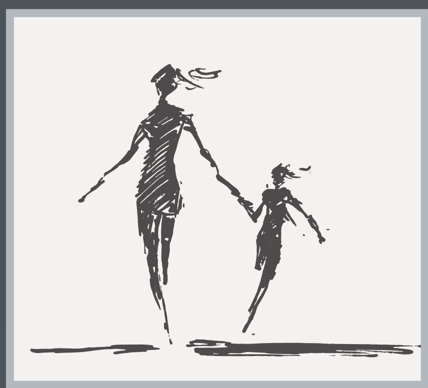
מזרחי טפחות
MIZRAHI TEFAHOT

CONDENSED CONSOLIDATED FINANCIAL REPORTS 2

AS AT 30.06.2019

Human Connections in the Mirror of Art



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

Mizrahi-Tefahot Bank

Quarterly Condensed Financial Statements

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

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

Introduction

At the meeting of the Board of Directors of Mizrahi Tefahot Bank held on August 12, 2019, it was resolved to approve and publish the Report of the Board of Directors and Management, the Risks Management Report and Other Supervisory Disclosures and the condensed consolidated financial statements of Mizrahi Tefahot Bank Ltd. and its subsidiaries as of June 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 half 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					
	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	1,543	1,231	1,260	1,236	1,345	1,081
Non-interest financing revenues	89	57	121	105	129	90
Commissions and other revenues	395	409	396	378	375	373
Total revenues	**2,027**	**1,697**	**1,777**	**1,719**	**1,849**	**1,544**
Expenses with respect to credit losses	99	76	77	61	90	82
Operating and other expenses	1,011	986	(1)1,211	936	(1)1,325	912
Of which: Payroll and associated expenses	648	636	683	598	557	569
Pre-tax profit	917	635	489	722	434	550
Provision for taxes on profit	318	213	268	250	212	192
Net profit(2)	**576**	**404**	**(1)202**	**454**	**(1)207**	**343**

	For the six months ended June 30		For the year ended December 31,
	2019	**2018**	**2018**
			NIS in millions
Statement of profit and loss – highlights			
Interest revenues, net	2,774	2,426	4,922
Non-interest financing revenues	146	219	445
Commissions and other revenues	804	748	1,522
Total revenues	**3,724**	**3,393**	**6,889**
Expenses with respect to credit losses	175	172	310
Operating and other expenses	1,997	(1)2,237	(1)4,384
Of which: Payroll and associated expenses	1,284	1,126	2,407
Pre-tax profit	1,552	984	2,195
Provision for taxes on profit	531	404	922
Net profit(2)	**980**	**(1)550**	**(1)1,206**

(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 half of 2018:	NIS 815 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.

Group net profit in the second quarter of 2019 amounted to NIS 576 million, compared to NIS 207 million in the corresponding period last year (reported net profit increased by 178.3%). Net profit excluding extraordinary items[1] in the corresponding period last year amounted to NIS 472 million, as noted above.

Group net profit in the first half of 2019 amounted to NIS 980 million, compared to reported net profit of NIS 550 million in the corresponding period last year (reported net profit increased by 78.2%). Net profit excluding extraordinary items[1] in the corresponding period last year amounted to NIS 815 million, as noted above.

Growth rate of net operating profit (excluding extraordinary items) compared to the corresponding period last year:

In the second quarter: **22.0%**

In the first half: **20.2%**

Annualized return on equity:

- In the second quarter: 15.8%, compared to 6.1% (excluding extraordinary items[1]: 14.1%) in the corresponding period last year.
- In the first half: 13.3%, compared to 8.1% (excluding extraordinary items[1]: 12.0%) in the corresponding period last year and 11.6% excluding extraordinary items(1) in 2018.

The following major factors affected Group operating profit in the second quarter and in the first half of 2019 compared to the corresponding periods last year:

- Growth in assets and higher financing margins, with total revenues increased in the second quarter of 2019 by 9.6% compared to the corresponding period last year (increased by 9.8% in the first half compared to the corresponding period last year).

  The (known) CPI, which in the past quarter increased by 1.5% (in the first half: by 1.2%), compared to increase by 1.2% in the corresponding period last year (in the first half: 0.9%) also affected total revenues. 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 second quarter and in the first half of 2018 include a provision amounting to NIS 425 million with respect to the investigation by the US DOJ.

Total operating expenses in the second quarter and in the first half 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					
	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	264,223	260,011	257,873	248,831	246,593	242,805
Loans to the public, net	200,728	196,271	194,381	189,796	187,055	183,628
Cash and deposits with banks	48,700	48,396	45,162	42,423	42,380	43,156
Securities	8,816	9,130	11,081	10,093	9,926	9,057
Buildings and equipment	1,375	1,387	1,424	1,360	1,364	1,378
Deposits from the public	205,188	204,777	199,492	192,943	189,900	187,066
Debentures and subordinated notes	31,596	27,721	30,616	29,769	30,034	29,864
Deposits from banks	554	619	625	655	875	885
Shareholders' equity(1)	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 June 30, 2019 amounted to NIS 264.2 billion – an increase by NIS 17.6 billion or (7.1%) compared to June 30, 2018.
- Loans to the public, net as of June 30, 2019 amounted to NIS 200.7 billion – an increase by NIS 13.7 billion or (7.3%) compared to June 30, 2018.
- Deposits from the public as of June 30, 2019 amounted to NIS 205.2 billion – an increase by NIS 15.3 billion or (8.1%) compared to June 30, 2018.
- Shareholder equity as of June 30, 2019 amounted to NIS 15.7 billion – an increase by NIS 1.8 billion or (12.5%) compared to June 30, 2018. 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					
	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)	15.8	11.3	(8)5.7	13.4	(8)6.1	10.3
Net profit return on risk assets(1)(2)(3)	1.48	1.06	0.54	1.24	0.60	0.97
Return on average assets(2)	0.88	0.63	0.32	0.74	0.34	0.57
Deposits from the public to loans to the public, net	102.2	104.3	102.6	101.7	101.5	101.9
Ratio of Tier I capital to risk components	10.23	10.12	10.01	10.11	9.95	10.16
Leverage ratio(4)	5.67	5.54	5.42	5.47	5.38	5.43
(Quarterly) liquidity coverage ratio(5)	118	120	116	121	120	(9)125
Ratio of revenues to average assets(2)	3.13	2.65	2.84	2.80	3.06	2.57
Operating expenses to total revenues (Cost-income ratio)(6)	49.9	58.1	(8)68.1	54.5	(8)71.7	59.1
Basic earnings per share (in NIS)	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	0.80	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	1.28	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)	0.20	0.15	0.16	0.13	0.19	0.18
Ratio of net accounting write-offs to average loans to the public(2)	0.13	0.14	0.12	0.09	0.11	0.13
Additional information						
Share price (in NIS) at end of the quarter	82.00	74.60	63.14	62.26	67.17	67.03
Dividends per share (in Agorot)(7)	(10)-	(10)-	(10)-	(10)-	59	47
Ratio of net interest revenues to average assets(2)	2.38	1.92	2.00	2.01	2.22	1.79
Ratio of commissions to average assets(2)	0.57	0.59	0.61	0.59	0.59	0.60

	For the six months ended June 30		For the year ended December 31,
	2019	2018	2018
Key performance benchmarks			
Net profit return on equity(1)(2)	13.3	(8)8.1	(8)8.5
Net profit return on risk assets(1)(2)(3)	1.27	0.77	0.83
Return on average assets(2)	0.75	0.45	0.49
Ratio of revenues to average assets(2)	2.88	2.81	2.79
Operating expenses to total revenues (Cost-income ratio)(6)	53.6	(8)65.9	(8)63.6
Basic earnings per share (in NIS)	4.19	2.36	5.17
Key credit quality benchmarks			
Expenses with respect to credit losses to loans to the public, net for the period(2)	0.17	0.18	0.16
Ratio of net accounting write-offs to average loans to the public(2)	0.13	0.12	0.11
Additional information			
Dividends per share (in Agorot)(7)	(10)-	106	(10)106
Ratio of net interest revenues to average assets(2)	2.14	2.01	1.99
Ratio of commissions to average assets(2)	0.58	0.60	0.60

Financial ratios indicate:

- Significant improvement in net profit return, to 15.8% in the second quarter and to 13.3% in the first half.
- In the first half of 2019. the safety margins for ratio of Tier I capital to risk components continued to improve.
- The current cost-income ratios are good over time, and in the current quarter even dropped below 50.0%.
- Expense rate with respect to credit losses in the first half decreased to 0.17%, compared to 0.18% in the corresponding period last year.

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

(1) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and equity attributable to shareholders of the Bank.
(2) 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 the effects of the investigation, i.e. excluding the aforementioned provisions 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:

Return on equity in the second quarter of 2018:	14.1%.
Return on equity in the fourth quarter of 2018:	10.7%.
Return on equity in the first half of 2018:	12.0%.
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 in the fourth quarter of 2018:	61.3%.
Cost-income ratio in the first half of 2018:	55.9%.
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 to the first quarter of 2019. For more information on declaration of dividend distribution with respect to earnings of the second quarter of 2019, see chapter Dividends below.

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

The plan includes issue of contingent subordinated notes (Contingent Convertibles – CoCo) as needed and should ensure that the overall capital ratio in 2019 would be at least 13.33%.

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.

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 June 30, 2019 amounted to NIS 205.2 billion, compared to NIS 199.5 billion at end of 2018: an increase by 2.9%. Deposits from the public in the NIS-denominated, non-CPI linked segment increased in the first half of 2019 by 2.1%; deposits in the CPI-linked segment increased by 7.5%; and deposits denominated in or linked to foreign currency increased by 3.8%. 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.

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.

In the first half 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 31.6 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 June 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 June 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 June 30, 2019, amounted to NIS 1.6 billion, similar to 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 aby 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 Bank Yahav 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.

Developments in international geographic deployment

The international operations segment of the Bank Group includes business operations and private banking services via subsidiaries, branches and affiliates in Israel, 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 Immediate 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

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:

After in 2018, a trend of monetary cut-back started in some developed markets, reflected in higher interest rates and in cut-back in quantitative easing. This trend appears to have stopped as from early 2019. In the USA, the Fed interest rate for July 2019 was lowered by 0.25 percentage points, to 2.00%-2.25%; In Europe, the ECB announced that monetary interest rates would not be raised in 2019.

Developments in the Israeli and global economy in the second quarter and in the first half of 2019

Israeli economy

Real Developments

The GDP growth rate in the first quarter of 2019 was 5.0%, compared to 3.9% in the previous quarter and compared to 3.3% for all of 2018. The GDP growth rate in the first quarter of 2019 was favorably affected by the following: Sharp increase in growth rate of durable goods (mostly the impact of vehicle purchases being brought forward prior to increase in green tax), further growth in investment in economic sectors and growth in exports of goods and services. Conversely, the growth rate was negatively impacted by continued lower investment in residential construction, and by moderation of growth in current private consumption. Some of the economic indicators point to more moderate growth in the second quarter of this year.

The Bank of Israel Composite Index increased in the first six months of this year at an annualized rate of 3.0%, compared to an increase of 3.4% and 3.9% in 2018 and 2017, respectively. The Bank of Israel estimates that in the first half of 2019, the economy grew in line with its potential growth rate, by 3%.

Inflation and exchange rates

In the first half of 2019, the Consumer Price Index increased by 0.9%; similar to the corresponding period last year. The CPI was higher primarily due to higher prices of transportation and communications, education and culture, housing and home maintenance as well as food. The higher prices were partially offset by lower prices of clothing and footwear. In the twelve months ended June 2019, the CPI increased by 0.8%.

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

	June 30, 2019	December 31, 2018	Change in %
Exchange rate of:			
USD (in NIS)	3.566	3.748	(4.9)
EUR (in NIS)	4.062	4.292	(5.4)

On August 6, 2019, the USD/NIS exchange rate was 3.494 – a 3.8% revaluation compared to June 30, 2019. The EUR/NIS exchange rate on this date was 3.908 – a revaluation by 4.2% since June 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 more moderate growth in private consumption along with stagnation in exportation of goods; medium-term inflationary expectations slightly above the center of the price stability target; 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 and the growing likelihood of expansive monetary policy applied in these economies.

In late July 2019, the Governor of the Bank of Israel announced that in their opinion, interest rates in Israel would remain unchanged for an extended time period.

Fiscal policy

In the first half of 2019, the government budget recorded a NIS 21.9 billion cumulative deficit, compared to a NIS 7.8 billion cumulative budget deficit in the corresponding period last year. The deficit rate as percentage of GDP for the 12 months ended in June 2019 was 3.9%, compared to a deficit target of 2.9% for 2019 and for 2018. In the first half of 2019, expenditure by Government ministries increased by 10.4% compared to the corresponding period last year, whereas total tax collection increased only by a nominal 1.9%.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, in the first five months of 2019 demand for new apartments (apartments sold and apartments constructed not for sale) was 17.4 thousand apartments, an increase by 12% over the corresponding period last year and a decrease by 5% 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 five months of 2019, housing loans given to the public amounted to NIS 26.1 billion, compared to NIS 23.7 billion in the corresponding period last year and NIS 21.2 billion in the corresponding period in 2017 – an increase by 10% and 23%, respectively.

According to data from the Central Bureau of Statistics, owned housing prices, in terms of twelve months ended May 2019, increased by 1.6%, compared to a decrease by 1.6% in 2018 and an increase by 0.4% in the corresponding period last year.

Capital market

Trading on global equity markets in the second 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	**Second Quarter**	**First Quarter**	**Fourth Quarter**	**Third Quarter**	**Second Quarter**	**First Quarter**
Tel-Aviv 35	3.6	5.4	(10.9)	8.3	5.6	(4.9)
Tel-Aviv 125	4.7	6.4	(10.2)	9.0	4.0	(4.0)
Tel-Aviv 90	7.1	10.2	(9.0)	9.9	(1.3)	(1.7)

The average daily trading volume of shares and convertible securities in the second quarter of 2019 amounted to NIS 1.3 billion on average – similar to the average trading volume for the corresponding period last year.

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

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

Global economy

The US economy grew in the second quarter of 2019 at an annualized 2.1%, compared to 3.1% in the previous quarter and compared to 2.9% for all of 2018. The retail trade and industrial output indices and the purchasing manager index were more moderate in the first half of 2019, given continued trade tensions with China and the EU. Following moderation of most economic indicators, in July 2019 the Fed lowered interest rates by 0.25 percentage point, to 2.0%-2.25%. The capital market indicates expectation of two further interest rate reductions by end of 2019, due to deterioration in the trade war.

In the first quarter of 2019, GDP in the Euro Zone grew at an annualized 1.2%, similar to growth in the previous quarter and compared to 1.8% growth in all of 2018. In the first half of this year, the industrial output index continued to decline, as did the purchasing manager index and the expectation benchmarks. The retail commerce index was more moderate in the second quarter. Due to slower economic activity in Europe, as from the start of 2019, the ECB announced that interest rates would not be raised in 2019 and announced a new loan program for commercial banks (TLTRO) to promote lending to businesses. In April 2019, the EU confirmed the UK's request to delay its exit from the EU until October 31, 2019.

China's economy grew in the second quarter of 2019 at an annualized 6.2%, compared to 6.4% in the previous quarter and compared to 6.6% for all of 2018. Growth rates of the industrial output and retail trade benchmarks were more moderate in the first half of 2019, although they improved late in this period. The purchasing manager index declined, indicating a decline in economic activity.

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

	2019					2018
Indices	**Second Quarter**	**First Quarter**	**Fourth Quarter**	**Third Quarter**	**Second Quarter**	**First Quarter**
Dow Jones	2.6	11.2	(11.8)	9.0	0.7	(2.5)
S&P 500	3.8	13.1	(14.3)	7.2	2.9	(1.2)
NASDAQ 100	4.0	16.6	(17.0)	8.3	7.0	2.9
DAX	7.6	9.2	(13.8)	(0.5)	1.7	(6.4)
FTSE 100	2.0	8.2	(10.4)	(1.7)	8.2	(8.2)
CAC	3.5	13.1	(13.9)	3.2	3.0	(2.7)
Nikkei	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 second 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 first half 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.
- On August 4, 2019, after the balance sheet date, Tefahot Issuance published a shelf prospectus, dated August 5, 2019, for issuance of obligatory notes.

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

Group net profit in the second quarter of 2019 amounted to NIS 576 million, compared to NIS 207 million in the corresponding period last year (reported net profit increased by 178.3%). Net profit excluding extraordinary items[(1)] in the corresponding period last year amounted to NIS 472 million.

Group net profit in the first half of 2019 amounted to NIS 980 million, compared to reported net profit of NIS 550 million in the corresponding period last year (reported net profit increased by 78.2%). Net profit excluding extraordinary items[(1)] in the corresponding period last year amounted to NIS 815 million.

Growth rate of net operating profit (excluding extraordinary items) compared to the corresponding period last year:

In the second quarter: **22.0%**

In the first half: **20.2%**

Annualized return on equity:

- In the second quarter: 15.8%, compared to 6.1% (excluding extraordinary items[(1)]: 14.1%) in the corresponding period last year.
- In the first half: 13.3%, compared to 8.1% (excluding extraordinary items[(1)]: 12.0%) in the corresponding period last year and 11.6% excluding extraordinary items[(1)] in 2018.

Analysis of developments in revenues, expenses and other comprehensive income

Net interest revenues and non-interest financing revenues [(2)] from current operations in the second second quarter of 2019 amounted to NIS 1,632 million, compared to NIS 1,474 million in the corresponding period last year, an increase by 10.7%.

Net interest revenues and non-interest financing revenues[(2)] in the first half of 2019 amounted to NIS 2,920 million, as described below, compared to NIS 2,645 million in the corresponding period last year, an increase by 10.4%.

Net interest revenues and non-interest financing revenues[(2)] from current operations in the first second quarter of 2019 amounted to NIS 1,357 million, as described below, compared to NIS 1,221 million in the corresponding period last year, an increase by 11.1%.

Net interest revenues and non-interest financing revenues[(2)] from current operations in the first half of 2019 amounted to NIS 2,706 million, as described below, compared to NIS 2,362 million in the corresponding period last year, an increase by 14.6%.

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 %
	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Second quarter of 2019 to second quarter of 2018
Interest revenues, net	1,543	1,231	1,260	1,236	1,345	1,081	
Non-interest financing revenues[(2)]	89	57	121	105	129	90	
Total financing revenues	**1,632**	**1,288**	**1,381**	**1,341**	**1,474**	**1,171**	**10.7**
Less:							
Effect of CPI	235	(42)	17	32	172	(39)	
Revenues from collection of interest on problematic debts	9	12	12	9	8	12	
Gains from realized debentures and available-for-sale securities and gains from debentures held for trading, net	1	12	2	11	–	2	
Effect of accounting treatment of derivatives at fair value and others[(3)(4)]	30	(43)	26	36	73	55	
Total effects from other than current operations	**275**	**(61)**	**57**	**88**	**253**	**30**	
Total financing revenues from current operations	**1,357**	**1,349**	**1,324**	**1,253**	**1,221**	**1,141**	**11.1**

	Six months		
	2019	**2018**	**Change in %**
Total financing revenues	**2,920**	**2,645**	**10.4**
Total effects from other than current operations	**214**	**283**	
Total financing revenues from current operations	**2,706**	**2,362**	**14.6**

(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 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.

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

	Second quarter of			
Operating segment	**2019**	**2018**	**Change amount**	**Change rate (In %)**
Individuals:				
Households – housing loans	415	372	43	11.6
Households – other	337	307	30	9.8
Private banking	22	20	2	10.0
Total – individuals	**774**	**699**	**75**	**10.7**
Business operations:				–
Small and micro businesses	287	246	41	16.7
Medium businesses	75	59	16	27.1
Large businesses	131	131	–	–
Institutional investors	30	29	1	3.4
Total – business operations	**523**	**465**	**58**	**12.5**
Financial management	278	260	18	6.9
Total activity in Israel	**1,575**	**1,424**	**151**	**10.6**
Overseas operations	57	50	7	14.0
Total	**1,632**	**1,474**	**158**	**10.7**

	First half of			
Operating segment	**2019**	**2018**	**Change amount**	**Change rate (In %)**
Individuals:				
Households – housing loans	818	729	89	12.2
Households – other	672	605	67	11.1
Private banking	44	36	8	22.2
Total – individuals	**1,534**	**1,370**	**164**	**12.0**
Business operations:				
Small and micro businesses	567	479	88	18.4
Medium businesses	143	117	26	22.2
Large businesses	263	259	4	1.5
Institutional investors	62	60	2	3.3
Total – business operations	**1,035**	**915**	**120**	**13.1**
Financial management	237	258	(21)	(8.1)
Total activity in Israel	**2,806**	**2,543**	**263**	**10.3**
Overseas operations	114	102	12	11.8
Total	**2,920**	**2,645**	**275**	**10.4**

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):

	Second quarter of			First half of		
Linkage segment	**2019**	**2018**	**Change in %**	**2019**	**2018**	**Change in %**
Israeli currency – non-linked	169,728	161,041	5.4	167,751	160,512	4.5
Israeli currency – linked to the CPI	55,665	52,169	6.7	55,701	51,972	7.2
Foreign currency (including Israeli currency linked to foreign currency)	12,645	13,629	(7.2)	13,582	12,958	4.8
Total	**238,038**	**226,839**	**4.9**	**237,034**	**225,442**	**5.1**

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:

	Second quarter of		First half of	
Linkage segments	**2019**	**2018**	**2019**	**2018**
Israeli currency – non-linked	2.10	1.97	2.11	1.94
Israeli currency – linked to the CPI	1.00	1.12	1.04	1.08
Foreign currency	0.68	1.00	0.73	1.29
Total	**1.86**	**1.78**	**1.79**	**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 – higher financing margins compared to the corresponding period last year.

In the CPI-linked NIS-denominated sector – the lower interest rate spread is due to raising of long-term sources with fixed costs.

In the foreign currency segment – higher FED interest rates impacted the cost of sources. Net revenues from derivative assets were excluded from the aforementioned interest rate spreads. 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 99 million in the second quarter of 2019, or an annualized rate of 0.20% of total loans to the public, net, compared with NIS 90 million in the corresponding period last year – an annualized rate of 0.19% of total loans to the public, net.

Expenses with respect to credit losses for the Group amounted to NIS 175 million in the first half of 2019, or an annualized rate of 0.17% of total loans to the public, net, compared with NIS 172 million in the corresponding period last year – an annualized rate of 0.18% of total loans to the public, net in the corresponding period last year.

The individual provision, as set forth below, was impacted by expenses with respect to credit losses due to a small number of clients.

The expense rate with respect to credit losses due to commercial loans other than housing loans, as set forth below, decreased in the first half to 0.44%, compared to 0.48% in the corresponding period last year.

The expense rate with respect to credit losses due to housing loans was stable, as set forth below.
Development of expenses with respect to credit losses (NIS in millions) is as follows:

	Second quarter of		First half of	
	2019	**2018**	**2019**	**2018**
Provision for credit losses on individual basis (including accounting write-offs)				
Increased expenses	122	83	226	176
Reduced expenses	(42)	(34)	(97)	(67)
Total individual provision	**80**	**49**	**129**	**109**
Provision for credit losses on Group basis:				
By extent of arrears	2	4	5	4
Other	17	37	41	59
Total expenses with respect to credit losses	**99**	**90**	**175**	**172**
Rate of the expenses with respect to credit losses as percentage of total loans to the public, net (annualized)	**0.20%**	**0.19%**	**0.17%**	**0.18%**
Of which: With respect to commercial loans other than housing loans	**0.50%**	**0.49%**	**0.44%**	**0.48%**
Of which: With respect to housing loans	**0.03%**	**0.04%**	**0.03%**	**0.03%**

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

	Second quarter of		First half of	
Operating segment	**2019**	**2018**	**2019**	**2018**
Individuals:				
Households – housing loans	11	11	19	17
Households – other	24	27	51	49
Private banking	–	1	–	1
Total – individuals	**35**	**39**	**70**	**67**
Business operations:				
Small and micro businesses	29	33	66	71
Medium businesses	15	6	16	10
Large businesses	23	11	28	19
Institutional investors	(2)	1	(3)	1
Total – business operations	**65**	**51**	**107**	**101**
Financial management	(1)	1	(3)	2
Total activity in Israel	**99**	**91**	**174**	**170**
Overseas operations	–	(1)	1	2
Total	**99**	**90**	**175**	**172**

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 484 million in the second quarter of 2019, compared with NIS 504 million in the corresponding period last year – a decrease by NIS 20 million.

Non-interest revenues for the Group in the first half of 2019 amounted to NIS 950 million, compared to NIS 967 million in the corresponding period last year, a decrease by NIS 17 million. See explanation below.

Non-interest financing expenses in the first quarter of 2019 amounted to NIS 89 million, compared to NIS 129 million in the corresponding period last year.

Non-interest financing revenues in the fourth half of 2019 amounted to NIS 146 million, compared to NIS 219 million in the corresponding period last year.

Non-interest financing revenues include gain from shares not held for trading, amounting to NIS 32 million, NIS 16 million in each quarter in the first half of 2019.

