value) included under borrower indebtedness, as calculated for restrictions on indebtedness of a borrower, before mitigation of credit risk, and the carrying amount of assets with respect to derivative instruments of the borrower.

In the three-month period ended September 30, 2019, the Bank recognized credit losses with respect to derivative instruments amounting to NIS 1 million. (In the three-month period in 2018: NIS 1 million).

In the nine-month and six-month periods ended September 30, 2019, the Bank recognized revenues from decrease in provision for credit losses with respect to derivative instruments amounting to NIS 5 million. (In the nine-month period in 2018: NIS 3 million).

Note 11 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

d) Maturity dates – stated amounts: Balances at end of period – Consolidated

	September 30, 2019 (unaudited)				
	Up to three months	**3 months to 1 year**	**1-5 years**	**Over 5 years**	**Total**
Interest contracts:					
NIS – CPI	806	3,071	3,307	1,204	8,388
Other	2,039	11,289	13,909	7,356	34,593
Currency contracts	93,703	59,239	6,882	449	160,273
Contracts for shares	16,197	1,414	1,020	–	18,631
Commodities and other contracts	20,564	212	371	145	21,292
Total	**133,309**	**75,225**	**25,489**	**9,154**	**243,177**
	September 30, 2018 (unaudited)				
Total	**128,163**	**64,411**	**32,075**	**8,547**	**233,196**
	As of December 31, 2018 (audited)				
Total	**138,607**	**69,549**	**30,573**	**7,646**	**246,375**

Note 12 – Operating Segments

A. Information regarding supervisory operating segments

On November 3, 2014, the Supervisor of Banks issued an update to the Public Reporting Directives concerning supervisory operating segments. According to the directive, the Bank is required to provide, on its financial statements, disclosure with regard to supervisory operating segments in conformity with a uniform, comparable layout specified by the Supervisor of Banks; attribution to supervisory operating segments is typically determined by the turnover volume for clients.

Financial information in the Report by the Board of Directors and Management is included in conformity with definitions of supervisory operating segments.

In addition, the financial statements include – in Note 12 to the financial statements – disclosure with regard to "Operating segments in conformity with the management approach".

An operating segment in conformity with the management approach is a Bank component with operations which may derive revenues and incur expenses which meet the following criteria:

- Its operating results are regularly reviewed for the purpose of decision making about resource allocation and for performance evaluation.
- Separate financial information is available with regard to it.

In fact, there is a strong correlation between supervisory operating segments and "operating segments in conformity with the management approach" but nevertheless, there are some differences in client attribution to segments and in decision making. Therefore, at this stage, the financial statements also include reporting of operating results in conformity with "the management approach", as noted above.

Supervisory operating segments

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

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

Definitions of supervisory operating segments are as follows:

Households – individuals, other than private banking clients, as noted below.

Private banking – individuals who manage a financial asset portfolio in excess of NIS 3 million.

Small and micro businesses – businesses with turnover amounting up to NIS 50 million.

Medium businesses – businesses with turnover higher than NIS 50 million and lower than NIS 250 million.

Large businesses – businesses with turnover higher than NIS 250 million

Institutional investors – Businesses which own pension funds, study funds, mutual funds, ETFs, insurance companies, stock exchange members, portfolio managers.

Financial management – includes trading operations, asset and liability management and non-banking investments.

Trade operations – Investment in securities held for trading, market making operations for securities, operations involving derivative instruments not designated as hedges and which are not part of asset and liability management for the Bank, borrowing of securities for trading, short selling of securities, underwriting services for securities.

Asset and liability management – including investment in debentures available for sale and in debentures held to maturity, hedging using derivative instruments, ALM hedging, deposits with banks and deposits from banks in Israel and overseas, currency hedging of investments overseas, deposits with and from Governments.

Real investments – Investment in shares available for sale and in associated companies of businesses.

Other financial management operations – management, operation, trust and custody services for banks, sale and management of loan portfolios.

The aforementioned operating segments are divided into operations in Israel and operations overseas; operations overseas are presented separately and are divided into operations of individuals and business operations only.

Note 12 – Operating Segments – continued
Supervisory operating segments

For the nine months ended September 30, 2019 (unaudited)

Reported amounts (NIS in millions)

	Operations in Israel					
	Households				Private banking	Small and micro businesses
	Housing loans	Others	Of which: Credit cards	Total		
Interest revenues from externals	3,100	747	27	3,847	1	876
Interest expenses from externals	–	397	–	397	134	88
Interest revenues, net from externals	3,100	350	27	3,450	(133)	788
Interest revenues, net – inter-segment	(1,853)	661	(4)	(1,192)	198	74
Total interest revenues (expenses), net	**1,247**	**1,011**	**23**	**2,258**	**65**	**862**
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	119	389	111	508	7	289
Total non-interest revenues	**119**	**389**	**111**	**508**	**7**	**289**
Total revenues	**1,366**	**1,400**	**134**	**2,766**	**72**	**1,151**
Expenses (reduction of expenses) with respect to credit losses	32	72	–	104	1	110
Operating and other expenses to externals	487	1,321	47	1,808	66	609
Operating and other expenses – inter-segment	–	(100)	(9)	(100)	6	(56)
Total operating and other expenses	**487**	**1,221**	**38**	**1,708**	**72**	**553**
Pre-tax profit (loss)	847	107	96	954	(1)	488
Provision for taxes on profit	295	37	33	332	–	170
After-tax profit (loss)	**552**	**70**	**63**	**622**	**(1)**	**318**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	552	70	63	622	(1)	318
Net profit attributed to non-controlling interests	–	(33)	(4)	(33)	–	(3)
Net profit (loss) attributable to shareholders of the banking corporation	**552**	**37**	**59**	**589**	**(1)**	**315**
Average balance of assets	129,626	20,577	3,210	150,203	89	20,176
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	129,626	20,577	3,210	150,203	89	20,176
Balance of loans to the public at end of reported period	133,042	21,565	4,116	154,607	109	21,195
Balance of impaired debts	52	84	–	136	–	551
Balance of debt in arrears 90 days or longer	1,369	21	–	1,390	–	37
Average balance of liabilities	–	87,447	3,210	87,447	13,791	24,878
Of which: Average balance of deposits from the public	–	84,237	–	84,237	13,791	24,878
Balance of deposits from the public at end of reported period	–	86,049	–	86,049	14,464	26,016
Average balance of risk assets (1)	73,982	18,832	3,347	92,814	27	19,332
Balance of risk assets at end of reported period(1)	76,142	19,126	3,465	95,268	21	19,911
Average balance of assets under management(2)	10,000	42,157	–	52,157	2,681	29,281
Breakdown of interest revenues, net:						
Margin from credit granting operations	1,192	620	21	1,812	–	732
Margin from activities of receiving deposits	–	390	–	390	65	109
Other	55	1	2	56	–	21
Total interest revenues, net	**1,247**	**1,011**	**23**	**2,258**	**65**	**862**

(1) Risk assets – as calculated for capital adequacy purposes (Proper Conduct of Banking Business Directive 201).

(2) Assets under management – includes clients' provident funds, study funds, mutual funds and securities.

					Operations overseas	Total
Medium businesses	**Large businesses**	**Institutional investors**	**Financial Management Segment**	**Total – operations in Israel**	**Total – operations overseas**	
221	398	18	185	5,546	319	5,865
44	294	344	496	1,797	80	1,877
177	104	(326)	(311)	3,749	239	3,988
41	289	413	254	77	(77)	–
218	**393**	**87**	**(57)**	**3,826**	**162**	**3,988**
–	–	–	287	287	6	293
67	112	27	174	1,184	20	1,204
67	**112**	**27**	**461**	**1,471**	**26**	**1,497**
285	**505**	**114**	**404**	**5,297**	**188**	**5,485**
19	20	(6)	(2)	246	(1)	245
47	84	51	273	2,938	57	2,995
45	64	37	4	–	–	–
92	**148**	**88**	**277**	**2,938**	**57**	**2,995**
174	337	32	129	2,113	132	2,245
61	117	11	45	736	46	782
113	**220**	**21**	**84**	**1,377**	**86**	**1,463**
–	–	–	–	–	–	-
113	220	21	84	1,377	86	1,463
–	–	–	(25)	(61)	–	(61)
113	**220**	**21**	**59**	**1,316**	**86**	**1,402**
7,045	16,931	1,058	52,334	247,836	9,897	257,733
–	–	–	32	32	–	32
7,045	16,931	1,058	–	195,502	3,213	198,715
7,153	16,214	1,134	–	200,412	3,813	204,225
169	200	120	–	1,176	22	1,198
–	–	–	–	1,427	–	1,427
8,351	26,638	40,706	28,503	230,314	11,053	241,367
8,351	26,638	40,706	–	198,601	5,527	204,128
8,394	25,276	42,802	–	203,001	4,831	207,832
8,099	22,925	2,084	6,772	152,053	4,166	156,219
8,463	23,771	1,494	7,350	156,278	4,028	160,306
6,510	28,151	318,126	12,961	449,867	–	449,867
178	325	14	–	3,061	82	3,143
35	54	72	–	725	9	734
5	14	1	(57)	40	71	111
218	**393**	**87**	**(57)**	**3,826**	**162**	**3,988**

Note 12 – Operating Segments – continued
Supervisory operating segments

For the nine months ended September 30, 2018 (unaudited)

Reported amounts (NIS in millions)

	Operations in Israel					
			Households		Private banking	Small and micro businesses
	Housing loans	Others	Of which: Credit cards	Total		
Interest revenues from externals	3,106	713	26	3,819	1	756
Interest expenses from externals	–	435	–	435	119	66
Interest revenues, net from externals	3,106	278	26	3,384	(118)	690
Interest revenues, net – inter-segment	(1,988)	639	(4)	(1,349)	172	52
Total interest revenues, net	**1,118**	**917**	**22**	**2,035**	**54**	**742**
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	119	385	110	504	7	272
Total non-interest revenues	**119**	**385**	**110**	**504**	**7**	**272**
Total revenues	**1,237**	**1,302**	**132**	**2,539**	**61**	**1,014**
Expenses (reduction of expenses) with respect to credit losses	34	81	–	115	1	103
Operating and other expenses to externals	432	1,219	44	1,651	485(3)	568
Operating and other expenses – inter-segment	–	(106)	(10)	(106)	6	(59)
Total operating and other expenses	**432**	**1,113**	**34**	**1,545**	**491**	**509**
Pre-tax profit (loss)	771	108	98	879	(431)	402
Provision (reduced provision) for taxes on profit	270	38	34	308	(93)	141
After-tax profit (loss)	**501**	**70**	**64**	**571**	**(338)**	**261**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	501	70	64	571	(338)	261
Net profit attributed to non-controlling interests	–	(28)	(2)	(28)	–	(2)
Net profit (loss) attributable to shareholders of the banking corporation	**501**	**42**	**62**	**543**	**(338)**	**259**
Average balance of assets	122,704	19,635	3,102(4)	142,339	95	17,860
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	122,704	19,635	3,102(4)	142,339	95	17,860
Balance of loans to the public at end of reported period	124,507	20,727	3,690	145,234	86	18,765
Balance of impaired debts	52	71	–	123	–	445
Balance of debt in arrears 90 days or longer	1,292	25	–	1,317	–	41
Average balance of liabilities	–	80,369	3,102	80,369	12,335	19,941
Of which: Average balance of deposits from the public	–	77,267	–	77,267	12,335	19,941
Balance of deposits from the public at end of reported period	–	79,523	–	79,523	13,036	20,481
Average balance of risk assets (1)	68,176	17,782	3,167	85,958	30	17,205
Balance of risk assets at end of reported period(1)	69,581	18,153	3,193	87,734	30	17,865
Average balance of assets under management(2)	9,004	44,085	–	53,089	2,399	21,239
Breakdown of interest revenues, net:						
Margin from credit granting operations	1,067	608	22	1,675	1	645
Margin from activities of receiving deposits	–	306	–	306	53	79
Other	51	3	–	54	–	18
Total interest revenues, net	**1,118**	**917**	**22**	**2,035**	**54**	**742**

(1) Risk assets – as calculated for capital adequacy purposes (Proper Conduct of Banking Business Directive 201).
(2) Assets under management – includes clients' provident funds, study funds, mutual funds and securities.
(3) Expenses with respect to the investigation by the US Department of Justice were classified under Private Banking.
(4) Reclassified.

					Operations overseas	Total
Medium businesses	**Large businesses**	**Institutional investors**	**Financial Management Segment**	**Total – operations in Israel**	**Total – operations overseas**	
180	344	30	154	5,284	234	5,518
37	171	309	655	1,792	64	1,856
143	173	(279)	(501)	3,492	170	3,662
35	220	369	522	21	(21)	–
178	**393**	**90**	**21**	**3,513**	**149**	**3,662**
–	–	–	316	316	8	324
57	83	32	151	1,106	20	1,126
57	**83**	**32**	**467**	**1,422**	**28**	**1,450**
235	**476**	**122**	**488**	**4,935**	**177**	**5,112**
(1)	13	–	1	232	1	233
43	64	48	259[3]	3,118	55	3,173
47	67	42	3	–	–	–
90	**131**	**90**	**262**	**3,118**	**55**	**3,173**
146	332	32	225	1,585	121	1,706
51	116	11	78	612	42	654
95	**216**	**21**	**147**	**973**	**79**	**1,052**
–	–	–	1	1	–	1
95	216	21	148	974	79	1,053
–	–	–	(19)	(49)	–	(49)
95	**216**	**21**	**129**	**925**	**79**	**1,004**
6,130	16,306[4]	1,329	49,759	233,818	9,683	243,501
–	–	–	32	32	–	32
6,130	16,306[4]	1,329	–	184,059	3,268	187,327
6,134	16,067	1,255	–	187,541	3,807	191,348
63	245	–	–	876	–	876
–	–	–	–	1,358	1	1,359
7,526	25,575	40,056	35,029	220,831	7,921	228,752
7,526	25,575	40,056	–	182,700	5,290	187,990
8,151	25,773	40,714	–	187,678	5,265	192,943
7,026	21,045	2,516	6,418	140,198	3,878	144,076
6,927	22,418	2,300	6,407	143,681	4,191	147,872
3,102	25,495	159,521	12,709	277,554	–	277,554
144	330	25	–	2,820	77	2,897
30	52	62	–	582	11	593
4	11	3	21	111	61	172
178	**393**	**90**	**21**	**3,513**	**149**	**3,662**

Note 12 – Operating Segments – continued
Supervisory operating segments

For the three months ended September 30, 2019 (unaudited)

Reported amounts (NIS in millions)

	Operations in Israel					
			Households		Private banking	Small and micro businesses
	Housing loans	Others	Of which: Credit cards	Total		
Interest revenues from externals	612	237	9	849	–	294
Interest expenses from externals	–	46	–	46	35	23
Interest revenues, net from externals	612	191	9	803	(35)	271
Interest revenues, net – inter-segment	(183)	148	(1)	(35)	56	24
Total interest revenues (expenses), net	**429**	**339**	**8**	**768**	**21**	**295**
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	42	134	27	176	2	97
Total non-interest revenues	**42**	**134**	**27**	**176**	**2**	**97**
Total revenues	**471**	**473**	**35**	**944**	**23**	**392**
Expenses (reduction of expenses) with respect to credit losses	13	21	–	34	1	44
Operating and other expenses to externals	163	441	16	604	22	203
Operating and other expenses – inter-segment	–	(33)	(3)	(33)	2	(20)
Total operating and other expenses	**163**	**408**	**13**	**571**	**24**	**183**
Pre-tax profit (loss)	295	44	22	339	(2)	165
Provision (reduced provision) for taxes on profit	107	16	8	123	(1)	60
After-tax profit (loss)	**188**	**28**	**14**	**216**	**(1)**	**105**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	188	28	14	216	(1)	105
Net profit attributed to non-controlling interests	–	(13)	(2)	(13)	–	(1)
Net profit (loss) attributable to shareholders of the banking corporation	**188**	**15**	**12**	**203**	**(1)**	**104**
Average balance of assets	131,758	20,865	3,254	152,623	107	20,716
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	131,758	20,865	3,254	152,623	107	20,716
Balance of loans to the public at end of reported period	133,042	21,565	4,116	154,607	109	21,195
Balance of impaired debts	52	84	–	136	–	551
Balance of debt in arrears 90 days or longer	1,369	21	–	1,390	–	37
Average balance of liabilities	–	88,897	3,254	88,897	14,091	25,778
Of which: Average balance of deposits from the public	–	85,643	–	85,643	14,091	25,778
Balance of deposits from the public at end of reported period	–	86,049	–	86,049	14,464	26,016
Average balance of risk assets (1)	75,631	18,905	3,387	94,536	25	19,582
Balance of risk assets at end of reported period(1)	76,142	19,126	3,465	95,268	21	19,911
Average balance of assets under management(2)	9,986	42,909	–	52,895	2,491	29,621
Breakdown of interest revenues, net:						
Margin from credit granting operations	409	209	6	618	–	252
Margin from activities of receiving deposits	–	130	–	130	21	36
Other	20	–	2	20	–	7
Total interest revenues, net	**429**	**339**	**8**	**768**	**21**	**295**

(1) Risk assets – as calculated for capital adequacy purposes (Proper Conduct of Banking Business Directive 201).

(2) Assets under management – includes clients' provident funds, study funds, mutual funds and securities.