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

Commission revenues in the second quarter of 2019 amounted to NIS 373 million, compared to NIS 363 million in the corresponding period last year – an increase by 2.8%.

Commission revenues in the first half of 2019 amounted to NIS 756 million, compared to NIS 725 million in the corresponding period last year – an increase by 4.3% – due to continued business expansion.

Other revenues in the second quarter of 2019, amounted to NIS 22 million compared with NIS 12 million in the corresponding period last year – an increase by NIS 10 million.

Other revenues in the first half of 2019, amounted to NIS 48 million compared with NIS 23 million in the corresponding period last year – an increase by NIS 25 million.

For the second quarter and for the first half of 2019, this includes capital gains amounting to NIS 10 million and NIS 26 million, respectively, from realization of assets in conjunction with asset reorganization and improvements to the Bank's branch network.

Operating and other expenses in the second quarter of 2019, amounted to NIS 1,011 million compared with NIS 1,325 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 second quarter of 2019, excluding the provision with respect the US DOJ investigation, as set forth above, increased by 12.3% compared to the corresponding period last year.

Operating and other expenses in the first half of 2019, amounted to NIS 1,997 million compared with NIS 2,237 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 half of 2019, excluding the provision with respect the US DOJ investigation, increased by 10.2% compared to the corresponding period last year.

See details by operating expense component below.

Payroll and associated expenses amounted to NIS 648 million in the second quarter of 2019, compared with NIS 557 million in the corresponding period last year – an increase by 16.3%.

Payroll and associated expenses amounted to NIS 1,284 million in the first half of 2019, compared with NIS 1,126 million in the corresponding period last year – an increase by 14.0%.

Beyond the current growth in payroll expenses and timing differences between comparison periods in recognizing associated 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 194 million in the second quarter of 2019, compared with NIS 186 million in the corresponding period last year – an increase by 4.3%.

Maintenance and depreciation expenses for buildings and equipment amounted to NIS 385 million in the first half of 2019, compared with NIS 375 million in the corresponding period last year – an increase by 2.7%.

Other expenses in the second quarter of 2019, amounted to NIS 169 million compared with NIS 582 million in the corresponding period last year, including a provision amounting to NIS 425 million with respect to the US DOJ investigation.

Other expenses in the first half of 2019, amounted to NIS 328 million compared with NIS 736 million in the corresponding period last year, including a provision amounting to NIS 425 million with respect to the US DOJ investigation. Other expenses in the first half of 2019 increased by 5.5% compared to the corresponding period last year (excluding the provision with respect to the investigation). The increase in the first half is due to temporary differences in expense recognition throughout the year, compared to the corresponding period last year.

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

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

	First half of		All of
	2019	2018	2018
Cost-income ratio	53.6	(2)65.9	(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 half of 2018: 55.9%.
In all of 2018: 57.2%.

Pre-tax profit for the Group in the second quarter of 2019 amounted to NIS 917 million, compared to NIS 434 million in the corresponding period last year – an increase by NIS 483 million.

Pre-tax profit for the Group in the first half of 2019 amounted to NIS 1,552 million, compared to NIS 984 million in the corresponding period last year – an increase by NIS 568 million. See detailed explanation above.

The rate of provision for taxes on profit in the second quarter of 2019 was 34.7%.

The rate of provision for taxes on profit in the first half of 2019 was 34.2%.

Bank share of after-tax profit of associates – in the second quarter of 2019 there was no profit with respect to associates, compared to profit of NIS 1 million in the corresponding period last year.

Bank share of after-tax profit of associates – in the first half 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 Bank Yahav in the second quarter of 2019 amounted to NIS 23 million, compared to NIS 16 million in the corresponding period last year**.**

The share of the non-controlling interests in net results of subsidiaries attributable to Bank Yahav in the first half of 2019 amounted to NIS 41 million, compared to NIS 31 million in the corresponding period last year.

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

Net profit attributable to shareholders of the Bank in the second quarter of 2019 amounted to NIS 576 million, compared to NIS 207 million in the corresponding period last year.

Net profit attributable to shareholders of the Bank in the first half of 2019 amounted to NIS 980 million, compared to NIS 550 million in the corresponding period last year.

Other comprehensive income attributable to shareholders of the Bank in the second quarter of 2019 amounted to NIS 26 million, similar to the corresponding period last year.

Other comprehensive income attributable to shareholders of the Bank in the first half of 2019 amounted to income of NIS 62 million, compared to other comprehensive loss of NIS 2 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
	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net return on equity	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	10.23	10.12	10.01	10.11	9.95	10.16
(Quarterly) liquidity coverage ratio	118	120	116	121	120	(6)125
Leverage ratio at end of quarter	5.67	5.54	5.42	5.47	5.38	5.43

	First half of		All of
	2019	2018	2018
Net return on equity	13.3	(5)8.1	(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 half of 2018: 12.0%.
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):

	Second quarter of		First half of		All of
	2019	2018	2019	2018	2018
Basic earnings per share	2.46	0.89	4.19	2.36	5.17
Diluted earnings per share	2.45	0.88	4.17	2.35	5.15
Dividends per share	(1)-	59	(1)-	106	(1)106

(1) No dividends were declared from the second quarter of 2018 to the first quarter of 2019. For more information on declaration of dividend distribution with respect to earnings of the second quarter of 2019, see chapter Dividends below.

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

Assets and liabilities

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

				Change in % over	
		June 30,	December 31,	June 30,	December 31,
	2019	2018	2018	2018	2018
Balance sheet total	264,223	246,593	257,873	7.1	2.5
Cash and deposits with banks	48,700	42,380	45,162	14.9	7.8
Loans to the public, net	200,728	187,055	194,381	7.3	3.3
Securities	8,816	9,926	11,081	(11.2)	(20.4)
Buildings and equipment	1,375	1,364	1,424	0.8	(3.4)
Deposits from the public	205,188	189,900	199,492	8.1	2.9
Deposits from banks	554	875	625	(36.7)	(11.4)
Debentures and subordinated notes	31,596	30,034	30,616	5.2	3.2
Shareholders' equity	15,740	13,986	14,681	12.5	7.2

Cash and deposits with banks – the balance of cash and deposits with banks increased in the first half of 2019 by NIS 3.5 billion. The increase in the cash balance is part of on-going management of Bank liquidity.

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 June 30, 2019 accounted for 76% of total assets, compared to 75% at the end of 2018. Loans to the public, net for the Group increased in the first half of 2019 by NIS 6.3 billion, an increase by 3.3%.

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	
		June 30,	December 31,	June 30,	December 31,
	2019	2018	2018	2018	2018
Israeli currency					
Non-linked	133,845	124,557	129,087	7.5	3.7
CPI-linked	55,884	51,534	53,339	8.4	4.8
Foreign currency and foreign currency linked	10,999	10,964	11,955	0.3	(8.0)
Total	**200,728**	**187,055**	**194,381**	**7.3**	**3.3**

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

				Change in % over	
		June 30,	December 31,	June 30,	December 31,
	2019	2018	2018	2018	2018
Individuals:					
Households – housing loans	130,140	122,168	126,105	6.5	3.2
Households – other	21,061	20,593	20,932	2.3	0.6
Private banking	104	95	98	9.5	6.1
Total – individuals	**151,305**	**142,856**	**147,135**	**5.9**	**2.8**
Business operations:					
Small and micro businesses	20,059	17,775	18,977	12.8	5.7
Medium businesses	7,196	5,822	6,585	23.6	9.3
Large businesses	17,107	15,640	16,236	9.4	5.4
Institutional investors	1,098	1,388	1,331	(20.9)	(17.5)
Total – business operations	**45,460**	**40,625**	**43,129**	**11.9**	**5.4**
Overseas operations	3,963	3,574	4,117	10.9	(3.7)
Total	**200,728**	**187,055**	**194,381**	**7.3**	**3.3**

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 June 30, 2019**			**As of June 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	1,120	63	1,183	897	45	942	1,101	64	1,165
Inferior credit risk	151	–	151	310	–	310	152	–	152
Credit risk under special supervision[(2)]	2,086	47	2,133	1,623	34	1,657	1,724	48	1,772
Total problematic credit risk	**3,357**	**110**	**3,467**	**2,830**	**79**	**2,909**	**2,977**	**112**	**3,089**
Of which: Non-impaired debts in arrears 90 days or longer[(2)]	1,463			1,220			1,316		
2. Non-performing assets[(3)]	**1,073**			**866**			**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 1,407 million (as of June 30, 2018 – NIS 1,159 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 June 30, 2019 amounted to NIS 261 billion, compared to NIS 254 billion as of December 31, 2018 – an increase by 2.7%.

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

				Change in % over	
		June 30,	December 31,	June 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	16,324	16,836	15,586	(3.0)	4.7
Guarantees to home buyers	11,142	11,448	10,544	(2.7)	5.7
Irrevocable commitments for loans approved but not yet granted	17,228	16,577	16,730	3.9	3.0
Unutilized revolving credit card facilities	7,948	7,352	7,574	8.1	4.9
Commitments to issue guarantees	7,807	7,607	7,482	2.6	4.3
Guarantees and other liabilities	7,882	6,550	7,945	20.3	(0.8)
Loan guarantees	2,442	2,222	2,388	9.9	2.3
Documentary credit	166	232	292	(28.4)	(43.2)
Financial derivatives[(2)]:					
Total par value of derivative financial instruments	231,735	247,937	246,375	(6.5)	(5.9)
(On-balance sheet) assets with respect to derivative instruments	2,117	3,453	3,240	(38.7)	(34.7)
(On-balance sheet) liabilities with respect to derivative instruments	2,276	3,364	3,661	(32.3)	(37.8)

(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 half of 2019 by NIS 2.3 billion, and decreased by NIS 1.1 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 a mount	Amortized cost (for shares – cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[1]
					June 30, 2019
Debentures held to maturity	2,701	2,701	42	–	2,743
Debentures available for sale	5,576	5,537	[2]53	[2](14)	5,576
Investment in shares not held for trading[4]	126	110	[3]16	–	126
Debentures held for trading	413	412	[3]1	–	413
Total securities	**8,816**	**8,760**	**112**	**(14)**	**8,858**
					June 30, 2018
Securities held to maturity	3,081	3,081	48	(2)	3,127
Securities available for sale	6,424	6,525	[2]5	[2](106)	6,424
Securities held for trading	421	426	–	[3](5)	421
Total securities	**9,926**	**10,032**	**53**	**(113)**	**9,972**
					December 31, 2018
Securities held to maturity	3,917	3,917	29	(6)	3,940
Securities available for sale	6,876	6,965	[2]6	[2] (95)	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 Regulations 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	
		June 30,	**December 31,**	**June 30,**	**December 31,**
	2019	**2018**	**2018**	**2018**	**2018**
Israeli currency					
Non-linked	2,872	3,781	4,661	(24.0)	(38.4)
CPI-linked	754	417	418	80.8	80.4
Foreign currency and foreign currency linked	5,064	5,637	5,910	(10.2)	(14.3)
Non-monetary items	126	91	92	38.5	37.0
Total	**8,816**	**9,926**	**11,081**	**(11.2)**	**(20.4)**

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

	Carrying amount as of		
	June 30, 2019	**June 30, 2018**	**December 31, 2018**
Government debentures:			
Government of Israel	6,355	7,763	8,625
Government of USA	2,028	1,588	1,862
Total government debentures	**8,383**	**9,351**	**10,487**
Debentures of banks in developed nations[(1)]:			
USA	72	71	74
Germany	91	179	186
Other	144	217	224
Total debentures of banks in developed nations	**307**	**467**	**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	**126**	**91**	**92**
Of which: Shares for which no fair value is available	[(2)]57	[(3)]90	[(3)]91
Total securities	**8,816**	**9,926**	**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 Regulations 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 half of 2019 by NIS 49 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 June 30, 2019, compared to 77% as of December 31, 2018. In the first half of 2019, deposits from the public with the Bank Group increased by NIS 5.7 billion, or 2.9% (increase by 8.1% over the end of the corresponding period last year).

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

				Change in % over	
		June 30,	**December 31,**	**June 30,**	**December 31,**
	2019	**2018**	**2018**	**2018**	**2018**
Israeli currency					
Non-linked	148,820	141,259	145,705	1.1	2.1
CPI-linked	15,520	13,913	14,443	11.6	7.5
Foreign currency and foreign currency linked	40,848	34,728	39,344	17.6	3.8
Total	**205,188**	**189,900**	**199,492**	**8.1**	**2.9**

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

				Change in % over	
		June 30,	December 31,	June 30,	December 31,
	2019	2018	2018	2018	2018
Individuals:					
Households – other	84,917	77,996	82,119	8.9	3.4
Private banking	14,179	12,712	13,777	11.5	2.9
Total – individuals	**99,096**	**90,708**	**95,896**	**9.2**	**3.3**
Business operations:					
Small and micro businesses	25,342	19,893	22,664	27.4	11.8
Medium businesses	8,316	7,775	8,332	7.0	(0.2)
Large businesses	25,943	25,187	29,460	3.0	(11.9)
Institutional investors	41,731	40,733	37,712	2.5	10.7
Total – business operations	**101,332**	**93,588**	**98,168**	**8.3**	**3.2**
Overseas operations	4,760	5,604	5,428	(15.1)	(12.3)
Total	**205,188**	**189,900**	**199,492**	**8.1**	**2.9**

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:

		June 30,	December 31,
	2019	2018	2018
Maximum deposit			
Up to 1	72,114	66,501	69,559
Over 1 to 10	48,962	43,719	47,240
Over 10 to 100	28,735	27,337	26,703
Over 100 to 500	20,297	24,562	18,658
Above 500	35,080	27,781	37,332
Total	**205,188**	**189,900**	**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 June 30, 2019 amounted to NIS 0.6 billion, a decrease by NIS 0.1 billion compared to December 31, 2018.

Debentures and subordinated notes – The balance of debentures and subordinated notes as of June 30, 2019 amounted to NIS 31.6 billion, an increase by NIS 1.0 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 June 30, 2019 amounted to NIS 15.7 billion, compared to NIS 14.7 billion and NIS 14.0 billion as of December 31, 2018 and as of June 30, 2018, an increase by 7.2% and 12.5%, respectively.

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

	June 30,		December 31,
	2019	**2018**	**2018**
Share capital and premium(1)	2,218	2,191	2,197
Capital reserve from benefit from share-based payment transactions	44	54	48
Total cumulative other loss(2)(3)	(284)	(385)	(346)
Retained earnings(4)	13,762	12,126	12,782
Total	**15,740**	**13,986**	**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 June 30, 2019 was 5.96% compared to 5.69% as of December 31, 2018 and 5.67% as of June 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 June 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.

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 June 30,		As of December 31,
	2019	**2018**	**2018**
Capital for purpose of calculating the capital ratio			
Tier I shareholders' equity	16,220	14,508	15,172
Tier I capital	16,220	14,508	15,172
Tier II capital	5,783	4,860	5,515
Total capital	**22,003**	**19,368**	**20,687**
Weighted risk asset balances			
Credit risk	146,566	134,881	140,572
Market risks	2,214	1,748	1,494
Operational risk	9,846	9,155	9,561
Total weighted risk asset balances	**158,626**	**145,784**	**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 %):

	June 30, 2019	**June 30, 2018**	**December 31, 2018**
Ratio of Tier I capital to risk components	10.23	9.95	10.01
Ratio of total capital to risk components	13.87	13.29	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 June 30, 2019		As of June 30, 2018		As of December 31, 2018	
Exposure group	**Weighted risk asset balances**	**Capital require-ement(1)**	**Weighted risk asset balances**	**Capital requi-rement(2)**	**Weighted risk asset balances**	**Capital requi-rement(3)**
Sovereign debts	218	29	847	113	223	30
Public sector entity debts	205	27	521	70	197	26
Banking corporation debts	677	90	767	102	712	95
Corporate debts	43,829	5,842	39,970	5,332	42,166	5,625
Debts secured by commercial real estate	3,279	437	2,512	335	2,523	337
Retail exposure to individuals	15,835	2,111	14,757	1,969	15,154	2,022
Loans to small businesses	7,186	958	7,011	935	7,468	996
Residential mortgages	69,613	9,279	63,599	8,484	66,663	8,893
Other assets	5,333	711	4,392	586	4,890	652
Total	**146,175**	**19,484**	**134,376**	**17,926**	**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 June 30, 2019		As of June 30, 2018		As of December 31, 2018	
	Weighted risk asset balances	**Capital require-ement(1)**	**Weighted risk asset balances**	**Capital require-ment(2)**	**Weighted risk asset balances**	**Capital require-ment(3)**
Market risk	2,214	294	1,748	233	1,494	198
CVA risk with respect to derivatives(4)	391	52	505	67	576	77
Operational Risk(5)	9,846	1,312	9,155	1,221	9,561	1,275
Total	**12,451**	**1,658**	**11,408**	**1,521**	**11,631**	**1,550**
Total risk assets	**158,626**	**21,142**	**145,784**	**19,447**	**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 :

	As of June 30, 2019	As of June 30, 2018	As of December 31, 2018
1. Consolidated data			
Tier I capital	16,220	14,508	15,172
Total exposure	285,858	269,911	279,879
			In %
Leverage ratio	5.67	5.38	5.42
Minimum leverage ratio required by the Supervisor of Banks	5.00	5.00	5.00
2. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and its subsidiaries			
Leverage ratio	5.45	5.27	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 August 12, 2019, the Bank’s Board of Directors resolved to distribute dividends amounting to a cumulative NIS 392 million, or 40% of net profit for the fourth half of 2019 due, *inter alia*, to the fact that the Bank had not distributed any dividends since the second quarter of 2018 and in view of the Bank's operating results in the first half of 2019.

This dividend distribution is with consent of the Supervisor of Banks.

The cumulative amount to be distributed by this resolution is 1,672.1% of issued share capital, i.e. NIS 1.6721 per NIS 0.1 par value share. The effective date for dividends payment is August 20, 2019 and the payment date is August 27, 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	30	109.5
May 7, 2018	June 5, 2018	58.91	40	137.2
Total dividends distributed in 2018[(1)]				**246.7**

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

Other Off Balance Sheet Activity

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

				Change in % over	
		June 30,	December 31,	30 יוני	December 31,
	2019	2018	2018	2018	2018
Securities[(1)(2)]	416,893	240,374	233,600	73.4	78.5
Assets of provident funds for which the Group provides operating services	89,914	80,257	79,865	12.0	12.6
Assets held in trust by the Bank Group	70,327	76,026	70,153	(7.5)	0.2
Assets of mutual funds for which the Bank provides operating services	12,394	17,903	14,514	(30.8)	(14.6)
Other assets under management[(3)]	15,438	13,918	14,260	10.9	8.3

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

(2) 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 noted above.

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

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

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

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

For more information about principles for attribution of balances, revenues and expenses to clients, 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 half of		First half of	
	2019	**2018**	**2019**	**2018**
Individuals:				
Households – housing loans	363	322	37.0	36.2
Households – other	20	30	2.0	3.4
Private banking	1	(339)	0.1	–
Total – individuals	**384**	**13**	**39.1**	**39.6**
Business operations:				
Small and micro businesses	210	166	21.4	18.7
Medium businesses	71	56	7.2	6.3
Large businesses	136	136	13.9	15.3
Institutional investors	16	13	1.6	1.5
Total – business operations	**433**	**371**	**44.1**	**41.8**
Financial management	106	118	10.8	13.3
Total activity in Israel	**923**	**502**	**94.0**	**94.7**
Overseas operations	57	48	6.0	5.3
Total	**980**	**550**	**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 six months ended June 30					
			2019			2018
						NIS in millions
	Other	Housing loans	Total	Other	Housing loans	Total
Profit and profitability						
Total interest revenues, net	672	818	1,490	605	729	1,334
Non-interest financing revenues	–	–	–	–	–	–
Commissions and other revenues	255	77	332	255	80	335
Total revenues	**927**	**895**	**1,822**	**860**	**809**	**1,669**
Expenses with respect to credit losses	51	19	70	49	17	66
Operating and other expenses	813	324	1,137	736	296	1,032
Profit before provision for taxes	63	552	615	75	496	571
Provision for taxes	22	189	211	27	174	201
After-tax profit	41	363	404	48	322	370
Net profit:						
Attributable to non-controlling interests	(21)	–	(21)	(18)	–	(18)
Attributable to shareholders of the banking corporation	**20**	**363**	**383**	**30**	**322**	**352**
Balance sheet – key items:						
Loans to the public (end balance)	21,315	130,800	152,115	20,835	122,811	143,646
Loans to the public, net (end balance)	21,061	130,140	151,201	20,593	122,168	142,761
Deposits from the public (end balance)	84,917	–	84,917	77,996	–	77,996
Average balance of loans to the public	20,433	128,560	148,993	19,636	121,735	141,371
Average balance of deposits from the public	83,534	–	83,534	76,438	–	76,438
Average balance of risk assets	18,734	73,261	91,995	17,659	67,708	85,367
Credit margins and deposit margins:						
Margin from credit granting operations	411	783	1,194	404	698	1,102
Margin from activities of receiving deposits	260	–	260	198	–	198
Other	1	35	36	3	31	34
Total interest revenues, net	**672**	**818**	**1,490**	**605**	**729**	**1,334**

Contribution of the household segment (in conformity with the supervisory definitions) to Group profit in the first half of 2019 amounted to NIS 383 million, compared to NIS 352 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 half of 2019 amounted to NIS 363 million, compared to NIS 322 million in the corresponding period last year. Total interest revenues, net amounted to NIS 818 million, compared to NIS 729 million in the corresponding period last year, an increase by 12.2% – primarily due to an increase of NIS 6.8 billion in the average loan balance and to increase in lending margins.

Commissions and other revenues decreased by NIS 3 million.

In the first half of 2019, the Bank recognized expenses with respect to credit losses amounting to NIS 19 million, compared to NIS 17 million in the corresponding period last year.

Operating expenses amounted to NIS 324 million, compared to NIS 296 million in the corresponding period last year. Beyond the current growth in payroll expenses and timing differences between comparison periods in recognizing associated 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 half of 2019 amounted to a profit of NIS 20 million, compared to a profit of NIS 30 million in the corresponding period last year. Interest revenues, net increased by NIS 67 million. This increase is due to the higher lending and deposit margins and due to increased lending and deposit volume. Commissions and other revenues amounted to NIS 255 million, similar to the corresponding period last year.

Expenses with respect to credit losses amounted to NIS 51 million, compared to NIS 49 million in the corresponding period last year.

Operating expenses amounted to NIS 813 million, compared to NIS 736 million in the corresponding period last year. Total expenses in the second quarter and in the first half 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 June 30,					
	2019			2018		
	NIS in millions					
	Other	Housing loans	Total	Other	Housing loans	Total
Profit and profitability						
Total interest revenues, net	337	415	752	307	372	679
Non-interest financing revenues	–	–	–	–	–	–
Commissions and other revenues	128	39	167	124	39	163
Total revenues	**465**	**454**	**919**	**431**	**411**	**842**
Expenses with respect to credit losses	24	11	35	27	11	38
Operating and other expenses	412	164	576	368	145	513
Profit before provision for taxes	29	279	308	36	255	291
Provision for taxes	10	97	107	13	90	103
After-tax profit	19	182	201	23	165	188
Net profit:						
Attributable to non-controlling interests	(11)	–	(11)	(9)	–	(9)
Attributable to shareholders of the banking corporation	**8**	**182**	**190**	**14**	**165**	**179**
Balance sheet – key items:						
Loans to the public (end balance)	21,315	130,800	152,115	20,835	122,811	143,646
Loans to the public, net (end balance)	21,061	130,140	151,201	20,593	122,168	142,761
Deposits from the public (end balance)	84,917	–	84,917	77,996	–	77,996
Average balance of loans to the public	20,527	129,504	150,031	19,852	122,398	142,250
Average balance of deposits from the public	84,247	–	84,247	77,305	–	77,305
Average balance of risk assets	18,701	73,986	92,687	17,887	68,101	85,988
Credit margins and deposit margins:						
Margin from credit granting operations	205	397	602	204	353	557
Margin from activities of receiving deposits	131	–	131	102	–	102
Other	1	18	19	1	19	20
Total interest revenues, net	**337**	**415**	**752**	**307**	**372**	**679**

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 six months ended June 30,		For the three months ended June 30,	
	2019	2018	2019	2018
				NIS in millions
Profit and profitability				
Total interest revenues, net	44	36	22	20
Non-interest financing revenues	–	–	–	–
Commissions and other revenues	5	5	3	3
Total revenues	**49**	**41**	**25**	**23**
Expenses with respect to credit losses	–	1	–	1
Operating and other expenses	48	(1)472	24	(1)452
Profit (loss) before provision for taxes	1	(432)	1	(430)
Reduction of provision for taxes	–	(93)	–	(92)
Net income (loss)	**1**	**(339)**	**1**	**(338)**
Balance sheet – key items:				
Loans to the public (end balance)	105	96	105	96
Loans to the public, net (end balance)	104	95	104	95
Deposits from the public (end balance)	14,179	12,712	14,179	12,712
Average balance of loans to the public	80	98	87	99
Average balance of deposits from the public	13,641	12,144	13,758	12,279
Average balance of risk assets	28	30	28	30
Credit margins and deposit margins:				
Margin from credit granting operations	–	1	–	1
Margin from activities of receiving deposits	44	35	22	19
Other	–	–	–	–
Total interest revenues, net	**44**	**36**	**22**	**20**

(1) Expenses with respect to the investigation by the US Department of Justice were classified under Private Banking.