Medium businesses	Large businesses	Institutional investors	Financial Management Segment	Total – operations in Israel	Operations overseas Total – operations overseas	Total
68	149	4	68	1,432	100	1,532
12	122	64	(8)	294	24	318
56	27	(60)	76	1,138	76	1,214
19	103	85	(228)	24	(24)	–
75	**130**	**25**	**(152)**	**1,162**	**52**	**1,214**
–	–	–	145	145	2	147
24	42	9	42	392	8	400
24	**42**	**9**	**187**	**537**	**10**	**547**
99	**172**	**34**	**35**	**1,699**	**62**	**1,761**
3	(8)	(3)	1	72	(2)	70
14	28	18	91	980	18	998
16	22	11	2	–	–	–
30	**50**	**29**	**93**	**980**	**18**	**998**
66	130	8	(59)	647	46	693
24	47	3	(22)	234	17	251
42	**83**	**5**	**(37)**	**413**	**29**	**442**
–	–	–	–	–	–	-
42	83	5	(37)	413	29	442
–	–	–	(6)	(20)	–	(20)
42	**83**	**5**	**(43)**	**393**	**29**	**422**
7,269	16,697	930	54,874	253,216	5,919	259,135
–	–	–	32	32	–	32
7,269	16,697	930	–	198,342	2,685	201,027
7,153	16,214	1,134	–	200,412	3,813	204,225
169	200	120	–	1,176	22	1,198
–	–	–	–	1,427	–	1,427
8,453	25,186	43,608	25,635	231,648	10,297	241,945
8,453	25,186	43,608	–	202,759	6,041	208,800
8,394	25,276	42,802	–	203,001	4,831	207,832
8,463	23,925	1,572	7,322	155,425	4,040	159,465
8,463	23,771	1,494	7,350	156,278	4,028	160,306
6,378	28,999	343,050	10,977	474,411	–	474,411
63	108	5	–	1,046	25	1,071
11	18	20	–	236	3	239
1	4	–	(152)	(120)	24	(96)
75	**130**	**25**	**(152)**	**1,162**	**52**	**1,214**

Note 12 – Operating Segments – continued
Supervisory operating segments

For the three months ended September 30, 2018 (unaudited)

Reported amounts (NIS in millions)

	Operations in Israel					
	Households				Private banking	Small and micro businesses
	Housing loans	Others	Of which: Credit cards	Total		
Interest revenues from externals	983	229	9	1,212	–	263
Interest expenses from externals	–	142	–	142	41	25
Interest revenues, net from externals	983	87	9	1,070	(41)	238
Interest revenues, net – inter-segment	(594)	225	(1)	(369)	59	25
Total interest revenues (expenses), net	**389**	**312**	**8**	**701**	**18**	**263**
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	39	130	38	169	2	91
Total non-interest revenues	**39**	**130**	**38**	**169**	**2**	**91**
Total revenues	**428**	**442**	**46**	**870**	**20**	**354**
Expenses (reduction of expenses) with respect to credit losses	17	32	–	49	–	32
Operating and other expenses to externals	136	408	14	544	17	194
Operating and other expenses – inter-segment	–	(31)	(3)	(31)	2	(17)
Total operating and other expenses	**136**	**377**	**11**	**513**	**19**	**177**
Pre-tax profit	275	33	35	308	1	145
Provision for taxes on profit	96	11	12	107	–	51
After-tax profit	**179**	**22**	**23**	**201**	**1**	**94**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	179	22	23	201	1	94
Net profit attributed to non-controlling interests	–	(10)	(1)	(10)	–	(1)
Net profit attributable to shareholders of the banking corporation	**179**	**12**	**22**	**191**	**1**	**93**
Average balance of assets	124,642	19,633	3,158(3)	144,275	89	18,508
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	124,642	19,633	3,158(3)	144,275	89	18,508
Balance of loans to the public at end of reported period	124,507	20,727	3,690	145,234	86	18,765
Balance of impaired debts	52	71	–	123	–	445
Balance of debt in arrears 90 days or longer	1,292	25	–	1,317	–	41
Average balance of liabilities	–	82,083	3,158	82,083	12,717	20,593
Of which: Average balance of deposits from the public	–	78,925	–	78,925	12,717	20,593
Balance of deposits from the public at end of reported period	–	79,523	–	79,523	13,036	20,481
Average balance of risk assets (1)	69,026	18,140	3,166	87,166	23	17,767
Balance of risk assets at end of reported period(1)	69,581	18,153	3,193	87,734	30	17,865
Average balance of assets under management(2)	9,676	44,383	–	54,059	2,539	22,187
Breakdown of interest revenues, net:						
Margin from credit granting operations	369	204	8	573	–	226
Margin from activities of receiving deposits	–	108	–	108	18	29
Other	20	–	–	20	–	8
Total interest revenues, net	**389**	**312**	**8**	**701**	**18**	**263**

(1) Risk assets – as calculated for capital adequacy purposes (Proper Conduct of Banking Business Directive 201).
(2) Assets under management – includes clients' provident funds, study funds, mutual funds and securities.
(3) Reclassified.

						Operations overseas	Total
	Medium businesses	Large businesses	Institutional investors	Financial Management Segment	Total – operations in Israel	Total – operations overseas	
	59	144	10	48	1,736	96	1,832
	16	55	103	188	570	26	596
	43	89	(93)	(140)	1,166	70	1,236
	18	45	123	114	15	(15)	–
	61	**134**	**30**	**(26)**	**1,181**	**55**	**1,236**
	–	–	–	105	105	–	105
	20	28	10	51	371	7	378
	20	**28**	**10**	**156**	**476**	**7**	**483**
	81	**162**	**40**	**130**	**1,657**	**62**	**1,719**
	(11)	(6)	(1)	(1)	62	(1)	61
	19	25	17	103	919	17	936
	14	20	12	–	–	–	–
	33	**45**	**29**	**103**	**919**	**17**	**936**
	59	123	12	28	676	46	722
	20	43	4	10	235	15	250
	39	**80**	**8**	**18**	**441**	**31**	**472**
	–	–	–	–	–	–	–
	39	80	8	18	441	31	472
	–	–	–	(7)	(18)	–	(18)
	39	**80**	**8**	**11**	**423**	**31**	**454**
	6,108	17,640(3)	1,381	52,029	240,030	11,179	251,209
	–	–	–	32	32	–	32
	6,108	17,640(3)	1,381	–	188,001	3,300	191,301
	6,134	16,067	1,255	–	187,541	3,807	191,348
	63	245	–	–	876	–	876
	–	–	–	–	1,358	1	1,359
	7,814	25,283	41,106	34,693	224,289	8,567	232,856
	7,814	25,283	41,106	–	186,438	5,286	191,724
	8,151	25,773	40,714	–	187,678	5,265	192,943
	6,916	21,860	2,600	6,411	142,743	4,085	146,828
	6,927	22,418	2,300	6,407	143,681	4,191	147,872
	2,866	25,129	171,383	13,029	291,192	–	291,192
	48	113	9	–	969	27	996
	11	16	19	–	201	4	205
	2	5	2	(26)	11	24	35
	61	**134**	**30**	**(26)**	**1,181**	**55**	**1,236**

Note 12 – Operating Segments – continued
Supervisory operating segments

For the year ended December 31, 2018 (audited)

Reported amounts (NIS in millions)

	Operations in Israel					
		Households			Private banking	Small and micro businesses
	Housing loans	Of which: Others	Credit cards	Total		
Interest revenues from externals	4,060	958	34	5,018	1	1,021
Interest expenses from externals	–	576	–	576	160	91
Interest revenues, net from externals	4,060	382	34	4,442	(159)	930
Interest revenues, net – inter-segment	(2,543)	852	(5)	(1,691)	235	78
Total interest revenues (expenses), net	**1,517**	**1,234**	**29**	**2,751**	**76**	**1,008**
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	156	520	148	676	10	367
Total non-interest revenues	**156**	**520**	**148**	**676**	**10**	**367**
Total revenues	**1,673**	**1,754**	**177**	**3,427**	**86**	**1,375**
Expenses with respect to credit losses	36	108	–	144	1	137
Operating and other expenses to externals	611	1,670	60	2,281	539	775
Operating and other expenses – inter-segment	–	(140)	(13)	(140)	8	(79)
Total operating and other expenses	**611**	**1,530**	**47**	**2,141**	**547**	**696**
Pre-tax profit (loss)	1,026	116	130	1,142	(462)	542
Provision for taxes on profit	360	41	46	401	(37)	190
After-tax profit (loss)	**666**	**75**	**84**	**741**	**(425)**	**352**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	666	75	84	741	(425)	352
Net profit attributed to non-controlling interests	–	(37)	(2)	(37)	–	(3)
Net profit (loss) attributable to shareholders of the banking corporation	**666**	**38**	**82**	**704**	**(425)**	**349**
Average balance of assets	123,590	19,607	3,120	143,197	93	18,267
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	123,590	19,607	3,120	143,197	93	18,267
Balance of loans to the public at end of reported period	126,749	21,184	3,756	147,933	99	19,324
Balance of impaired debts	60	77	–	137	–	526
Balance of debt in arrears 90 days or longer	1,250	23	–	1,273	–	42
Average balance of liabilities	–	81,090	3,120	81,090	12,511	20,458
Of which: Average balance of deposits from the public	–	77,970	–	77,970	12,511	20,458
Balance of deposits from the public at end of reported period	–	82,119	–	82,119	13,777	22,664
Average balance of risk assets [(1)]	68,903	17,987	3,183	86,890	30	17,381
Balance of risk assets at end of reported period[(1)]	71,811	18,803	3,246	90,614	28	18,080
Average balance of assets under management[(2)]	9,240	42,263	–	51,503	2,431	23,611
Breakdown of interest revenues, net:						
Margin from credit granting operations	1,449	808	29	2,257	1	874
Margin from activities of receiving deposits	–	423	–	423	75	108
Other	68	3	–	71	–	26
Total interest revenues, net	**1,517**	**1,234**	**29**	**2,751**	**76**	**1,008**

(1) Risk assets – as calculated for capital adequacy purposes (Proper Conduct of Banking Business Directive 201).
(2) Assets under management – includes clients' provident funds, study funds, mutual funds and securities.

					Operations overseas	Total
Medium businesses	**Large businesses**	**Institutional investors**	**Financial Management Segment**	**Total activity in Israel**	**Total – operations overseas**	
269	493	37	188	7,027	332	7,359
53	225	417	826	2,348	89	2,437
216	268	(380)	(638)	4,679	243	4,922
28	266	498	626	40	(40)	–
244	**534**	**118**	**(12)**	**4,719**	**203**	**4,922**
–	–	–	435	435	10	445
78	113	42	208	1,494	28	1,522
78	**113**	**42**	**643**	**1,929**	**38**	**1,967**
322	**647**	**160**	**631**	**6,648**	**241**	**6,889**
11	8	2	3	306	4	310
57	88	68	395	4,203	181	4,384
62	89	55	5	–	–	–
119	**177**	**123**	**400**	**4,203**	**181**	**4,384**
192	462	35	228	2,139	56	2,195
67	162	12	80	875	47	922
125	**300**	**23**	**148**	**1,264**	**9**	**1,273**
–	–	–	1	1	–	1
125	300	23	149	1,265	9	1,274
–	–	–	(28)	(68)	–	(68)
125	**300**	**23**	**121**	**1,197**	**9**	**1,206**
6,205	16,528	1,434	49,563	235,287	10,038	245,325
–	–	–	32	32	–	32
6,205	16,528	1,434	–	185,724	3,391	189,115
6,669	16,440	1,341	–	191,806	4,150	195,956
70	212	156	–	1,101	–	1,101
–	–	–	–	1,315	1	1,316
7,680	26,172	39,260	33,601	220,772	9,505	230,277
7,680	26,172	39,260	–	184,051	5,432	189,483
8,332	29,460	37,712	–	194,064	5,428	199,492
7,150	21,239	2,624	6,323	141,637	3,953	145,590
7,641	22,016	3,055	5,941	147,375	4,252	151,627
3,348	26,459	159,405	12,837	279,594	–	279,594
198	448	30	–	3,808	112	3,920
40	70	85	–	801	14	815
6	16	3	(12)	110	77	187
244	**534**	**118**	**(12)**	**4,719**	**203**	**4,922**

Note 12 – Operating Segments – continued

B. Operating segments in conformity with the management approach

The Bank manages its operations in six major operating segments, which are distinguished by client characteristics and type of banking services required, as well as by the organizational unit responsible for servicing each segment. Operating segment definition is based on the Bank's organizational structure, as described below. The operations in the six operating segments include all areas of banking operations including classic banking activity (loans and deposits), securities activity for clients and activity in derivative instruments, as well as custom banking services designed for needs in specific fields. Operations of the various segments are conducted via Bank branches, trading room, Business Centers, Bank HQ departments and subsidiaries in Israel and overseas.

For more information about measurement of Bank operations in conformity with the supervisory segments approach, as specified by the Supervisor of Banks, see chapter "Supervisory operating segments" above.

Below are the Bank's operating segments in conformity with the management approach:

Household segment – under responsibility of the Retail Division, This segment includes small household clients and mortgage operations. The division provides appropriate banking services and financial products to segment clients, including in the field of mortgages.

Small business segment – under responsibility of the Retail Division, which also serves micro business clients (businesses with annual turnover below NIS 10 million) and small businesses (with annual turnover from NIS 10 million to under NIS 50 million). It may happen, due to business growth of a client served by the Retail Division, that the client may exceed the aforementioned criteria. 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. As from 2019, new business clients with annual turnover from NIS 50 million to under NIS 250 million are assigned to the Business 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.

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. As from 2019, businesses with annual turnover above NIS 250 million are assigned to the Corporate Sector. This segment provides a range of banking and financial services to the largest companies in the economy, in an array of industries, at relatively high levels of indebtedness. Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

Financial management – operations in this segment include, inter alia, management of assets and liabilities, management of exposure to market risk, management of the nostro portfolio and liquidity management as well as trading room operations in the financial and capital markets. The segment is under responsibility of the Finance Division, except for investments in non-banking corporations, which are under the responsibility of the business division.
The major products and guidelines for attribution of balances, revenues and expenses to clients in the system to operating segments in conformity with the management approach, are similar to products and guidelines according to the supervisory operating segment approach.

Note 12 – Operating Segments – continued

Operating segments in conformity with the management approach

For the nine months ended September 30, 2019 (unaudited)

Reported amounts (NIS in millions)

	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:								
From externals	413	2,862	(28)	518	146	514	(437)	3,988
Inter-segment	810	(1,784)	100	164	29	211	470	-
Total interest revenues, net	**1,223**	**1,078**	**72**	**682**	**175**	**725**	**33**	**3,988**
Non-interest financing revenues	4	-	1	1	1	19	267	293
Commissions and other revenues	402	118	42	250	44	178	170	1,204
Total revenues	**1,629**	**1,196**	**115**	**933**	**220**	**922**	**470**	**5,485**
Expenses (reduction of expenses) with respect to credit losses	70	30	(1)	97	31	21	(3)	245
Operating and other expenses	1,269	464	99	467	114	290	292	2,995
Pre-tax profit	290	702	17	369	75	611	181	2,245
Provision for taxes on profit	101	245	6	129	26	213	62	782
After-tax profit	**189**	**457**	**11**	**240**	**49**	**398**	**119**	**1,463**
Share in net profits of associated companies, after tax	-	-	-	-	-	-	-	-
Net profit:								
Before attribution to non-controlling interests	189	457	11	240	49	398	119	1,463
Attributable to non-controlling interests	(33)	-	-	(3)	-	-	(25)	(61)
Net profit attributable to shareholders of the Bank	**156**	**457**	**11**	**237**	**49**	**398**	**94**	**1,402**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	11.5%	8.6%	27.7%	26.8%	9.8%	14.6%	20.6%	12.4%
Average balance of loans to the public, net	26,029	123,933	1,022	13,776	5,963	26,404	-	197,127
Average balance of deposits from the public	92,998	-	8,673	23,188	7,805	54,595	16,869	204,128
Average balance of assets	26,438	124,419	1,553	13,900	6,023	32,301	53,099	257,733
Average balance of risk assets (2)	22,415	70,927	539	12,189	6,685	36,421	7,043	156,219

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.
(2) Risk weighted assets – as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).

Note 12 – Operating Segments – continued

Operating segments in conformity with the management approach

For the nine months ended September 30, 2018 (unaudited)

Reported amounts (NIS in millions)

	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:								
From externals	385	2,885	(12)	458	138	454	(646)	3,662
Inter-segment	735	(1,919)	73	113	20	277	701	–
Total interest revenues, net	**1,120**	**966**	**61**	**571**	**158**	**731**	**55**	**3,662**
Non-interest financing revenues	3	–	1	1	–	23	296	324
Commissions and other revenues	384	116	42	224	40	157	163	1,126
Total revenues	**1,507**	**1,082**	**104**	**796**	**198**	**911**	**514**	**5,112**
Expenses (reduction of expenses) with respect to credit losses	73	32	1	97	(1)	29	2	233
Operating and other expenses	1,161	420	519(3)	431	108	262	272(3)	3,173
Pre-tax profit (loss)	273	630	(416)	268	91	620	240	1,706
Provision (reduced provision) for taxes on profit	95	220	(88)	94	32	217	84	654
After-tax profit (loss)	**178**	**410**	**(328)**	**174**	**59**	**403**	**156**	**1,052**
Share in net profits of associated companies, after tax	–	–	–	–	–	–	1	1
Net profit (loss):								
Before attribution to non-controlling interests	178	410	(328)	174	59	403	157	1,053
Attributable to non-controlling interests	(28)	–	–	(2)	–	–	(19)	(49)
Net profit (loss) attributable to shareholders of the Bank	**150**	**410**	**(328)**	**172**	**59**	**403**	**138**	**1,004**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	11.9%	8.4%	–	21.6%	12.7%	16.4%	34.5%	9.7%
Average balance of loans to the public, net	24,594	117,352	1,017	12,431	5,502	24,930	–	185,826
Average balance of deposits from the public	84,865	–	8,005	19,350	6,863	59,797	9,110	187,990
Average balance of assets	25,062	117,772	1,629	12,556	5,566	29,804	51,112	243,501
Average balance of risk assets (2)	20,982	65,410	578	10,965	6,199	33,102	6,840	144,076

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.
(2) Risk weighted assets – as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).
(3) Expenses with respect to the investigation by the US Department of Justice were classified under Private Banking.

Note 12 – Operating Segments – continued
Operating segments in conformity with the management approach
For the three months ended September 30, 2019 (unaudited)

Reported amounts (NIS in millions)

	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:								
From externals	173	544	(8)	184	47	199	75	1,214
Inter-segment	236	(177)	30	51	12	44	(196)	-
Total interest revenues (expenses), net	**409**	**367**	**22**	**235**	**59**	**243**	**(121)**	**1,214**
Non-interest financing revenues	2	-	-	-	1	7	137	147
Commissions and other revenues	139	40	14	88	16	56	47	400
Total revenues	**550**	**407**	**36**	**323**	**76**	**306**	**63**	**1,761**
Expenses (reduction of expenses) with respect to credit losses	21	12	-	38	11	(12)	-	70
Operating and other expenses	424	154	33	155	38	97	97	998
Pre-tax profit (loss)	105	241	3	130	27	221	(34)	693
Provision (reduced provision) for taxes on profit	38	87	1	47	10	80	(12)	251
After-tax profit (loss)	**67**	**154**	**2**	**83**	**17**	**141**	**(22)**	**442**
Share in net profits of associated companies, after tax	-	-	-	-	-	-	-	-
Net profit (loss):								
Before attribution to non-controlling interests	67	154	2	83	17	141	(22)	442
Attributable to non-controlling interests	(13)	-	-	(1)	-	-	(6)	(20)
Net profit (loss) attributable to shareholders of the Bank	**54**	**154**	**2**	**82**	**17**	**141**	**(28)**	**422**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	12.2%	8.7%	16.3%	29.4%	10.3%	15.8%	-	11.1%

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.

Note 12 – Operating Segments – continued

Operating segments in conformity with the management approach

For the three months ended September 30, 2018 (unaudited)

Reported amounts (NIS in millions)

	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:								
From externals	131	903	(5)	159	48	151	(151)	1,236
Inter-segment	252	(570)	26	41	9	99	143	–
Total interest revenues (expenses), net	**383**	**333**	**21**	**200**	**57**	**250**	**(8)**	**1,236**
Non-interest financing revenues	1	–	1	1	–	7	95	105
Commissions and other revenues	127	38	14	75	13	54	57	378
Total revenues	**511**	**371**	**36**	**276**	**70**	**311**	**144**	**1,719**
Expenses (reduction of expenses) with respect to credit losses	27	16	1	33	–	(15)	(1)	61
Operating and other expenses	394	137	29	150	38	90	98	936
Pre-tax profit	90	218	6	93	32	236	47	722
Provision for taxes on profit	36	75	2	32	11	82	12	250
After-tax profit	**54**	**143**	**4**	**61**	**21**	**154**	**35**	**472**
Share in net profits of associated companies, after tax	–	–	–	–	–	–	–	–
Net profit:								
Before attribution to non-controlling interests	54	143	4	61	21	154	35	472
Attributable to non-controlling interests	(10)	–	–	(1)	–	–	(7)	(18)
Net profit attributable to shareholders of the Bank	**44**	**143**	**4**	**60**	**21**	**154**	**28**	**454**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	14.2%	8.8%	31.9%	22.7%	13.4%	19.2%	11.9%	13.4%

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.