Contribution of the private banking segment (in conformity with supervisory definitions) in the first half of 2019 amounted to profit of NIS 1 million, compared to a loss of NIS 339 million in the corresponding period last year.

Total interest revenues, net increased by NIS 8 million, due to increase in deposits from the public and to improved deposit margins.

Operating expenses amounted to NIS 48 million, compared to NIS 472 million in the corresponding period last year. Operating and other expenses in the second quarter and in the first half 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 six months ended June 30,		For the three months ended June 30,	
	2019	**2018**	**2019**	**2018**
				NIS in millions
Profit and profitability				
Total interest revenues, net	567	479	287	246
Non-interest financing revenues	–	–	–	–
Commissions and other revenues	192	181	96	92
Total revenues	**759**	**660**	**383**	**338**
Expenses with respect to credit losses	66	71	29	33
Operating and other expenses	370	332	187	162
Profit before provision for taxes	323	257	167	143
Provision for taxes	111	90	58	50
After-tax profit	**212**	**167**	**109**	**93**
Net profit attributed to non-controlling interests	(2)	(1)	(1)	–
Net profit attributable to shareholders of the banking corporation	**210**	**166**	**108**	**93**
Balance sheet – key items:				
Loans to the public (end balance)	20,408	18,111	20,408	18,111
Loans to the public, net (end balance)	20,059	17,775	20,059	17,775
Deposits from the public (end balance)	25,342	19,893	25,342	19,893
Average balance of loans to the public	19,906	17,536	20,160	17,779
Average balance of deposits from the public	24,404	19,615	25,177	19,643
Average balance of risk assets	19,140	16,985	19,669	17,307
Credit margins and deposit margins:				
Margin from credit granting operations	480	419	244	215
Margin from activities of receiving deposits	73	50	37	26
Other	14	10	6	5
Total interest revenues, net	**567**	**479**	**287**	**246**

Contribution of the micro and small business segment (in conformity with supervisory definitions) to Group profit in the first half of 2019 amounted to NIS 210 million, compared to NIS 166 million in the corresponding period last year, an increase by 26.5%.

Below are key factors affecting the change in segment contribution:

Interest revenues, net amounted to NIS 567 million, compared to NIS 479 million in the corresponding period last year – an increase by 18.4%, primarily due to increase in lending and deposit business and to increase in financing margins.

Commissions and other revenues amounted to NIS 192 million, compared to NIS 181 million in the corresponding period last year.

Expenses with respect to credit losses amounted to NIS 66 million, compared to NIS 71 million in the corresponding period last year.

Operating expenses amounted to NIS 370 million, compared to NIS 332 million in the corresponding period last year – an increase by NIS 38 million. Total expenses in the second quarter and in the first half 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 six months ended June 30,		For the three months ended June 30,	
	2019	**2018**	**2019**	**2018**
				NIS in millions
Profit and profitability				
Total interest revenues, net	143	117	75	59
Non-interest financing revenues	–	–	–	–
Commissions and other revenues	43	37	21	20
Total revenues	**186**	**154**	**96**	**79**
Expenses with respect to credit losses	16	10	15	6
Operating and other expenses	62	57	31	28
Profit before provision for taxes	108	87	50	45
Provision for taxes	37	31	17	16
Net profit	**71**	**56**	**33**	**29**
Balance sheet – key items:				
Loans to the public (end balance)	7,307	5,907	7,307	5,907
Loans to the public, net (end balance)	7,196	5,822	7,196	5,822
Deposits from the public (end balance)	8,316	7,775	8,316	7,775
Average balance of loans to the public	6,933	6,141	7,130	6,053
Average balance of deposits from the public	8,324	7,382	8,374	7,476
Average balance of risk assets	7,977	7,059	8,144	7,082
Credit margins and deposit margins:				
Margin from credit granting operations	115	96	61	48
Margin from activities of receiving deposits	24	19	12	10
Other	4	2	2	1
Total interest revenues, net	**143**	**117**	**75**	**59**

Contribution of the medium business segment (in conformity with supervisory definitions) to Group profit in the first half of 2019 amounted to NIS 71 million, compared to NIS 56 million in the corresponding period last year.
Interest revenues, net increased by 22.2%, primarily due to increase in credit and deposit volumes in this segment and to increase in financing margins.
Commission and other revenues increased by NIS 6 million compared to the corresponding period last year.
Expenses with respect to credit losses amounted to expenses of NIS 16 million, compared to expenses of NIS 10 million in the corresponding period last year. The individual provision was impacted by expenses with respect to credit losses due to a small number of clients.
Operating expenses amounted to NIS 62 million, compared to NIS 57 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 six months ended June 30,		For the three months ended June 30,	
	2019	**2018**	**2019**	**2018**
				NIS in millions
Profit and profitability				
Total interest revenues, net	263	259	131	131
Non-interest financing revenues	–	–	–	–
Commissions and other revenues	70	55	30	28
Total revenues	**333**	**314**	**161**	**159**
Expenses with respect to credit losses	28	19	23	11
Operating and other expenses	98	86	50	43
Profit before provision for taxes	207	209	88	105
Provision for taxes	71	73	31	37
Net profit	**136**	**136**	**57**	**68**
Balance sheet – key items:				
Loans to the public (end balance)	17,307	15,829	17,307	15,829
Loans to the public, net (end balance)	17,107	15,640	17,107	15,640
Deposits from the public (end balance)	25,943	25,187	25,943	25,187
Average balance of loans to the public	17,048	15,639	17,148	16,175
Average balance of deposits from the public	27,364	25,721	26,642	25,861
Average balance of risk assets	22,645	20,586	22,958	20,505
Credit margins and deposit margins:				
Margin from credit granting operations	217	217	109	108
Margin from activities of receiving deposits	36	36	17	19
Other	10	6	5	4
Total interest revenues, net	**263**	**259**	**131**	**131**

Contribution of the large businesses segment (according to supervisory definitions) to Group profit in the first half of 2019 amounted to NIS 136 million, similar to the corresponding period last year.
Total interest revenues, net amounted to NIS 263 million, compared to NIS 259 million in the corresponding period last year.
Commissions and other revenues increased by NIS 15 million, primarily due to the effect of commissions on financing transactions.
Expenses with respect to credit losses amounted to expenses of NIS 28 million, compared to expenses of NIS 19 million in the corresponding period last year. The individual provision was impacted by expenses with respect to credit losses due to a small number of clients.

Operating expenses amounted to NIS 98 million, compared to NIS 86 million in the corresponding period last year – an increase by NIS 12 million. Beyond the current growth in payroll expenses and timing differences between comparison periods in recognizing associated 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 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 six months ended June 30,		For the three months ended June 30,	
	2019	2018	2019	2018
				NIS in millions
Profit and profitability				
Total interest revenues, net	62	60	30	29
Non-interest financing revenues	–	–	–	–
Commissions and other revenues	18	22	9	9
Total revenues	**80**	**82**	**39**	**38**
Expenses (reduction of expenses) with respect to credit losses	(3)	1	(2)	1
Operating and other expenses	59	61	30	31
Profit before provision for taxes	24	20	11	6
Provision for taxes	8	7	4	2
Net profit	**16**	**13**	**7**	**4**
Balance sheet – key items:				
Loans to the public (end balance)	1,104	1,397	1,104	1,397
Loans to the public, net (end balance)	1,098	1,388	1,098	1,388
Deposits from the public (end balance)	41,731	40,733	41,731	40,733
Average balance of loans to the public	1,122	1,303	1,023	1,272
Average balance of deposits from the public	39,255	39,531	40,049	39,499
Average balance of risk assets	2,280	2,589	1,893	2,738
Credit margins and deposit margins:				
Margin from credit granting operations	9	16	5	7
Margin from activities of receiving deposits	52	43	25	21
Other	1	1	–	1
Total interest revenues, net	**62**	**60**	**30**	**29**

Contribution of the institutional investor segment (in conformity with supervisory definitions) to Group profit in the first half of 2019 amounted to NIS 16 million, compared to NIS 13 million in the corresponding period last year.
Interest revenues, net, amounted to NIS 62 million, compared to NIS 60 million in the corresponding period last year.
Commissions and other revenues decreased by NIS 4 million compared to the corresponding period last year. In the first half of 2018, significant transactions were carried out in foreign securities, which were not repeated in the current period.
Expenses with respect to credit losses amounted to a decrease in expenses of NIS 3 million, compared to expenses of NIS 1 million in the corresponding period last year.
Operating expenses amounted to NIS 59 million, compared to NIS 61 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 six months ended June 30,		For the three months ended June 30,	
	2019	2018	2019	2018
				NIS in millions
Profit and profitability				
Total interest revenues, net	95	47	191	129
Non-interest financing revenues	142	211	87	131
Commissions and other revenues	132	100	63	53
Total revenues	**369**	**358**	**341**	**313**
Expenses (reduction of expenses) with respect to credit losses	(3)	2	(1)	1
Operating and other expenses	184	[(1)]159	94	77[(1)]
Profit before provision for taxes	188	197	248	235
Provision for taxes	64	68	86	82
After-tax profit	124	129	162	153
Share of banking corporation in earnings of associated companies	–	1	–	1
Net profit before attribution to non-controlling interests	124	130	162	154
Net profit attributed to non-controlling interests	(18)	(12)	(11)	(6)
Net profit attributable to shareholders of the banking corporation	**106**	**118**	**151**	**148**
Balance sheet – key items:				
Average balance of risk assets	6,579	6,422	6,898	6,386
Credit margins and deposit margins:				
Margin from credit granting operations	–	–	–	–
Margin from activities of receiving deposits	–	–	–	–
Other	95	47	191	129
Total interest revenues, net	**95**	**47**	**191**	**129**

(1) Expenses with respect to the investigation by the US Department of Justice were classified under Private Banking..

Contribution of the financial management segment (in conformity with supervisory definitions) to Group profit in the first half of 2019 amounted to NIS 106 million, compared to NIS 118 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Interest revenues, net amounted to NIS 95 million, compared to NIS 47 million in the corresponding period last year – an increase by NIS 48 million, primarily due to increase in the CPI.

Non-interest financing revenues decreased by NIS 69 million compared to the corresponding period last year, primarily due to effect of the accounting treatment of derivatives at fair value and other effects in 2018. 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 132 million, compared to NIS 100 million in the corresponding period last year, an increase by NIS 32 million primarily due to inclusion of capital gain in the first half of 2019 amounting to NIS 26 million before tax from realized assets in conjunction with asset reorganization and improvements to the branch network.
Operating and other expenses amounted to NIS 184 million, compared to NIS 159 million in the corresponding period last year. Operating expenses in the second quarter and in the first half 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 six months ended June 30,		For the three months ended June 30,	
	2019	**2018**	**2019**	**2018**
				NIS in millions
Profit and profitability				
Total interest revenues, net	110	94	55	52
Non-interest financing revenues	4	8	2	(2)
Commissions and other revenues	12	13	6	7
Total revenues	**126**	**115**	**63**	**57**
Expenses (reduction of expenses) with respect to credit losses	1	2	–	(1)
Operating and other expenses	39	38	19	19
Profit before provision for taxes	86	75	44	39
Provision for taxes	29	27	15	14
Net profit	**57**	**48**	**29**	**25**
Balance sheet – key items:				
Loans to the public (end balance)	3,996	3,603	3,996	3,603
Loans to the public, net (end balance)	3,963	3,574	3,963	3,574
Deposits from the public (end balance)	4,760	5,604	4,760	5,604
Average balance of loans to the public	3,477	3,252	3,530	3,316
Average balance of deposits from the public	5,270	5,292	5,026	5,289
Average balance of risk assets	4,213	3,774	4,193	3,920
Credit margins and deposit margins:				
Margin from credit granting operations	57	50	28	28
Margin from activities of receiving deposits	6	7	3	5
Other	47	37	24	19
Total interest revenues, net	**110**	**94**	**55**	**52**

Contribution of overseas operations to Group profit in the first half of 2019 amounted to NIS 57 million, compared to NIS 48 million in the corresponding period last year.
Below are key factors affecting the change in segment contribution:
Interest revenues, net amounted to NIS 110 million, compared to NIS 94 million in the corresponding period last year, primarily due to increase in lending margins and other margins and due to increase in the average loan balance.

Non-interest financing revenues decreased by NIS 4 million, primarily due to available-for-sale debentures realized in the first half of 2018.
In the current period, expenses with respect to credit losses amounted to NIS 1 million, compared to NIS 2 million in the corresponding period last year.
For more details and extensive information about results of this segment and operating results in conformity with management's approach - see Note 12 to the financial statements.

Major Investee companies

The contribution of investees to net operating profit in the first half of 2019 amounted to NIS 82 million, compared with NIS 101 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 95 million, compared to NIS 89 million in the corresponding period last year, with most of this increase due to increased earnings at Bank Yahav – see explanation under "Investee companies" below.

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

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

The Group's share of Bank Yahav's net profit in the first half of 2019 amounted to NIS 41 million, compared to NIS 31 million in the corresponding period last year. Bank Yahav's net profit return on equity in the first half of 2019 was 11.6% on annualized basis, compared to 10.0% in the corresponding period last year. The increase in Bank Yahav earnings is due to an increase in business, improved financing margins and stable expenses.

Bank Yahav's balance sheet total as of June 30, 2019 amounted to NIS 26,810 million, compared to NIS 25,928 million as of December 31, 2018 – an increase by NIS 882 million, or 3.4%. Net loans to the public as of June 30, 2019 amounted to NIS 10,477 million, compared to NIS 10,162 million as of December 31, 2018 – an increase by NIS 315 million (3.1%). Net deposits from the public as of June 30, 2019 amounted to NIS 23,037 million, compared to NIS 22,289 million as of December 31, 2018 – an increase by NIS 748 million, (3.4%).

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

Tefahot Insurance is an insurance agency wholly owned by the Bank, which sells life insurance policies and property insurance policies of clients obtaining mortgages from the Bank. Tefahot Insurance's contribution to Group net profit in the first half of 2019 (excluding net financing revenues from excess cash) amounted to NIS 31 million, compared to NIS 30 million in the corresponding period last year.

Net profit return on equity in the first half of 2019 was 8.0%, compared to 8.3% in the corresponding period last year.

Other investee companies operating in Israel

Other investees operating in Israel, wholly controlled by the Bank and supported by Bank infrastructure, contributed to the Bank's net profit in the first half of 2019 NIS 8 million, net – compared to NIS 13 million in the corresponding period last year. Of this, NIS 5 million (compared to NIS 7 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 half of 2019 amounted to CHF 0.6 million, compared to CHF 0.3 million in the corresponding period last year. Mizrahi Bank Switzerland's balance sheet total as of June 30, 2019 amounted to CHF 145 million, compared to CHF 138 million as of December 31, 2018.

Interest revenues and net interest revenues in the first half of 2019 amounted to CHF 1.1 million, compared to CHF 0.9 million in the corresponding period last year. Pre-tax revenues in the first half of 2019 amounted to CHF 0.6 million, compared to CHF 0.5 million in the corresponding period last year. Pre-tax income net of exchange rate effects in the first half of 2019 amounted to NIS 2.0 million, compared to NIS 2.5 million in the corresponding period last year.

The balance of loans to the public, net as of June 30, 2019 amounted to CHF 84 million, compared to CHF 80 million as of December 31, 2018. Deposits with banks as of June 30, 2019 amounted to CHF 59 million, compared to CHF 56 million as of

December 31, 2018. Deposits from the public as of June 30, 2019 amounted to CHF 71 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.

As of June 30, 2019, Bank investments in shares amounted to NIS 140 million. As of June 30, 2018 and December 31, 2018, investment in shares amounted to NIS 123 million and NIS 125 million, respectively. Bank net gain from investment in shares in the first half of 2019 amounted to NIS 33 million, compared to NIS 6 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 Regulations 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 second quarter of 2019, the Bank's risk profile is low, similar to the risk profile in the first quarter of 2019 and at the end of 2018. Most 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 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 Technology 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 second quarter of 2019, the Bank's risk profile is low, similar to the risk profile in the first quarter 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 second 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 second 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 risk level which is not high and stable over time. As from 2019, all individual clients managed by the Business Division are rated using the advanced models.

In the second 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 June 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 June 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	289	640	929
2.	Other financial services	753	–	753
3.	Construction	177	518	695
4.	Institutional investors	4	686	690
5.	Construction	1	677	678
6.	Other financial services	452	210	662

(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):

	June 30, 2019				June 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	52	26	78	–	55	27	82	–	55	28	83	–
Commerce	150	–	150	–	–	–	–	–	–	–	–	–
Total	**202**	**26**	**228**	**–**	**55**	**27**	**82**	**–**	**55**	**28**	**83**	**–**

Credit to leveraged companies (NIS in millions):

	June 30, 2019				June 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**
Industry and production	70	1	71	1	99	1	100	1	61	–	61	1
Mining and excavation	–	–	–	–	149	–	149	–	–	–	–	–
Construction and real estate	368	–	368	–	459	–	459	–	420	–	420	–
Commerce	221	60	281	–	243	64	307	–	236	46	282	–
Information and communications	37	90	127	–	40	110	150	–	40	90	130	–
Financial services	156	–	156	4	158	–	158	–	156	–	156	6
Public and community services	86	5	91	–	71	5	76	–	71	5	76	–
Total	**938**	**156**	**1,094**	**5**	**1,219**	**180**	**1,399**	**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		
	June 30, 2019	**June 30, 2018**	**December 31, 2018**
Problematic credit risk:			
Impaired credit risk	1,183	942	1,165
Inferior credit risk	151	310	152
Credit risk under special supervision – housing	1,407	1,159	1,251
Credit risk under special supervision – other	726	498	521
Total problematic credit risk	**3,467**	**2,909**	**3,089**

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

	June 30, 2019	**June 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	1.5	1.3	1.5
Ratio of problematic loans to the public to total non-housing loans	2.7	2.5	2.4
Ratio of housing loans in arrears 90 days or longer to total loans to the public (1)(2)	0.7	0.6	0.7
Ratio of problematic credit risk to total credit risk with respect to the public	1.3	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 June 30, 2019					
	Provision for credit losses					
	Loans to the public				Banks and governments	
	Commercial	Housing	Individual – other	Total		Total
Balance of provision for credit losses at start of period	766	651	265	1,682	2	1,684
Expenses with respect to credit losses	65	11	24	100	(1)	99
Net accounting write-offs	(38)	(2)	(24)	(64)	–	(64)
Balance of provision for credit losses at end of period	**793**	**660**	**265**	**1,718**	**1**	**1,719**
	For the three months ended June 30, 2018					
Balance of provision for credit losses at start of period	711	635	249	1,595	2	1,597
Expenses with respect to credit losses	50	11	28	89	1	90
Net accounting write-offs	(26)	(3)	(24)	(53)	–	(53)
Balance of provision for credit losses at end of period	**735**	**643**	**253**	**1,631**	**3**	**1,634**
	For the six months ended June 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	108	19	51	178	(3)	175
Net accounting write-offs	(81)	(3)	(49)	(133)	–	(133)
Balance of provision for credit losses at end of period	**793**	**660**	**265**	**1,718**	**1**	**1,719**
	For the six months ended June 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	103	17	50	170	2	172
Net accounting write-offs	(67)	(4)	(42)	(113)	–	(113)
Balance of provision for credit losses at end of period	**735**	**643**	**253**	**1,631**	**3**	**1,634**

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):

	June 30, 2019	June 30, 2018	December 31, 2018
Ratio of provision for credit losses to total loans to the public	0.8	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 half of		
	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
`	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]	0.5	0.5	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 June 30,		As of December 31,
	2019	**2018**	**2018**
Debts			
Checking balances	2,143	2,152	2,158
Utilized credit card balances	3,824	3,643	3,768
Auto loans – adjustable interest	814	1,213	1,038
Auto loans – fixed interest	763	791	734
Other loans and credit – variable interest	11,996	11,274	11,557
Other loans and credit – fixed interest	213	201	218
Total debt (on-balance sheet credit)	**19,753**	**19,274**	**19,473**
Unutilized facilities, guarantees and other commitments			
Checking accounts – unutilized facilities	4,079	3,870	3,998
Credit cards – unutilized facilities	6,496	6,059	6,238
Guarantees	226	226	228
Other liabilities	33	51	32
Total unutilized facilities, guarantees and other commitments (off-balance sheet credit)	**10,834**	**10,206**	**10,496**
Total credit risk to individuals	**30,587**	**29,480**	**29,969**
Of which:			
Bullet / balloon loans[(3)]	538	542	492
Financial asset portfolio and other collateral against credit risk[(4)]			
Financial assets portfolio:			
Deposits	3,518	2,517	3,392
Securities	216	360	205
Other monetary assets	356	419	388
Other collateral[(5)]	599	881	697
Total financial assets portfolio and other collateral against credit risk	**4,689**	**4,177**	**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) 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 June 30, 2019 Number of Borrowers	Total credit risk	As of June 30, 2018 Number of Borrowers	Total credit risk	As of December 31, 2018 Number of Borrowers	Total credit risk
	Up to 10	292,876	622	285,819	608	273,164	473
Above 10	Up to 20	88,510	1,272	86,342	1,227	87,473	1,234
Above 20	Up to 40	117,542	3,372	116,651	3,359	117,331	3,349
Above 40	Up to 80	122,376	6,939	118,797	6,773	120,070	6,805
Above 80	Up to 150	80,776	8,654	76,448	8,239	77,903	8,364
Above 150	Up to 300	39,960	8,051	37,135	7,486	38,609	7,776
Above 300		3,621	1,677	3,034	1,788	3,827	1,968
Total		**745,661**	**30,587**	**724,226**	**29,480**	**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 June 30, 2019 NIS in millions	In %	As of June 30, 2018 NIS in millions	In %	As of December 31, 2018 NIS in millions	In %
Accounts with no fixed income for the account	655	3.3	602	3.1	632	3.2
Less than NIS 10 thousand.	5,697	28.8	6,107	31.7	5,904	30.3
Between NIS 10 thousand and NIS 20 thousand	7,240	36.7	6,844	35.5	6,999	35.9
Over NIS 20 thousand	6,161	31.2	5,721	29.7	5,938	30.6
Total	**19,753**	**100**	**19,274**	**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.

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

Term to maturity	As of June 30, 2019 NIS in millions	In %	As of June 30, 2018 NIS in millions	In %	As of December 31, 2018 NIS in millions	In %
Up to 1 year	3,517	25.5	3,641	27.0	3,590	26.5
Over 1 year to 3 years	4,644	33.7	4,693	34.8	4,641	34.3
Over 3 years to 5 years	2,502	18.1	2,402	17.8	2,394	17.7
Over 5 years to 7 years	1,467	10.6	1,333	9.9	1,398	10.3
Over 7 years[2]	1,656	12.1	1,409	10.5	1,524	11.2
Total	**13,786**	**100**	**13,479**	**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 June 30, 2019			As of June 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	225	4	229	222	3	225	229	4	233
Problematic credit risk rate(2)	1.14%	0.04%	0.75%	1.15%	0.03%	0.76%	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 half of		
	2019	2018	2018
Expenses with respect to credit losses as percentage of total loans to the public to individuals	0.52%	0.52%	0.56%

Data for credit risk to individuals show that:

- Total debts by individuals (on-balance sheet credit) increased by 3.2% compared to June 30, 2018 and by 2.2% 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 second quarter of 2019.

As of June 30, 2019:

Checking accounts	10.8%
Credit cards	19.2%
Auto loans	8.6%
Other loans and credit	61.4%

- Of all debts (on-balance sheet credit) as of June 30, 2019, 23.6% is secured by financial assets and other collateral in the client's account (similar to rates as of June 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)

	June 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	Impaired	Other proble-matic[4]	Balance sheet credit risk	Off-balance sheet credit risk
Secured by real estate in Israel:							
Housing	9,285	12,867	22,152	23	8	81	28
Commercial and industrial	5,451	1,257	6,708	43	372	32	2
Total secured by real estate in Israel	**14,736**	**14,124**	**28,860**	**66**	**380**	**113**	**30**
Not secured by real estate in Israel	2,694	2,904	5,598	129	51	42	12
Total for construction and real estate economic sector in Israel	**17,430**	**17,028**	**34,458**	**195**	**431**	**155**	**42**
Of which: Designated for project assistance	9,033	11,852	20,885	1	15	77	32

	June 30, 2018[5]						
Secured by real estate in Israel:							
Housing	8,770	15,912	24,682	139	12	68	31
Commercial and industrial	4,282	1,259	5,541	37	15	61	–
Total secured by real estate in Israel	**13,052**	**17,171**	**30,223**	**176**	**27**	**129**	**31**
Not secured by real estate in Israel	2,790	3,081	5,871	157	75	48	13
Total for construction and real estate economic sector in Israel	**15,842**	**20,252**	**36,094**	**333**	**102**	**177**	**44**
Of which: Designated for project assistance	8,225	14,946	23,171	3	13	67	34

	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):

	June 30, 2019			June 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	5,203	1,222	6,425	5,015	1,239	6,254	5,035	430	5,465
Real estate under construction	5,341	11,658	16,999	4,953	14,389	19,342	5,867	12,752	18,619
Real estate completely constructed	4,192	1,244	5,436	3,084	1,543	4,627	3,851	998	4,849
Total credit secured by real estate in Israel	**14,736**	**14,124**	**28,860**	**13,052**	**17,171**	**30,223**	**14,753**	**14,180**	**28,933**
Not secured by real estate in Israel	2,694	2,904	5,598	2,790	3,081	5,871	2,261	2,908	5,169
Total credit risk for construction and real estate	**17,430**	**17,028**	**34,458**	**15,842**	**20,252**	**36,094**	**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 June 30, 2019 show that 52% of the on-balance sheet credit risk and 70% 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 June 30, 2019, as presented below (Credit Risk by Economic Sector) is 13.5%.