Note 12 – Operating Segments – continued

Operating segments in conformity with the management approach

For the year ended December 31, 2018 (audited)

Reported amounts (NIS in millions)

	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:								
From externals	531	3,769	(21)	626	185	600	(768)	4,922
Inter-segment	954	(2,455)	108	156	29	391	817	–
Total interest revenues, net	**1,485**	**1,314**	**87**	**782**	**214**	**991**	**49**	**4,922**
Non-interest financing revenues	5	–	1	2	1	30	406	445
Commissions and other revenues	528	156	55	308	55	214	206	1,522
Total revenues	**2,018**	**1,470**	**143**	**1,092**	**270**	**1,235**	**661**	**6,889**
Expenses with respect to credit losses	97	35	1	134	6	34	3	310
Operating and other expenses	1,596	579	682	595	147	362	423	4,384
Pre-tax profit (loss)	325	856	(540)	363	117	839	235	2,195
Provision (reduced provision) for taxes on profit	114	300	(36)	127	41	294	82	922
After-tax profit (loss)	**211**	**556**	**(504)**	**236**	**76**	**545**	**153**	**1,273**
Share in net profits of associated companies, after tax	–	–	–	–	–	–	1	1
Net profit (loss):								
Before attribution to non-controlling interests	211	556	(504)	236	76	545	154	1,274
Attributable to non-controlling interests	(37)	–	–	(3)	–	–	(28)	(68)
Net profit (loss) attributable to shareholders of the Bank	**174**	**556**	**(504)**	**233**	**76**	**545**	**126**	**1,206**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)[1]	10.2%	8.4%	–	21.3%	12.2%	16.2%	18.8%	8.5%
Average balance of loans to the public, net	24,795	118,121	1,028	12,602	5,563	25,499	–	187,608
Average balance of deposits from the public	85,679	–	8,065	19,659	7,035	59,854	9,191	189,483
Average balance of assets	25,260	118,554	1,638	12,728	5,628	30,635	50,882	245,325
Average balance of risk assets [2]	21,188	66,181	570	11,110	6,250	33,559	6,732	145,590

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.
(2) Risk weighted assets – as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses

Reported amounts (NIS in millions)

A. Off balance sheet debts[1] and credit instruments

1. Movement in balance of provision for credit losses

	For the three months ended September 30, 2019 (unaudited)					
	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	793	660	265	1,718	1	1,719
Expenses with respect to credit losses	34	13	22	69	1	70
Accounting write-offs[2]	(45)	(2)	(35)	(82)	–	(82)
Recovery of debts written off for accounting purposes in previous years[2]	34	–	14	48	–	48
Net accounting write-offs	(11)	(2)	(21)	(34)	–	(34)
Balance of provision for credit losses at end of period	**816**	**671**	**266**	**1,753**	**2**	**1,755**
Of which: With respect to off balance sheet credit instruments	**96**	**–**	**10**	**106**	**–**	**106**
	For the three months ended September 30, 2018 (unaudited)					
Balance of provision for credit losses at start of period	735	643	253	1,631	3	1,634
Expenses with respect to credit losses	15	17	30	62	(1)	61
Accounting write-offs[2]	(51)	(2)	(40)	(93)	–	(93)
Recovery of debts written off for accounting purposes in previous years[2]	36	1	15	52	–	52
Net accounting write-offs	(15)	(1)	(25)	(41)	–	(41)
Balance of provision for credit losses at end of period	**735**	**659**	**258**	**1,652**	**2**	**1,654**
Of which: With respect to off balance sheet credit instruments	**90**	**–**	**10**	**100**	**–**	**100**
	For the nine months ended September 30, 2019 (unaudited)					
Balance of provision for credit losses at start of period	766	644	263	1,673	4	1,677
Expenses with respect to credit losses	142	32	73	247	(2)	245
Accounting write-offs[2]	(170)	(6)	(116)	(292)	–	(292)
Recovery of debts written off for accounting purposes in previous years[2]	78	1	46	125	–	125
Net accounting write-offs	(92)	(5)	(70)	(167)	–	(167)
Balance of provision for credit losses at end of period	**816**	**671**	**266**	**1,753**	**2**	**1,755**
Of which: With respect to off balance sheet credit instruments	**96**	**–**	**10**	**106**	**–**	**106**
	For the nine months ended September 30, 2018 (unaudited)					
Balance of provision for credit losses at start of period	699	630	245	1,574	1	1,575
Expenses with respect to credit losses	118	34	80	232	1	233
Accounting write-offs[2]	(153)	(6)	(114)	(273)	–	(273)
Recovery of debts written off for accounting purposes in previous years[2]	71	1	47	119	–	119
Net accounting write-offs	(82)	(5)	(67)	(154)	–	(154)
Balance of provision for credit losses at end of period	**735**	**659**	**258**	**1,652**	**2**	**1,654**
Of which: With respect to off balance sheet credit instruments	**90**	**–**	**10**	**100**	**–**	**100**

(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) Accounting write-offs presented in the Note primarily consists of write-offs of a technical nature, due to passage of time of clients being in arrears, in conformity with US standards applicable to the Bank in this regard. Thus, for example, the balance of the provision for large impaired debts will typically be written off after two years. Debt measured on a group basis will be written off after 150 days in arrears. This means that the Bank's collection efforts may sometimes take longer when compared to the timing for write-off according to accounting rules. Consequently, relatively high balances of "accounting write-offs" and relatively high balances of "Recovery of debts written off in previous years" are presented.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

A. Off balance sheet debts[1] and credit instruments

2. Additional information about calculation of the provision for credit losses with respect to debts, and debts for which the provision has been calculated:

	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
September 30, 2019 (unaudited)						
Recorded debt balance of debts [1]						
reviewed on individual basis	41,633	52	739	42,424	7,967	50,391
reviewed on group basis	8,903	133,259	19,639	161,801	–	161,801
Of which: the relevant provision is calculated by extent of arrears	1,563	133,259	–	134,822	–	134,822
Total debts	**50,536**	**133,311[2]**	**20,378**	**204,225**	**7,967**	**212,192**
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	606	2	28	636	2	638
reviewed on group basis	114	669	228	1,011	–	1,011
Of which: For which a provision for credit losses is calculated by extent of arrears[3]	6	669	–	675	–	675
Total provision for credit losses	**720**	**671**	**256**	**1,647**	**2**	**1,649**
September 30, 2018 (unaudited)						
Recorded debt balance of debts [1]						
reviewed on individual basis	37,823	52	695	38,570	7,627	46,197
reviewed on group basis	9,236	124,726	18,816	152,778	–	152,778
Of which: the relevant provision is calculated by extent of arrears	1,563	124,726	–	126,289	–	126,289
Total debts	**47,059**	**124,778**	**19,511**	**191,348**	**7,627**	**198,975**
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	537	3	29	569	2	571
reviewed on group basis	108	656	219	983	–	983
Of which: For which a provision for credit losses is calculated by extent of arrears[3]	5	656	–	661	–	661
Total provision for credit losses	**645**	**659**	**248**	**1,552**	**2**	**1,554**
As of December 31, 2018 (audited)						
Recorded debt balance of debts [1]						
reviewed on individual basis	40,377	60	674	41,111	6,097	47,208
reviewed on group basis	8,801	126,970	19,074	154,845	–	154,845
Of which: the relevant provision is calculated by extent of arrears	1,806	126,970	–	128,776	–	128,776
Total debts	**49,178**	**[2]127,030**	**19,748**	**195,956**	**6,097**	**202,053**
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	563	2	28	593	4	597
reviewed on group basis	115	642	225	982	–	982
Of which: For which a provision for credit losses is calculated by extent of arrears[3]	6	642	–	648	–	648
Total provision for credit losses	**678**	**644**	**253**	**1,575**	**4**	**1,579**

(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 7,507 million (as of September 30, 2018: NIS 6,872 million and as of December 31, 2018: NIS 7,028 million).
(3) Includes balance of provision in excess of that required by extent of arrears, assessed on individual basis, amounting to NIS 19 million (as of September 30, 2018: NIS 18 million, as of December 31, 2018: NIS 17 million), and assessed on group basis, amounting to NIS 467 million (as of September 30, 2018: NIS 436 million, as of December 31, 2018: NIS 445 million).

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

1.A. Credit quality and arrears

	As of September 30, 2019 (unaudited)					
	Problematic[2]				Non impaired debts – additional information	
	Non problematic	Non impaired	Impaired[3]	Total	In arrears 90 days or longer[4]	In arrears 30 to 89 days[5]
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction[8]	13,616	38	185	13,839	7	10
Construction and real estate – real estate operations	3,396	378	33	3,807	–	9
Financial services	3,927	3	133	4,063	–	2
Commercial – other	24,210	372	688	25,270	30	74
Total commercial	**45,149**	**791**	**1,039**	**46,979**	**37**	**95**
Private individuals – housing loans	131,503	[7]1,369	52	132,924	[7]1,369	[6]630
Private individuals – other	19,883	139	84	20,106	21	59
Total public – activity in Israel	**196,535**	**2,299**	**1,175**	**200,009**	**1,427**	**784**
Banks in Israel	95	–	–	95	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**196,630**	**2,299**	**1,175**	**200,104**	**1,427**	**784**
Borrower activity overseas						
Public – commercial						
Construction and real estate	1,652	–	23	1,675	–	–
Commercial – other	1,872	10	–	1,882	–	–
Total commercial	**3,524**	**10**	**23**	**3,557**	**–**	**–**
Private individuals	659	–	–	659	–	–
Total public – activity overseas	**4,183**	**10**	**23**	**4,216**	**–**	**–**
Overseas banks	7,283	–	–	7,283	–	–
Overseas governments	589	–	–	589	–	–
Total activity overseas	**12,055**	**10**	**23**	**12,088**	**–**	**–**
Total public	200,718	2,309	1,198	204,225	1,427	784
Total banks	7,378	–	–	7,378	–	–
Total governments	589	–	–	589	–	–
Total	**208,685**	**2,309**	**1,198**	**212,192**	**1,427**	**784**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Generally, impaired debts do not accrue interest revenues. For information about certain impaired debts restructured using problematic debt restructuring, see Note 13.B.2.c. to the financial statements.
(4) Classified as problematic non-impaired debts. Accruing interest revenues.
(5) Accruing interest revenues. Debts in arrears 30 to 89 days amounting to NIS 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 78 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 1,759 million, extended to certain purchase groups which are in the process of construction.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

1.A. Credit quality and arrears – continued

	As of September 30, 2018 (unaudited)					
		Problematic[2]			Non impaired debts – additional information	
	Non problematic	Non impaired	Impaired[3]	Total	In arrears 90 days or longer[4]	In arrears 30 to 89 days[5]
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction[8]	13,551[9]	77	148	13,776	8	17
Construction and real estate – real estate operations	2,625[9]	11	16	2,652	1	5
Financial services	3,564[9]	170	13	3,747	2	23
Commercial – other	22,249[9]	355	571	23,175	30	116
Total commercial	**41,989**	**613**	**748**	**43,350**	**41**	**161**
Private individuals – housing loans	123,079	[7]1,292[6]	52	124,423	[7]1,292[6]	[7]504
Private individuals – other	19,026	149	71	19,246	25	89
Total public – activity in Israel	**184,094**	**2,054**	**871**	**187,019**	**1,358**	**754**
Banks in Israel	299	–	–	299	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**184,393**	**2,054**	**871**	**187,318**	**1,358**	**754**
Borrower activity overseas						
Public – commercial						
Construction and real estate	1,968	15	2	1,985	–	1
Commercial – other	1,721	–	3	1,724	–	–
Total commercial	**3,689**	**15**	**5**	**3,709**	**–**	**1**
Private individuals	619	1	–	620	1	4
Total public – activity overseas	**4,308**	**16**	**5**	**4,329**	**1**	**5**
Overseas banks	6,759	–	–	6,759	–	–
Overseas governments	569	–	–	569	–	–
Total activity overseas	**11,636**	**16**	**5**	**11,657**	**1**	**5**
Total public	188,402	2,070	876	191,348	1,359	759
Total banks	7,058	–	–	7,058	–	–
Total governments	569	–	–	569	–	–
Total	**196,029**	**2,070**	**876**	**198,975**	**1,359**	**759**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Generally, impaired debts do not accrue interest revenues. For information about certain impaired debt restructured using problematic debt restructuring, see Note 13.B.2.c. to the financial statements.
(4) Classified as problematic non-impaired debts. Accruing interest revenues.
(5) Accruing interest revenues. Debts in arrears 30 to 89 days amounting to NIS 56 million were classified as problematic non-impaired debts.
(6) In conformity with Public Reporting Directives, excludes the balance of housing loans in arrears up to 2 months.
(7) Includes balance of housing loans amounting to NIS 89 million provided for by extent of arrears of borrower, for which an agreement has been signed for repayment of arrears by the borrower, where a change was made to the repayment schedule for the outstanding loan balance not yet due.
(8) Includes debts amounting to NIS 1,705 million, extended to certain purchase groups which are in the process of construction.
(9) Reclassified.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

1.A. Credit quality and arrears – continued

	As of December 31, 2018 (audited)					
		Problematic[2]			Non impaired debts – additional information	
	Non problematic	Non impaired	Impaired[3]	Total	In arrears 90 days or longer[4]	In arrears 30 to 89 days[5]
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction[8]	13,958	82	151	14,191	11	42
Construction and real estate – real estate operations	2,780	13	26	2,819	1	21
Financial services	4,092	12	168	4,272	1	5
Commercial – other	22,727	352	614	23,693	29	92
Total commercial	**43,557**	**459**	**959**	**44,975**	**42**	**160**
Private individuals – housing loans	125,363	1,250[7]	60	126,673	1,250[7]	505[6]
Private individuals – other	19,244	152	77	19,473	23	79
Total public – activity in Israel	**188,164**	**1,861**	**1,096**	**191,121**	**1,315**	**744**
Banks in Israel	622	–	–	622	–	–
Government of Israel	1	–	–	1	–	–
Total activity in Israel	**188,787**	**1,861**	**1,096**	**191,744**	**1,315**	**744**
Borrower activity overseas						
Public – commercial						
Construction and real estate	2,146	14	2	2,162	–	–
Commercial – other	2,038	–	3	2,041	–	–
Total commercial	**4,184**	**14**	**5**	**4,203**	**–**	**–**
Private individuals	631	1	–	632	1	–
Total public – activity overseas	**4,815**	**15**	**5**	**4,835**	**1**	**–**
Overseas banks	4,845	–	–	4,845	–	–
Overseas governments	629	–	–	629	–	–
Total activity overseas	**10,289**	**15**	**5**	**10,309**	**1**	**–**
Total public	192,979	1,876	1,101	195,956	1,316	744
Total banks	5,467	–	–	5,467	–	–
Total governments	630	–	–	630	–	–
Total	**199,076**	**1,876**	**1,101**	**202,053**	**1,316**	**744**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Generally, impaired debts do not accrue interest revenues. For information about certain impaired debts restructured using problematic debt restructuring, see Note 13.B.2.c. to the financial statements.
(4) Classified as problematic non-impaired debts. Accruing interest revenues.
(5) Accruing interest revenues. Debts in arrears 30 to 89 days amounting to NIS 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 88 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 2,023 million, extended to certain purchase groups which are in the process of construction.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

1. B. Credit quality

The state of debts arrears is monitored daily and automatically, providing one of the key indications of credit quality. The state of arrears, and consequently classification of the debt, are based, *inter alia*, on the actual number of days in arrears for each debt.

Non-performing debts

Debt measured on individual basis is classified as non-performing (not accruing interest revenues) after 90 days in arrears. Debt previously restructured as problematic debt and which is again in arrears with regard to the new terms thereof – is also classified as non-performing. Debt measured on a group basis is classified as non-performing (inferior) after 150 days in arrears. At that time, accounting write-off of the debt is also carried out.

Inferior debts

Debt in the individual track is classified as inferior debt accruing revenues after 60 days in arrears. Debt in the group track is classified as inferior after 90 days in arrears.

Housing loans

The state of arrears for housing loans is monitored by the extent of arrears for the loan, except for loans with no monthly or quarterly payment.

Credit risk attributes, including specific risk for housing loans, are included on the Report of the Board of Directors and Management under "Risks Overview".

Below is the recorded debt balance by credit quality and by credit segment of the Bank:

						September 30, 2019 (unaudited)
						Credit segment
Debt quality	**Commercial**	**Housing**	**Individuals**	**Governments**	**Banks**	**Total**
Debts in good standing	48,673	131,890	20,155	589	7,378	208,685
Problematic non-impaired debts(1)	801	1,369	139	–	–	2,309
Impaired debts	1,062	52	84	–	–	1,198
Total	**50,536**	**133,311**	**20,378**	**589**	**7,378**	**212,192**

						September 30, 2018 (unaudited)
						Credit segment
Debt quality	**Commercial**	**Housing**	**Individuals**	**Governments**	**Banks**	**Total**
Debts in good standing	45,678	123,433	19,291	569	7,058	196,029
Problematic non-impaired debts(1)	628	1,293	149	–	–	2,070
Impaired debts	753	52	71	–	–	876
Total	**47,059**	**124,778**	**19,511**	**569**	**7,058**	**198,975**

						As of December 31, 2018 (audited)
						Credit segment
Debt quality	**Commercial**	**Housing**	**Individuals**	**Governments**	**Banks**	**Total**
Debts in good standing	47,741	125,719	19,519	629	5,468	199,076
Problematic non-impaired debts(1)	473	1,251	152	–	–	1,876
Impaired debts	964	60	77	–	–	1,101
Total	**49,178**	**127,030**	**19,748**	**629**	**5,468**	**202,053**

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

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

A. Impaired debts and individual provision

	September 30, 2019 (unaudited)				
	Balance of impaired debts for which an individual provision has been made[2][3]	Balance of individual provision	Balance of impaired debts for which no individual provision has been made[2]	Total balance of impaired debts[2]	Contractual principal balance of impaired debts
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	176	21	9	185	260
Construction and real estate – real estate operations	31	2	2	33	26
Financial services	127	8	6	133	148
Commercial – other	624	140	64	688	793
Total commercial	**958**	**171**	**81**	**1,039**	**1,227**
Private individuals – housing loans	9	2	43	52	52
Private individuals – other	41	20	43	84	101
Total public – activity in Israel	**1,008**	**193**	**167**	**1,175**	**1,380**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**1,008**	**193**	**167**	**1,175**	**1,380**
Borrower activity overseas					
Public – commercial					
Construction and real estate	23	–	–	23	2
Commercial – other	–	–	–	–	–
Total commercial	**23**	**–**	**–**	**23**	**2**
Private individuals	–	–	–	–	–
Total public – activity overseas	**23**	**–**	**–**	**23**	**2**
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	**23**	**–**	**–**	**23**	**2**
Total public	1,031	193	167	1,198	1,382
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**1,031**	**193**	**167**	**1,198**	**1,382**
Of which:					
Measured at present value of cash flows	968	192	158	1,126	
Debts under problematic debts restructuring	270	27	84	354	

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Recorded debt balance.
(3) Debt balance net of accounting write-off, if made.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

A. Impaired debts and individual provision – continued

	September 30, 2018 (unaudited)				
	Balance of impaired debts for which an individual provision has been made[2][3][4]	Balance of individual provision	Balance of impaired debts for which no individual provision has been made[2][4]	Total balance of impaired debts[2]	Contractual principal balance of impaired debts
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	144	17	4	148	220
Construction and real estate – real estate operations	13	2	3	16	51
Financial services	8	5	5	13	22
Commercial – other	507	102	64	571	672
Total commercial	**672**	**126**	**76**	**748**	**965**
Private individuals – housing loans	34	3	18	52	52
Private individuals – other	39	19	32	71	88
Total public – activity in Israel	**745**	**148**	**126**	**871**	**1,105**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**745**	**148**	**126**	**871**	**1,105**
Borrower activity overseas					
Public – commercial	–	–	–		–
Construction and real estate	2	–	–	2	4
Commercial – other	3	–	–	3	6
Total commercial	**5**	**–**	**–**	**5**	**10**
Private individuals	–	–	–	–	1
Total public – activity overseas	**5**	**–**	**–**	**5**	**11**
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	**5**	**–**	**–**	**5**	**11**
Total public	750	148	126	876	1,116
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**750**	**148**	**126**	**876**	**1,116**
Of which:					
Measured at present value of cash flows	668	148	120	788	
Debts under problematic debts restructuring	105	19	81	186	

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Recorded debt balance.
(3) Debt balance net of accounting write-off, if made.
(4) Reclassified.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

A. Impaired debts and individual provision – continued

	As of December 31, 2018 (audited)				
	Balance of impaired debts for which an individual provision has been made[2][3]	Balance of individual provision	Balance of impaired debts for which no individual provision has been made[2]	Total balance of impaired debts[2]	Contractual principal balance of impaired debts
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	147	19	4	151	226
Construction and real estate – real estate operations	22	1	4	26	60
Financial services	163	12	5	168	204
Commercial – other	555	117	59	614	674
Total commercial	**887**	**149**	**72**	**959**	**1,164**
Private individuals – housing loans	11	2	49	60	60
Private individuals – other	39	19	38	77	98
Total public – activity in Israel	**937**	**170**	**159**	**1,096**	**1,322**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**937**	**170**	**159**	**1,096**	**1,322**
Borrower activity overseas					
Public – commercial					
Construction and real estate	2	–	–	2	4
Commercial – other	3	–	–	3	6
Total commercial	**5**	**–**	**–**	**5**	**10**
Private individuals	–	–	–	–	–
Total public – activity overseas	**5**	**–**	**–**	**5**	**10**
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	**5**	**–**	**–**	**5**	**10**
Total public	942	170	159	1,101	1,332
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**942**	**170**	**159**	**1,101**	**1,332**
Of which:					
Measured at present value of cash flows	831	168	153	984	
Debts under problematic debts restructuring	268	26	80	348	

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Recorded debt balance.
(3) Debt balance net of accounting write-off, if made.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

B. Average balance and interest revenues[4]

	For the three months ended					
	September 30, 2019 (unaudited)			September 30, 2018 (unaudited)		
	Average balance of impaired debts[2]	Interest revenues recorded[3]	Of which: Recorded on cash basis	Average balance of impaired debts[2]	Interest revenues recorded[3]	Of which: Recorded on cash basis
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	155	1	1	150	2	2
Construction and real estate – real estate operations	27	–	–	19	–	–
Financial services	152	–	–	14	–	–
Commercial – other	681	3	2	580	2	2
Total commercial	**1,015**	**4**	**3**	**763**	**4**	**4**
Private individuals – housing loans	49	–	–	47	–	–
Private individuals – other	85	1	1	74	2	2
Total public – activity in Israel	**1,149**	**5**	**4**	**884**	**6**	**6**
Banks in Israel	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**1,149**	**5**	**4**	**884**	**6**	**6**
Borrower activity overseas						
Public – commercial						
Construction and real estate	13	–	–	1	–	–
Commercial – other	–	–	–	3	–	–
Total commercial	**13**	**–**	**–**	**4**	**–**	**–**
Private individuals	–	–	–	–	–	–
Total public – activity overseas	**13**	**–**	**–**	**4**	**–**	**–**
Overseas banks	–	–	–	–	–	–
Overseas governments	–	–	–	–	–	–
Total activity overseas	**13**	**–**	**–**	**4**	**–**	**–**
Total public	1,162	5	4	888	6	6
Total banks	–	–	–	–	–	–
Total governments	–	–	–	–	–	–
Total[4]	**1,162**	**5**	**4**	**888**	**6**	**6**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Average recorded debt balance of impaired debts during reported period.
(3) Interest revenues recorded in the reported period with respect to average balance of debts in arrears, in the period in which the debts were classified as impaired.
(4) Had the impaired debt s accrued interest at the original terms, the Bank would have recognized interest revenues amounting to NIS 17 million (as of September 30, 2018 – NIS 18 million).

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[(1)]

2. Additional information about impaired debts

B. Average balance and interest revenues[(4)]

	For the nine months ended					
	September 30, 2019 (unaudited)			September 30, 2018 (unaudited)		
	Average balance of impaired debts[(2)]	Interest revenues recorded[(3)]	Of which: Recorded on cash basis	Average balance of impaired debts[(2)]	Interest revenues recorded[(3)]	Of which: Recorded on cash basis
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	152	3	3	152	2	2
Construction and real estate – real estate operations	26	1	1	17	–	–
Financial services	160	–	–	14	–	–
Commercial – other	640	9	8	542	8	7
Total commercial	**978**	**13**	**12**	**725**	**10**	**9**
Private individuals – housing loans	54	–	–	41	–	–
Private individuals – other	83	5	5	72	6	6
Total public – activity in Israel	**1,115**	**18**	**17**	**838**	**16**	**15**
Banks in Israel	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**1,115**	**18**	**17**	**838**	**16**	**15**
Borrower activity overseas						
Public – commercial						
Construction and real estate	7	–	–	1	–	–
Commercial – other	2	–	–	3	–	–
Total commercial	**9**	**–**	**–**	**4**	**–**	**–**
Private individuals	–	–	–	–	–	–
Total public – activity overseas	**9**	**–**	**–**	**4**	**–**	**–**
Overseas banks	–	–	–	–	–	–
Overseas governments	–	–	–	–	–	–
Total activity overseas	**9**	**–**	**–**	**4**	**–**	**–**
Total public	1,124	18	17	842	16	15
Total banks	–	–	–	–	–	–
Total governments	–	–	–	–	–	–
Total[(4)]	**1,124**	**18**	**17**	**842**	**16**	**15**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Average recorded debt balance of impaired debts during reported period.
(3) Interest revenues recorded in the reported period with respect to average balance of debts in arrears, in the period in which the debts were classified as impaired.
(4) Had the impaired debt s accrued interest at the original terms, the Bank would have recognized interest revenues amounting to NIS 56 million (as of September 30, 2018 – NIS 55 million).

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[(1)]

2. Additional information about impaired debts

C. Problematic debts under restructuring

	September 30, 2019 (unaudited)				
	Recorded debt balance				
	Not accruing interest revenues	Accruing interest revenues[(2)] in arrears 90 days or longer	Accruing interest revenues[(2)], in arrears 30-89 days	Accruing interest revenues [(2)] not in arrears	Total[(3)]
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	15	–	–	–	15
Construction and real estate – real estate operations	1	–	–	–	1
Financial services	125	–	–	–	125
Commercial – other	114	–	–	12	126
Total commercial	**255**	**–**	**–**	**12**	**267**
Private individuals – housing loans	–	–	–	–	–
Private individuals – other	35	–	1	29	65
Total public – activity in Israel	**290**	**–**	**1**	**41**	**332**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**290**	**–**	**1**	**41**	**332**
Borrower activity overseas					
Public – commercial					
Construction and real estate	22	–	–	–	22
Commercial – other	–	–	–	–	–
Total commercial	**22**	**–**	**–**	**–**	**22**
Private individuals	–	–	–	–	–
Total public – activity overseas	**22**	**–**	**–**	**–**	**22**
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	**22**	**–**	**–**	**–**	**22**
Total public	312	–	1	41	354
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**312**	**–**	**1**	**41**	**354**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Accruing interest revenues.
(3) Included under impaired debts.

As of September 30, 2019, the Bank had commitments to provide additional credit amounting to NIS 1 million to debtors subject to problematic debt restructuring, for which credit terms have been revised.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

C. Problematic debts under restructuring – continued

	September 30, 2018 (unaudited)				
	Recorded debt balance				
	Not accruing interest revenues	Accruing interest revenues[2] in arrears 90 days or longer	Accruing interest revenues[2], in arrears 30-89 days	Accruing interest revenues [2] not in arrears	Total[3]
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	27	–	–	–	27
Construction and real estate – real estate operations	1	–	–	–	1
Financial services	3	–	–	–	3
Commercial – other	94	–	–	8	102
Total commercial	**125**	**–**	**–**	**8**	**133**
Private individuals – housing loans	–	–	–	–	–
Private individuals – other	28	–	1	24	53
Total public – activity in Israel	**153**	**–**	**1**	**32**	**186**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**153**	**–**	**1**	**32**	**186**
Borrower activity overseas					
Public – commercial					
Construction and real estate	–	–	–	–	–
Commercial – other	–	–	–	–	–
Total commercial	**–**	**–**	**–**	**–**	**–**
Private individuals	–	–	–	–	–
Total public – activity overseas	**–**	**–**	**–**	**–**	**–**
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	**–**	**–**	**–**	**–**	**–**
Total public	153	–	1	32	186
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**153**	**–**	**1**	**32**	**186**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Accruing interest revenues.
(3) Included under impaired debts.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

C. Problematic debts under restructuring – continued

	As of December 31, 2018 (audited)				
	Recorded debt balance				
	Not accruing interest revenues	Accruing interest revenues[2] in arrears 90 days or longer	Accruing interest revenues[2], in arrears 30-89 days	Accruing interest revenues [2] not in arrears	Total[3]
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	22	–	–	12	34
Construction and real estate – real estate operations	1	–	–	–	1
Financial services	159	–	–	–	159
Commercial – other	90	–	–	6	96
Total commercial	**272**	**–**	**–**	**18**	**290**
Private individuals – housing loans	–	–	–	–	–
Private individuals – other	33	–	1	24	58
Total public – activity in Israel	**305**	**–**	**1**	**42**	**348**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**305**	**–**	**1**	**42**	**348**
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	305	–	1	42	348
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**305**	**–**	**1**	**42**	**348**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Accruing interest revenues.
(3) Included under impaired debts.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

C. Problematic debts under restructuring – continued

	Restructurings made [2]					
	For the three months ended					
	September 30, 2019 (unaudited)			September 30, 2018 (unaudited)		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	11	2	2	8	–	–
Construction and real estate – real estate operations	–	–	–	2	–	–
Financial services	–	–	–	–	–	–
Commercial – other	52	10	10	62	8	7
Total commercial	**63**	**12**	**12**	**72**	**8**	**7**
Private individuals – housing loans	–	–	–	–	–	–
Private individuals – other	208	10	10	182	7	7
Total public – activity in Israel	**271**	**22**	**22**	**254**	**15**	**14**
Banks in Israel	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**271**	**22**	**22**	**254**	**15**	**14**
Borrower activity overseas						
Public – commercial						
Construction and real estate	–	–	–	–	–	–
Commercial – other	–	–	–	–	–	–
Total commercial	**–**	**–**	**–**	**–**	**–**	**–**
Private individuals	–	–	–	–	–	–
Total public – activity overseas	**–**	**–**	**–**	**–**	**–**	**–**
Overseas banks	–	–	–	–	–	–
Overseas governments	–	–	–	–	–	–
Total activity overseas	**–**	**–**	**–**	**–**	**–**	**–**
Total public	271	22	22	254	15	14
Total banks	–	–	–	–	–	–
Total governments	–	–	–	–	–	–
Total	**271**	**22**	**22**	**254**	**15**	**14**

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

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[(1)]

2. Additional information about impaired debts

C. Problematic debts under restructuring – continued

	Restructurings made [(2)]					
	For the nine months ended					
	September 30, 2019 (unaudited)			September 30, 2018 (unaudited)		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	33	4	4	30	22	21
Construction and real estate – real estate operations	–	–	–	8	1	1
Financial services	4	3	3	2	–	–
Commercial – other	235	57	56	230	50	49
Total commercial	**272**	**64**	**63**	**270**	**73**	**71**
Private individuals – housing loans	–	–	–	–	–	–
Private individuals – other	725	36	36	678	28	27
Total public – activity in Israel	**997**	**100**	**99**	**948**	**101**	**98**
Banks in Israel	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**997**	**100**	**99**	**948**	**101**	**98**
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	997	100	99	948	101	98
Total banks	–	–	–	–	–	–
Total governments	–	–	–	–	–	–
Total	**997**	**100**	**99**	**948**	**101**	**98**

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

(2) Included under impaired debts.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[(1)]

2. Additional information about impaired debts

C. Problematic debts under restructuring – continued

	Restructurings made which are in default[(2)]			
	For the three months ended			
	September 30, 2019 (unaudited)		September 30, 2018 (unaudited)	
			Recorded debt balance	
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
Borrower activity in Israel				
Public – commercial				
Construction and real estate – construction	1	–	1	–
Construction and real estate – real estate operations	–	–	–	–
Financial services	–	–	–	–
Commercial – other	7	2	10	1
Total commercial	**8**	**2**	**11**	**1**
Private individuals – housing loans	–	–	–	–
Private individuals – other	30	2	17	1
Total public – activity in Israel	**38**	**4**	**28**	**2**
Banks in Israel	–	–	–	–
Government of Israel	–	–	–	–
Total activity in Israel	**38**	**4**	**28**	**2**
Borrower activity overseas	–	–	–	–
Public – commercial	–	–	–	–
Construction and real estate	–	–	–	–
Commercial – other	–	–	–	–
Total commercial	**–**	**–**	**–**	**–**
Private individuals	–	–	–	–
Total public – activity overseas	**–**	**–**	**–**	**–**
Overseas banks	–	–	–	–
Overseas governments	–	–	–	–
Total activity overseas	**–**	**–**	**–**	**–**
Total public	38	4	28	2
Total banks	–	–	–	–
Total governments	–	–	–	–
Total	**38**	**4**	**28**	**2**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Debts which became, in the reported period, debts in arrears of 30 days or longer, which were restructured under problematic debt restructuring in the 12 months prior to the date on which they became debts in arrears

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts[(1)]

2. Additional information about impaired debts

C. Problematic debts under restructuring – continued

	Restructurings made which are in default[(2)]			
	For the nine months ended			
	September 30, 2019 (unaudited)		September 30, 2018 (unaudited)	
			Recorded debt balance	
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
Borrower activity in Israel				
Public – commercial				
Construction and real estate – construction	4	–	4	1
Construction and real estate – real estate operations	1	–	3	–
Financial services	1	–	1	–
Commercial – other	45	5	44	7
Total commercial	**51**	**5**	**52**	**8**
Private individuals – housing loans	–	–	–	–
Private individuals – other	84	3	76	2
Total public – activity in Israel	**135**	**8**	**128**	**10**
Banks in Israel	–	–	–	–
Government of Israel	–	–	–	–
Total activity in Israel	**135**	**8**	**128**	**10**
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	135	8	128	10
Total banks	–	–	–	–
Total governments	–	–	–	–
Total	**135**	**8**	**128**	**10**

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

(2) Debts which became, in the reported period, debts in arrears of 30 days or longer, which were restructured under problematic debt restructuring in the 12 months prior to the date on which they became debts in arrears

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debts

3. Additional information about housing loans

Below is the composition of balances by loan-to-value ratio (LTV)[1], repayment type and interest type:

		September 30, 2019 (unaudited)			
		Housing loan balance			Off-balance sheet credit risk
		Total	Of which: Bullet / balloon	Of which: Variable interest	Total
Senior lien: LTV ratio	Up to 60%	89,807	2,943	57,951	2,920
	Over 60%	43,210	551	27,709	2,259
Junior lien or no lien		294	3	214	6,207
Total		**133,311**	**3,497**	**85,874**	**11,386**

		September 30, 2018 (unaudited)			
		Total	Of which: Bullet / balloon	Of which: Variable interest	Total
Senior lien: LTV ratio	Up to 60%	83,234	2,992	53,815	2,651
	Over 60%	41,270	526	26,698	1,587
Junior lien or no lien		274	2	204	2,947
Total		**124,778**	**3,520**	**80,717**	**7,185**

		As of December 31, 2018 (audited)			
		Total	Of which: Bullet / balloon	Of which: Variable interest	Total
Senior lien: LTV ratio	Up to 60%	85,545	3,052	55,336	2,470
	Over 60%	41,224	512	26,672	1,566
Junior lien or no lien		261	2	196	5,251
Total		**127,030**	**3,566**	**82,204**	**9,287**

(1) Ratio of approved facility upon extending the facility to the property value, as approved by the Bank upon extending the facility

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

C. Information about purchase and sale of debts

	For the three months ended September 30, 2019[2]				For the three months ended September 30, 2018			
	Commercial	Housing	Other	Total	Commercial	Housing	Other	Total
Loans acquired[1]	–	–	206[3]	206	–	–	64[3]	64
Loans sold	–	–	–	–	–	537	–	537

	For the nine months ended September 30, 2019[2]				For the nine months ended September 30, 2018[2]			
	Commercial	Housing	Other	Total	Commercial	Housing	Other	Total
Loans acquired[1]	–	–	585[4]	585	52	–	260[4]	312
Loans sold	–	571	–	571	144	2,182	–	2,326

	For the year ended December 31, 2018[2]			
	Commercial	Housing	Other	Total
Loans acquired[1]	52	–	325[4]	377
Loans sold	144	2,182	–	2,326

(1) Excluding short-term factoring transactions.
(2) Excludes purchase of credit risk to foreign governments, amounting to NIS 38 million (for the nine months ended September 30, 2018 and for all of 2018: NIS 118 million).
(3) Of which: Loans backed (credit risk) by the seller – NIS 21 million (for the three months ended September 30, 2018: NIS 16 million).
(4) Of which: Loans backed (credit risk) by the seller – NIS 72 million (for the nine months ended September 30, 2018: NIS 52 million. In all of 2018: NIS 68 million).

D. Off-balance sheet financial instruments

Contractual balances or their denominated amounts at end of quarter

	September 30, 2019	September 30, 2018	December 31, 2018	September 30, 2019	September 30, 2018	December 31, 2018
	Balance[1]			Provision for credit losses		
	(unaudited)		(audited)	(unaudited)		(audited)
Transactions in which the balance represents a credit risk:						
– Unutilized debitory account and other credit facilities in accounts available on demand	15,436	17,714	15,586	21	21	19
– Guarantees to home buyers[3]	11,130	10,865	10,544	4	6	3
– Irrevocable commitments for loans approved but not yet granted[4]	18,970	14,493	16,730	18	12	15
– Unutilized revolving credit card facilities	7,983	7,542	7,574	5	5	5
– Commitments to issue guarantees[3]	8,243	7,535	7,482	3	4	2
– Other guarantees and liabilities[2][3]	7,952	7,208	7,945	27	28	30
– Loan guarantees[3]	2,506	2,294	2,388	27	23	23
– Documentary credit	202	315	292	1	1	1

(1) Contractual balances or their stated amounts at the end of the period, before effect of provision for credit losses.
(2) Includes the Bank's liabilities for its share in the risks fund of the MAOF Clearinghouse of NIS 35 million. (as of September 30, 2018 and December 31, 2018 – NIS 30 million and NIS 35 million, respectively).
For more information see Note 26.C.2. and Note 27.B. to Financial Statements as of March 31, 2018
(3) The Bank provides guarantees to improve the credit and transaction capacity of its clients.
The term to maturity of guarantees to home buyers is typically up to three years.
With respect to these guarantees and to commitments to issue such guarantees, the Bank has acquired a credit exposure insurance policy. The insurance policy covers 80% of the guarantees and is effective as from December 31, 2016.
The term to maturity of other guarantees, performance guarantees and credit backing guarantees is typically up to one year.
(4) Includes the effect of extension of the lock period for approval in principle of housing loans, from 12 days to 24 days, in conformity with the revision of Proper Conduct of Banking Business Directive 451 "Procedures for extending housing loans".