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 10.53% (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 June 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	9,986	9,562	424	347	30	21	131
Construction and real estate – construction[6]	30,482	30,252	230	175	5	(3)	173
Construction and real estate – real estate operations	3,976	3,580	396	20	(31)	–	24
Commerce	11,672	11,372	300	223	34	36	178
Financial services	10,870	10,698	172	170	40	2	107
Other sectors	15,690	15,459	231	115	32	25	141
Total commercial	**82,676**	**80,923**	**1,753**	**1,050**	**110**	**81**	**754**
Private individuals – housing loans	141,448	139,995	1,453	46	19	3	659
Private individuals – other	30,968	30,350	229	85	51	49	265
Total public – activity in Israel	**255,092**	**251,268**	**3,435**	**1,181**	**180**	**133**	**1,678**
Banks in Israel and Government of Israel	7,146	7,146	–	–	–	–	–
Total activity in Israel	**262,238**	**258,414**	**3,435**	**1,181**	**180**	**133**	**1,678**
Total public – activity overseas	5,580	5,548	32	2	(2)	–	40
Banks and governments overseas	10,811	10,811	–	–	(3)	–	1
Total activity overseas	**16,391**	**16,359**	**32**	**2**	**(5)**	**–**	**41**
Total	**278,629**	**274,773**	**3,467**	**1,183**	**175**	**133**	**1,719**

(1) On- and off-balance sheet credit risk, including with respect to derivative instruments (NIS in millions): Debts[2] – 209,881; debentures – 8,690; securities borrowed or acquired in conjunction with resale agreements – 59; Assets with respect to derivative instruments – 2,117; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 57,882.

(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 1,836 million and off-balance sheet credit risk amounting to NIS 1,703 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 5,062 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 June 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	8,737	8,317	420	269	9	5	115
Construction and real estate – construction[6]	33,096	32,691	405	312	15	5	170
Construction and real estate – real estate operations	2,998	2,968	30	21	2	(1)	51
Commerce	10,733	10,416	317	209	56	33	173
Financial services	13,275	13,098	177	14	–	1	67
Other sectors	13,547	13,309	238	115	21	24	122
Total commercial[7]	**82,386**	**80,799**	**1,587**	**940**	**103**	**67**	**698**
Private individuals – housing loans	132,622	131,427	1,195	42	17	4	642
Private individuals – other	29,702	29,216	225	76	50	42	253
Total public – activity in Israel	**244,710**	**241,442**	**3,007**	**1,058**	**170**	**113**	**1,593**
Banks in Israel and Government of Israel	9,197	9,197	–	–	–	–	–
Total activity in Israel	**253,907**	**250,639**	**3,007**	**1,058**	**170**	**113**	**1,593**
Total public – activity overseas	5,789	5,767	22	4	–	–	38
Banks and governments overseas	8,647	8,647	–	–	2	–	3
Total activity overseas	**14,436**	**14,414**	**22**	**4**	**2**	**–**	**41**
Total	**268,343**	**265,053**	**3,029**	**1,062**	**172**	**113**	**1,634**

(1) On- and off-balance sheet credit risk, including with respect to derivative instruments (NIS in millions): Debts[2] – -194,284; debentures – 9,835; securities borrowed or acquired in conjunction with resale agreements – 22; Assets with respect to derivative instruments – 3,453; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 60,749.

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

(3) Credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policies. In conformity with the Supervisor of Banks' directives, the directive is to be applied prospectively as from the 2014 financial statements.

(4) 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.

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

(6) Includes on-balance sheet credit risk amounting to NIS 1,840 million and off-balance sheet credit risk amounting to NIS 1,792 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 6,686 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
Banks and governments overseas	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	June 30, 2019			June 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	9,660	807	10,467	7,055	516	7,571	6,639	519	7,158
UK[(5)]	2,140	1,971	4,111	–	–	–	2,133	1,182	3,315
France	1,359	2,104	3,463	1,524	3,258	4,782	1,384	2,092	3,476
Germany	232	2,681	2,913	377	3,660	4,037	321	2,651	2,972
Other	2,435	1,466	3,901	4,061	1,621	5,682	2,518	1,105	3,623
Total exposure to foreign countries	**15,826**	**9,029**	**24,855**	**13,017**	**9,055**	**22,072**	**12,995**	**7,549**	**20,544**
Of which: Total exposure to Greece, Portugal, Spain, Italy	45	49	94	44	66	110	35	66	101
Of which: Total exposure to LDC countries	452	101	553	406	104	510	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 5,062 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. (as of June 30, 2018: NIS 6,686 million; as of December 31, 2018: NIS 4,794 million).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.
(5) As of June 30, 2018, the exposure to the UK did not exceed the reportable threshold according to the Public Reporting Directives of the Bank of Israel.

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)]
					June 30, 2019
AAA to AA-	875	826	5,204	6,079	6,030
A+ to A-	56	47	260	316	307
BBB+ to BBB-	38	29	7	45	36
BB+ to B-	–	–	26	26	26
Lower than B-	–	–	–	–	–
Unrated	6	6	–	6	6
Total credit exposure to foreign financial institutions	**975**	**908**	**5,497**	**6,472**	**6,405**
					June 30, 2018
AAA to AA-	691	602	6,951	7,642	7,553
A+ to A-	264	109	324	588	433
BBB+ to BBB-	33	33	–	33	33
BB+ to B-	–	–	20	20	20
Lower than B-	–	–	–	–	–
Unrated	1	1	–	1	1
Total credit exposure to foreign financial institutions	**989**	**745**	**7,295**	**8,284**	**8,040**
					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 June 30, 2019, June 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 5,062 million as of June 30, 2019 (as of June 30, 2018: NIS 6,686 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 June 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 half of	Rate of change
	2019	2018	In %
Mortgages issued (for housing and any purpose)			
From the Bank's funds	11,134	10,455	6.5
From funds of the Finance Ministry			
Directed loans	185	141	31.2
Standing loans and grants	46	37	24.3
Total new loans	**11,365**	**10,633**	**6.9**
Refinanced loans	1,332	1,123	18.6
Total loans originated	**12,697**	**11,756**	**8.0**
Number of borrowers (includes refinanced loans)	21,623	22,124	(2.3)

Below are details of various risk attributes of the housing loan portfolio(1) as of June 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%	2,833	8,901	11,403	25,844	18,958	6,313	74,252
	35%-50%	253	848	1,239	4,110	5,221	1,380	13,051
	50%-80%	–	–	4	37	1,359	506	1,906
	Over 80%	–	–	–	–	110	88	198
60%-75%	Up to 35%	1,367	3,904	4,239	14,159	8,672	1,379	33,720
	35%-50%	91	298	413	1,698	1,823	363	4,686
	50%-80%	–	–	–	13	356	127	496
	Over 80%	–	–	–	–	24	18	42
Over 75%	Up to 35%	108	479	436	320	947	1,060	3,350
	35%-50%	11	31	36	38	205	346	667
	50%-80%	–	–	–	–	26	110	136
	Over 80%	–	–	–	–	1	25	26
Total		**4,663**	**14,461**	**17,770**	**46,219**	**37,702**	**11,715**	**132,530**
Of which:								
Loans granted with original amount over NIS 2 million		301	996	1,042	2,586	1,794	227	6,946
Percentage of total housing loans		6.5%	6.9%	5.9%	5.6%	4.8%	1.9%	5.2%
Loans bearing variable interest:								
Non-linked, at prime lending rate		1,299	4,137	4,874	12,507	12,065	4,611	39,493
CPI-linked(3)		13	43	19	81	2,503	2,195	4,854
In foreign currency(3)		107	393	713	1,149	1,512	274	4,148
Total		**1,419**	**4,573**	**5,606**	**13,737**	**16,080**	**7,080**	**48,495**
Non-linked loans at prime lending rate, as percentage of total housing loans		27.9%	28.6%	27.4%	27.1%	32.0%	39.4%	29.8%
CPI-linked loans bearing variable interest as percentage of total housing loans		0.3%	0.3%	0.1%	0.2%	6.6%	18.7%	3.7%
Loans with LTV over 75% as percentage of total housing loans		2.6%	3.5%	2.7%	0.8%	3.1%	13.2%	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 June 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 June 30, 2019 was 52.5%, compared to 53.6% on June 30, 2018 and to 52.6% on December 31, 2018. Out of the total loan portfolio of the Bank, amounting to NIS 132.5 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 1.1 billion, or only 0.8% of the total housing loan portfolio.

Note, in this regard, that the Bank's average LTV ratio as of June 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 3.9%. For loans originated one to 5 years ago – by 6.8%; for loans originated over 5 years ago – by 19.3%; for all loans in total – by 11%.

The percentage of loans granted with a high LTV ratio (over 75%) out of total housing loan portfolio of the Bank to 2.7% for loans granted 1-2 years ago, 3.5% for loans granted 3-12 months ago and 2.6% for loans granted in the second 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 26.3%. Some 84% 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 13.9% of the mortgage portfolio was granted to borrowers with a repayment ratio of 35% to 50% (the average repayment ratio for these borrowers is 39.4%). Some 1.9% of mortgages was granted to borrowers with a repayment ratio of 50% to 80% (the average repayment ratio for these borrowers is 59.5%), and only 0.2% was granted to borrowers with a repayment ratio over 80% (the average repayment ratio for these borrowers is 92%).

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

Loans bearing variable interest

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

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

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

Total loans linked to the prime lending rate granted over the past two years, which constitute the major portion of risk associated with such mortgages, is NIS 10.3 billion, or only 7.8% of the housing loan portfolio.

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

Loan amount

Loans granted by the Bank with an original amount over NIS 2 million amounted in total to NIS 6.9 billion on June 30, 2019, or only 5.2% 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 June 30, 2019 (NIS in millions):

								Extent of arrears
		In arrears 90 days or longer						
	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	Balance with respect to refinanced loans in arrears[(2)]	Total
Amount in arrears	8	23	16	15	202	256	38	302
Of which: Balance of provision for interest[(3)]	–	–	–	1	111	112	6	118
Recorded debt balance	521	838	261	100	126	1,325	83	1,929
Balance of provision for credit losses [(4)]	–	–	33	46	87	166	39	205
Debt balance, net	**521**	**838**	**228**	**54**	**39**	**1,159**	**44**	**1,724**

(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 second quarter of 2019, in conformity with the work plan on business continuity, several drills of the backup site took place, including: Drill for Financial Division employees relocating to a secondary site, including operating the trading room, drill for relocation of employees and operating the production floor of the Technology Division in the backup site. Furthermore, as part of Bank policy to bolster business continuity of its overseas affiliates, the Bank prepared mapping and overview of such preparations by these affiliates.

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 secod 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. in view of these additional means of defense in fund transfer processes, put into place in the previous quarter, and 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 defraus 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 Bank Yahav 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

Proper Conduct of Banking Business Directive 350 concerning "Operational risks" defines legal risk as including absence of potential for legal enforcement of an agreement and "including, but not being limited to exposure to fines or penalties arising from supervisory action, as well as from individual arrangements".

The Bank's Legal Division regularly analyzes the legal risk components, the risk boundaries (arising, for example, from the counter-party identity, from creation of collateral etc.) as well as specific risk attributes while reviewing its risk level and exposure with attention to the different lines of business at the Bank.

In the second quarter of 2019, legal risk remained Low-Medium, similar to the estimate in the first quarter of 2019.

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 - 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 second quarter of 2019 remained at Low-Medium, see explanation below.

Assessment of Bank exposure to interest risks for the second quarter of 2019 decreased from Medium to Low-Medium, following re-assessment of the intensity of interest risk.

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

	First half of		All of
	2019	**2018**	**2018**
At end of period	626	577	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):

						June 30, 2019
						Change in fair value
	Israeli currency		**Foreign currency**			
	Non-linked	**Linked to CPI**	**Dollar**	**EUR**	**Other**	**Total**
2% increase	451	(1,362)	174	50	17	(670)
Decrease of 2%	(1,516)	889	(182)	(18)	(17)	(844)
						June 30, 2018
2% increase	(330)	(1,770)	15	(40)	–	(2,125)
Decrease of 2%	828	2,153	4	45	–	3,030
						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 June 30, 2019			As of June 30, 2018		
	NIS	Foreign currency(2)	Total	NIS	Foreign currency(2)	Total
Net adjusted fair value(1)	14,095	(343)	13,752	10,731	(49)	10,682
Of which: Banking portfolio	(3,346)	16,014	12,668	9,993	66	10,059

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

	As of June 30, 2019			As of June 30, 2018		
	NIS	Foreign currency(2)	Total	NIS	Foreign currency(2)	Total
Concurrent changes						
Concurrent 1% increase	552	127	679	52	87	139
Of which: Banking portfolio	528	160	688	61	87	148
Concurrent 1% decrease	(501)	(133)	(634)	38	(88)	(50)
Of which: Banking portfolio	(483)	(165)	(648)	24	(79)	(55)
Non-concurrent changes						
Steeper(3)	(102)	24	(78)	(343)	(35)	(378)
Shallower(4)	371	18	389	378	60	438
Short-term interest increase	479	93	572	280	105	385
Short-term interest decrease	(461)	(94)	(555)	(292)	(109)	(401)

(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 June 30, 2019			As of June 30, 2018		
	Interest revenues	Non-interest financing revenues(1)	Total	Interest revenues	Non-interest financing revenues(1)	Total
Concurrent changes						
Concurrent 1% increase	570	279	849	464	260	724
Of which: Banking portfolio	684	226	910	464	256	720
Concurrent 1% decrease	(86)	(280)	(366)	(303)	(259)	(562)
Of which: Banking portfolio	(188)	(226)	(413)	(303)	(255)	(558)

(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 June 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)	1,273.8	636.9	(698.8)	(1,397.6)	128.7	(125.4)
Dollar	(3.1)	2.8	5.0	30.2	2.3	(0.2)
Pound Sterling	1.3	(1.5)	2.1	4.2	(1.3)	2.7
Yen	0.3	(0.1)	0.7	3.6	–	0.3
EUR	0.3	0.4	–	(5.3)	0.4	0.3
Swiss Franc	(0.9)	(0.4)	0.3	0.6	(1.4)	0.4

(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 382.1 million and NIS (419.3) 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.

There were no deviations from the Board of Directors' limitations recorded in the first half of 2019.

There were no material unusual events observed in the first half of 2019. Note that in May 2019, the Bank raised its state of alert to Elevated Alert, due to security events around Gaza and in the South. In practice, no events and/or indications were observed which would indicate realization of a liquidity event. Several days later, after return to normal conditions, the Bank decided to return to the normal course of business.

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 half 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 second quarter of 2019 was 118%. As noted above, in the first half of 2019 there were no recorded deviations from these restrictions.

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

As of June 30, 2019, the balance of the three largest depositor groups at the Bank Group amounted to NIS 10.3 billion.

Soliciting sources and Bank liquidity status – In the first half 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 205.2 billion on June 30, 2019, an increase by 2.9%.

In the non-linked segment, total deposits from the public amounted to NIS 148.8 billion, an increase by 2.1% compared to end of 2018. In the CPI-linked sector, deposits from the public amounted to NIS 15.5 billion, an increase by 7.5%, and in the foreign currency sector – to NIS 40.8 billion, an increase by 3.8% 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 second 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 half 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. In the second quarter of this year, the Bank first reported in conformity with CRS regulations with respect to 2017, and prepared to report in conformity with CRS regulations and 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 second half 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 half 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.

For more information about the decision by the acting Anti-Trust Supervisor to object to the merger of Bank Igud with and into Bank Mizrahi-Tefahot, and with regard to the addendum to 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 above and in the 2017 financial statements, 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.

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.

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 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 half 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 June 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 June 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 second 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

Moshe Vidman
Chairman of the Board
of Directors

Eldad Fresher

Eldad Fresher
President & CEO

Approval date:
Ramat Gan
August 12, 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 June 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.

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

Eldad Fresher

Eldad Fresher
President & CEO

August 12, 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 June 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.

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

Menahem Aviv
Vice-president, Chief Accountant

August 12, 2019

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 June 30, 2019, the condensed consolidated interim statements of profit and loss, comprehensive income, changes to shareholder equity and cash flows for the six-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 6.01% of total consolidated assets as of June 30, 2019, and whose net interest revenues before expenses with respect to credit losses included in the consolidated statements of profit and loss constitute 7.88% and 6.65% of total consolidated net interest revenues before expenses with respect to credit losses, respectively, for the six-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, August 12, 2019

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Mizrahi-Tefahot Bank

Condensed Financial Statements as of June 30, 2019

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Condensed consolidated statements of profit and loss

Reported amounts (NIS in millions)

		For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
		2019	**2018**	**2019**	**2018**	**2018**
	Note	**(unaudited)**		**(unaudited)**		**(audited)**
Interest revenues	2	2,647	2,237	4,333	3,686	7,359
Interest expenses	2	1,104	892	1,559	1,260	2,437
Interest revenues, net		1,543	1,345	2,774	2,426	4,922
Expenses with respect to credit losses	6,13	99	90	175	172	310
Interest revenues, net after expenses with respect to credit losses		**1,444**	**1,255**	**2,599**	**2,254**	**4,612**
Non-interest revenues						
Non-interest financing revenues	3	89	129	146	219	445
Commissions		373	363	756	725	1,475
Other revenues		22	12	48	23	47
Total non-interest revenues		**484**	**504**	**950**	**967**	**1,967**
Operating and other expenses						
Payroll and associated expenses		648	557	1,284	1,126	2,407
Maintenance and depreciation of buildings and equipment		194	186	385	375	747
Other expenses		169	582	328	736	1,230
Total operating and other expenses		**1,011**	**1,325**	**1,997**	**2,237**	**4,384**
Pre-tax profit		917	434	1,552	984	2,195
Provision for taxes on profit		318	212	531	404	922
After-tax profit		**599**	**222**	**1,021**	**580**	**1,273**
Share of profits of associated companies, after tax effect		–	1	–	1	1
Net profit:						
Before attribution to non-controlling interests		599	223	1,021	581	1,274
Attributable to non-controlling interests		(23)	(16)	(41)	(31)	(68)
Attributable to shareholders of the Bank		**576**	**207**	**980**	**550**	**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, August 12, 2019

Condensed consolidated statement of profit and loss – Continued

Reported amounts (NIS in millions)

	For the three months ended June 30		For the six months ended June 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	**2.46**	**0.89**	**4.19**	**2.36**	**5.17**
Weighted average number of ordinary shares used to calculate basic earnings (thousand of shares)	**234,378**	**232,949**	**233,970**	**232,877**	**233,079**
Diluted earnings					
Net profit attributable to shareholders of the Bank	**2.45**	**0.88**	**4.17**	**2.35**	**5.15**
Weighted average number of ordinary shares used to calculate diluted earnings (thousands of shares)	**235,369**	**234,342**	**234,960**	**234,314**	**234,317**

(1) Share of NIS 0.1 par value.

Condensed consolidated statements of comprehensive income

Reported amounts (NIS in millions)

		For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
		2019	2018	2019	2018	2018
	Note	(unaudited)		(unaudited)		(audited)
Net profit:						
Before attribution to non-controlling interests		599	223	1,021	581	1,274
Attributable to non-controlling interests		(23)	(16)	(41)	(31)	(68)
Net profit attributable to shareholders of the Bank		**576**	**207**	**980**	**550**	**1,206**
Other comprehensive income (loss) before taxes	4					
Adjustments for presentation of available-for-sale securities at fair value, net[1]		37	(15)	128	(79)	(68)
Adjustments from translation of financial statements of investments in associated companies[2]		–	1	–	1	1
Net gains (losses) with respect to cash flows hedging		2	(4)	1	(5)	–
Adjustment of liabilities with respect to employees' benefits[3]		–	59	(40)	82	121
Total other comprehensive income (loss), before tax		**39**	**41**	**89**	**(1)**	**54**
Related tax effect		(13)	(15)	(30)	–	(18)
Other comprehensive income (loss) after taxes[4]						
Other comprehensive income (loss), before attribution to non-controlling interests		26	26	59	(1)	36
Less other comprehensive income (loss) attributed to non-controlling interests		–	–	(3)	1	(1)
Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes		**26**	**26**	**62**	**(2)**	**37**
Comprehensive income:						
Before attribution to non-controlling interests		625	249	1,080	580	1,310
Attributable to non-controlling interests		(23)	(16)	(38)	(32)	(67)
Comprehensive income attributable to shareholders of the Bank		**602**	**233**	**1,042**	**548**	**1,243**

(1) For more information about application of Public Reporting Regulations 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 June 30, 2019	As of June 30, 2018 (unaudited)	As of December 31, 2018 (audited)
Assets				
Cash and deposits with banks		48,700	42,380	45,162
Securities[(1)(2)]	5	8,816	9,926	11,081
Securities loaned or purchased in resale agreements		59	22	26
Loans to the public	6,13	202,342	188,589	195,956
Provision for credit losses	6,13	(1,614)	(1,534)	(1,575)
Loans to the public, net	6,13	200,728	187,055	194,381
Loans to Governments		620	604	630
Investments in associated companies		32	32	32
Buildings and equipment		1,375	1,364	1,424
Intangible assets and goodwill		87	87	87
Assets with respect to derivative instruments	11	2,117	3,453	3,240
Other assets		1,689	1,670	1,810
Total assets		**264,223**	**246,593**	**257,873**
Liabilities and Equity				
Deposits from the public	7	205,188	189,900	199,492
Deposits from banks		554	875	625
Deposits from the Government		36	47	42
Debentures and subordinated notes		31,596	30,034	30,616
Liabilities with respect to derivative instruments	11	2,276	3,364	3,661
Other liabilities [(3)]		8,091	7,713	8,047
Total liabilities		**247,741**	**231,933**	**242,483**
Shareholders' equity attributable to shareholders of the Bank		15,740	13,986	14,681
Non-controlling interests		742	674	709
Total equity		**16,482**	**14,660**	**15,390**
Total liabilities and equity		**264,223**	**246,593**	**257,873**

(1) Of which: NIS 6,058 million at fair value on consolidated basis (June 30, 2018 – NIS 6,755 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 104 million (on June 30, 2018 – NIS 97 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 compre-hensive income (loss)[(3)]	Retained earnings[(4)]	Total Sharehol-ders' equity	Non-controlling interests	Total equity
	For the three months ended June 30, 2019 (unaudited)							
Balance as of March 31, 2019	2,206	39	2,245	(310)	13,186	15,121	724	15,845
Net profit for the period	–	–	–	–	576	576	23	599
Benefit from share-based payment transactions	–	17	17	–	–	17	–	17
Realization of share-based payment transactions[(2)]	12	(12)	–	–	–	–	–	–
Dividends attributable to non-controlling interest in subsidiary	–	–	–	–	–	–	(5)	(5)
Other comprehensive income (loss), net, after tax	–	–	–	26	–	26	–	26
Balance as of June 30, 2019	**2,218**	**44**	**2,262**	**(284)**	**13,762**	**15,740**	**742**	**16,482**
	For the three months ended June 30, 2018 (unaudited)							
Balance as of March 31, 2018	2,185	60	2,245	(411)	12,056	13,890	658	14,548
Net profit for the period	–	–	–	–	207	207	16	223
Dividends paid[(5)]	–	–	–	–	(137)	(137)	–	(137)
Realization of share-based payment transactions[(2)]	6	(6)	–	–	–	–	–	–
Other comprehensive income (loss), net, after tax	–	–	–	26	–	26	–	26
Balance as of June 30, 2018	**2,191**	**54**	**2,245**	**(385)**	**12,126**	**13,986**	**674**	**14,660**

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

(2) In the second quarter of 2019, 549,888 ordinary NIS 0.1 par value shares were issued each, 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 second quarter of 2018, 218,973 ordinary NIS 0.1 par value shares were issued 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 dividend distributions, see Note 24 to the 2018 financial statements.

(5) On June 5, 2018, the Bank paid dividends amounting to NIS 137.2 million, in conformity with a decision by the Bank Board of Directors.