Note 14 – Assets and Liabilities by Linkage Basis

As of September 30, 2019 (unaudited)

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]				
	Non-linked	CPI-linked	USD	EUR	Other currencies	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	39,538	–	7,074	342	171	–	47,125
Securities	4,501	619	4,775	514	–	157	10,566
Securities borrowed or bought in conjunction with resale agreements	62	2	–	–	–	–	64
Loans to the public, net[3]	135,403	56,569	5,882	2,869	1,855	–	202,578
Loans to Governments	–	–	480	109	–	–	589
Investments in associated companies	36	–	–	–	–	(4)	32
Buildings and equipment	–	–	–	–	–	1,384	1,384
Intangible assets and goodwill	–	–	–	–	–	87	87
Assets with respect to derivative instruments	1,986	348	322	28	33	–	2,717
Other assets	1,183	505	78	1	30	62	1,859
Total assets	**182,709**	**58,043**	**18,611**	**3,863**	**2,089**	**1,686**	**267,001**
Liabilities							
Deposits from the public	153,246	15,119	33,161	4,229	2,077	–	207,832
Deposits from banks	171	1	424	58	19	–	673
Deposits from the Government	11	2	21	–	–	–	34
Debentures and subordinated notes	8,244	22,198	–	–	–	–	30,442
Liabilities with respect to derivative instruments	2,264	87	444	94	31	–	2,920
Other liabilities	6,954	1,235	96	8	36	257	8,586
Total liabilities	**170,890**	**38,642**	**34,146**	**4,389**	**2,163**	**257**	**250,487**
Difference	**11,819**	**19,401**	**(15,535)**	**(526)**	**(74)**	**1,429**	**16,514**
Impact of hedging derivative instruments:							
Derivative instruments (other than options)	3,072	(3,072)	–	–	–	–	–
Non-hedging derivative instruments:							
Derivative instruments (other than options)	(15,346)	(1,309)	15,725	975	(45)	–	–
Net in-the-money options (in terms of underlying asset)	1,039	–	(465)	(563)	(11)	–	–
Net out-of-the-money options (in terms of underlying asset)	(487)	–	416	69	2	–	–
Grand total	**97**	**15,020**	**141**	**(45)**	**(128)**	**1,429**	**16,514**
Net in-the-money options (capitalized par value)	(1,105)	–	494	634	(23)	–	–
Net out-of-the-money options (capitalized par value)	3,443	–	(1,606)	(2,000)	163	–	–

(1) Includes linked to foreign currency.
(2) Includes derivative instruments whose base relates to a non-monetary item.
(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted *pro-rata* from the different linkage bases.

Note 14 – Assets and Liabilities by Linkage Basis – Continued

As of September 30, 2018 (unaudited)

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]				
	Non-linked	CPI-linked	USD	EUR	Other currencies	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	34,735	554	6,611	329	194	–	42,423
Securities	4,161	376	4,998	466	–	92	10,093
Securities borrowed or bought in conjunction with resale agreements	–	115	–	–	–	–	115
Loans to the public, net[3]	126,471	52,212	6,656	2,514	1,943	–	189,796
Loans to Governments	–	–	406	163	–	–	569
Investments in associated companies	35	–	–	–	–	(3)	32
Buildings and equipment	–	–	–	–	–	1,360	1,360
Intangible assets and goodwill	–	–	–	–	–	87	87
Assets with respect to derivative instruments	1,176	383	923	97	25	–	2,604
Other assets	1,201	380	74	4	47	46	1,752
Total assets	**167,779**	**54,020**	**19,668**	**3,573**	**2,209**	**1,582**	**248,831**
Liabilities							
Deposits from the public	143,425	13,866	28,897	4,407	2,348	–	192,943
Deposits from banks	117	7	421	91	19	–	655
Deposits from the Government	19	1	24	–	–	–	44
Debentures and subordinated notes	8,266	21,503	–	–	–	–	29,769
Liabilities with respect to derivative instruments	1,256	98	1,357	103	22	–	2,836
Other liabilities	5,309	1,216	648	10	56	212	7,451
Total liabilities	**158,392**	**36,691**	**31,347**	**4,611**	**2,445**	**212**	**233,698**
Difference	**9,387**	**17,329**	**(11,679)**	**(1,038)**	**(236)**	**1,370**	**15,133**
Impact of hedging derivative instruments:							
Derivative instruments (other than options)	2,346	(2,346)	–	–	–	–	–
Non-hedging derivative instruments:							
Derivative instruments (other than options)	(12,124)	(819)	11,795	1,117	31	–	–
Net in-the-money options (in terms of underlying asset)	173	–	(254)	21	60	–	–
Net out-of-the-money options (in terms of underlying asset)	57	–	103	(146)	(14)	–	–
Grand total	**(161)**	**14,164**	**(35)**	**(46)**	**(159)**	**1,370**	**15,133**
Net in-the-money options (capitalized par value)	(480)	–	485	91	(96)	–	–
Net out-of-the-money options (capitalized par value)	2,264	–	(1,615)	(993)	344	–	–

(1) Includes linked to foreign currency.
(2) Includes derivative instruments whose base relates to a non-monetary item.
(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted *pro-rata* from the different linkage bases.

Note 14 – Assets and Liabilities by Linkage Basis – Continued

As of December 31, 2018 (audited)

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]			Non-monetary items[2]	Total
	Non-linked	CPI-linked	USD	EUR	Other currencies		
Assets							
Cash and deposits with banks	39,544	124	4,603	559	332	–	45,162
Securities	4,661	418	5,375	535	–	92	11,081
Securities borrowed or bought in conjunction with resale agreements	4	22	–	–	–	–	26
Loans to the public, net[3]	129,087	53,339	6,917	2,877	2,161	–	194,381
Loans to Governments	–	–	467	163	–	–	630
Investments in associated companies	35	–	–	–	–	(3)	32
Buildings and equipment	–	–	–	–	–	1,424	1,424
Intangible assets and goodwill	–	–	–	–	–	87	87
Assets with respect to derivative instruments	1,178	318	1,579	102	63	–	3,240
Other assets	1,247	380	90	–	43	50	1,810
Total assets	**175,756**	**54,601**	**19,031**	**4,236**	**2,599**	**1,650**	**257,873**
Liabilities							
Deposits from the public	145,705	14,443	32,920	4,145	2,279	–	199,492
Deposits from banks	135	5	390	95	–	–	625
Deposits from the Government	17	2	23	–	–	–	42
Debentures and subordinated notes	8,311	22,305	–	–	–	–	30,616
Liabilities with respect to derivative instruments	1,297	86	2,038	194	46	–	3,661
Other liabilities	5,773	1,188	711	10	141	224	8,047
Total liabilities	**161,238**	**38,029**	**36,082**	**4,444**	**2,466**	**224**	**242,483**
Difference	**14,518**	**16,572**	**(17,051)**	**(208)**	**133**	**1,426**	**15,390**
Impact of hedging derivative instruments:							
Derivative instruments (other than options)	2,353	(2,353)	–	–	–	–	–
Non-hedging derivative instruments:							
Derivative instruments (other than options)	(15,313)	(1,347)	16,967	57	(364)	–	–
Net in-the-money options (in terms of underlying asset)	60	–	(192)	138	(6)	–	–
Net out-of-the-money options (in terms of underlying asset)	(94)	–	95	(10)	9	–	–
Grand total	**1,524**	**12,872**	**(181)**	**(23)**	**(228)**	**1,426**	**15,390**
Net in-the-money options (capitalized par value)	(770)	–	622	150	(2)	–	–
Net out-of-the-money options (capitalized par value)	2,830	–	(1,855)	(1,256)	281	–	–

(1) Includes linked to foreign currency.
(2) Includes derivative instruments whose base relates to a non-monetary item.
(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted *pro-rata* from the different linkage bases.

Note 15 – Balances and estimates of fair value of financial instruments

Reported amounts (NIS in millions)

1) Information on the fair value of financial instruments is presented below:

A. Fair value balances

	September 30, 2019 (unaudited)				
		Fair value			
	Book balance	Level 1(1)	Level 2(1)	Level 3(1)	Total
Financial assets					
Cash and deposits with banks	47,125	13,323	32,679	1,123	47,125
Securities(3)	10,566	7,946	2,627	57	10,630
Securities loaned or acquired in resale agreements	64	64	–	–	64
Loans to the public, net	202,578	703	10,734	193,077(5)	204,514
Loans to Governments	589	–	–	589	589
Investments in associated companies	32	–	–	32	32
Assets with respect to derivative instruments	2,717	138	1,911	668(2)	2,717
Other financial assets	630	6	–	624	630
Total financial assets	**264,301**(4)	**22,180**	**47,951**	**196,170**	**266,301**
Financial liabilities					
Deposits from the public	207,832	703	61,803	147,245	209,751
Deposits from banks	673	–	200	491	691
Deposits from the Government	34	–	–	36	36
Debentures and subordinated notes	30,442	29,837	–	1,965	31,802
Liabilities with respect to derivative instruments	2,920	141	1,733	1,046(2)	2,920
Other financial liabilities	6,784	419	5,032	1,333	6,784
Total financial liabilities	**248,685**(4)	**31,100**	**68,768**	**152,116**	**251,984**

(1) Level 1 – Fair value measurements 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 party.

(3) For more information about the carrying amount and fair value of securities, see Note 5 to the financial statements.

(4) Includes assets and liabilities amounting to NIS 67,158 million and NIS 67,083 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.

(5) Of which embedded derivatives in loans to the public, net amounting to NIS 6 million.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

A. Fair value balances – continued

	September 30, 2018 (unaudited)				
		Fair value			
	Book balance	Level 1(1)	Level 2(1)	Level 3(1)	Total
Financial assets					
Cash and deposits with banks	42,423	12,523	28,618	1,280	42,421
Securities(3)	10,093	6,247	3,794	91	10,132
Securities loaned or acquired in resale agreements	115	115	–	–	115
Loans to the public, net	189,796	454	10,697	178,524(5)	189,675
Loans to Governments	569	–	–	569	569
Investments in associated companies	35	–	–	35	35
Assets with respect to derivative instruments	2,604	94	1,524	986(2)	2,604
Other financial assets	580	6	–	574	580
Total financial assets	**246,215(4)**	**19,439**	**44,633**	**182,059**	**246,131**
Financial liabilities					
Deposits from the public	192,943	454	53,081	141,381	194,916
Deposits from banks	655	–	270	385	655
Deposits from the Government	44	–	–	46	46
Debentures and subordinated notes	29,769	28,724	–	1,867	30,591
Liabilities with respect to derivative instruments	2,836	104	1,768	964(2)	2,836
Other financial liabilities	5,862	357	4,022	1,481	5,860
Total financial liabilities	**232,109(4)**	**29,639**	**59,141**	**146,124**	**234,904**

(1) Level 1 – Fair value measurements 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 party.
(3) For more information about the carrying amount and fair value of securities, see Note 5 to the financial statements.
(4) Includes assets and liabilities amounting to NIS 61,819 million and NIS 55,149 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.
(5) Of which embedded derivatives in loans to the public, net amounting to NIS 6 million.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

A. Fair value balances – continued

	As of December 31, 2018 (audited)				
		Fair value			
	Book balance	**Level 1(1)**	**Level 2(1)**	**Level 3(1)**	**Total**
Financial assets					
Cash and deposits with banks	45,162	7,976	34,858	2,327	45,161
Securities[3]	11,081	6,964	4,049	91	11,104
Securities loaned or acquired in resale agreements	26	26	–	–	26
Loans to the public, net	194,381	508	11,486	181,105[5]	193,099
Loans to Governments	630	–	–	630	630
Investments in associated companies	32	–	–	32	32
Assets with respect to derivative instruments	3,240	255	1,650	1,335[2]	3,240
Other financial assets	641	15	–	626	641
Total financial assets	**255,193[4]**	**15,744**	**52,043**	**186,146**	**253,933**
Financial liabilities					
Deposits from the public	199,492	508	55,078	144,244	199,830
Deposits from banks	625	–	309	316	625
Deposits from the Government	42	–	–	44	44
Debentures and subordinated notes	30,616	29,147	–	1,945	31,092
Liabilities with respect to derivative instruments	3,661	256	2,560	845[2]	3,661
Other financial liabilities	6,463	451	4,152	1,860	6,463
Total financial liabilities	**240,899[4]**	**30,362**	**62,099**	**149,254**	**241,715**

(1) Level 1 – Fair value measurements 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 party.
(3) For more information about the carrying amount and fair value of securities, see Note 5 to the financial statements.
(4) Includes assets and liabilities amounting to NIS 65,894 million and NIS 58,253 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 4 million.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value:

1. On recurring basis

	September 30, 2019 (unaudited)			
	Prices quoted on active market (level 1)	**Other significant observed data (level 2)**	**Non-observed significant data (level 3)**	Total fair value
Assets				
Debentures available for sale				
Debentures:				
of Government of Israel	700	2,284	–	2,984
Of foreign governments	2,679	–	–	2,679
Of banks and financial institutions overseas	–	326	–	326
Investments in shares not held for trading	83	17	–	100
Securities held for trading:				
Debentures of the Government of Israel	377	–	–	377
Securities loaned or acquired in resale agreements	64	–	–	64
Credit with respect to loans to clients	703	–	–	703
Assets with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	–	73	101	174
Other	–	539	23	562
Currency contracts	63	1,265	431	1,759
Contracts for shares	75	30	109	214
Commodities and other contracts	–	4	4	8
Other financial assets	6	–	–	6
Other	–	–	6	6
Total assets	**4,750**	**4,538**	**674**	**9,962**
Liabilities				
Deposits with respect to borrowing from clients	703	–	–	703
Liabilities with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	–	64	18	82
Other	–	809	44	853
Currency contracts	64	836	880	1,780
Contracts for shares	76	21	102	199
Commodities and other contracts	1	3	2	6
Other financial liabilities	419	–	–	419
Other	–	–	2	2
Total liabilities	**1,263**	**1,733**	**1,048**	**4,044**

(1) Fair value measurement of derivative instruments classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value – continued:

1. On recurring basis

	September 30, 2018 (unaudited)			
	Prices quoted on active market (level 1)	**Other significant observed data (level 2)**	**Non-observed significant data (level 3)**	Total fair value
Assets				
Securities available for sale				
Debentures:				
of Government of Israel	944	3,316	–	4,260
Of foreign governments	1,654	–	–	1,654
Of banks and financial institutions overseas	–	461	–	461
Of others overseas	–	17	–	17
Shares	1	–	–	1
Securities held for trading:				
Debentures of the Government of Israel	173	–	–	173
Securities loaned or acquired in resale agreements	115	–	–	115
Credit with respect to loans to clients	454	–	–	454
Assets with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	–	119	136	255
Other	–	477	15	492
Currency contracts	53	868	679	1,600
Contracts for shares	40	60	150	250
Commodities and other contracts	1	–	6	7
Other financial assets	6	–	–	6
Other	–	–	6	6
Total assets	**3,441**	**5,318**	**992**	**9,751**
Liabilities				
Deposits with respect to borrowing from clients	454	–	–	454
Liabilities with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	–	71	37	108
Other	–	604	39	643
Currency contracts	62	1,036	765	1,863
Contracts for shares	41	56	119	216
Commodities and other contracts	1	1	4	6
Other financial liabilities	357	–	–	357
Total liabilities	**915**	**1,768**	**964**	**3,647**

(1) Fair value measurement of derivative instruments classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value – continued:

1. On recurring basis

	As of December 31, 2018 (audited)			
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets				
Debentures available for sale				
Debentures:				
of Government of Israel	873	3,547	–	4,420
Of foreign governments	1,862	–	–	1,862
Of banks and financial institutions overseas	–	484	–	484
Of others overseas	–	18	–	18
Shares	1	–	–	1
Securities held for trading:				
Debentures of the Government of Israel	288	–	–	288
Securities loaned or acquired in resale agreements	26	–	–	26
Credit with respect to loans to clients	508	–	–	508
Assets with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	–	119	75	194
Other	–	436	9	445
Currency contracts	32	1,007	1,092	2,131
Contracts for shares	223	87	156	466
Commodities and other contracts	–	1	3	4
Other financial assets	15	–	–	15
Other	–	–	4	4
Total assets	**3,828**	**5,699**	**1,339**	**10,866**
Liabilities				
Deposits with respect to borrowing from clients	508	–	–	508
Interest contracts:				
NIS / CPI	–	70	25	95
Other	–	581	27	608
Currency contracts	32	1,777	584	2,393
Contracts for shares	224	124	206	554
Commodities and other contracts	–	8	3	11
Other financial liabilities	451	–	–	451
Other	–	–	8	8
Total liabilities	**1,215**	**2,560**	**853**	**4,628**

(1) Fair value measurement of derivative instruments classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value – continued:

2. On non-recurring basis

	September 30, 2019 (unaudited)				For the three months ended September 30, 2019	For the nine months ended September 30, 2019
				Fair value	(Losses)	Gains
	Level 1(1)	Level 2(1)	Level 3(1)	Total		
Impaired credit whose collection is contingent on collateral	–	16	55	71	(1)	4

	September 30, 2018 (unaudited)				For the three months ended September 30, 2018	For the nine months ended September 30, 2018
	Fair value				Gains	Gains
	Level 1(1)	Level 2(1)	Level 3(1)	Total		
Impaired credit whose collection is contingent on collateral	–	14	74	88	15	16

	As of December 31, 2018 (audited)				For the year ended December 31, 2018
	Fair value				
	Level 1(1)	Level 2(1)	Level 3(1)	Total	(Losses)
Impaired credit whose collection is contingent on collateral	–	11	104	115	(13)

(1) Level 1 – Fair value measurements using quoted prices on an active market. Level 2 – Fair value measurements using other significant observed data. Level 3 – Fair value measurements using significant non-observed data.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3:

	For the three months ended September 30, 2019 (unaudited)								
		Realized / unrealized gains (losses) included, net(1)							
	Fair value as of June 30, 2019	In statement of profit and loss	In statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3(4)	Fair value as of September 30, 2019	Unrealized gains (losses) with respect to instruments held as of September 30, 2019
Assets									
Assets with respect to derivative instruments(2)(3)									
Interest contracts:									
NIS / CPI	69	14	–	4	–	(15)	29	101	116
Other	26	(3)	–	–	–	–	–	23	152
Currency contracts	407	90	–	180	–	(246)	–	431	453
Contracts for shares	39	70	–	–	–	–	–	109	–
Commodities and other contracts	5	(1)	–	–	–	–	–	4	–
Other	5	1	–	–	–	–	–	6	–
Total assets	**551**	**171**	**–**	**184**	**–**	**(261)**	**29**	**674**	**721**
Liabilities									
Liabilities with respect to derivative instruments(2)(3)									
Interest contracts:									
NIS / CPI	46	(22)	–	–	–	(6)	–	18	30
Other	33	7	–	4	–	–	–	44	(280)
Currency contracts	550	265	–	310	–	(245)	–	880	(906)
Contracts for shares	38	72	–	–	–	(8)	–	102	–
Commodities and other contracts	4	(2)	–	–	–	–	–	2	–
Other	1	1	–	–	–	–	–	2	–
Total liabilities	**672**	**321**	**–**	**314**	**–**	**(259)**	**–**	**1,048**	**(1,156)**

(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 party.

(3) Included in statement of profit and loss under "Non-interest financing revenues".