(6) On August 12, 2019, after the balance sheet date, the Bank's Board of Directors resolved to distribute dividends amounting to a cumulative NIS 392 million. The cumulative amount to be distributed pursuant to this resolution is 40% of earnings in the first half of 2019. According to accounting rules, this amount will be deducted from retained earnings in the third 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-holders equity	Non-controlling interests	Total equity
	For the six months ended June 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	–	–	–	–	980	980	41	1,021
Benefit from share-based payment transactions	–	17	17	–	–	17	–	17
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	–	–	–	62	–	62	(3)	59
Balance as of June 30, 2019	**2,218**	**44**	**2,262**	**(284)**	**13,762**	**15,740**	**742**	**16,482**
	For the six months ended June 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	–	–	–	–	550	550	31	581
Dividends paid[(5)]	–	–	–	–	(247)	(247)	–	(247)
Realization of share-based payment transactions[(2)]	11	(11)	–	–	–	–	–	–
Other comprehensive income (loss), net, after tax	–	–	–	(2)	–	(2)	1	(1)
Balance as of June 30, 2018	**2,191**	**54**	**2,245**	**(385)**	**12,126**	**13,986**	**674**	**14,660**
	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 half of 2019, 995,225 ordinary NIS 0.1 par value shares were issued each, 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 half of 2018, 428,715 ordinary NIS 0.1 par value shares were issued 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.
In 2018, the Bank issued 699,128 ordinary shares of NIS 0.1 par value each, 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 dividend distributions, 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 12, 2019, after the balance sheet date, the Bank's Board of Directors resolved to distribute dividends amounting to a cumulative NIS 392 million. The cumulative amount to be distributed pursuant to this resolution is 40% of earnings in the first half of 2019. According to accounting rules, this amount will be deducted from retained earnings in the third 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 June 30,		For the six months ended June 30,		For the year ended December 31,
	2019	**2018**	**2019**	**2018**	**2018**
		(unaudited)		**(unaudited)**	**(audited)**
Cash flows provided by current operations					
Net profit	599	223	1,021	581	1,274
Adjustments					
Share of the Bank in undistributed earnings of associated companies	–	(1)	–	(1)	(1)
Depreciation of buildings and equipment	61	61	123	121	238
Expenses with respect to credit losses	99	90	175	172	310
Gain from sale of securities available for sale	(1)	(1)	(11)	(7)	(18)
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	(1)	–	(4)	3	1
Realized and unrealized loss (gain) from adjustment to fair value of shares not held for trading	16	–	16	–	–
Gain from sale of buildings and equipment	(8)	–	(24)	–	–
Impairment of assets held for sale	–	–	1	1	–
Expenses arising from share-based payment transactions	17	–	17	–	–
Deferred taxes, net	27	4	10	18	(111)
Change in employees' provisions and liabilities	21	18	23	25	63
Adjustments with respect to exchange rate differentials	47	(88)	143	(80)	(129)
Accrual differences included with investment and financing operations	219	(31)	437	(76)	67
Net change in current assets					
Assets with respect to derivative instruments	226	(304)	1,124	(37)	181
Securities held for trading	99	(227)	(121)	(215)	(80)
Other assets, net	(86)	141	92	115	49
Net change in current liabilities					
Liabilities with respect to derivative instruments	(251)	704	(1,385)	282	579
Other liabilities	(418)	7	(38)	252	551
Net cash provided by current operations	**666**	**596**	**1,599**	**1,154**	**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 June 30,		For the six months ended June 30,		For the year ended December 31,
	2019	2018	2019	2018	2018
	(unaudited)		(unaudited)		(audited)
Cash flows provided by investment activities					
Net change in deposits with banks	(385)	324	150	(72)	52
Net change in loans to the public	(4,468)	(4,428)	(6,714)	(7,649)	(15,522)
Net change in loans to Governments	20	(111)	10	(120)	(56)
Net change in securities loaned or acquired in resale agreements	(17)	24	(33)	54	50
Acquisition of debentures held to maturity	(300)	(579)	(300)	(579)	(1,396)
Proceeds from redemption of securities held to maturity	799	–	1,422	723	723
Acquisition of securities available for sale	(2,393)	(605)	(2,840)	(1,775)	(2,459)
Proceeds from sale of securities available for sale	2,054	34	2,716	680	838
Proceeds from redemption of securities available for sale	37	658	1,172	1,449	1,695
Proceeds from sale of loan portfolios	42	971	577	1,767	2,350
Purchase of loan portfolios – public	(88)	(60)	(379)	(249)	(377)
Purchase of loan portfolios – Government	–	–	–	(28)	(118)
Acquisition of buildings and equipment	(63)	(47)	(98)	(82)	(259)
Proceeds from sale of buildings and equipment	29	–	50	–	–
Proceeds from realized investment in associated companies	–	1	–	1	1
Net cash provided by investment activities	**(4,733)**	**(3,818)**	**(4,267)**	**(5,880)**	**(14,478)**
Cash flows provided by financing operations					
Net change in deposits from the public	411	2,834	5,696	6,327	15,919
Net change in deposits from banks	(65)	(10)	(71)	(250)	(500)
Net change in deposits from Government	(7)	(5)	(6)	(4)	(9)
Issuance of debentures and subordinated notes	3,700	–	3,700	–	711
Redemption of debentures and subordinated notes	(1)	–	(2,815)	(2)	(415)
Dividends paid to shareholders	–	(137)	–	(247)	(247)
Dividends paid to external shareholders in subsidiaries	(5)	–	(5)	–	–
Net cash provided by financing operations	**4,033**	**2,682**	**6,499**	**5,824**	**15,459**
Increase in cash	(34)	(540)	3,831	1,098	3,955
Cash balance at beginning of the period	48,350	42,127	44,581	40,497	40,497
Effect of changes in exchange rate on cash balances	(47)	88	(143)	80	129
Cash balance at end of the period	**48,269**	**41,675**	**48,269**	**41,675**	**44,581**
Interest and taxes paid / received					
Interest received	2,155	1,525	4,400	3,162	6,837
Interest paid	791	446	1,289	725	2,219
Dividends received	–	–	16	6	7
Income taxes received	28	91	178	91	97
Income taxes paid	337	229	571	507	1,145
Appendix A – Non-cash Transactions					
Acquisition of buildings and equipment	2	–	3		14
Sales of buildings and equipment	(5)	–	(10)	–	–

Note 1 – Reporting Principles and Accounting Policies

A. Overview

On August 12, 2019, the Bank Board of Directors authorized publication of these condensed financial statements as of June 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 only issued on a consolidated basis.

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 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 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 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. Application of these directives has no material impact on the Bank's financial statements. 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
Impairment of goodwill ASU 2017-04	January 2017	January 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	January 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	January 1, 2020	Supervisor of Banks	Banking corporations that lease assets for a term longer than 12 months shall recognize these on the balance sheet, even in case of an operating lease; for operational lease transactions, an asset shall be recorded on the balance sheet reflecting the corporation's right to use the leased asset, against a liability to make lease payments; as for capital adequacy, risk assets with respect to leases recognized on the balance sheet shall be weighted at 100% for the purpose of minimum capital ratio.	The Bank is preparing to implement the updates. The Bank believes that application of these directives should result in an increase of NIS 0.7 billion in the balance of use assets and to an identical increase in liabilities with respect to lease as of the initial application date.
Updated standard with regard to changes to disclosure requirements of defined benefit plans ASU 2018-14	August 2018	January 1, 2021	US Financial Accounting Standards Board ("FASB")	Elimination of the required presentation of estimated amounts under Other Comprehensive Income expected to be deducted from cumulative Other Comprehensive Income to the Statement of Profit and Loss as 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 employee rights.
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.

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.
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 June 30,		For the six months ended June 30,		For the year ended December 31,
	2019	**2018**	**2019**	**2018**	**2018**
		(unaudited)		**(unaudited)**	**(audited)**
A. Interest revenues[1]					
From loans to the public	2,541	2,164	4,116	3,539	7,049
From loans to Governments	8	6	17	10	25
From deposits with the Bank of Israel and from cash	52	21	110	39	102
From deposits with banks	4	2	10	3	9
From securities loaned or acquired in resale agreements[2]	–	–	–	–	–
From debentures	42	44	80	95	174
Total interest revenues	**2,647**	**2,237**	**4,333**	**3,686**	**7,359**
B. Interest expenses					
On deposits from the public	675	516	1,056	804	1,628
On deposits from governments	–	–	–	–	2
On deposits from banks	4	2	6	4	11
On debentures and subordinated notes	423	373	494	451	793
On other liabilities	2	1	3	1	3
Total interest expenses	**1,104**	**892**	**1,559**	**1,260**	**2,437**
Total interest revenues, net	**1,543**	**1,345**	**2,774**	**2,426**	**4,922**
C. Details of net effect of hedging financial derivative instruments on interest revenues[3]	(28)	1	(33)	5	4
D. Details of interest revenues on accrual basis from debentures					
Held to maturity	18	10	27	20	45
Available for sale	22	33	50	74	126
Held for trading	2	1	3	1	3
Total included under interest revenues	**42**	**44**	**80**	**95**	**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 June 30,		For the six months ended June 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)	1
Net revenues (expenses) with respect to ALM derivative instruments(2)	(269)	647	(657)	941	1,413
Total from activity in derivative instruments	**(269)**	**648**	**(657)**	**940**	**1,414**
2. From investment in debentures					
Gain from sale of debentures available for sale(3)	1	1	10	6	8
Total from investment in debentures	**1**	**1**	**10**	**6**	**8**
3. Exchange rate differences, net	**317**	**(526)**	**714**	**(774)**	**(1,081)**
4. Gains from investment in shares					
Gains from sale of shares not held for trading	–	–	1	1	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)	22	–	22	–	–
Total from investment in shares	**22**		**38**	**6**	**17**
5. Net gains with respect to loans sold					
Total non-interest financing revenues with respect to non-trading purposes	**71**	**123**	**105**	**178**	**358**
B. Non-interest financing revenues (expenses) with respect to trading operations(4)					
Net revenues with respect to other derivative instruments	17	6	37	44	88
Realized gains (losses) from adjustment to fair value of debentures held for trading, net	1	–	3	–	(1)
Unrealized gains (losses) from adjustment to fair value of debentures held for trading, net	–	–	1	(3)	–
Total from trading operations(6)	**18**	**6**	**41**	**41**	**87**
Details of non-interest financing revenues (expenses) with respect to trading operations, by risk exposure					
Interest exposure	–	–	–	–	–
Foreign currency exposure	17	4	39	37	81
Exposure to shares	1	2	2	4	6
Exposure to commodities and others	–	–	–	–	–
Total	**18**	**6**	**41**	**41**	**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 June 30, 2019 (unaudited)						
Balance as of March 31, 2019	2	(1)	3	(335)	(331)	(21)	(310)
Net change in the period	24	–	2	–	26	–	26
Balance as of June 30, 2019	**26**	**(1)**	**5**	**(335)**	**(305)**	**(21)**	**(284)**
	For the three months ended June 30, 2018 (unaudited)						
Balance as of March 31, 2018	(56)	(2)	3	(372)	(427)	(16)	(411)
Net change in the period	(11)	1	(2)	38	26	–	26
Balance as of June 30, 2018	**(67)**	**(1)**	**1**	**(334)**	**(401)**	**(16)**	**(385)**
	For the six months ended June 30, 2019 (unaudited)						
Balance as of December 31, 2018	(58)	(1)	4	(309)	(364)	(18)	(346)
Net change in the period	84	–	1	(26)	59	(3)	62
Balance as of June 30, 2019	**26**	**(1)**	**5**	**(335)**	**(305)**	**(21)**	**(284)**
	For the six months ended June 30, 2018 (unaudited)						
Balance as of December 31, 2017	(15)	(2)	4	(387)	(400)	(17)	(383)
Net change in the period	(52)	1	(3)	53	(1)	1	(2)
Balance as of June 30, 2018	**(67)**	**(1)**	**1**	**(334)**	**(401)**	**(16)**	**(385)**
	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	–	[(3)]78	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 Regulations 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 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 June 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	38	(13)	25	(14)	4	(10)
Losses (gains) with respect to available-for-sale securities reclassified to the statement of profit and loss[2]	(1)	–	(1)	(1)	–	(1)
Net change in the period	**37**	**(13)**	**24**	**(15)**	**4**	**(11)**
Translation adjustments						
Adjustments from translation of financial statements[3]	–	–	–	1	–	1
Net change in the period	**–**	**–**	**–**	**1**	**–**	**1**
Cash flows hedges						
Net losses from cash flow hedges	2	–	2	(4)	2	(2)
Net (gains) losses with respect to cash flow hedges reclassified to the statement of profit and loss[4]	–	–	–	–	–	–
Net change in the period	**2**	**–**	**2**	**(4)**	**2**	**(2)**
Employees' benefits						
Net actuarial gain (loss) for the period	(8)	3	(5)	51	(18)	33
Net losses reclassified to the statement of profit and loss	8	(3)	5	8	(3)	5
Net change in the period	**–**	**–**	**–**	**59**	**(21)**	**38**
Total net change in the period	**39**	**(13)**	**26**	**41**	**(15)**	**26**
Total net change in the period attributable to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**
Total net change in the period attributable to shareholders of the Bank	**39**	**(13)**	**26**	**41**	**(15)**	**26**

(1) For more information about application of Public Reporting Regulations 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 six months ended June 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	138	(47)	91	(73)	25	(48)	(60)	22	(38)
Losses (gains) with respect to available-for-sale securities reclassified to the statement of profit and loss[(2)]	(10)	3	(7)	(6)	2	(4)	(8)	3	(5)
Net change in the period	**128**	**(44)**	**84**	**(79)**	**27**	**(52)**	**(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	1	–	1	(5)	2	(3)	–	–	–
Net (gains) losses with respect to cash flow hedges reclassified to the statement of profit and loss[(4)]	–	–	–	–	–	–	–	–	–
Net change in the period	**1**	**–**	**1**	**(5)**	**2**	**(3)**	**–**	**–**	**–**
Employees' benefits									
Net actuarial gain (loss) for the period	(58)	20	(38)	67	(24)	43	85	(31)	[(5)]54
Net losses reclassified to the statement of profit and loss	18	(6)	12	15	(5)	10	36	(12)	24
Net change in the period	**(40)**	**14**	**(26)**	**82**	**(29)**	**53**	**121**	**(43)**	**78**
Total net change in the period	**89**	**(30)**	**59**	**(1)**	**–**	**(1)**	**54**	**(18)**	**36**
Total net change in the period attributable to non-controlling interests	**(4)**	**1**	**(3)**	**1**	**–**	**1**	**(1)**	**–**	**(1)**
Total net change in the period attributable to shareholders of the Bank	**93**	**(31)**	**62**	**(2)**	**–**	**(2)**	**55**	**(18)**	**37**

(1) For more information about application of Public Reporting Regulations 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 actuarial liability, as well as deduction of the capital reserve from the streamlining program.

Note 5 – Securities

June 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	2,701	2,701	42	–	2,743
Total debentures held to maturity	**2,701**	**2,701**	**42**	**–**	**2,743**
			Cumulative other comprehensive income		
	Carrying amount	**Amortized cost**	**Gains**	**Losses**	**Fair value[1]**
(2) Debentures available for sale					
Of the Government of Israel[2]	3,241	3,197	49	(5)	3,241
Of foreign governments [2][3]	2,028	2,037	–	(9)	2,028
Of foreign financial institutions[4]	307	303	4	–	307
Total debentures available for sale	**5,576**	**5,537**	**[5]53**	**[5] (14)**	**5,576**
	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	**126**	**110**	**[6]16**	**–**	**126**
Of which: Shares for which no fair value is available[7]	57	57	–	–	57
Total securities not held for trading	**8,403**	**8,348**	**111**	**(14)**	**8,445**
	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	413	412	1	–	413
Total debentures held for trading	**413**	**412**	**[6]1**	**–**	**413**
Total securities	**8,816**	**8,760**	**112**	**(14)**	**8,858**

(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 545 million and securities provided as collateral to lenders, amounting to NIS 214 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 Regulations 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 securities.

Note 5 – Securities – Continued

June 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]
(1) Debentures held to maturity					
of Government of Israel	3,081	3,081	48	(2)	3,127
Total debentures held to maturity	**3,081**	**3,081**	**48**	**(2)**	**3,127**
	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]	4,261	4,297	5	(41)	4,261
Of foreign governments [2][3]	1,588	1,646	–	(58)	1,588
Of foreign financial institutions[4]	467	473	–	(6)	467
Of others overseas	17	18	–	(1)	17
Total debentures available for sale	**6,333**	**6,434**	**5**	**(106)**	**6,333**
Shares[5]	91	91	–	–	91
Total securities available for sale	**6,424**	**6,525**	**[6]5**	**[6](106)**	**6,424**
	Carrying amount	**Amortized cost**	**Unrealized gains from adjustments to fair value**	**Unrealized losses from adjustments to fair value**	**Fair value[1]**
(3) Debentures held for trading					
of Government of Israel	421	426	–	(5)	421
Total debentures held for trading	**421**	**426**	**–**	**[7](5)**	**421**
Total securities	**9,926**	**10,032**	**53**	**(113)**	**9,972**

(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 460 million and securities provided as collateral to lenders, amounting to NIS 71 million.

(3) US government debentures.

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

(5) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 90 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 securities.

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]**	**(95)[6]**	**6,876**
	Carrying amount	**Amortized cost**	**Unrealized gains from adjustments to fair value**	**Unrealized 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 for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 91 million.
(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 securities.

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	Unrealized losses			Fair	Unrealized losses		
	value(1)	0%-20%	20%-40%	Total	value(1)	0%-20%	20%-40%	Total
	As of June 30, 2019 (unaudited)							
Debentures available for sale								
of Government of Israel	560	4	–	4	10	1	–	1
Of foreign governments(2)	193	1	–	1	1,004	8	–	8
Total debentures available for sale	**753**	**5**	**–**	**5**	**1,014**	**9**	**–**	**9**
	As of June 30, 2018 (unaudited)							
Debentures held to maturity								
of Government of Israel	(5)432	2	–	2	–	–	–	–
Total – debentures held to maturity	**432**	**2**	**–**	**2**	**–**	**–**	**–**	**–**
Debentures available for sale								
of Government of Israel	2,307	35	–	35	755	6	–	6
Of foreign governments(2)	551	8	–	8	941	50	–	50
Of foreign financial institutions(3)	467	6	–	6	–	–	–	–
Of others overseas	–	–	–	–	10	1	–	1
Total securities available for sale	**3,325**	**49**	**–**	**49**	**1,706**	**57**	**–**	**57**
	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 June 30, 2019, June 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

	June 30, 2019 (unaudited)					
	Loans to the public				Banks and governments	Total
	Commercial	Housing	Individual – other	Total		
Recorded debt balance of debts[1]						
reviewed on individual basis	42,290	46	776	43,112	7,539	50,651
reviewed on group basis	8,933	131,029	19,268	159,230	–	159,230
Of which: By extent of arrears	1,662	131,029	–	132,691	–	132,691
Total debts	**51,223**	**[2]131,075**	**20,044**	**202,342**	**7,539**	**209,881**
Of which:						
Impaired debts under restructuring	303	–	63	366	–	366
Other impaired debts	686	46	22	754	–	754
Total impaired debts	**989**	**46**	**85**	**1,120**	**–**	**1,120**
Debts in arrears 90 days or longer	36	1,407	20	1,463	–	1,463
Other problematic debts	654	–	120	774	–	774
Total problematic debts	**1,679**	**1,453**	**225**	**3,357**	**–**	**3,357**
Provision for credit losses with respect to debts[1]						
reviewed on individual basis	587	2	30	619	1	620
reviewed on group basis	112	658	225	995	–	995
Of which: Provision by extent of arrears[3]	6	658	–	664	–	664
Total provision for credit losses	**699**	**660**	**255**	**1,614**	**1**	**1,615**
Of which: With respect to impaired debts	**161**	**2**	**21**	**184**	**–**	**184**

	June 30, 2018 (unaudited)					
Recorded debt balance of debts[1]						
reviewed on individual basis	36,730	42	753	37,525	5,695	43,220
reviewed on group basis	9,237	123,047	18,780	151,064	–	151,064
Of which: By extent of arrears	1,652	123,047	–	124,699	–	124,699
Total debts	**45,967**	**[2]123,089**	**19,533**	**188,589**	**5,695**	**194,284**
Of which:						
Impaired debts under restructuring	143	–	55	198	–	198
Other impaired debts	636	42	21	699	–	699
Total impaired debts	**779**	**42**	**76**	**897**	**–**	**897**
Debts in arrears 90 days or longer	39	1,159	22	1,220	–	1,220
Other problematic debts	589	–	124	713	–	713
Total problematic debts	**1,407**	**1,201**	**222**	**2,830**	**–**	**2,830**
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	536	3	27	566	3	569
reviewed on group basis	112	640	216	968	–	968
Of which: Provision by extent of arrears[3]	5	640	–	645	–	645
Total provision for credit losses	**648**	**643**	**243**	**1,534**	**3**	**1,537**
Of which: With respect to impaired debts	**129**	**3**	**18**	**150**	**–**	**150**

(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 7,365 million (as of June 30, 2018 – NIS 6,699 million).

(3) Includes balance of provision in excess of that required by extent of arrears, assessed on individual basis, amounting to NIS 18 million (as of June 30, 2018 – NIS 17 million), and assessed on group basis, amounting to NIS 459 million (as of June 30, 2018 – NIS 431 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**	**[2]127,030**	**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 June 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	766	651	265	1,682	2	1,684
Expenses with respect to credit losses	65	11	24	100	(1)	99
Accounting write-offs(1)	(59)	(2)	(39)	(100)	–	(100)
Recovery of debts written off for accounting purposes in previous years(1)	21	–	15	36	–	36
Net accounting write-offs	(38)	(2)	(24)	(64)	–	(64)
Balance of provision for credit losses at end of period	**793**	**660**	**265**	**1,718**	**1**	**1,719**
Of which: With respect to off balance sheet credit instruments	**94**	**–**	**10**	**104**	**–**	**104**
	For the three months ended June 30, 2018 (unaudited)					
Balance of provision for credit losses at start of period	711	635	249	1,595	2	1,597
Expenses with respect to credit losses	50	11	28	89	1	90
Accounting write-offs(1)	(41)	(3)	(39)	(83)	–	(83)
Recovery of debts written off for accounting purposes in previous years(1)	15	–	15	30	–	30
Net accounting write-offs	(26)	(3)	(24)	(53)	–	(53)
Balance of provision for credit losses at end of period	**735**	**643**	**253**	**1,631**	**3**	**1,634**
Of which: With respect to off balance sheet credit instruments	**87**	**–**	**10**	**97**	**–**	**97**
	For the six months ended June 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	108	19	51	178	(3)	175
Accounting write-offs(1)	(125)	(4)	(81)	(210)	–	(210)
Recovery of debts written off for accounting purposes in previous years(1)	44	1	32	77	–	77
Net accounting write-offs	(81)	(3)	(49)	(133)	–	(133)
Balance of provision for credit losses at end of period	**793**	**660**	**265**	**1,718**	**1**	**1,719**
Of which: With respect to off balance sheet credit instruments	**94**	**–**	**10**	**104**	**–**	**104**
	For the six months ended June 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	103	17	50	170	2	172
Accounting write-offs(1)	(102)	(4)	(74)	(180)	–	(180)
Recovery of debts written off for accounting purposes in previous years(1)	35	–	32	67	–	67
Net accounting write-offs	(67)	(4)	(42)	(113)	–	(113)
Balance of provision for credit losses at end of period	**735**	**643**	**253**	**1,631**	**3**	**1,634**
Of which: With respect to off balance sheet credit instruments	**87**	**–**	**10**	**97**	**–**	**97**

(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

	June 30,		December 31,
	2019	2018	2018
		(unaudited)	(audited)
In Israel			
On-call			
Non interest-bearing	51,052	45,258	47,674
Interest-bearing	24,606	21,753	22,667
Total on-call	**75,658**	**67,011**	**70,341**
Term deposits	124,770	117,285	123,723
Total deposits in Israel[(1)]	**200,428**	**184,296**	**194,064**
Outside of Israel			
On-call			
Non interest-bearing	408	649	652
Interest-bearing	4	5	4
Total on-call	**412**	**654**	**656**
Term deposits	4,348	4,950	4,772
Total deposits overseas	**4,760**	**5,604**	**5,428**
Total deposits from the public	**205,188**	**189,900**	**199,492**
(1) Includes:			
Deposits from individuals	**99,096**	**90,708**	**95,896**
Deposits from institutional investors	**41,731**	**40,733**	**37,712**
Deposits from corporations and others	**59,601**	**52,855**	**60,456**

B. Deposits from the public by size

	June 30,		December 31,
	2019	2018	2018
		(unaudited)	(audited)
Maximum deposit			
Up to 1	72,114	66,501	69,559
Over 1 to 10	48,962	43,719	47,240
Over 10 to 100	28,735	27,337	26,703
Over 100 to 500	20,297	24,562	18,658
Above 500	35,080	27,781	37,332
Total	**205,188**	**189,900**	**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 Bank Yahav employees, are covered by regular deposits to pension, provident and severance-pay funds, which release the Bank from severance-pay liabilities for those employees by law. For more information about various benefits to Bank employees and managers, see Note 22 to the financial statements as of December 31, 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. Net benefit cost components recognized in profit and loss with respect to defined-benefit and defined-contribution pension plans (NIS in millions)[1]

	For the three months ended June 30,		For the six months ended ended June 30,		For the year ended December 31,
	2019	2018	2019	2018	2018
	(unaudited)		(unaudited)		(audited)
Under payroll and associated expenses					
Cost of service[2]	12	13	24	26	51
Under other expenses					
Cost of interest[3]	11	10	23	20	42
Expected return on plan assets[4]	(1)	(1)	(2)	(2)	(5)
Deduction of non-allowed amounts:					
Net actuarial loss[5]	8	8	18	15	36
Total under other expenses	18	17	39	33	73
Total benefit cost, net	**30**	**30**	**63**	**59**	**124**
Total expense with respect to defined-contribution pension	37	34	73	68	135
Total expenses recognized in profit and loss	**67**	**64**	**136**	**127**	**259**

	Forecast	Actual deposits				
	For[6]	For the three months ended June 30,		For the six months ended ended June 30,		For the year ended December 31,
	2019	2019	2018	2019	2018	2018
		(unaudited)		(unaudited)		(audited)
Deposits	3.2	1.8	1.8	3.4	3.2	6

(1) For more information about directives of the Supervisor of Banks with regard to improved presentation of expenses with respect to pension and other post-employment benefits, see Note 1.D. 4.
(2) Cost of service is the current accrual of future employee benefits in the period.
(3) Cost of interest is the amount recognized in the period, set based on the increase in obligation with respect to expected benefit due to passage of time.
(4) Expected return is the expected return on plan assets, determined based on expected long-term rates of return on plan assets and based on the established market value of plan assets.
(5) Deduction of net gain or loss previously recognized in Cumulative Other Comprehensive Income.
(6) Estimated deposits to be paid into defined-benefit pension plans through end of 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 Adequacy"

	As of June 30,		As of December 31,
	2019	**2018**	**2018**
		(unaudited)	**(audited)**
1. Consolidated data			
A. Capital for purpose of calculating the capital ratio			
Tier I shareholders' equity	16,220	14,508	15,172
Tier I capital	16,220	14,508	15,172
Tier II capital	5,783	4,860	5,515
Total capital	**22,003**	**19,368**	**20,687**
B. Weighted risk asset balances			
Credit risk	146,566	134,881	140,572
Market risks	2,214	1,748	1,494
Operational risk	9,846	9,155	9,561
Total weighted risk asset balances(1)	**158,626**	**145,784**	**151,627**
C. Ratio of capital to risk components			
			In %
Ratio of Tier I capital to risk components	10.23	9.95	10.01
Ratio of Tier I capital to risk components	10.23	9.95	10.01
Ratio of total capital to risk components	13.87	13.29	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			
Bank Yahav for Government Employees Ltd. and its subsidiaries			
Ratio of Tier I capital to risk components	9.73	9.42	9.36
Ratio of Tier I capital to risk components	9.73	9.42	9.36
Ratio of total capital to risk components	13.69	13.11	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 159 million was deducted due to adjustments with respect to the streamlining plan (June 30, 2018: NIS 228 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 June 30,		As of December 31,
	2019	**2018**	**2018**
		(unaudited)	**(audited)**
3. Capital components for calculating the capital ratio (on consolidated data)			
A. Tier I shareholders' equity			
Shareholders' equity	16,482	14,660	15,390
Differences between shareholders' equity and Tier I capital	(306)	(266)	(286)
Total Tier I capital before supervisory adjustments and deductions	**16,176**	**14,394**	**15,104**
Supervisory adjustments and deductions:			
Goodwill	(87)	(87)	(87)
Supervisory adjustments and other deductions	(12)	(12)	(13)
Total supervisory adjustments and deductions, before adjustments with respect to the streamlining plan – Tier I capital	**(99)**	**(99)**	**(100)**
Total adjustments with respect to the streamlining program[1]	143	213	168
Total Tier I capital after supervisory adjustments and deductions	**16,220**	**14,508**	**15,172**
B. Tier II capital			
Tier II capital: Instruments, before deductions	4,256	3,384	4,012
Tier II capital: Provisions, before deductions	1,527	1,476	1,503
Total Tier II capital, before deductions	**5,783**	**4,860**	**5,515**
Deductions:			
Total deductions – Tier II capital	–	–	–
Total Tier II capital	**5,783**	**4,860**	**5,515**
Total capital	**22,003**	**19,368**	**20,687**

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

	As of June 30,		As of December 31,
	2019	**2018**	**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]	10.12	9.79	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	0.11	0.16	0.13
Ratio of Tier I capital to risk components after application of transitional provisions	10.23	9.95	10.01

(1) Of which, NIS 105 million with respect to streamlining program concerning employees and NIS 38 million with respect to streamlining program concerning real estate (on June 30, 2018: NIS 154 million with respect to streamlining program concerning employees and NIS 59 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 June 30,		As of December 31,
	2019	2018	2018
	(unaudited)		(audited)
	In %		
1. Consolidated data			
Liquidity coverage ratio(1)	118	120	116
Minimum liquidity coverage ratio required by the Supervisor of Banks(2)	100	100	100
2. Bank data			
Liquidity coverage ratio(1)	118	121	116
Minimum liquidity coverage ratio required by the Supervisor of Banks(2)	100	100	100
3. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and its subsidiaries			
Liquidity coverage ratio(1)	283	255	185

(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 June 30,		As of December 31,
	2019	2018	2018
	(unaudited)		(audited)
1. Consolidated data			
Tier I capital(1)	16,220	14,508	15,172
Total exposure	285,858	269,911	279,827
			In %
Leverage ratio	5.67	5.38	5.42
Minimum leverage ratio required by the Supervisor of Banks(2)	5.00	5.00	5.00
2. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and its subsidiaries			
Leverage ratio	5.45	5.27	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

	June 30, 2019	June 30, 2018	December 31, 2018
	(unaudited)	(unaudited)	(audited)
1. Computerization and software service contracts	328	282	296
2. Acquisition and renovation of buildings	17	16	8
3. Long-term lease contracts – rent for buildings, equipment and vehicles(1)(2)(3):			
First year	175	183	201
Second year	215	186	191
Third year	203	181	182
Fourth year	193	175	176
Fifth year	187	173	172
Sixth year and thereafter	1,669	1,657	1,602
Total rent for buildings and equipment	**2,642**	**2,555**	**2,524**

4. Credit sales operations

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

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31,
	2019	2018	2019	2018	2018
	(unaudited)		(unaudited)		(audited)
Carrying amount of credit sold	–	915	571	1,789	2,326
Consideration received in cash	–	882	577	1,767	2,350
Consideration received in securities	–	–	–	–	–
Total consideration	–	920	577	1,805	2,350
Total net gain with respect to credit sold	–	–	–	–	–

(1) The Bank and subsidiaries have long-term leases on buildings and equipment for which the rental payments are as follows (subject to linkage conditions):

(2) Subject to linkage terms.

(3) Includes IT and operating services provided to Bank Yahav by an international Tata Group company as from January 1, 2017. The company specializes, *inter alia*, in providing IT services to financial institutions and banking corporations world-wide. In this regard, Bank Yahav uses a core banking system which includes banking services in various channels, based on the bank's lines of business. Bank Yahav also receives operating services from the company with respect to IT systems it provides, as well as additional outsourced services.

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

Note 10 – Contingent Liabilities and Special Commitments – continued

Reported amounts (NIS in millions)

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.

   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.

Note 10 – Contingent Liabilities and Special Commitments – continued

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.

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.

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.

Note 10 – Contingent Liabilities and Special Commitments – continued

The position of the Attorney General with regard to the settlement was submitted on July 30 and on September 17, 2017, the Bank filed its response to the the Attorney General's position, and the plaintiff filed their response to the Attorney General's position.
On October 2, 2017, a hearing was held with regard to the Attorney General's position. On May 28, 2018, a further hearing took place, at which the Court asked for further clarifications with regard to the settlement agreement. At the end of this hearing it was agreed that the Court would issue its ruling in absence of the parties. On September 17, 2018, a partial verdict was issued, whereby the Court approved the settlement agreement reached by the parties, despite the objection by the Attorney General's representative. In this partial verdict, the Bank's claim of 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 Bank Yahav, alleging unlawful commissions charged by the banks with regard to conversion and transfer of foreign currency (this claim is identical to the aforementioned one).
A motion has been filed to combine heating of this motion with the first aforementioned motion and the Court has agreed to said motion and has combined both claims.
On December 23, 2014. the Bank filed its response to each of the motions for class action status. The plaintiffs filed their response to the combined response to the two aforementioned motions, in which they attributed part of the claim amount to each of the plaintiffs; the Bank's alleged share for both these claims amounted to NIS 1.145 billion in principal.
On March 8, 2015, a pre-trial hearing of this case took place, after which the Court set deadlines for completion of the statements of claim by all parties.
On April 23, 2015, the plaintiffs filed, in conformity with the Court decision, a summary motion for approval of class action status, based on the current motions. The Bank filed its response to the summary motion on October 18, 2015.
On October 25, 2015, another pre-trial hearing took place. In this hearing, the Court combined the hearing of motions filed against the credit card companies and the Postal Bank with those filed against the banks. Evidentiary hearings took place in March 2016. The plaintiffs filed their summations in April 2016. Given the banks' motion to dismiss the plaintiffs' summation, an extension was granted for the banks to file their summations within 60 days after the decision on the motion to dismiss. On August 10, 2016, the Court accepted the motion by the banks and ordered the summation by the plaintiffs to be dismissed; on September 4, 2016, the plaintiffs filed new summations; and on January 17, 2017, the Bank filed its summation and the plaintiffs filed their response summations. On March 1, 2018, a verdict was handed down rejecting the motions and requiring the defendants to pay the expenses. On March 18, 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.

Note 10 – Contingent Liabilities and Special Commitments – continued

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.

F) 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.

G) 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.

Note 10 – Contingent Liabilities and Special Commitments – continued

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.

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.

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.

Note 10 – Contingent Liabilities and Special Commitments – continued

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, another Court hearing took place with regard to the motion to dismiss filed by the Bank; a resolution is still pending.

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

B) 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 would be delayed pending a motion by the plaintiff to amend the motion for approval. On June 3, 2019, a procedural arrangement agreed by the parties was approved, whereby the deadline for filing the Bank's response to the motion for approval was set to September 18, 2019. A pre-trial hearing is scheduled for January 5, 2020.

Note 10 – Contingent Liabilities and Special Commitments – continued

C) 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.

D) 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.

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

D. Guarantees by maturity

The following are guarantees issued by the Bank, by maturity:

	As of June 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	1,900	341	39	162	2,442
Guarantees to home buyers	9,067	2,057	18	–	11,142
Guarantees and other liabilities	4,065	996	70	2,751	7,882
Commitments to issue guarantees	2,608	4,944	255	–	7,807
Total guarantees	**17,640**	**8,338**	**382**	**2,913**	**29,273**

	As of June 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	1,651	412	111	162	2,336
Guarantees to home buyers	9,351	1,825	35	–	11,211
Guarantees and other liabilities	3,291	891	193	1,841	6,216
Commitments to issue guarantees	1,590	4,138	200	–	5,928
Total guarantees	**15,883**	**7,266**	**539**	**2,003**	**25,691**

	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

	June 30, 2019 (unaudited)			June 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	1,787	300	2,087	3,799	–	3,799
Options written	18	–	18	18	–	18
Options purchased	1,284	235	1,519	657	73	730
Swaps(1)	8,660	27,477	36,137	7,573	31,031	38,604
Total(2)	**11,749**	**28,012**	**39,761**	**12,047**	**31,104**	**43,151**
Of which: Hedging derivatives(3)	**3,681**	**–**	**3,681**	**2,730**	**–**	**2,730**
Currency contracts						
Forward contracts(4)(6)	54,799	52,909	107,708	73,705	38,418	112,123
Options written	–	17,908	17,908	–	22,881	22,881
Options purchased	2	15,631	15,633	4	20,236	20,240
Swaps	3,439	2,639	6,078	4,361	3,222	7,583
Total	**58,240**	**89,087**	**147,327**	**78,070**	**84,757**	**162,827**
Of which: Hedging derivatives(3)	**–**	**–**	**–**	**–**	**–**	**–**
Contracts for shares						
Options written	104	9,922	10,026	–	11,411	11,411
Options purchased(5)	–	9,955	9,955	–	11,367	11,367
Swaps	–	2,099	2,099	–	3,684	3,684
Total	**104**	**21,976**	**22,080**	**–**	**26,462**	**26,462**
Commodities and other contracts						
Forward contracts	8	23	31	39	–	39
Options written	–	10,861	10,861	–	7,220	7,220
Options purchased	–	10,861	10,861	–	7,220	7,220
Total	**8**	**21,745**	**21,753**	**39**	**14,440**	**14,479**
Credit contracts						
Bank is guarantor	285	–	285	292	–	292
Bank is beneficiary	529	–	529	726	–	726
Total	**814**	**–**	**814**	**1,018**	**–**	**1,018**
Total stated amount	**70,915**	**160,820**	**231,735**	**91,174**	**156,763**	**247,937**

(1) Of which: Swaps for which the banking corporation pays fixed interest amounting to NIS 25,569 million (as of June 30, 2018: NIS 26,271 million).
(2) Of which: NIS/CPI swaps amounting to NIS 8,501 million (as of June 30, 2018: NIS 8,202 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 6,522 million (as of June 30, 2018: NIS 7,953 million).
(5) Of which: Traded on the Stock Exchange, amounting to NIS 9,922 million (as of June 30, 2018: NIS 11,332 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

	June 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	189	478	667	314	553	867
Of which: Hedging derivatives	–	–	–	97	–	97
Currency contracts(1)	341	873	1,214	397	790	1,187
Of which: Hedging derivatives	–	–	–	–	–	–
Contracts for shares	–	235	235	1	216	217
Commodities and other contracts	–	2	2	–	2	2
Credit contracts	4	–	4	4	–	4
Total assets / liabilities with respect to derivatives, gross(2)	**534**	**1,588**	**2,122**	**716**	**1,561**	**2,277**
Fair value amounts offset on the balance sheet	–	–	–	–	–	–
Carrying amount of assets / liabilities with respect to derivative instruments	**534**	**1,588**	**2,122**	**716**	**1,561**	**2,277**
Of which: Carrying amount with respect to derivative instruments not subject to a master netting agreement or to similar agreements	91	473	564	252	523	775

	June 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	297	501	798	355	524	879
Of which: Hedging derivatives	11	–	11	68	–	68
Currency contracts(1)	1,374	1,048	2,422	1,583	681	2,264
Of which: Hedging derivatives	–	–	–	–	–	–
Contracts for shares	–	231	231	–	217	217
Commodities and other contracts	2	–	2	2	–	2
Credit contracts	4	–	4	2	–	2
Total assets / liabilities with respect to derivatives, gross(2)	**1,677**	**1,780**	**3,457**	**1,942**	**1,422**	**3,364**
Fair value amounts offset on the balance sheet	–	–	–	–	–	–
Carrying amount of assets / liabilities with respect to derivative instruments	**1,677**	**1,780**	**3,457**	**1,942**	**1,422**	**3,364**
Of which: Carrying amount with respect to derivative instruments not subject to a master netting agreement or to similar agreements	710	907	1,617	1,008	581	1,589

(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 5 million (as of June 30, 2018: NIS 4 million); Gross fair value of liabilities with respect to embedded derivatives amounting to NIS 1 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	759	1,185	1,944	815	460	1,275

(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 ended June 30, 2019			For the six months ended June 30, 2019		
	(unaudited)			(unaudited)		
	Amounts recognized in Other Comprehensive Income (loss) from derivatives	Interest revenues (expenses)	Total	Amounts recognized in Other Comprehensive Income (loss) from derivatives	Interest revenues (expenses)	Total
Interest contracts						
Derivatives used to hedge cash flows[1]	2	(28)	**(26)**	1	(17)	**(16)**
Derivatives used to hedge fair value[2]	–	(10)	**(10)**	–	(15)	**(15)**
Total	**2**	**(38)**	**(36)**	**1**	**(32)**	**(31)**

(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

	June 30, 2019 (unaudited)					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivative instruments	**41**	**1,070**	**50**	**–**	**961**	**2,122**
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk with respect to financial instruments	–	(841)	–	–	(125)	(966)
Mitigation of credit risk with respect to cash collateral received	–	(122)	–	–	(215)	(337)
Net amount of assets with respect to derivative instruments	**41**	**107**	**50**		**621**	**819**
Off-balance sheet credit risk on derivative instruments[1]	209	967	119	–	604	1,899
Mitigation of off-balance sheet credit risk	–	(453)	–	–	(261)	(714)
Net off-balance sheet credit risk with respect to derivative instruments	**209**	**514**	**119**	**–**	**343**	**1,185**
Total credit risk on derivative instruments	**250**	**621**	**169**	**–**	**964**	**2,004**
Carrying amount of liabilities with respect to derivative instruments	**47**	**1,230**	**50**	**–**	**950**	**2,277**
Gross amounts not offset in the balance sheet:						
Financial instruments	–	(841)	–	–	(125)	(966)
Pledged cash collateral	–	(309)	–	–	–	(309)
Net amount of liabilities with respect to derivative instruments	**47**	**80**	**50**	**–**	**825**	**1,002**

	June 30, 2018 (unaudited)					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivative instruments	**46**	**1,536**	**22**	**1**	**1,852**	**3,457**
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk with respect to financial instruments	–	(1,091)	–	–	(166)	(1,257)
Mitigation of credit risk with respect to cash collateral received	–	(373)	–	–	(252)	(625)
Net amount of assets with respect to derivative instruments	**46**	**72**	**22**	**1**	**1,434**	**1,575**
Off-balance sheet credit risk on derivative instruments[1]	104	934	242	–	924	2,204
Mitigation of off-balance sheet credit risk	–	(441)	–	–	(55)	(496)
Net off-balance sheet credit risk with respect to derivative instruments	**104**	**493**	**242**	**–**	**869**	**1,708**
Total credit risk on derivative instruments	**150**	**565**	**264**	**1**	**2,303**	**3,283**
Carrying amount of liabilities with respect to derivative instruments	**47**	**1,958**	**22**	**54**	**1,283**	**3,364**
Gross amounts not offset in the balance sheet:						
Financial instruments	–	(1,091)	–	–	(166)	(1,257)
Pledged cash collateral	–	(797)	–	(34)	–	(831)
Net amount of liabilities with respect to derivative instruments	**47**	**70**	**22**	**20**	**1,117**	**1,276**

(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 and six-month periods ended June 30, 2019, the Bank recognized revenues from decrease in provision for credit losses with respect to derivative instruments amounting to NIS 6 million and NIS 5 million, respectively. (In the three- and six-month periods in 2018: NIS 5 million and NIS 4 million, respectively).

Note 11 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

D. Maturity dates – stated amounts: Balances at end of period – Consolidated

	June 30, 2019 (unaudited)				
	Up to three months	**3 months to 1 year**	**1-5 years**	**Over 5 years**	**Total**
Interest contracts:					
NIS – CPI	1,094	2,950	3,339	1,118	8,501
Other	2,724	6,017	15,155	7,364	31,260
Currency contracts	85,983	54,858	6,118	368	147,327
Contracts for shares	18,304	2,739	1,037	–	22,080
Commodities and other contracts	21,750	185	469	163	22,567
Total	**129,855**	**66,749**	**26,118**	**9,013**	**231,735**
	June 30, 2018 (unaudited)				
Total	**133,736**	**75,210**	**30,282**	**8,709**	**247,937**
	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 six months ended June 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	2,488	510	18	2,998	1	582
Interest expenses from externals	–	351	–	351	99	65
Interest revenues, net from externals	2,488	159	18	2,647	(98)	517
Interest revenues, net – inter-segment	(1,670)	513	(3)	(1,157)	142	50
Total interest revenues, net	**818**	**672**	**15**	**1,490**	**44**	**567**
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	77	255	71	332	5	192
Total non-interest revenues	**77**	**255**	**71**	**332**	**5**	**192**
Total revenues	**895**	**927**	**86**	**1,822**	**49**	**759**
Expenses (reduction of expenses) with respect to credit losses	19	51	–	70	–	66
Operating and other expenses to externals	324	880	31	1,204	44	406
Operating and other expenses – inter-segment	–	(67)	(6)	(67)	4	(36)
Total operating and other expenses	**324**	**813**	**25**	**1,137**	**48**	**370**
Pre-tax profit	552	63	61	615	1	323
Provision for taxes on profit	189	22	21	211	–	111
After-tax profit	**363**	**41**	**40**	**404**	**1**	**212**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	363	41	40	404	1	212
Net profit attributed to non-controlling interests	–	(21)	(2)	(21)	–	(2)
Net profit attributable to shareholders of the banking corporation	**363**	**20**	**38**	**383**	**1**	**210**
Average balance of assets	128,560	20,433	3,188	148,993	80	19,906
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	128,560	20,433	3,188	148,993	80	19,906
Balance of loans to the public at end of reported period	130,800	21,315	3,812	152,115	105	20,408
Balance of impaired debts	46	85	–	131	–	502
Balance of debt in arrears 90 days or longer	1,407	20	–	1,427	–	36
Average balance of liabilities	–	86,722	3,188	86,722	13,641	24,404
Of which: Average balance of deposits from the public	–	83,534	–	83,534	13,641	24,404
Balance of deposits from the public at end of reported period	–	84,917	–	84,917	14,179	25,342
Average balance of risk assets [(1)]	73,261	18,734	3,260	91,995	28	19,140
Balance of risk assets at end of reported period[(1)]	75,119	18,684	3,268	93,803	28	19,253
Average balance of assets under management[(2)]	10,007	41,781	–	51,788	2,776	29,111
Breakdown of interest revenues, net:						
Margin from credit granting operations	783	411	15	1,194	–	480
Margin from activities of receiving deposits	–	260	–	260	44	73
Other	35	1	–	36	–	14
Total interest revenues, net	**818**	**672**	**15**	**1,490**	**44**	**567**

(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	
	153	302	14	64	4,114	219	4,333
	32	152	280	524	1,503	56	1,559
	121	150	(266)	(460)	2,611	163	2,774
	22	113	328	555	53	(53)	–
	143	**263**	**62**	**95**	**2,664**	**110**	**2,774**
	–	–	–	142	142	4	146
	43	70	18	132	792	12	804
	43	**70**	**18**	**274**	**934**	**16**	**950**
	186	**333**	**80**	**369**	**3,598**	**126**	**3,724**
	16	28	(3)	(3)	174	1	175
	33	56	33	182	1,958	39	1,997
	29	42	26	2	–	–	–
	62	**98**	**59**	**184**	**1,958**	**39**	**1,997**
	108	207	24	188	1,466	86	1,552
	37	71	8	64	502	29	531
	71	**136**	**16**	**124**	**964**	**57**	**1,021**
	–	–	–	–	–	–	–
	71	136	16	124	964	57	1,021
	–	–	–	(18)	(41)	–	(41)
	71	**136**	**16**	**106**	**923**	**57**	**980**
	6,933	17,048	1,122	51,064	245,146	11,886	257,032
	–	–	–	32	32	–	32
	6,933	17,048	1,122	–	194,082	3,477	197,559
	7,307	17,307	1,104	–	198,346	3,996	202,342
	98	233	156	–	1,120	–	1,120
	–	–	–	–	1,463	–	1,463
	8,324	27,364	39,255	29,937	229,647	11,431	241,078
	8,324	27,364	39,255	–	196,522	5,270	201,792
	8,316	25,943	41,731	–	200,428	4,760	205,188
	7,977	22,645	2,280	6,579	150,644	4,213	154,857
	8,464	24,079	1,650	7,296	154,573	4,053	158,626
	6,576	27,727	305,664	13,953	437,595	–	437,595
	115	217	9	–	2,015	57	2,072
	24	36	52	–	489	6	495
	4	10	1	95	160	47	207
	143	**263**	**62**	**95**	**2,664**	**110**	**2,774**

Note 12 – Operating Segments – continued
Supervisory operating segments
For the six months ended June 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	2,123	484	17	2,607	1	493
Interest expenses from externals	–	293	–	293	78	41
Interest revenues, net from externals	2,123	191	17	2,314	(77)	452
Interest revenues, net – inter-segment	(1,394)	414	(3)	(980)	113	27
Total interest revenues, net	**729**	**605**	**14**	**1,334**	**36**	**479**
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	80	255	72	335	5	181
Total non-interest revenues	**80**	**255**	**72**	**335**	**5**	**181**
Total revenues	**809**	**860**	**86**	**1,669**	**41**	**660**
Expenses with respect to credit losses	17	49	–	66	1	71
Operating and other expenses to externals	296	811	30	1,107	468(3)	373
Operating and other expenses – inter-segment	–	(75)	(7)	(75)	4	(41)
Total operating and other expenses	**296**	**736**	**23**	**1,032**	**472**	**332**
Pre-tax profit (loss)	496	75	63	571	(432)	257
Provision for taxes on profit	174	27	22	201	(93)	90
After-tax profit (loss)	**322**	**48**	**41**	**370**	**(339)**	**167**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	322	48	41	370	(339)	167
Net profit attributed to non-controlling interests	–	(18)	(1)	(18)	–	(1)
Net profit (loss) attributable to shareholders of the banking corporation	**322**	**30**	**40**	**352**	**(339)**	**166**
Average balance of assets	121,735	19,636	3,074	141,371	98	17,536
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	121,735	19,636	3,074	141,371	98	17,536
Balance of loans to the public at end of reported period	122,811	20,835	3,632	143,646	96	18,111
Balance of impaired debts	42	76	–	118	–	444
Balance of debt in arrears 90 days or longer	1,153	22	–	1,175	–	39
Average balance of liabilities	–	79,512	3,074	79,512	12,144	19,615
Of which: Average balance of deposits from the public	–	76,438	–	76,438	12,144	19,615
Balance of deposits from the public at end of reported period	–	77,996	–	77,996	12,712	19,893
Average balance of risk assets (1)	67,708	17,659	3,159	85,367	30	16,985
Balance of risk assets at end of reported period(1)	68,472	18,126	3,140	86,598	16	17,671
Average balance of assets under management(2)	8,668	42,610	–	51,278	2,329	22,091
Breakdown of interest revenues, net:						
Margin from credit granting operations	698	404	14	1,102	1	419
Margin from activities of receiving deposits	–	198	–	198	35	50
Other	31	3	–	34	–	10
Total interest revenues, net	**729**	**605**	**14**	**1,334**	**36**	**479**

(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.