(4) Transfers to Level 3 include transactions for which market data, in the reported periods, are not observed.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3:

	For the three months ended September 30, 2018 (unaudited)								
		Net realized / unrealized gains (losses) included[1]							
	Fair value as of June 30, 2018	In statement of profit and loss	In statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3[4]	Fair value as of September 30, 2018	Unrealized gains (losses) with respect to instruments held as of September 30, 2018
Assets									
Assets with respect to derivative instruments[3][2]									
Interest contracts:									
NIS / CPI	125	2	–	1	–	(11)	19	136	25
Other	19	(2)	–	–	–	(2)	–	15	66
Currency contracts	1,101	(23)	–	275	–	(674)	–	679	430
Contracts for shares	130	37	–	21	–	(38)	–	150	–
Commodities and other contracts	5	–	–	1	–	–	–	6	1
Other	4	–	–	2	–	–	–	6	–
Total assets	**1,384**	**14**	**–**	**300**	**–**	**(725)**	**19**	**992**	**522**
Liabilities									
Liabilities with respect to derivative instruments[3][2]									
Interest contracts:									
NIS / CPI	49	(3)	–	1	–	(14)	4	37	11
Other	38	2	–	1	–	(2)	–	39	87
Currency contracts	965	(14)	–	138	–	(324)	–	765	648
Contracts for shares	102	24	–	18	–	(25)	–	119	–
Commodities and other contracts	3	1	–	–	–	–	–	4	2
Total liabilities	**1,157**	**10**	**–**	**158**	**–**	**(365)**	**4**	**964**	**748**

(1) Realized gains (losses) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gains and losses included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value under Other Comprehensive Income.
(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.
(3) Included in statement of profit and loss under "Non-interest financing revenues".
(4) Transfers to Level 3 include transactions for which market data, in the reported periods, are not observed.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3:

	For the nine months ended September 30, 2019 (unaudited)								
		Net realized / unrealized gains (losses) included[1]							
	Fair value as of December 31, 2018	In statement of profit and loss	In statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3[4]	Fair value as of September 30, 2019	Unrealized gain (loss) with respect to instruments held as of September 30, 2019
Assets									
Assets with respect to derivative instruments[3][2]									
Interest contracts:									
NIS / CPI	75	10	–	4	–	(48)	60	101	116
Other	9	(6)	–	20	–	–	–	23	152
Currency contracts	1,092	(24)	–	640	–	(1,277)	–	431	453
Contracts for shares	156	(52)	–	66	–	(61)	–	109	–
Commodities and other contracts	3	2	–	1	–	(2)	–	4	–
Other	4	2	–	–	–	–	–	6	–
Total assets	**1,339**	**(68)**	**–**	**731**	**–**	**(1,388)**	**60**	**674**	**721**
Liabilities									
Liabilities with respect to derivative instruments[3][2]									
Interest contracts:									
NIS / CPI	25	(6)	–	3	–	(20)	16	18	30
Other	27	8	–	9	–	–	–	44	(280)
Currency contracts	584	435	–	656	–	(795)	–	880	(906)
Contracts for shares	206	(116)	–	73	–	(61)	–	102	–
Commodities and other contracts	3	–	–	–	–	(1)	–	2	–
Other	8	(6)	–	–	–	–	–	2	–
Total liabilities	**853**	**315**	**–**	**741**	**–**	**(877)**	**16**	**1,048**	**(1,156)**

(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 party.
(3) Included in statement of profit and loss under "Non-interest financing revenues".
(4) Transfers to Level 3 include transactions for which market data, in the reported periods, are not observed.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3 – Continued:

	For the nine months ended September 30, 2018 (unaudited)								
		Net realized / unrealized gains (losses) included[1]							
	Fair value as of December 31, 2017	In statement of profit and loss	In statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of September 30, 2018	Unrealized gains (losses) with respect to instruments held as of September 30, 2018
Assets									
Assets with respect to derivative instruments[3][2]									
Interest contracts:									
NIS / CPI	146	(15)	–	2	–	(34)	37	136	25
Other	21	(4)	–	1	–	(3)	–	15	66
Currency contracts	603	201	–	1,311	–	(1,436)	–	679	430
Contracts for shares	123	94	–	65	–	(132)	–	150	–
Commodities and other contracts	6	(2)	–	2	–	–	–	6	1
Other	6	1	–	2	–	(3)	–	6	–
Total assets	**905**	**275**	**–**	**1,383**	**–**	**(1,608)**	**37**	**992**	**522**
Liabilities									
Liabilities with respect to derivative instruments[3][2]									
Interest contracts:									
NIS / CPI	85	(1)	–	9	–	(70)	14	37	11
Other	35	4	–	2	–	(2)	–	39	87
Currency contracts	669	293	–	512	–	(709)	–	765	648
Contracts for shares	113	72	–	29	–	(95)	–	119	–
Commodities and other contracts	3	1	–	–	–	–	–	4	2
Total liabilities	**905**	**369**	**–**	**552**	**–**	**(876)**	**14**	**964**	**748**

(1) Realized gains (losses) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gains and losses included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value under Other Comprehensive Income.
(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.
(3) Included in statement of profit and loss under "Non-interest financing revenues".
(4) Transfers to Level 3 include transactions for which market data, in the reported periods, are not observed.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3 – Continued:

	For the year ended December 31, 2018 (audited)								
		Realized / unrealized gains (losses) included, net(1)							
	Fair value as of December 31, 2017	In statement of profit and loss	In statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3(4)	Fair value as of December 31, 2018	Unrealized gains (losses) with respect to instruments held as of December 31, 2018
Assets									
Assets with respect to derivative instruments(2)(3)									
Interest contracts:									
NIS / CPI	146	(12)	–	4	–	(100)	37	75	27
Other	21	(11)	–	2	–	(3)	–	9	52
Currency contracts	603	474	–	1,821	–	(1,806)	–	1,092	593
Contracts for shares	123	94	–	122	–	(183)	–	156	–
Commodities and other contracts	6	(3)	–	2	–	(2)	–	3	1
Other	6	(1)	–	2	–	(3)	–	4	–
Total assets	**905**	**541**	**–**	**1,953**	**–**	**(2,097)**	**37**	**1,339**	**673**
Liabilities									
Liabilities with respect to derivative instruments(2)(3)									
Interest contracts:									
NIS / CPI	85	(6)	–	9	–	(77)	14	25	–
Other	35	(5)	–	2	–	(5)	–	27	14
Currency contracts	669	267	–	673	–	(1,025)	–	584	681
Contracts for shares	113	80	–	139	–	(126)	–	206	–
Commodities and other contracts	3	2	–	1	–	(3)	–	3	1
Other	–	8	–	–	–	–	–	8	–
Total liabilities	**905**	**346**	**–**	**824**	**–**	**(1,236)**	**14**	**853**	**696**

(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 party.
(3) Included in statement of profit and loss under "Non-interest financing revenues".
(4) Transfers to Level 3 include transactions for which market data, in the reported periods, are not observed.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

D. Additional information about non-observed significant data and valuation techniques used in fair value measurement of items classified at Level 3:

	Fair value as of September 30, 2019	Valuation technique	Non-observed data	Range	Weighted average
Assets with respect to derivative instruments:					
Interest contracts – NIS CPI	99	Cash flows discounting	Inflationary expectations	0.99%- 0.94%	0.95%
Contracts for shares	139	Options pricing model	Standard deviation per share	40.85% – 27.37%	37.28%
Other	436	Cash flows discounting	Counter-party credit quality	2.65% – 0.30%	1.66%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	15	Cash flows discounting	Inflationary expectations	0.99%- 0.96%	0.97%
Other	1,033	Cash flows discounting	Counter-party credit quality	2.70% – 0.30%	1.74%

	Fair value as of September 30, 2018	Valuation technique	Non-observed data	Range	Weighted average
Assets with respect to derivative instruments:					
Interest contracts – NIS CPI	112	Cash flows discounting	Inflationary expectations	1.11%- 0.93%	0.97%
Contracts for shares	110	Options pricing model	Standard deviation per share	68.20% – 25.69%	41.26%
Other	770	Cash flows discounting	Counter-party credit quality	3.10% – 0.30%	1.72%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	32	Cash flows discounting	Inflationary expectations	1.11%- 0.93%	1.00%
Other	932	Cash flows discounting	Counter-party credit quality	2.65% – 0.30%	1.68%

	Fair value as of December 31, 2018	Valuation technique	Non-observed data	Range	Weighted average
Assets with respect to derivative instruments:					
Interest contracts – NIS CPI	51	Cash flows discounting	Inflationary expectations	2.01% – 0.87%	1.24%
Contracts for shares	212	Options pricing model	Standard deviation per share	39.39% – 20.33%	35.87%
Other	1,076	Cash flows discounting	Counter-party credit quality	2.90% – 0.30%	1.73%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	20	Cash flows discounting	Inflationary expectations	2.22% – 0.87%	1.17%
Other	833	Cash flows discounting	Counter-party credit quality	2.90% – 0.30%	1.74%

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

E. Transfers between Levels 1 and 2 of the fair value hierarchy

There were no transfers from Level 2 and Level 3 to Level 1 during the reported period.

F. Election of fair value option

Should the Bank elect the fair value option, changes to fair value of investments in certain debentures would be charged to the Statement of Profit and Loss, with debentures classified under the portfolio held for trading, although they had not been purchased for this purpose.

Election of the fair value option was made under the following circumstances:

1. Reduce volatility in profit and loss resulting from changes between the original measurement basis of financial instruments designated at the fair value option, and the measurement basis of derivative financial instruments used to manage risks with respect to such investments.
2. Complexity of implementing hedge accounting.
3. More accurate economic presentation of assets managed on fair value basis.

As of September 30, 2019, September 30, 2018 and December 31, 2018, the Bank did not select the fair value option.

Note 16 – Other matters

A. On August 31, 2017, the Bank's Board of Directors approved an offering of options to officers, key employees and other managers at the Bank and at Bank subsidiaries (hereinafter: "the Outline"), as well as pools of options to be issued in two additional annual lots for 2018 and 2019. For more information see Note 23 to the 2018 financial statements.

On April 11, 2019, the Bank Board of Directors approved, after approval by the Remuneration Committee and as recommended by the President & CEO, an issue of options pursuant to the Outline, for 2019, to Bank officers and to other managers at the Bank and at Bank subsidiaries, as follows:

- Option plan A – up to 357,140 options A to be awarded to up to seven Bank officers who are not gatekeepers, exercisable for up to 357,140 Bank ordinary shares of NIS 0.1 par value each.
- Option plan B – up to 159,145 options B to be awarded to up to five Bank officers who are gatekeepers, exercisable for up to 159,145 Bank ordinary shares of NIS 0.1 par value each.
- Option plan C – up to 263,975 options C to be awarded to up to six 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 263,975 Bank ordinary shares of NIS 0.1 par value each.
- Option plan D – up to 1,430,360 options D to be awarded to up to ninety-eight managers employed by the Bank subject to individual employment contracts and to other managers at the Bank and at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 1,430,360 Bank ordinary shares of NIS 0.1 par value each.
- Option plan E – up to 2,152,655 options E to be awarded to up to two hundred sixty-seven managers employed by the Bank subject to collective bargaining agreements (including an employee to be appointed manager close to the award date), exercisable for up to 2,152,655 Bank ordinary shares of NIS 0.1 par value each.

Note 16 – Other matters – continued

The number of exercise shares, as stated above, is the maximum number of shares arising from exercise of all options which may be issued pursuant to all plans. However, the number of options which offerees may actually exercise, pursuant to terms of each plan, would be derived from the eligibility terms set for each plan, as follows. Furthermore, allotment of the maximum number of exercise shares is merely theoretical, since in actual fact the Bank would not allot to the offerees the full number of exercise shares arising from the options which the offerees may exercise pursuant to terms of each plan – but only the number of shares reflecting the monetary benefit inherent in those options, based, *inter alia*, on the closing price cap of NIS 110 plus linkage differentials from the known CPI upon approval by the Board of Directors to the known CPI upon the exercise date.

Also note that the number of exercise shares for each plan is subject to adjustments for bonus share distribution, rights issuance, share split or reverse-split, distributions of dividends and other adjustments.

The options to be issued in the name of the Trustee, pursuant to option plans A,B or C would be in three equal lots, which may be exercised as from April 01, 2021, April 01, 2022 and April 01, 2023 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 second[nd] to the fifth[th] 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: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 directives.

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 the annual lot for 2019 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 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.
- 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 exercise price for each option issued pursuant to any of the plans is NIS 72.37 plus CPI linkage differentials, from the known CPI upon approval of option issuance to offerees by the Board of Directors to the known CPI upon the option exercise date by the offeree. 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 offeree 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 issued to the offeree.

For calculation of fair value as of approval of the option award by the Board of Directors, as noted above, the terms of the option plans and the data and assumptions as listed in the outline report were taken into account.

Note 16 – Other matters – continued

Based on the aforementioned assumptions, as stated in the outline report, the fair value of each option awarded pursuant to each of the option plans, as of the approval date of option issuance by the Board of Directors, is as follows:

- Options A – NIS 11.76;
- Options B – NIS 11.75;
- Options C – NIS 11.82;
- Options D and E – NIS 13.42.

The theoretical benefit value of the options in these approved lots, calculated in accordance with US accounting rules (ASC 718 "Share-based Payment"), amounts to NIS 57 million.

The theoretical lot value will be recognized in Bank accounts over the vesting period, i.e. from the second quarter of 2019 through the end of the year.

The options would be 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 will be taxed at the capital gain tax rate applicable to the offerees upon exercise of the options. Therefore, the Bank would not be liable for wages tax with respect to the benefit arising to offerees from exercise of the options pursuant to the option plan. Furthermore, upon payment of tax with respect to this benefit by the offerees, the Bank would not have any tax deductible expense with respect to the aforementioned 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.

B. On June 23, 2019, Tefahot Issuance issued a new series of NIS-denominated debentures (Series 49), linked to the CPI, with total par value of NIS 3.0 billion, for consideration amounting to NIS 3.0 billion.

Tefahot Issuance also issued a new series of contingent convertible (CoCo) subordinated notes (Series 50), with loss-absorption provisions through principal write-off, linked to the CPI, with par value of NIS 0.7 billion, for consideration amounting to NIS 0.7 billion.

Note 17 – Events after the balance sheet date

- On November 18, 2019, after the balance sheet date, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 168.8 million, or 40% of earnings in the third quarter of 2019. The dividends are 719.6% of issued share capital, i.e. NIS 0.7196 per NIS 0.1 par value share. The effective date for dividends payment is November 26, 2019 and the payment date is December 03, 2019. 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 fourth quarter of 2019.
- On October 29, 2019, after the balance sheet date, Tefahot Issuance issued a new series of NIS-denominated debentures (Series 51), linked to the CPI, with total par value of NIS 2.5 billion, for consideration amounting to NIS 2.6 billion. Tefahot Issuance also issued a new series of contingent convertible (CoCo) subordinated notes (Series 50) by way of series expansion, with loss-absorption provisions through principal write-off, linked to the CPI, with par value of NIS 0.4 billion, for consideration amounting to NIS 0.4 billion.

Mizrahi-Tefahot Bank

Corporate governance, audit, other information about the Bank and its management

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Corporate governance

Board of Directors and management

Board of Directors

During the first nine months of 2019, the Bank's Board of Directors held 18 plenary meetings. During this period there were also 50 meetings of Board committees and 2 Board member workshops.

On January 28, 2019, the Bank Board of Directors established the IT and Technology Innovation Committee. Mr. Moshe Vidman was appointed Chair of this Committee.

On February 7, 2019, Ms. Liora Ofer concluded her term in office as a member of the Bank's Board of Directors.

On March 12, 2019, Mr. Gilad Rabinowitz was appointed External Board Member of the Bank. As from the appointment approval date, Mr. Gilad Rabinowitz serves as member of the IT and Technology Innovation Committee.

On March 27, 2019, Mr. Ron Gazit concluded their term in office as member of the Risk Management Committee and was appointed member of the Board of Directors' Credit Committee.

On March 28, 2019. Mr. Ilan Kremer was appointed member of the Bank Board of Directors. As from the confirmation date of their appointment, Mr. Ilan Kremer serves as member of the Risk Management Committee.

Further to closing of the separation agreement at Ofer Group, on March 27, 2017 Mr. Mordechai Meir announced their resignation from the office of Board member of Bank. On March 28, 2019, Mr. Mordechai Meir concluded their term in office as a member of the Bank's Board of Directors.

On April 25, 2019, Mr. Yosef Shachak concluded their term in office as member of the Bank's Board of Directors.

On June 25, 2019, Mr. Zvi Ephrat concluded their term in office as member of the Bank's Board of Directors.

On June 25, 2019. Mr. Eli Elroy was appointed member of the Bank Board of Directors.

On August 12, 2019, Mr. Yosef Plus was appointed External Board Member of the Bank. On August 26, 2019, Mr. Yosef Plus was confirmed as member of the Audit and Remuneration Committee. On November 4, 2019, Mr. Yosef Plus was confirmed as member of the Risks Management Committee.

On November 7, 2019, Mr. Avraham Neumann announced his resignation from the office of External Board Member, effective as from December 31, 2019.

Members of Bank management and senior officers

In the first nine months of 2019 there were no changes to members of Bank management and senior officers.

Internal Auditor

Details of internal audit within the Group, including the professional standards applied by internal audit, the annual and multi-annual work plan and considerations in its determination, extent of employment of the Internal Auditor and his team and the manner in which reports are submitted with regard to findings of the Internal Auditor have been included in chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" of the 2018 annual report. No material changes occurred in these details during the reported period.

Transactions with controlling shareholders and related parties

Transactions with affiliated persons were executed in the ordinary course of business, at market terms and under terms similar to those of transactions effected with unrelated entities.

Controlling shareholders

Below are developments compared to the 2018 financial statements:

Ofer Group

For more information about closing of the separation agreement at Ofer Group, see chapter “Controlling shareholders” of the 2018 annual report.

Wertheim Group

On June 5, 2019 the Bank received notice from Mr. David Wertheim, with regard to the latter's decision to sell some of his Alony Hetz shares and with regard to their continued holding in the Bank, pursuant to provisions of the Competition Enhancement and Concentration Reduction Law, 2019.

For more information see Immediate Report by the Bank dated June 05, 2019
(reference: 2019-01-056059).

Legislation and Supervisory Regulation of Bank Group Operations

Laws and regulations

Credit Data Law, 2016

On April 12, 2016, the Credit Data Law was made public and became effective on April 12, 2019.

The act reforms the market for credit data service. When this act became effective, the Credit Data Service Law, 2002 would be rescinded.

This act is relevant for the Bank, both due to the Bank being an "information source", required to provide credit data for Bank clients to a central information repository at the Bank of Israel and due to the Bank being a "credit data user", authorized to receive credit data from the credit bureaus.

In conformity with the Law, an information repository is being created at the Bank of Israel. A credit bureau would receive information from this repository and a credit provider may request a credit report, credit indication (definitive recommendation on whether to extend credit) and monitoring (monitoring of changes to the borrower's standing over the loan term) from the credit bureau. In order to obtain information, the credit provider must obtain explicit consent from the borrower (to obtain an indication, it is sufficient to inform the borrower). A client may ask the Bank of Israel to exclude their credit data from the repository or not to provide such data for compiling a credit report.

Over the preparation period for application of the Law (from publishing of the Law through its effective start date), the Bank provided information about clients to the repository being created, as instructed from time to time by the Bank of Israel.

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

The Non-banking Loans Arrangement Act (Amendment 5), 2017

On August 6, 2017, the Act, known as the "Fair Credit Act", was published. The provisions of the Act would apply only to new loans. The original effective start date of the Act was November 9, 2018, and was postponed to August 25, 2019.

The law applies to credit extended to individuals from banking corporations, settlement providers, insurers and management companies.

The Act provides a uniform maximum interest rate for all lending entities as follows:
- Loans in NIS: The Bank of Israel interest rate plus 15%.
- Loans in foreign currency: One-year LIBOR interest rate plus 15%.
- The arrears interest rate was set at the maximum interest rate multiplied by 1.2.

The following were excluded from the scope of the uniform maximum interest rate:
- Short-term loans (up to 3 months) – capped at a maximum of 5% over the maximum interest rate.
- Transactions involving discounting a note for business (non-personal) use.
- Loans where the actual loan amount received exceeds NIS 1.2 million.
- Loans subject to an interest rate decree, pursuant to the Interest Act (such as arrears interest for housing loans or CPI-linked loans).

In the third year after implementation of the Act, 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 Bank applies the Act. Application of the Law has no material impact on the Bank's financial statements.

Reduction of Cash Usage Law, 2018

On March 18, 2018, the Reduction of Cash Usage Law, 2018 was made public.

The Law is designed to reduce the use of cash in transactions – by both payer and payee.

The Law also governs payment by check. The Law stipulates certain restrictions on the use of cash and checks.

The Law became effective on January 1, 2019, except for certain sections effective as from July 1, 2019.

Pursuant to the Law, the Supervisor of Banks may impose monetary sanctions on banking corporations that pay a check in breach of any of the restrictions applicable to such check pursuant to Addendum II.

The Supervision of Banks may start imposing sanctions as from July 1, 2019.

The Bank applies the Act. Application of the Law has no material impact on the Bank's financial statements.

Insolvency and Financial Rehabilitation Act, 2018

The Insolvency and Financial Rehabilitation Law, 2018 (hereinafter: "the Law") was published on March 15, 2018. The Act became effective on September 15, 2019.

The Act provides a codification of insolvency and financial rehabilitation laws and comprehensively encompasses all insolvency and financial rehabilitation laws for individuals and corporations (companies and partnerships), eliminating the old ordinances and arrangements provided for in the Bankruptcy Ordinance and in the Companies Act.

The Act has three major goals:

- Financial rehabilitation of the debtor. Regard credit default and insolvency as a financial mishap, rather than a moral flaw.
- Increase in debt percentage to be repaid to un-secured creditors.
- Increase certainty and stability of the Act, through shorter proceedings and reduced bureaucratic burden.

The Act stipulates changes to various matters, such as: Threshold for launch of insolvency proceedings, duration of insolvency proceedings, linkage and interest, floating lien, mutual debt offsetting, the position of a secured creditor in insolvency proceedings, liability of Board members and CEOs and negotiations of debt re-structuring.

The Bank believes that the Act would affect the extension of credit and the repayment rate upon default. The Bank applies the provisions of the Act.

Economic Plan Act (Legislation Amendments to Implement Economic Policy for 2019 Budget Year), 2018

On March 22, 2018, the Act was made public, including multiple legislative amendments. These include amendment of the Banking Act (Customer Service), 1981. The amendment to the Act involves client transition from one bank to another, and would become effective on March 22, 2021 unless postponed (two allowed six-month postponements).

According to the amendment to the Act, should a client (individual or corporation of the type specified in regulations by the Governor of the Bank of Israel) wish to transfer to another bank, the client's original bank and the receiving bank shall take all required actions to allow the client to transfer their financial activity to the receiving bank through an online, convenient, reliable, secure process at no cost to the client for such transfer of their financial activity, within seven business days or by another date specified by the Governor of the Bank of Israel with consent of the Minister of Finance.

As for the period prior to the effective start date of the Act, it was stipulated that should a client ask to close their account with their bank, the bank shall not rescind, merely due to the closing request, any benefits and discounts to which the client was eligible in managing their account, sooner than prescribed in an agreement between the bank and the client and, unless otherwise stipulated, for at least three months.

Application of the amendment to the Act is not expected to have any material impact on the Bank's financial statements.

Anti-Trust Act (Amendment 21), 2019

In January 2019, the Amendment to the Anti-Trust Act was published, renaming the Act "the Economic Competitiveness Act". The Amendment further expanded the liability of corporate officers, increased the cap on monetary sanctions, expanded the definition of a monopoly owner, stipulated stricter criminal punishment for cartels, modified the time frame for review of mergers and waivers, and stipulated that exclusion of a certain restrictive trade practice from the scope of any category waiver shall be subject to judicial supervision by the Supreme Court.

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

Payment Services Act, 2019

On January 9, 2019, the Payment Services Act, 2019 was published (hereinafter: "the Payment Services Act"), which would mostly become effective on January 9, 2020; a small part of this Act (Section 77(b) and (c)) would become effective on July 9, 2021.

Provisions of the Act are primarily based on corresponding regulation in Europe (the PSD2 Directive and implementation of provisions of the Directive in key European countries) and on arrangement pursuant to the Charge Card Act, 1986, which is superseded by the Payment Services Act.

The key purpose of the Payment Services Act is to provide consumer protection to clients (payers or recipients) who would receive in future "payment services" from "payment service providers" (including banks, credit card companies, payment apps etc.), to increase public trust in diverse "means of payment" and to create the initial infrastructure to increase competition in the payment services market in Israel.

The Act defines two types of payment services:

a "Payment services to beneficiary", including management of payment account on behalf of a recipient and settlement of payment transactions for recipients (merchants); and

b "Payment services to payer", including management of payment account on behalf of the payer and issuing of "means of payment" to the payer.

Definition of "means of payment" in the new Act is distinct from the physical aspect of means of payment as a required component. Thus, whereas the Charge Card Act only applies to physical charge cards, the Payment Services Act applies to all "means of payment" – current or future, physical or non-physical. That is to say, the consumer protection specified in the Payment Services Act would apply not only to making transactions and payments using charge cards, but also to making transfers, deposits and withdrawals from a bank current account, to standing orders to charge an account, to transactions using advanced means of payment, such as eWallets and payment apps, and to foreign payment service providers operating, or who would be operating in future, in Israel.

Whereas the Charge Card Act only refers to the legal relationship between the charge card issuer and the card holder, the Payment Services Act also covers the obligations of the payment service provider towards the recipient (e.g. the settlement provider) towards the recipient (e.g. the merchant).

The Bank is preparing to implement provisions of the Act.

Application of the Act is not expected to have any material impact on the Bank's financial statements.

Income Tax Regulations (Implementation of uniform standard for reporting and due diligence of information about financial accounts), 2019

On February 6, 2019, the Income Tax Regulations (Implementation of uniform standard for reporting and due diligence of information about financial accounts), 2019 were published. These regulations are further to the amendment of the Income Tax Ordinance (Amendment no. 227), 2016.

The uniform Common Reporting Standard (or CRS) was developed by the OECD to collect information about financial accounts of foreign residents, for information exchange between countries for tax enforcement purposes ("the Uniform Standard"). In October 2014, Israel announced that it would adopt the Uniform Standard. This required legislative amendments to Israeli laws and regulations enacted accordingly.

These regulations stipulate, *inter alia*, as follows:

- Provisions requiring an Israeli reporting financial institution, to conduct due diligence for financial accounts of individuals and entities they managed , and classification of such accounts as accounts of foreign residents.
- Provisions requiring an Israeli reporting financial institution to report to the Tax Authority in Israel any reportable accounts or absence of any reportable accounts.
- Provisions requiring an Israeli reporting financial institution to inform clients of the transfer of information about the client and their account to the Supervisor at the Israeli Taxes Authority and there from to the foreign country's authority.
- Transition provisions with regard to implementation of these provisions for 2017 and 2018.
- The regulations stipulate a schedule for carrying out the identification and reporting proceedings by financial institutions; the first date for reporting to the Taxes Authority with respect to 2017 is June 23, 2019 and with respect to 2018 – September 8, 2019.

The Bank applies provisions of the Income Tax Ordinance Amendment Act (Amendment no. 227), 2016 and the regulations and reports to tax authorities in conformity there with.

Banking Ordinance (Customer Service) (Supervision of Service – Deposit of Post-dated Check), 2019

On April 3, 2019, the Banking Ordinance (Customer Service) (Supervision of Service – Deposit of Post-dated Check) (Interim Provision), 2019 was made public. The Ordinance imposes supervision over fees for "Service – Deposit of Post-dated Check" provided to individuals and to small businesses; A fee up to NIS 2 may be charged for this service. The supervision is effective as from April 15, 2019 through June 30, 2019.

The Bank applied the provisions of the Ordinance. Application of this decree has no material impact on the Bank's financial statements.

Supervisor of Banks

Circulars and Public Reporting Directives

Reduced cross commission in deferred and immediate charge transactions using credit cards

On February 25, 2018, the Bank of Israel issued an outline designed to reduce the cross commission in deferred charge transactions using charge cards by 30%, from 0.7% of transaction amount today, to 0.5% in January 2023. This change will take place in 5 stages: First in January 2019 (0.6%); second in January 2020 (0.575%); third in January 2021 (0.55%); fourth in January 2022 (0.525%); and final in January 2023.

The Bank of Israel also decided to reduce the cross commission for immediate charge transactions using credit cards, from 0.3% to 0.25% in January 2023. This change will take place in 2 stages: First in January 2021 (0.275%) and second in January 2023.

Application of the reduced commission has no material impact on the Bank's financial statements.

Transactions to acquire debtor debt from commercial clients

On May 28, 2018, the Bank of Israel issued a letter about transactions to acquire debtor debt from commercial clients, which lists highlights and bank commitment to map and to manage the risks due to each debt acquisition transaction and to address aspects of credit management, financial reporting and compliance arising from terms and conditions of such transaction. The Bank is required to conduct a comprehensive Internal Audit with regard to appropriate handling and must provide the audit report to the Supervisor no later than the end of June 2019. In June 2019, the audit report was submitted to the Supervisor of Banks.

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

Debit cards

On July 2, 2018, the Bank of Israel issued an update circular to Proper Conduct of Banking Business Directive 470 concerning "Debit cards". According to this circular, as from February 1, 2019, banks would transfer to the debit card issuer operator any funds with respect to transactions in cards issued by it on the date when the operator is required to transfer these funds to the settlement provider, regardless of the client debit date or the identity of the settlement provider. It was further stipulated that new operating agreements between issuer and operator, or similar agreements materially amended and signed by January 2022, would be sent to the Supervisor of Banks.

The Bank applied the provisions of the circular. Application of this circular has no material impact on the Bank's financial statements.

Streamlining operations of the banking system in Israel – extension of validity of the Supervisor's letters

On September 16, 2018, the Supervisor of Banks issued a letter with regard to streamlining operations of the banking system in Israel – extension of validity of the Supervisor's letters. According to the letter, in order to allow banking corporations to implement further streamlining plans, the validity of the letters dated January 12, 2016 and June 13, 2017 would be extended through December 31, 2019.

For more information about the streamlining plans approved by the Bank's Board of Directors on December 27, 2016 and on June 19, 2017 see Notes 22 and 25 to the 2018 financial statements.

Board of Directors

On November 13, 2018, the Supervisor of Banks issued an update to Proper Conduct of Banking Business Directive 301 concerning "Board of Directors".

According to this circular, further to targets for improvement of the effectiveness of Board work and to enhance the professional qualifications of the Board of Directors, another requirement has been added, to set policy with regard to the maximum term in office of Board committee Chairs.

It was further stipulated that the Board of Directors should be more involved in business innovation areas based on technology, infrastructure, information management and use, by setting up a dedicated Board committee on technology and technological innovation.

The directive is effective as from the issue date thereof, except for the requirement whereby at least one member of the Committee on Technology and Technological Innovation shall be knowledgeable in this area – which is effective as from July 1, 2020.

The Bank is applying this directive.

For more information about creation of the IT and Technology Innovation Committee and appointment of Mr. Gilad Rabinowitz as external Board member of the Bank, see chapter "Board of Directors and management" above.

Replacement of interest anchor

On February 12, 2019, the Supervisor of Banks issued a draft with regard to replacement of interest anchors overseas.

According to this draft, in view of the discontinuation of publishing of existing interest anchors overseas, as from 2021, and their replacement by other anchors, banking corporations are required to prepare in advance to the anticipated changes.

In order to prepare for discontinuation of LIBOR interest publication, the Bank took the following actions:

- Appointed a manager responsible for reviewing the implications of such discontinuation on the Bank.
- Mapped the instruments and contracts that may be impacted by such replacement.
- Further preparations would be in line with the pace of interest anchor replacement and regulation in this area.

The Bank is monitoring developments in the markets in order to specify a new benchmark and is reviewing the effect on the financial statements.

Share buy-back by banking corporations

On February 28, 2019, the Supervisor of Banks issued an update to Proper Conduct of Banking Business Directive 332 concerning "Share buy-back by banking corporations". This update rescinds the previous prohibition on share buy-back by banking corporations. However, the Supervisor of Banks applied stricter requirements to buy-back by banking corporations, compared to statutory requirements applicable to corporations in Israel. These include, *inter alia*, the following restrictions:

- A banking corporation is required to obtain prior consent of the Supervisor of Banks for the buy-back, based on a purchase plan presented to the Supervisor. The Supervisor's approval would be for a limited duration (typically for one year).
- The maximum buy-back volume for each plan would be capped at 3% of the banking corporation's issued and paid-in share capital.
- The actual buy-back would not be carried out by the banking corporation, but rather by an independent external entity, such as a stock exchange member, in conformity with provisions of the "safe haven protection", as issued by ISA. These provisions are designed to separate the actual buy-back implementation from the banking corporation.
- Prohibition on banking corporation and any corporation controlled thereby to extend financing for purchase of securities issued by the banking corporation, other than financing extended in conjunction with employee stock purchase plan, to be disclosed to the Supervisor of Banks. Notwithstanding this prohibition, financing secured by securities issued by the banking corporation may be extended subject to certain restrictions.

Changes to this directive has no material impact on the Bank's financial statements.

Online banking

On May 7, 2019, the Supervisor of Banks issued a circular revising Proper Conduct of Banking Business Directive 367 concerning "Online banking".

This revision to the Directive allows a banking corporation to set identification and authentication measures in conformity with their risk management, and to simplify identification and authentication processes for clients wishing to conduct remote transactions using digital means.

This revision expands the definition of online banking services to include fax service.

The effective start date of this revision is on the publication date thereof, except for the sections concerning fax service, which would become effective on January 1, 2020.

The Bank applies the sections in effect and is preparing to apply the sections concerning fax service on time. Application of this circular has no material impact on the Bank's financial statements.

Providing professional call center service

On June 12, 2019, the Supervisor of Banks issued a new Proper Conduct of Banking Business Directive 426 concerning "Providing professional call center service".

This directive regulates the obligation of banking corporations, set forth in Amendment 29 of the Banking Act (Customer Service), whereby professional human response is to be provided no later than 6 minutes after the call start.

This directive prescribes mandatory queuing priority to be given to customers aged 75 and over, and specifies requirements for monitoring and control of response patterns to customers at the call center.

This directive is effective as from the effective start date of the Amendment to the Act, on July 25, 2019, except for section 7 with regard to queuing priority for those aged 75 and over, which would become effective as from January 1, 2020.

The Bank applies the sections in effect and is preparing to apply section 7 on time. Application of this circular has no material impact on the Bank's financial statements.

Reduced commissions for small and micro businesses

On August 4, 2019, the Supervisor of Banks announced that as from August 1, 2019 and annually on March 1, banks would conduct a cost-effectiveness test for small businesses (with annual turnover of up to NIS 5 million) and for sole proprietors, and would enroll them in the most cost-effective track for them.

In conformity with directives of the Supervisor of Banks, small businesses and sole proprietors were proactively enrolled by the Bank, as from August 1, 2019, in the basic or extended service track, according to activity in their account.

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

Bank's credit rating

On July 11, 2019, S&P GLOBAL RATINGS MAALOT LTD (hereinafter: "Ma'alot") confirmed the Bank's issuer rating of ilAAA with a Stable rating outlook. According to the rating agency: "This rating confirmation reflects the Bank's stronger position within the ilAAA rating group and our assessment of credit stability over the next two years."

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.

Rating of the Bank's subordinated capital notes, which qualify as Tier II equity in conformity with transitional provisions of Basel III, was raised to ilAA-.

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 August 1, 2019, Midroog Ltd. (created in partnership with Moody's International, which owns a 51% equity stake) (hereinafter: "Midroog") confirmed the Bank's ratings. Long-term deposits and senior debt of the Bank are rated Aaa.il / Stable outlook. Subordinated notes (Lower Tier II capital) are rated Aa1.il / Stable outlook and subordinated capital notes (Upper Tier II capital) are rated Aa2.il / Stable outlook.

contingent subordinated notes with contractual loss-absorption provisions (CoCo), which qualify as Tier II equity in conformity with provisions of Basel III, are rated Aa3.il / Stable outlook.

On June 30, 2015, Moody's rating agency confirmed the Bank's long-term deposit rating at A2 and raised the outlook from Negative to Stable. This rating has been unchanged since then.

Operating segments

For more information about supervisory operating segments, see chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" of the 2018 financial statements.

Addendums to condensed quarterly financial statements

Addendum I – Interest Revenue and Expense Rates – of the Bank and its Subsidiaries(1)

Reported amounts (NIS in millions)

A. Average balances and interest rates – assets

	For the three months ended September 30, 2019			For the three months ended September 30, 2018		
	Average balance(2)	Interest revenues	Revenue rate	Average balance(2)	Interest revenues	Revenue rate
			In %			In %
Interest-bearing assets						
Loans to the public(3)						
In Israel	194,310	(7)1,364	2.84	184,261	(7)1,686	3.71
Outside of Israel	3,319	57	7.05	3,298	57	7.09
Total	**197,629**	**1,421**	**2.91**	**187,559**	**1,743**	**3.77**
Loans to the Government						
In Israel	118	–	–	169	1	2.39
Outside of Israel	482	8	6.81	301	7	9.63
Total	**600**	**8**	**5.44**	**470**	**8**	**6.98**
Deposits with banks						
In Israel	655	3	1.84	1,253	1	0.32
Outside of Israel	230	1	1.75	144	1	2.81
Total	**885**	**4**	**1.82**	**1,397**	**2**	**0.57**
Deposits with central banks						
In Israel	40,641	21	0.21	34,435	7	0.08
Outside of Israel	5,474	30	2.21	5,055	25	1.99
Total	**46,115**	**51**	**0.44**	**39,490**	**32**	**0.32**
Securities loaned or acquired in resale agreements						
In Israel	65	–	–	142	–	–
Outside of Israel	–	–	–	–	–	–
Total	**65**	**–**	**–**	**142**	**–**	**–**
Debentures held to maturity and available for sale(4)						
In Israel	8,089	44	2.19	8,800	39	1.78
Outside of Israel	577	4	2.80	868	6	2.79
Total	**8,666**	**48**	**2.23**	**9,668**	**45**	**1.87**
Debentures held for trading(5)						
In Israel	302	–	–	252	2	3.21
Outside of Israel	–	–	–	–	–	–
Total	**302**	**–**	**–**	**252**	**2**	**3.21**
Total interest-bearing assets	**254,262**	**1,532**	**2.43**	**238,978**	**1,832**	**3.10**
Receivables for credit card operations	3,886			3,533		
Other non-interest bearing assets(6)	4,946			5,097		
Total assets	**263,094**			**247,608**		
Total interest-bearing assets attributable to operations outside of Israel	**10,082**	**100**	**4.03**	**9,666**	**96**	**4.03**

See remarks below.

Interest Revenues and Expenses Rates - of the Bank and its Subsidiaries[1] – Continued

Reported amounts (NIS in millions)

	For the nine months ended September 30, 2019			For the nine months ended September 30, 2018		
	Average balance	Interest revenues	Revenue rate	Average balance	Interest revenues	Revenue rate
			In %			In %
Interest-bearing assets						
Loans to the public						
In Israel	191,597	[7]5,361	3.75	180,416	[7]5,130	3.81
Outside of Israel	3,213	176	7.37	3,267	152	6.25
Total	**194,810**	**5,537**	**3.81**	**183,683**	**5,282**	**3.85**
Loans to the Government						
In Israel	131	1	1.02	189	3	2.12
Outside of Israel	378	24	8.55	285	15	7.08
Total	**509**	**25**	**6.60**	**474**	**18**	**5.10**
Deposits with banks						
In Israel	947	11	1.55	1,058	3	0.38
Outside of Israel	231	3	1.74	228	2	1.17
Total	**1,178**	**14**	**1.59**	**1,286**	**5**	**0.52**
Deposits with central banks						
In Israel	37,904	58	0.20	36,478	22	0.08
Outside of Israel	4,744	103	2.91	3,605	49	1.82
Total	**42,648**	**161**	**0.50**	**40,083**	**71**	**0.24**
Securities loaned or acquired in resale agreements						
In Israel	80	–	–	88	–	–
Outside of Israel	–	–	–	–	–	–
Total	**80**	**–**	**–**	**88**	**–**	**–**
Debentures held to maturity and available for sale						
In Israel	8,197	112	1.83	8,112	123	2.03
Outside of Israel	553	13	3.15	869	16	2.46
Total	**8,750**	**125**	**1.91**	**8,981**	**139**	**2.07**
Debentures held for trading						
In Israel	554	3	0.72	406	3	0.99
Outside of Israel	–	–	–	–	–	–
Total	**554**	**3**	**0.72**	**406**	**3**	**0.99**
Total interest-bearing assets	**248,529**	**5,865**	**3.16**	**235,001**	**5,518**	**3.14**
Receivables for credit card operations	3,705			3,448		
Other non-interest bearing assets	5,299			4,856		
Total assets	**257,533**			**243,305**		
Total interest-bearing assets attributable to operations outside of Israel	**9,119**	**319**	**4.69**	**8,254**	**234**	**3.80**

See remarks below.

Interest Revenues and Expenses Rates - of the Bank and its Subsidiaries[1] – Continued

Reported amounts (NIS in millions)

a Average balances and interest rates – liabilities and equity

	For the three months ended September 30, 2019			For the three months ended September 30, 2018		
	Average balance[2]	Interest expenses (revenues)	Expense (revenue) rate	Average balance[2]	Interest expenses (revenues)	Expense (revenue) rate
			In %			In %
Interest-bearing liabilities						
Deposits from the public						
In Israel						
On-call	25,143	1	0.02	21,887	16	0.29
Term deposits	123,497	308	1.00	119,109	372	1.26
Outside of Israel						
On-call	518	–	–	564	–	–
Term deposits	4,155	22	2.13	5,072	24	1.91
Total	**153,313**	**331**	**0.87**	**146,632**	**412**	**1.13**
Deposits from the Government						
In Israel	35	–	–	46	–	–
Outside of Israel	–	–	–	–	–	–
Total	**35**	**–**	**–**	**46**	**–**	**–**
Deposits from banks						
In Israel	944	2	0.85	1,149	3	1.05
Outside of Israel	3	1	–	2	–	–
Total	**947**	**3**	**1.27**	**1,151**	**3**	**1.05**
Securities loaned or sold in conjunction with repurchase agreements						
In Israel	–	–	–	–	–	–
Outside of Israel	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**
Debentures and subordinated notes						
In Israel	31,154	(16)	(0.21)	30,151	180	2.41
Outside of Israel	–	–	–	–	–	–
Total	**31,154**	**(16)**	**(0.21)**	**30,151**	**180**	**2.41**
Other liabilities						
In Israel	301	–	–	187	1	2.16
Outside of Israel	–	–	–	–	–	–
Total	**301**	**–**	**–**	**187**	**1**	**2.16**
Total interest-bearing liabilities	**185,750**	**318**	**0.69**	**178,167**	**596**	**1.34**
Non-interest bearing deposits from the public	50,614			44,855		
Payables for credit card transactions	3,884			3,533		
Other non-interest bearing liabilities[8]	5,668			6,057		
Total liabilities	**245,916**			**232,612**		
Total equity resources	**17,178**			**14,996**		
Total liabilities and equity resources	**263,094**			**247,608**		
Interest margin			**1.75**			**1.76**
Net return[9] on interest-bearing assets						
In Israel	244,180	1,137	1.88	229,312	1,164	2.05
Outside of Israel	10,082	77	3.09	9,666	72	3.01
Total	**254,262**	**1,214**	**1.92**	**238,978**	**1,236**	**2.08**
Total interest-bearing liabilities attributable to operations outside of Israel	**4,676**	**23**	**1.98**	**5,638**	**24**	**1.71**

Interest Revenues and Expenses Rates - of the Bank and its Subsidiaries[1] – Continued

Reported amounts (NIS in millions)

	For the nine months ended September 30, 2019			For the nine months ended September 30, 2018		
	Average balance	Interest expenses (revenues)	Expense (revenue) rate	Average balance	Interest expenses (revenues)	Expense (revenue) rate
			In %			In %
Interest-bearing liabilities						
Deposits from the public						
In Israel						
On-call	25,143	36	0.19	21,887	37	0.23
Term deposits	121,488	1,276	1.40	115,045	1,120	1.30
Outside of Israel						
On-call	518	–	–	564	–	–
Term deposits	5,010	75	2.00	4,856	59	1.62
Total	**152,159**	**1,387**	**1.22**	**142,352**	**1,216**	**1.14**
Deposits from the Government						
In Israel	39	–	–	49	–	–
Outside of Israel	–	–	–	–	–	–
Total	**39**	**–**	**–**	**49**	**–**	**–**
Deposits from banks						
In Israel	975	6	0.82	1,241	7	0.75
Outside of Israel	2	3	–	1	–	–
Total	**977**	**9**	**1.23**	**1,242**	**7**	**0.75**
Securities loaned or sold in conjunction with repurchase agreements						
In Israel	–	–	–	–	–	–
Outside of Israel	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**
Debentures and subordinated notes						
In Israel	29,691	478	2.15	30,114	631	2.80
Outside of Israel	–	–	–	–	–	–
Total	**29,691**	**478**	**2.15**	**30,114**	**631**	**2.80**
Other liabilities						
In Israel	248	3	1.62	112	2	2.39
Outside of Israel	–	–	–	–	–	–
Total	**248**	**3**	**1.62**	**112**	**2**	**2.39**
Total interest-bearing liabilities	**183,114**	**1,877**	**1.37**	**173,869**	**1,856**	**1.43**
Non-interest bearing deposits from the public	50,179			45,442		
Payables for credit card transactions	3,725			3,448		
Other non-interest bearing liabilities[8]	4,149			5,797		
Total liabilities	**241,167**			**228,556**		
Total equity resources	**16,366**			**14,749**		
Total liabilities and equity resources	**257,533**			**243,305**		
Interest margin			**1.65**			**1.65**
Net return[9] on interest-bearing assets						
In Israel	239,410	3,747	2.09	226,747	3,487	2.06
Outside of Israel	9,119	241	3.54	8,254	175	2.84
Total	**248,529**	**3,988**	**2.15**	**235,001**	**3,662**	**2.08**
Total interest-bearing liabilities attributable to operations outside of Israel	**5,530**	**78**	**1.89**	**5,421**	**59**	**1.45**

See remarks below.

Interest Revenues and Expenses Rates - of the Bank and its Subsidiaries[(1)] – Continued

Reported amounts (NIS in millions)

B. Average balances and interest rates – additional information about interest-bearing assets and liabilities attributed to operations in Israel

	For the three months ended September 30, 2019			For the three months ended September 30, 2018		
	Average balance[(2)]	Interest expenses (revenues)	Expense (revenue) rate	Average balance[(2)]	Interest expenses (revenues)	Expense (revenue) rate
			In %			In %
Israeli currency – non-linked						
Total interest-bearing assets	175,052	1,274	2.94	161,296	1,143	2.86
Total interest-bearing liabilities	122,119	(270)	(0.89)	120,160	(272)	(0.91)
Interest margin			**2.05**			**1.95**
Israeli currency – linked to the CPI						
Total interest-bearing assets	56,944	49	0.34	52,852	470	3.60
Total interest-bearing liabilities	38,501	106	1.10	35,501	(207)	(2.35)
Interest margin			**1.44**			**1.25**
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	12,184	109	3.63	15,164	123	3.28
Total interest-bearing liabilities	20,454	(131)	(2.59)	16,868	(93)	(2.22)
Interest margin			**1.04**			**1.06**
Total – operations in Israel						
Total interest-bearing assets	244,180	1,432	2.37	229,312	1,736	3.06
Total interest-bearing liabilities	181,074	(295)	(0.65)	172,529	(572)	(1.33)
Interest margin			**1.72**			**1.73**

Interest Revenues and Expenses Rates - of the Bank and its Subsidiaries[(1)] – Continued

Reported amounts (NIS in millions)

	For the nine months ended September 30, 2019			For the nine months ended September 30, 2018		
	Average balance	Interest expenses (revenues)	Expense (revenue) rate	Average balance	Interest expenses (revenues)	Expense (revenue) rate
			In %			In %
Israeli currency – non-linked						
Total interest-bearing assets	169,699	3,708	2.92	160,884	3,292	2.74
Total interest-bearing liabilities	120,756	(761)	(0.84)	116,583	(710)	(0.81)
Interest margin			**2.08**			**1.93**
Israeli currency – linked to the CPI						
Total interest-bearing assets	56,135	1,498	3.57	52,222	1,665	4.27
Total interest-bearing liabilities	36,735	(645)	(2.35)	35,868	(845)	(3.15)
Interest margin			**1.22**			**1.12**
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	13,576	340	3.35	13,641	327	3.21
Total interest-bearing liabilities	20,093	(393)	(2.62)	15,997	(242)	(2.02)
Interest margin			**0.73**			**1.19**
Total – operations in Israel						
Total interest-bearing assets	239,410	5,546	3.10	226,747	5,284	3.12
Total interest-bearing liabilities	177,584	(1,799)	(1.35)	168,448	(1,797)	(1.42)
Interest margin			**1.75**			**1.70**

Interest Revenues and Expenses Rates - of the Bank and its Subsidiaries(1) – Continued

Reported amounts (NIS in millions)

C. Analysis of changes in interest revenues and expenses

	For the three months ended September 30, 2019 – compared to the three months ended September 30, 2018			For the nine months ended September 30, 2019 – compared to the nine months ended September 30, 2018		
	Increase (decrease) due to change(10)			Increase (decrease) due to change(10)		
	Quantity	**Price**	**Net change**	**Quantity**	**Price**	**Net change**
Interest-bearing assets						
Loans to the public						
In Israel	71	(393)	(322)	313	(82)	231
Outside of Israel	–	–	–	(3)	27	24
Total	**71**	**(393)**	**(322)**	**310**	**(55)**	**255**
Other interest-bearing assets						
In Israel	7	11	18	6	25	31
Outside of Israel	3	1	4	22	39	61
Total	**10**	**12**	**22**	**28**	**64**	**92**
Total interest revenues	**81**	**(381)**	**(300)**	**338**	**9**	**347**
Interest-bearing liabilities						
Deposits from the public						
In Israel	16	(95)	(79)	87	68	155
Outside of Israel	(5)	3	(2)	1	15	16
Total	**11**	**(92)**	**(81)**	**88**	**83**	**171**
Other interest-bearing liabilities						
In Israel	–	(198)	(198)	(9)	(145)	(154)
Outside of Israel	–	1	1	2	2	4
Total		**(197)**	**(197)**	**(7)**	**(143)**	**(150)**
Total interest expenses	**11**	**(289)**	**(278)**	**81**	**(60)**	**21**

(1) Information in these tables is after effect of hedging I derivative instruments.
(2) Based on balances at start of the months (in Israeli currency, non-linked segment – based on daily balances).
(3) Before deduction of average balance sheet balance of provisions for credit losses. Includes impaired debt not accruing interest revenues.
(4) From (to) the average balance of debentures available for sale, for the three-month periods ended September 30, 2019 and September 30, 2018, and for the nine-month periods ended September 30, 2019 and September 30, 2018, we deducted (added) the average balance of unrealized gains (losses) from adjustment to fair value of debentures available for sale, included in equity under Cumulative Other Comprehensive Income, under "Adjustments with respect to presentation of securities available for sale at fair value", amounting to NIS 40 million, NIS (104) million, NIS (3) million and NIS (78) million, respectively.
(5) From the average balance of debentures held for trading, for the three-month periods ended September 30, 2019 and September 30, 2018, and for the nine-month periods ended September 30, 2019 and September 30, 2018, we deducted / added the average balance of unrealized gains from adjustment to fair value of debentures held for trading amounting to NIS 8 million, NIS (4) million, NIS 4 million, and NIS (3) million, respectively.
(6) Includes derivative instruments, other non-interest bearing assets, net of provision for credit losses.
(7) Commissions amounting to NIS 91 million, NIS 75 million, NIS 236 million and NIS 202 million were included in interest revenues for the three-month periods ended September 30, 2019 and June 30, 2018 and for the nine-month periods ended September 30, 2019 and June 30, 2018, respectively.
(8) Includes derivative instruments.
(9) Net return – net interest revenues divided by total interest-bearing assets.
(10) The change attributed to change in quantity was calculated by multiplying the new price by the change in quantity. The change attributed to change in price was calculated by multiplying the old quantity by the change in price.

Glossary and index of terms included on the financial statements

Below is a summary of terms included on the financial statements:

Terms with regard to risks management at the Bank and to capital adequacy

Below is a summary of terms included on the financial statements:

Terms with regard to risks management at the Bank and to capital adequacy

B	**Basel – Basel II / Basel III** – Framework for assessment of capital adequacy and risk management, issued by the Basel Committee on Bank Supervision.
C	**CVA - Credit Valuation Adjustment** – CVA is the component of the fair value of a derivative, which accounts for the credit risk of the counter-party to the transaction. CVA risk is the risk of loss due to mark-to-market with respect to expected counter-party risk for OTC derivatives. This means – loss due to impairment of fair value of derivatives, due to an increase in counter-party credit risk (such as: lower rating).
	Counter-party credit risk – The risk that the other party to a transaction would be in default before final settlement of cash flows in the transaction.
E	**EVE – Economic Value of Equity** – The economic value approach to analysis and estimation of the effect of changes in interest rates on the fair value of assets, liabilities and off-balance sheet positions of the Bank.
I	**ICAAP** – **Internal Capital Adequacy Assessment Process** by the Bank. This process includes, *inter alia*, setting capital targets, capital planning processes and review of capital status under various stress scenarios. This process is part of Pillar 2 of the Basel II directive.
L	**Loan To Value Ratio (LTV)** – The ratio between the approved facility when extended and the asset value.
M	**Minimum capital ratio** – This ratio reflects the minimum supervisory capital requirements which the Bank is required to maintain in conformity with Proper Conduct of Banking Business Directive 201.
P	**Pillar 2** – The second pillar of the Basel II project, refers to the Supervisory Review Process. This part consists of the following basic principles: The Bank shall conduct the ICAAP process, as defined above. The Supervisor shall conduct a process to assess the ICAAP process conducted by the Bank, to review the Bank's capacity to monitor and achieve supervisory capital ratios. The Bank is expected to operate above the specified minimum capital ratios.
	Pillar 3 – The third pillar of the Basel II project, designed to promote market discipline by developing a set of disclosure requirements, which would allow market participants to assess the capital, risk exposure and risk assessment processes – and use these to assess the Bank's capital adequacy.
R	**Risks document –** A document which concisely presents the Bank's risk profile, in order to allow the Board of Directors to monitor action taken by management and to ensure that such action is in line with the risk appetite and with the risks management framework approved by the Board of Directors. The Risks Document is compiled and presented to the Board of Directors quarterly.
	Risk assets – These consist of credit risk, operational risk and market risk, calculated using the standard approach as stated in Proper Conduct of Banking Business Directives 201-211.
S	**Standard approach –** An approach used to calculate the required capital with respect to credit risk, market risk or operational risk. Calculation of capital allocation is based on a formula, which is based on supervisory assessment components which have been specified by the Supervisor of Banks.
	Supervisory capital (total capital) – Supervisory capital consists of two tiers: Tier I capital, which includes Tier I capital, additional Tier I capital and Tier II capital. As defined in Proper Conduct of Banking Business Directive 202 "Measurement and capital adequacy – supervisory capital".
	Subordinated notes – Notes whose rights are subordinated to claims by other Bank creditors, except for other obligations of the same type.
	Stress tests – A title for various methods used to assess the financial standing of a banking corporation under an extreme scenario.

V	**VaR** – A model used to estimate overall exposure to diverse market risk factors. The VaR (Value at Risk) obtained by the model is a statistical estimate of the maximum expected loss for the Bank due to materialization of market risks factors in a given time period at a pre-determined statistical confidence level.

Terms with regard to banking and finance

A	**Average effective duration** – The average term to maturity of debentures. Measured in years, by weighting principal and interest payments for the debenture over its term to final maturity. The average effective duration of a debenture reflects the financial instrument's sensitivity to changes in interest rates. Average effective duration is calculated as the ratio between the weighted average debenture payouts to its price.
	Active market – A market where transactions involving an asset or liability take place regularly and in sufficient volume, so as to regularly provide information about pricing of assets and liabilities.
D	**Debentures** – Securities which are obligations by the issuer to pay to the debenture holder the principal issued plus interest, on specified dates or upon realization of a specified condition.
	Debt whose collection is contingent on collateral – Impaired debt whose repayment is expected through realization of collateral provided to secure such debt.
	Debt under restructuring – Problematic debt under restructuring is defined as debt for which, for economic or legal reasons related to financial difficulties of the debtor, the Bank has made a concession by way of modification to terms and conditions of the debt, designed to make it easier for the debtor to make cash payments in the near term (reduction or postponement of cash payments due from the debtor), or by way of receiving other assets as debt repayment (in whole or in part).
	Debt under special supervision – Debt under special supervision is debt with potential weaknesses, which require special attention by Bank management. Should these weaknesses not be addressed, the likelihood of debt repayment may deteriorate.
	Derivative – A financial instrument or contract whose value changes in response to changes in the price of the underlying asset (a financial instrument, physical asset, index, credit rating or other underlying asset), requires a small or minimal initial investment, compared to other contract types, and is expected to be settled on a future date.
F	**Financial instrument** – A contract that creates a financial asset for one entity and a financial liability or capital instrument for another entity.
I	**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 Conduct of Banking Business Directive 314 on problematic debt in housing loans.
	Indebtedness – On- and off-balance sheet credit, as defined in Proper Conduct of Banking Business Directive 313.
O	**Off-balance sheet credit** – Contracting for providing credit and guarantees (excluding derivative instruments).
P	**Problematic debt –** Debt classified under one of the following negative classifications: special supervision, inferior or impaired.
R	**Recorded debt balance** – The debt balance, including recognized accrued interest, premium or discount yet to be amortized, net deferred commissions or net deferred costs charged to the debt balance and yet to amortized, net of the debt amount subject to accounting write-off.
S	**Syndication** – A loan extended jointly by a group of lenders.

Terms with regard to regulatory directives

F	**FATCA - Foreign Accounts Tax Compliance Act** – The US Foreign Accounts Tax Compliance Act stipulates mandatory reporting to the US tax authority (IRS) of accounts held by US persons with foreign financial institutions (outside the USA).
L	**LCR – Liquidity Coverage Ratio** – Defined 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.

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