					Operations overseas	Total
Medium businesses	Large businesses	Institutional investors	Financial Management Segment	Total – operations in Israel	Total – operations overseas	
121	271	20	35	3,548	138	3,686
21	111	206	472	1,222	38	1,260
100	160	(186)	(437)	2,326	100	2,426
17	99	246	484	6	(6)	–
117	**259**	**60**	**47**	**2,332**	**94**	**2,426**
–	–	–	211	211	8	219
37	55	22	100	735	13	748
37	**55**	**22**	**311**	**946**	**21**	**967**
154	**314**	**82**	**358**	**3,278**	**115**	**3,393**
10	19	1	2	170	2	172
24	39	32	[3]156	2,199	38	2,237
33	47	29	3	–	–	–
57	**86**	**61**	**159**	**2,199**	**38**	**2,237**
87	209	20	197	909	75	984
31	73	7	68	377	27	404
56	**136**	**13**	**129**	**532**	**48**	**580**
–	–	–	1	1	–	1
56	136	13	130	533	48	581
–	–	–	(12)	(31)	–	(31)
56	**136**	**13**	**118**	**502**	**48**	**550**
6,141	15,639	1,303	48,624	230,712	8,935	239,647
–	–	–	32	32	–	32
6,141	15,639	1,303	–	182,088	3,252	185,340
5,907	15,829	1,397	–	184,986	3,603	188,589
73	262	–	–	897	–	897
–	–	–	–	1,214	6	1,220
7,382	25,721	39,531	35,197	219,102	7,598	226,700
7,382	25,721	39,531	–	180,831	5,292	186,123
7,775	25,187	40,733	–	184,296	5,604	189,900
7,059	20,586	2,589	6,422	139,038	3,774	142,812
6,906	21,299	2,899	6,414	141,803	3,981	145,784
3,220	25,678	153,590	12,549	270,735	–	270,735
96	217	16	–	1,851	50	1,901
19	36	43	–	381	7	388
2	6	1	47	100	37	137
117	**259**	**60**	**47**	**2,332**	**94**	**2,426**

Note 12 – Operating Segments – continued
Supervisory operating segments
For the three months ended June 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	1,723	268	9	1,991	1	292
Interest expenses from externals	–	243	–	243	61	41
Interest revenues, net from externals	1,723	25	9	1,748	(60)	251
Interest revenues, net – inter-segment	(1,308)	312	(2)	(996)	82	36
Total interest revenues, net	**415**	**337**	**7**	**752**	**22**	**287**
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	39	128	36	167	3	96
Total non-interest revenues	**39**	**128**	**36**	**167**	**3**	**96**
Total revenues	**454**	**465**	**43**	**919**	**25**	**383**
Expenses (reduction of expenses) with respect to credit losses	11	24	–	35	–	29
Operating and other expenses to externals	164	447	16	611	22	204
Operating and other expenses – inter-segment	–	(35)	(3)	(35)	2	(17)
Total operating and other expenses	**164**	**412**	**13**	**576**	**24**	**187**
Pre-tax profit	279	29	30	308	1	167
Provision for taxes on profit	97	10	10	107	–	58
After-tax profit	**182**	**19**	**20**	**201**	**1**	**109**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	182	19	20	201	1	109
Net profit attributed to non-controlling interests	–	(11)	(1)	(11)	–	(1)
Net profit attributable to shareholders of the banking corporation	**182**	**8**	**19**	**190**	**1**	**108**
Average balance of assets	129,504	20,527	3,244	150,031	87	20,160
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	129,504	20,527	3,244	150,031	87	20,160
Balance of loans to the public at end of reported period	130,800	21,315	3,812	152,115	105	20,408
Balance of impaired debts	46	85	–	131	–	502
Balance of debt in arrears 90 days or longer	1,407	20	–	1,427	–	36
Average balance of liabilities	–	87,491	3,244	87,491	13,758	25,177
Of which: Average balance of deposits from the public	–	84,247	–	84,247	13,758	25,177
Balance of deposits from the public at end of reported period	–	84,917	–	84,917	14,179	25,342
Average balance of risk assets (1)	73,986	18,701	3,267	92,687	28	19,669
Balance of risk assets at end of reported period(1)	75,119	18,684	3,268	93,803	28	19,253
Average balance of assets under management(2)	10,170	42,481	–	52,651	2,943	29,712
Breakdown of interest revenues, net:						
Margin from credit granting operations	397	205	8	602	–	244
Margin from activities of receiving deposits	–	131	(1)	131	22	37
Other	18	1	–	19	–	6
Total interest revenues, net	**415**	**337**	**7**	**752**	**22**	**287**

(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	
	81	146	7	23	2,541	106	2,647
	17	86	195	434	1,077	27	1,104
	64	60	(188)	(411)	1,464	79	1,543
	11	71	218	602	24	(24)	–
	75	**131**	**30**	**191**	**1,488**	**55**	**1,543**
	–	–	–	87	87	2	89
	21	30	9	63	389	6	395
	21	**30**	**9**	**150**	**476**	**8**	**484**
	96	**161**	**39**	**341**	**1,964**	**63**	**2,027**
	15	23	(2)	(1)	99	–	99
	16	29	17	93	992	19	1,011
	15	21	13	1	–	–	–
	31	**50**	**30**	**94**	**992**	**19**	**1,011**
	50	88	11	248	873	44	917
	17	31	4	86	303	15	318
	33	**57**	**7**	**162**	**570**	**29**	**599**
	–	–	–	–	–	–	–
	33	57	7	162	570	29	599
	–	–	–	(11)	(23)	–	(23)
	33	**57**	**7**	**151**	**547**	**29**	**576**
	7,130	17,148	1,023	50,359	245,938	11,115	257,053
	–	–	–	32	32	–	32
	7,130	17,148	1,023	–	195,579	3,530	199,109
	7,307	17,307	1,104	–	198,346	3,996	202,342
	98	233	156	–	1,120	–	1,120
	–	–	–	–	1,463	–	1,463
	8,374	26,642	40,049	28,671	230,162	10,649	240,811
	8,374	26,642	40,049	–	198,247	5,026	203,273
	8,316	25,943	41,731	–	200,428	4,760	205,188
	8,144	22,958	1,893	6,898	152,277	4,193	156,470
	8,464	24,079	1,650	7,296	154,573	4,053	158,626
	6,805	27,122	330,667	14,260	464,160	–	464,160
	61	109	5	–	1,021	28	1,049
	12	17	25	–	244	3	247
	2	5	–	191	223	24	247
	75	**131**	**30**	**191**	**1,488**	**55**	**1,543**

Note 12 – Operating Segments – continued
Supervisory operating segments
For the three months ended June 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	1,435	256	8	1,691	1	250
Interest expenses from externals	–	194	–	194	48	25
Interest revenues, net from externals	1,435	62	8	1,497	(47)	225
Interest revenues, net – inter-segment	(1,063)	245	(2)	(818)	67	21
Total interest revenues, net	**372**	**307**	**6**	**679**	**20**	**246**
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	39	124	35	163	3	92
Total non-interest revenues	**39**	**124**	**35**	**163**	**3**	**92**
Total revenues	**411**	**431**	**41**	**842**	**23**	**338**
Expenses (reduction of expenses) with respect to credit losses	11	27	–	38	1	33
Operating and other expenses to externals	145	413	16	558	450[3]	186
Operating and other expenses – inter-segment	–	(45)	(4)	(45)	2	(24)
Total operating and other expenses	**145**	**368**	**12**	**513**	**452**	**162**
Pre-tax profit (loss)	255	36	29	291	(430)	143
Provision for taxes on profit	90	13	10	103	(92)	50
After-tax profit (loss)	**165**	**23**	**19**	**188**	**(338)**	**93**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	165	23	19	188	(338)	93
Net profit attributed to non-controlling interests	–	(9)	(1)	(9)	–	(1)
Net profit (loss) attributable to shareholders of the banking corporation	**165**	**14**	**18**	**179**	**(338)**	**92**
Average balance of assets	122,398	19,852	3,066	142,250	99	17,779
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	122,398	19,852	3,066	142,250	99	17,779
Balance of loans to the public at end of reported period	122,811	20,835	3,632	143,646	96	18,111
Balance of impaired debts	42	76	–	118	–	444
Balance of debt in arrears 90 days or longer	1,153	22	–	1,175	–	39
Average balance of liabilities	–	80,371	3,066	80,371	12,279	19,643
Of which: Average balance of deposits from the public	–	77,305	–	77,305	12,279	19,643
Balance of deposits from the public at end of reported period	–	77,996	–	77,996	12,712	19,893
Average balance of risk assets [1]	68,101	17,887	3,180	85,988	30	17,307
Balance of risk assets at end of reported period[1]	68,472	18,126	3,140	86,598	16	17,671
Average balance of assets under management[2]	8,970	40,931	–	49,901	2,476	23,593
Breakdown of interest revenues, net:						
Margin from credit granting operations	353	204	7	557	1	215
Margin from activities of receiving deposits	–	102	(1)	102	19	26
Other	19	1	–	20	–	5
Total interest revenues, net	**372**	**307**	**6**	**679**	**20**	**246**

(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.

					Operations overseas	Total
Medium businesses	Large businesses	Institutional investors	Financial Management Segment	Total – operations in Israel	Total – operations overseas	
59	139	9	13	2,162	75	2,237
9	68	140	388	872	20	892
50	71	(131)	(375)	1,290	55	1,345
9	60	160	504	3	(3)	–
59	**131**	**29**	**129**	**1,293**	**52**	**1,345**
–	–	–	131	131	(2)	129
20	28	9	53	368	7	375
20	**28**	**9**	**184**	**499**	**5**	**504**
79	**159**	**38**	**313**	**1,792**	**57**	**1,849**
6	11	1	1	91	(1)	90
8	15	14	[3]75	1,306	19	1,325
20	28	17	2	–	–	–
28	**43**	**31**	**77**	**1,306**	**19**	**1,325**
45	105	6	235	395	39	434
16	37	2	82	198	14	212
29	**68**	**4**	**153**	**197**	**25**	**222**
–	–	–	1	1	–	1
29	68	4	154	198	25	223
–	–	–	(6)	(16)	–	(16)
29	**68**	**4**	**148**	**182**	**25**	**207**
6,053	16,175	1,272	46,687	230,315	9,054	239,369
–	–	–	32	32	–	32
6,053	16,175	1,272	–	183,628	3,316	186,944
5,907	15,829	1,397	–	184,986	3,603	188,589
73	262	–	–	897	–	897
–	–	–	–	1,214	6	1,220
7,476	25,861	39,499	35,628	220,757	7,201	227,958
7,476	25,861	39,499	–	182,063	5,289	187,352
7,775	25,187	40,733	–	184,296	5,604	189,900
7,082	20,505	2,738	6,386	140,036	3,920	143,956
6,906	21,299	2,899	6,414	141,803	3,981	145,784
3,334	25,105	157,073	12,396	273,878	–	273,878
48	108	7	–	936	28	964
10	19	21	–	197	5	202
1	4	1	129	160	19	179
59	**131**	**29**	**129**	**1,293**	**52**	**1,345**

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	Others	Of which: 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, 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 – operations in Israel**	**Total – operations overseas**	
269	557	37	124	7,027	332	7,359
53	224	417	827	2,348	89	2,437
216	333	(380)	(703)	4,679	243	4,922
28	201	498	691	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 small business clients, having an indebtedness level of less than NIS 6 million, sales of less than NIS 30 million and liquid asset balance of less than NIS 10 million. Banking services and financial products, including commercial banking services as required, are provided to segment clients.

Private banking – private banking is under responsibility of the Private Banking and International Operations sector of the Finance Division. Private banking sector clients are individual clients with liquid assets (primarily short-term deposits and security investments) over NIS 1 million. Clients of this segment have high financial wealth, to whom the Bank offers access to unique products and services in capital market activity, advisory service and investment management.

Commercial banking – clients of this segment are private and public companies of medium size (middle market) and medium level of indebtedness, and are served by the Business Banking Division, primarily by the Business sector, which operates via six business centers located throughout Israel. Business customers are assigned to the Business sector primarily using the following criteria: total indebtedness of NIS 625 million, sales of NIS 30-120 million or liquid assets of NIS 10-40 million. Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

Business banking – the Major Corporations sector in the Business Division is responsible for the Business Banking segment, which is the focal point for handling the largest business clients. Criteria by which clients are assigned to the Corporate sector include: total indebtedness over NIS 25 million, sales over NIS 120 million or liquid assets over NIS 40 million. This segment provides a range of banking and financial services to the largest companies in the economy, in an array of industries, at relatively high levels of indebtedness. Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

Financial management – operations in this segment include, inter alia, management of assets and liabilities, management of exposure to market risk, management of the nostro portfolio and liquidity management as well as trading room operations in the financial and capital markets. The segment is under responsibility of the Finance Division, except for investments in non-banking corporations, which are under the responsibility of the business division.

The major products and guidelines for attribution of balances, revenues and expenses to clients in the system to operating segments in conformity with the management approach, are similar to products and guidelines according to the supervisory operating segment approach.

Note 12 – Operating Segments – continued
Operating segments in conformity with the management approach.
For the six months ended June 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	240	2,318	(20)	334	99	315	(512)	2,774
Inter-segment	574	(1,607)	70	92	17	188	666	–
Total interest revenues, net	**814**	**711**	**50**	**426**	**116**	**503**	**154**	**2,774**
Non-interest financing revenues	2	–	1	1	–	12	130	146
Commissions and other revenues	263	78	28	162	28	121	124	804
Total revenues	**1,079**	**789**	**79**	**589**	**144**	**636**	**408**	**3,724**
Expenses (reduction of expenses) with respect to credit losses	49	18	(1)	59	20	33	(3)	175
Operating and other expenses	845	310	66	312	76	193	195	1,997
Pre-tax profit	185	461	14	218	48	410	216	1,552
Provision for taxes on profit	63	158	5	75	16	140	74	531
After-tax profit	**122**	**303**	**9**	**143**	**32**	**270**	**142**	**1,021**
Share in net profits of associated companies, after tax	–	–	–	–	–	–	–	–
Net profit:								
Before attribution to non-controlling interests	122	303	9	143	32	270	142	1,021
Attributable to non-controlling interests	(21)	–	–	(2)	–	–	(18)	(41)
Net profit attributable to shareholders of the Bank	**101**	**303**	**9**	**141**	**32**	**270**	**124**	**980**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	11.3%	8.6%	34.5%	24.6%	9.6%	15.1%	57.0%	13.3%
Average balance of loans to the public, net	25,857	122,913	1,026	13,597	5,906	26,677	–	195,976
Average balance of deposits from the public	92,057	–	8,699	22,698	7,804	54,288	16,246	201,792
Average balance of assets	26,280	123,347	1,576	13,708	5,963	34,204	51,954	257,032
Average balance of risk assets (2)	22,258	70,292	552	12,062	6,644	36,157	6,892	154,857

(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 six months ended June 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	254	1,982	(7)	299	90	303	(495)	2,426
Inter-segment	467	(1,349)	47	74	11	178	572	–
Total interest revenues, net	**721**	**633**	**40**	**373**	**101**	**481**	**77**	**2,426**
Non-interest financing revenues	2	–	–	–	–	16	201	219
Commissions and other revenues	257	78	28	149	27	103	106	748
Total revenues	**980**	**711**	**68**	**522**	**128**	**600**	**384**	**3,393**
Expenses (reduction of expenses) with respect to credit losses	46	16	–	64	(1)	44	3	172
Operating and other expenses	767	283	(3)490	281	70	172	(3)174	2,237
Pre-tax profit (loss)	167	412	(422)	177	59	384	207	984
Provision for taxes on profit	59	145	(90)	62	21	135	72	404
After-tax profit (loss)	**108**	**267**	**(332)**	**115**	**38**	**249**	**135**	**580**
Share in net profits of associated companies, after tax	–	–	–	–	–	–	1	1
Net profit (loss):								
Before attribution to non-controlling interests	108	267	(332)	115	38	249	136	581
Attributable to non-controlling interests	(17)	–	–	(2)	–	–	(12)	(31)
Net profit (loss) attributable to shareholders of the Bank	**91**	**267**	**(332)**	**113**	**38**	**249**	**124**	**550**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	10.8%	8.4%	–	22.5%	13.0%	15.9%	36.8%	8.1%
Average balance of loans to the public, net	24,371	116,596	1,009	12,249	5,358	24,258	–	183,841
Average balance of deposits from the public	83,853	–	7,985	18,967	6,753	59,309	9,256	186,123
Average balance of assets	25,789	116,993	1,632	12,420	5,421	28,389	49,003	239,647
Average balance of risk assets (2)	20,802	64,953	588	10,816	6,073	32,736	6,844	142,812

(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 June 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	72	1,621	(12)	151	49	129	(467)	1,543
Inter-segment	339	(1,259)	38	64	11	123	684	–
Total interest revenues, net	**411**	**362**	**26**	**215**	**60**	**252**	**217**	**1,543**
Non-interest financing revenues	1	–	1	1	–	8	78	89
Commissions and other revenues	129	41	14	80	15	56	60	395
Total revenues	**541**	**403**	**41**	**296**	**75**	**316**	**355**	**2,027**
Expenses (reduction of expenses) with respect to credit losses	25	11	–	23	16	26	(2)	99
Operating and other expenses	428	155	34	157	39	98	100	1,011
Pre-tax profit	88	237	7	116	20	192	257	917
Provision for taxes on profit	31	82	2	40	7	67	89	318
After-tax profit	**57**	**155**	**5**	**76**	**13**	**125**	**168**	**599**
Share in net profits of associated companies, after tax	–	–	–	–	–	–	–	–
Net profit:								
Before attribution to non-controlling interests	57	155	5	76	13	125	168	599
Attributable to non-controlling interests	(11)	–	–	(1)	–	–	(11)	(23)
Net profit attributable to shareholders of the Bank	**46**	**155**	**5**	**75**	**13**	**125**	**157**	**576**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)[(1)]	10.4%	8.8%	40.0%	26.7%	7.8%	14.1%	–	15.8%

(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 June 30, 2018 (unaudited)

Reported amounts (NIS in millions)

	House-holds – other	House-holds – mortgages	Private banking	Small busi-nesses	Commer-cial banking	Business banking	Financial manage-ment	Total conso-lidated
Interest revenues, net:								
From externals	94	1,353	(5)	143	45	133	(418)	1,345
Inter-segment	271	(1,030)	26	48	7	107	571	–
Total interest revenues, net	**365**	**323**	**21**	**191**	**52**	**240**	**153**	**1,345**
Non-interest financing revenues	1	–	–	–	–	5	123	129
Commissions and other revenues	126	39	13	75	15	54	53	375
Total revenues	**492**	**362**	**34**	**266**	**67**	**299**	**329**	**1,849**
Expenses with respect to credit losses	27	10	–	24	2	26	1	90
Operating and other expenses	384	139	(2)461	137	35	86	(2)83	1,325
Pre-tax profit (loss)	81	213	(427)	105	30	187	245	434
Provision for taxes on profit	29	76	(92)	37	11	66	85	212
After-tax profit (loss)	**52**	**137**	**(335)**	**68**	**19**	**121**	**160**	**222**
Share in net profits of associated companies, after tax	–	–	–	–	–	–	1	1
Net profit (loss):								
Before attribution to non-controlling interests	52	137	(335)	68	19	121	161	223
Attributable to non-controlling interests	(9)	–	–	(1)	–	–	(6)	(16)
Net profit (loss) attributable to shareholders of the Bank	**43**	**137**	**(335)**	**67**	**19**	**121**	**155**	**207**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	10.1%	8.7%	–	27.9%	12.8%	15.6%	–	6.1%

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.

(2) 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 year ended December 31, 2018 (audited)

Reported amounts (NIS in millions)

	House-holds – other	House-holds – mortgages	Private banking	Small busi-nesses	Commer-cial banking	Business banking	Financial manage-ment	Total conso-lidated
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 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)	10.1%	8.4%	–	21.2%	12.2%	16.2%	19.1%	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 June 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	766	651	265	1,682	2	1,684
Expenses with respect to credit losses	65	11	24	100	(1)	99
Accounting write-offs[2]	(59)	(2)	(39)	(100)	–	(100)
Recovery of debts written off for accounting purposes in previous years[2]	21	–	15	36	–	36
Net accounting write-offs	(38)	(2)	(24)	(64)	–	(64)
Balance of provision for credit losses at end of period	**793**	**660**	**265**	**1,718**	**1**	**1,719**
Of which: With respect to off balance sheet credit instruments	**94**	**–**	**10**	**104**	**–**	**104**

	For the three months ended June 30, 2018 (unaudited)					
Balance of provision for credit losses at start of period	711	635	249	1,595	2	1,597
Expenses with respect to credit losses	50	11	28	89	1	90
Accounting write-offs[2]	(41)	(3)	(39)	(83)	–	(83)
Recovery of debts written off for accounting purposes in previous years[2]	15	–	15	30	–	30
Net accounting write-offs	(26)	(3)	(24)	(53)	–	(53)
Balance of provision for credit losses at end of period	**735**	**643**	**253**	**1,631**	**3**	**1,634**
Of which: With respect to off balance sheet credit instruments	**87**	**–**	**10**	**97**	**–**	**97**

	For the six months ended June 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	108	19	51	178	(3)	175
Accounting write-offs[1]	(125)	(4)	(81)	(210)	–	(210)
Recovery of debts written off for accounting purposes in previous years[1]	44	1	32	77	–	77
Net accounting write-offs	(81)	(3)	(49)	(133)	–	(133)
Balance of provision for credit losses at end of period	**793**	**660**	**265**	**1,718**	**1**	**1,719**
Of which: With respect to off balance sheet credit instruments	**94**	**–**	**10**	**104**	**–**	**104**

	For the six months ended June 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	103	17	50	170	2	172
Accounting write-offs[1]	(102)	(4)	(74)	(180)	–	(180)
Recovery of debts written off for accounting purposes in previous years[1]	35	–	32	67	–	67
Net accounting write-offs	(67)	(4)	(42)	(113)	–	(113)
Balance of provision for credit losses at end of period	**735**	**643**	**253**	**1,631**	**3**	**1,634**
Of which: With respect to off balance sheet credit instruments	**87**	**–**	**10**	**97**	**–**	**97**

(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:

	June 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	42,290	46	776	43,112	7,539	50,651
reviewed on group basis	8,933	131,029	19,268	159,230	–	159,230
Of which: the relevant provision is calculated by extent of arrears	1,662	131,029	–	132,691	–	132,691
Total debts	**51,223**	**[2]131,075**	**20,044**	**202,342**	**7,539**	**209,881**
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	587	2	30	619	1	620
reviewed on group basis	112	658	225	995	–	995
Of which: For which a provision for credit losses is calculated by extent of arrears[3]	6	658	–	664	–	664
Total provision for credit losses	**699**	**660**	**255**	**1,614**	**1**	**1,615**
	June 30, 2018 (unaudited)					
Recorded debt balance of debts [1]						
reviewed on individual basis	36,730	42	753	37,525	5,695	43,220
reviewed on group basis	9,237	123,047	18,780	151,064	–	151,064
Of which: the relevant provision is calculated by extent of arrears	1,652	123,047	–	124,699	–	124,699
Total debts	**45,967**	**[2]123,089**	**19,533**	**188,589**	**5,695**	**194,284**
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	536	3	27	566	3	569
reviewed on group basis	112	640	216	968	–	968
Of which: For which a provision for credit losses is calculated by extent of arrears[3]	5	640	–	645	–	645
Total provision for credit losses	**648**	**643**	**243**	**1,534**	**3**	**1,537**
	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 7,365 million (as of June 30, 2018: NIS 6,699 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 18 million (as of June 30, 2018: NIS 17 million, as of December 31, 2018: NIS 17 million), and assessed on group basis, amounting to NIS 459 million (as of June 30, 2018: NIS 431 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 June 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]	13,697	46	124	13,867	5	14
Construction and real estate – real estate operations	3,167	376	20	3,563	–	9
Financial services	4,320	2	170	4,492	–	1
Commercial – other	24,568	254	673	25,495	31	67
Total commercial	**45,752**	**678**	**987**	**47,417**	**36**	**91**
Private individuals – housing loans	129,283	[7]1,407	46	130,736	[7]1,407	[6]521
Private individuals – other	19,528	140	85	19,753	20	70
Total public – activity in Israel	**194,563**	**2,225**	**1,118**	**197,906**	**1,463**	**682**
Banks in Israel	94	–	–	94	–	–
Government of Israel	1	–	–	1	–	–
Total activity in Israel	**194,658**	**2,225**	**1,118**	**198,001**	**1,463**	**682**
Borrower activity overseas						
Public – commercial						
Construction and real estate	1,797	–	2	1,799	–	–
Commercial – other	1,995	12	–	2,007	–	–
Total commercial	**3,792**	**12**	**2**	**3,806**	**–**	**–**
Private individuals	630	–	–	630	–	–
Total public – activity overseas	**4,422**	**12**	**2**	**4,436**	**–**	**–**
Overseas banks	6,825	–	–	6,825	–	–
Overseas governments	619	–	–	619	–	–
Total activity overseas	**11,866**	**12**	**2**	**11,880**	**–**	**–**
Total public	198,985	2,237	1,120	202,342	1,463	682
Total banks	6,919	–	–	6,919	–	–
Total governments	620	–	–	620	–	–
Total	**206,524**	**2,237**	**1,120**	**209,881**	**1,463**	**682**

(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 57 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 83 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 1,836 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 June 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]	[9]12,948	80	152	13,180	7	16
Construction and real estate – real estate operations	[9]2,621	9	21	2,651	–	4
Financial services	[9]3,695	163	14	3,872	–	2
Commercial – other	[9]21,744	363	589	22,696	32	62
Total commercial	**41,008**	**615**	**776**	**42,399**	**39**	**84**
Private individuals – housing loans	121,526	[7]1,153	42	122,721	[7]1,153	[6]448
Private individuals – other	19,052	146	76	19,274	22	63
Total public – activity in Israel	**181,586**	**1,914**	**894**	**184,394**	**1,214**	**595**
Banks in Israel	465	–	–	465	–	–
Government of Israel	1	–	–	1	–	–
Total activity in Israel	**182,052**	**1,914**	**894**	**184,860**	**1,214**	**595**
Borrower activity overseas						
Public – commercial						
Construction and real estate	1,831	13	–	1,844	–	–
Commercial – other	1,721	–	3	1,724	–	–
Total commercial	**3,552**	**13**	**3**	**3,568**	**–**	**–**
Private individuals	621	6	–	627	6	–
Total public – activity overseas	**4,173**	**19**	**3**	**4,195**	**6**	**–**
Overseas banks	4,626	–	–	4,626	–	–
Overseas governments	603	–	–	603	–	–
Total activity overseas	**9,402**	**19**	**3**	**9,424**	**6**	**–**
Total public	185,759	1,933	897	188,589	1,220	595
Total banks	5,091	–	–	5,091	–	–
Total governments	604	–	–	604	–	–
Total	**191,454**	**1,933**	**897**	**194,284**	**1,220**	**595**

(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 51 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 93 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 1,840 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	[7]1,250	60	126,673	[7]1,250	[6]505
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:

	June 30, 2019 (unaudited)					
	Credit segment					
Debt quality	**Commercial**	**Housing**	**Individuals**	**Governments**	**Banks**	**Total**
Debts in good standing	49,544	129,622	19,819	620	6,919	206,524
Problematic non-impaired debts(1)	690	1,407	140	–	–	2,237
Impaired debts	989	46	85	–	–	1,120
Total	**51,223**	**131,075**	**20,044**	**620**	**6,919**	**209,881**

	June 30, 2018 (unaudited)					
	Credit segment					
Debt quality	**Commercial**	**Housing**	**Individuals**	**Governments**	**Banks**	**Total**
Debts in good standing	44,560	121,888	19,311	604	5,091	191,454
Problematic non-impaired debts(1)	628	1,159	146	–	–	1,933
Impaired debts	779	42	76	–	–	897
Total	**45,967**	**123,089**	**19,533**	**604**	**5,091**	**194,284**

	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

	June 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	119	20	5	124	199
Construction and real estate – real estate operations	17	1	3	20	30
Financial services	164	9	6	170	180
Commercial – other	605	131	68	673	755
Total commercial	**905**	**161**	**82**	**987**	**1,164**
Private individuals – housing loans	11	2	35	46	46
Private individuals – other	43	21	42	85	101
Total public – activity in Israel	**959**	**184**	**159**	**1,118**	**1,311**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**959**	**184**	**159**	**1,118**	**1,311**
Borrower activity overseas					
Public – commercial					
Construction and real estate	2	–	–	2	3
Commercial – other	–	–	–	–	–
Total commercial	**2**	**–**	**–**	**2**	**3**
Private individuals	–	–	–	–	–
Total public – activity overseas	**2**	**–**	**–**	**2**	**3**
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	**2**	**–**	**–**	**2**	**3**
Total public	961	184	159	1,120	1,314
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**961**	**184**	**159**	**1,120**	**1,314**
Of which:					
Measured at present value of cash flows	883	183	152	1,035	
Debts under problematic debts restructuring	285	27	81	366	

(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

	June 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	147	20	5	152	225
Construction and real estate – real estate operations	16	2	5	21	52
Financial services	9	5	5	14	23
Commercial – other	530	102	59	589	684
Total commercial	**702**	**129**	**74**	**776**	**984**
Private individuals – housing loans	22	3	20	42	42
Private individuals – other	42	18	34	76	94
Total public – activity in Israel	**766**	**150**	**128**	**894**	**1,120**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**766**	**150**	**128**	**894**	**1,120**
Borrower activity overseas					
Public – commercial					
Construction and real estate	–	–	–	–	4
Commercial – other	3	–	–	3	4
Total commercial	**3**	**–**	**–**	**3**	**8**
Private individuals	–	–	–	–	3
Total public – activity overseas	**3**	**–**	**–**	**3**	**11**
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	**3**	**–**	**–**	**3**	**11**
Total public	769	150	128	897	1,131
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**769**	**150**	**128**	**897**	**1,131**
Of which:					
Measured at present value of cash flows	685	150	120	805	
Debts under problematic debts restructuring	116	21	82	198	

(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					
	June 30, 2019 (unaudited)			June 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	136	1	1	158	–	–
Construction and real estate – real estate operations	22	–	–	19	–	–
Financial services	170	–	–	14	–	–
Commercial – other	628	2	2	577	2	2
Total commercial	**956**	**3**	**3**	**768**	**2**	**2**
Private individuals – housing loans	52	–	–	40	–	–
Private individuals – other	85	2	2	74	2	2
Total public – activity in Israel	**1,093**	**5**	**5**	**882**	**4**	**4**
Banks in Israel	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**1,093**	**5**	**5**	**882**	**4**	**4**
Borrower activity overseas						
Public – commercial						
Construction and real estate	2	–	–	–	–	–
Commercial – other	2	–	–	3	–	–
Total commercial	**4**	**–**	**–**	**3**	**–**	**–**
Private individuals	–	–	–	–	–	–
Total public – activity overseas	**4**	**–**	**–**	**3**	**–**	**–**
Overseas banks	–	–	–	–	–	–
Overseas governments	–	–	–	–	–	–
Total activity overseas	**4**	**–**	**–**	**3**	**–**	**–**
Total public	1,097	5	5	885	4	4
Total banks	–	–	–	–	–	–
Total governments	–	–	–	–	–	–
Total[4]	**1,097**	**5**	**5**	**885**	**4**	**4**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Average recorded debt balance of impaired debts during reported period.
(3) Interest revenues recorded in the reported period with respect to average balance of debts in arrears, in the period in which the debts were classified as impaired.
(4) Had the impaired debt s accrued interest at the original terms, the Bank would have recognized interest revenues amounting to NIS 18 million (as of June 30, 2018 – NIS 19 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 six months ended					
	June 30, 2019 (unaudited)			June 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	141	2	2	153	1	1
Construction and real estate – real estate operations	23	1	1	18	–	–
Financial services	169	–	–	14	–	–
Commercial – other	623	6	6	532	5	5
Total commercial	**956**	**9**	**9**	**717**	**6**	**6**
Private individuals – housing loans	54	–	–	38	–	–
Private individuals – other	82	4	4	72	4	4
Total public – activity in Israel	**1,092**	**13**	**13**	**827**	**10**	**10**
Banks in Israel	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**1,092**	**13**	**13**	**827**	**10**	**10**
Borrower activity overseas						
Public – commercial						
Construction and real estate	2	–	–	–	–	–
Commercial – other	2	–	–	3	–	–
Total commercial	**4**	**–**	**–**	**3**	**–**	**–**
Private individuals	–	–	–	–	–	–
Total public – activity overseas	**4**	**–**	**–**	**3**	**–**	**–**
Overseas banks	–	–	–	–	–	–
Overseas governments	–	–	–	–	–	–
Total activity overseas	**4**	**–**	**–**	**3**	**–**	**–**
Total public	1,096	13	13	830	10	10
Total banks	–	–	–	–	–	–
Total governments	–	–	–	–	–	–
Total[4]	**1,096**	**13**	**13**	**830**	**10**	**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) 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 38 million (as of June 30, 2018 – NIS 37 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

	June 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	14	–	–	8	22
Construction and real estate – real estate operations	1	–	–	–	1
Financial services	161	–	–	–	161
Commercial – other	107	–	–	12	119
Total commercial	**283**	**–**	**–**	**20**	**303**
Private individuals – housing loans	–	–	–	–	–
Private individuals – other	36	–	1	26	63
Total public – activity in Israel	**319**	**–**	**1**	**46**	**366**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**319**	**–**	**1**	**46**	**366**
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	319	–	1	46	366
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**319**	**–**	**1**	**46**	**366**

(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 June 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

	June 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	31	–	–	–	31
Construction and real estate – real estate operations	3	–	–	–	3
Financial services	3	–	–	–	3
Commercial – other	99	–	–	7	106
Total commercial	**136**	**–**	**–**	**7**	**143**
Private individuals – housing loans	–	–	–	–	–
Private individuals – other	31	–	1	23	55
Total public – activity in Israel	**167**	**–**	**1**	**30**	**198**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**167**	**–**	**1**	**30**	**198**
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	167	–	1	30	198
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**167**	**–**	**1**	**30**	**198**

(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					
	June 30, 2019 (unaudited)			June 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	1	1	8	1	–
Construction and real estate – real estate operations	–	–	–	1	–	–
Financial services	3	3	3	1	–	–
Commercial – other	92	14	14	83	17	16
Total commercial	**106**	**18**	**18**	**93**	**18**	**16**
Private individuals – housing loans	–	–	–	–	–	–
Private individuals – other	235	11	4	227	4	4
Total public – activity in Israel	**341**	**29**	**22**	**320**	**22**	**20**
Banks in Israel	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**341**	**29**	**22**	**320**	**22**	**20**
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	341	29	22	320	22	20
Total banks	–	–	–	–	–	–
Total governments	–	–	–	–	–	–
Total	**341**	**29**	**22**	**320**	**22**	**20**

(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 six months ended					
	June 30, 2019 (unaudited)			June 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	22	2	2	22	22	21
Construction and real estate – real estate operations	–	–	–	6	1	1
Financial services	4	3	3	2	–	–
Commercial – other	183	47	46	168	42	41
Total commercial	**209**	**52**	**51**	**198**	**65**	**63**
Private individuals – housing loans	–	–	–	–	–	–
Private individuals – other	517	26	19	496	21	20
Total public – activity in Israel	**726**	**78**	**70**	**694**	**86**	**83**
Banks in Israel	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**726**	**78**	**70**	**694**	**86**	**83**
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	726	78	70	694	86	83
Total banks	–	–	–	–	–	–
Total governments	–	–	–	–	–	–
Total	**726**	**78**	**70**	**694**	**86**	**83**

(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			
	June 30, 2019 (unaudited)		June 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	1
Construction and real estate – real estate operations	–	–	1	–
Financial services	–	–	–	–
Commercial – other	10	1	14	2
Total commercial	**11**	**1**	**16**	**3**
Private individuals – housing loans	–	–	–	–
Private individuals – other	24	1	20	–
Total public – activity in Israel	**35**	**2**	**36**	**3**
Banks in Israel	–	–	–	–
Government of Israel	–	–	–	–
Total activity in Israel	**35**	**2**	**36**	**3**
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	35	2	36	3
Total banks	–	–	–	–
Total governments	–	–	–	–
Total	**35**	**2**	**36**	**3**

(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 six months ended			
	June 30, 2019 (unaudited)		June 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	3	–	3	1
Construction and real estate – real estate operations	1	–	3	–
Financial services	1	–	1	–
Commercial – other	38	3	34	6
Total commercial	**43**	**3**	**41**	**7**
Private individuals – housing loans	–	–	–	–
Private individuals – other	54	1	59	1
Total public – activity in Israel	**97**	**4**	**100**	**8**
Banks in Israel	–	–	–	–
Government of Israel	–	–	–	–
Total activity in Israel	**97**	**4**	**100**	**8**
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	97	4	100	8
Total banks	–	–	–	–
Total governments	–	–	–	–
Total	**97**	**4**	**100**	**8**

(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:

		June 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%	88,419	3,007	57,229	2,765
	Over 60%	42,366	539	27,335	2,007
Junior lien or no lien		290	3	208	5,940
Total		**131,075**	**3,549**	**84,772**	**10,712**

		June 30, 2018 (unaudited)			
		Total	Of which: Bullet / balloon	Of which: Variable interest	Total
Senior lien: LTV ratio	Up to 60%	80,699	2,945	52,160	3,645
	Over 60%	42,137	549	27,519	1,775
Junior lien or no lien		253	2	189	4,481
Total		**123,089**	**3,496**	**79,868**	**9,901**

		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 June 30, 2019				For the three months ended June 30, 2018			
	Commercial	Housing	Other	Total	Commercial	Housing	Other	Total
Loans acquired[(1)]	–	–	[(4)]88	88	–	–	60	60
Loans sold	–	–	–	–	–	915	–	915

	For the six months ended June 30, 2019				For the six months ended June 30, 2018[(2)]			
	Commercial	Housing	Other	Total	Commercial	Housing	Other	Total
Loans acquired[(1)]	–	–	[(5)] 379	379	51	–	198	249
Loans sold	–	571	–	571	144	1,645	–	1,789

	For the year ended December 31, 2018[(3)]			
	Commercial	Housing	Other	Total
Loans acquired[(1)]	52	–	[(6)] 325	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 28 million.
(3) Excludes purchase of credit risk to foreign governments, amounting to NIS 118 million.
(4) Of which: Loans backed (credit risk) by the seller – NIS 9 million (for the three months ended June 30, 2018: NIS 15 million).
(5) Of which: Loans backed (credit risk) by the seller – NIS 51 million (for the three months ended June 30, 2018: NIS 36 million).
(6) Of which: Loans backed (credit risk) by the seller – NIS 68 million.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

D. Off-balance sheet financial instruments

Contractual balances or their denominated amounts at end of quarter

		June 30,	December 31,		June 30,	December 31,
	2019	2018	2018	2019	2018	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	16,324	16,836	15,586	20	20	19
– Guarantees to home buyers[(3)]	11,142	11,448	10,544	3	7	3
– Irrevocable commitments for loans approved but not yet granted[(4)]	17,228	16,577	16,730	15	13	15
– Unutilized revolving credit card facilities	7,948	7,352	7,574	5	5	5
– Commitments to issue guarantees[(3)]	7,807	7,607	7,482	2	4	2
– Other guarantees and liabilities[(2)(3)]	7,882	6,550	7,945	32	25	30
– Loan guarantees[(3)]	2,442	2,222	2,388	26	22	23
– Documentary credit	166	232	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 28 million. (as of March 31, 2018 and December 31, 2018 – NIS 34 million and NIS 30 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 June 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	41,581	–	6,624	313	182	–	48,700
Securities	2,872	754	4,125	939	–	126	8,816
Securities borrowed or bought in conjunction with resale agreements	55	4	–	–	–	–	59
Loans to the public, net[3]	133,845	55,884	6,066	2,953	1,980	–	200,728
Loans to Governments	–	–	486	134	–	–	620
Investments in associated companies	35	–	–	–	–	(3)	32
Buildings and equipment	–	–	–	–	–	1,375	1,375
Intangible assets and goodwill	–	–	–	–	–	87	87
Assets with respect to derivative instruments	1,440	357	205	83	32	–	2,117
Other assets	1,060	453	66	2	43	65	1,689
Total assets	**180,888**	**57,452**	**17,572**	**4,424**	**2,237**	**1,650**	**264,223**
Liabilities							
Deposits from the public	148,820	15,520	34,382	4,237	2,229	–	205,188
Deposits from banks	114	3	352	60	25	–	554
Deposits from the Government	13	2	21	–	–	–	36
Debentures and subordinated notes	8,195	23,401	–	–	–	–	31,596
Liabilities with respect to derivative instruments	1,660	123	340	125	28	–	2,276
Other liabilities	6,440	1,267	100	8	23	253	8,091
Total liabilities	**165,242**	**40,316**	**35,195**	**4,430**	**2,305**	**253**	**247,741**
Difference	**15,646**	**17,136**	**(17,623)**	**(6)**	**(68)**	**1,397**	**16,482**
Impact of hedging derivative instruments:							
derivative instruments (other than options)	2,818	(2,818)	–	–	–	–	–
Non-hedging derivative instruments:							
derivative instruments (other than options)	(15,443)	(1,800)	17,535	(128)	(164)	–	–
Net in-the-money options (in terms of underlying asset)	409	–	(393)	(21)	5	–	–
Net out-of-the-money options (in terms of underlying asset)	(386)	–	295	76	15	–	–
Grand total	**3,044**	**12,518**	**(186)**	**(79)**	**(212)**	**1,397**	**16,482**
Net in-the-money options (capitalized par value)	(371)	–	(7)	440	(62)	–	–
Net out-of-the-money options (capitalized par value)	1,983	–	(976)	(1,341)	334	–	–

(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 June 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	37,182	124	4,466	363	245	–	42,380
Securities	3,781	417	5,050	587	–	91	9,926
Securities borrowed or bought in conjunction with resale agreements	17	5	–	–	–	–	22
Loans to the public, net[3]	124,557	51,534	6,766	2,419	1,779	–	187,055
Loans to Governments	–	–	417	187	–	–	604
Investments in associated companies	35	–	–	–	–	(3)	32
Buildings and equipment	–	–	–	–	–	1,364	1,364
Intangible assets and goodwill	–	–	–	–	–	87	87
Assets with respect to derivative instruments	1,184	367	1,751	111	40	–	3,453
Other assets	1,081	376	96	3	70	44	1,670
Total assets	**167,837**	**52,823**	**18,546**	**3,670**	**2,134**	**1,583**	**246,593**
Liabilities							
Deposits from the public	141,259	13,913	27,955	4,323	2,450	–	189,900
Deposits from banks	88	8	648	109	22	–	875
Deposits from the Government	22	2	23	–	–	–	47
Debentures and subordinated notes	8,217	21,817	–	–	–	–	30,034
Liabilities with respect to derivative instruments	1,314	109	1,806	106	29	–	3,364
Other liabilities	5,654	1,093	683	10	65	208	7,713
Total liabilities	**156,554**	**36,942**	**31,115**	**4,548**	**2,566**	**208**	**231,933**
Difference	**11,283**	**15,881**	**(12,569)**	**(878)**	**(432)**	**1,375**	**14,660**
Impact of hedging derivative instruments:							
derivative instruments (other than options)	1,748	(1,748)	–	–	–	–	–
Non-hedging derivative instruments:							
derivative instruments (other than options)	(12,982)	(719)	12,512	924	265	–	–
Net in-the-money options (in terms of underlying asset)	221	–	(305)	28	56	–	–
Net out-of-the-money options (in terms of underlying asset)	89	–	69	(131)	(27)	–	–
Grand total	**359**	**13,414**	**(293)**	**(57)**	**(138)**	**1,375**	**14,660**
Net in-the-money options (capitalized par value)	(1,119)	–	777	445	(103)	–	–
Net out-of-the-money options (capitalized par value)	2,885	–	(1,638)	(1,451)	204	–	–

(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-linked	**CPI-linked**	**USD**	**EUR**	**Other currencies**	**Non-monetary items[2]**	**Total**
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

	June 30, 2019 (unaudited)				
		Fair value			
	Book balance	**Level 1[(1)]**	**Level 2[(1)]**	**Level 3[(1)]**	**Total**
Financial assets					
Cash and deposits with banks	48,700	11,334	36,411	954	48,699
Securities[(3)]	8,816	5,748	3,053	57	8,858
Securities loaned or acquired in resale agreements	59	59	–	–	59
Loans to the public, net	200,728	569	11,233	[(5)]189,472	201,274
Loans to Governments	620	–	–	620	620
Investments in associated companies	32	–	–	32	32
Assets with respect to derivative instruments	2,117	212	1,359	[(2)]546	2,117
Other financial assets	459	16	–	443	459
Total financial assets	**[(4)]261,531**	**17,938**	**52,056**	**192,124**	**262,118**
Financial liabilities					
Deposits from the public	205,188	569	59,428	146,452	206,449
Deposits from banks	554	–	269	285	554
Deposits from the Government	36	–	–	38	38
Debentures and subordinated notes	31,596	30,746	–	1,905	32,651
Liabilities with respect to derivative instruments	2,276	218	1,387	[(2)]671	2,276
Other financial liabilities	6,294	658	4,528	1,108	6,294
Total financial liabilities	**[(4)]245,944**	**32,191**	**65,612**	**150,459**	**248,262**

(1) Level 1 – Fair value measurement using quoted prices on an active market.
Level 2 – Fair value measurements using other significant observed data.
Level 3 – Fair value measurements using significant non-observed data.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

(3) For more information about the carrying amount and fair value of securities, see Note 5 to the financial statements.

(4) Includes assets and liabilities amounting to NIS 66,299 million and NIS 61,139 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.

(5) Of which embedded derivatives in loans to the public, net amounting to NIS 5 million.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

A. Fair value balances – continued

	June 30, 2018 (unaudited)				
		Fair value			
	Book balance	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total
Financial assets					
Cash and deposits with banks	42,380	8,714	32,071	1,594	42,379
Securities[(3)]	9,926	5,939	3,943	90	9,972
Securities loaned or acquired in resale agreements	22	22	–	–	22
Loans to the public, net	187,055	512	10,212	[(5)]176,344	187,068
Loans to Governments	604	–	–	604	604
Investments in associated companies	35	–	–	35	35
Assets with respect to derivative instruments	3,453	120	1,953	[(2)]1,380	3,453
Other financial assets	620	6	–	614	620
Total financial assets	**[(4)]244,095**	**15,313**	**48,179**	**180,661**	**244,153**
Financial liabilities					
Deposits from the public	189,900	512	51,233	140,196	191,941
Deposits from banks	875	–	322	553	875
Deposits from the Government	47	–	–	49	49
Debentures and subordinated notes	30,034	29,123	–	1,689	30,812
Liabilities with respect to derivative instruments	3,364	121	2,086	[(2)]1,157	3,364
Other financial liabilities	6,054	222	3,982	1,850	6,054
Total financial liabilities	**[(4)]230,274**	**29,978**	**57,623**	**145,494**	**233,095**

(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 parties.

(3) For more information about the carrying amount and fair value of securities, see Note 5 to the financial statements.

(4) Includes assets and liabilities amounting to NIS 61,185 million and NIS 54,372 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)

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	[(5)]181,105	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	[(2)]1,335	3,240
Other financial assets	641	15	–	626	641
Total financial assets	**[(4)] 255,193**	**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	[(2)]845	3,661
Other financial liabilities	6,463	451	4,152	1,860	6,463
Total financial liabilities	**[(4)] 240,899**	**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 parties.
(3) For more information about the carrying amount and fair value of securities, see Note 5 to the financial statements.
(4) Includes assets and liabilities amounting to NIS 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

	June 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	512	2,729	–	3,241
Of foreign governments	2,028	–	–	2,028
Of banks and financial institutions overseas	–	307	–	307
Investments in shares not held for trading	52	17	–	69
Securities held for trading:				
Debentures of the Government of Israel	413	–	–	413
Securities loaned or acquired in resale agreements	59	–	–	59
Credit with respect to loans to clients	569	–	–	569
Assets with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	–	89	69	158
Other	–	483	26	509
Currency contracts	53	754	407	1,214
Contracts for shares	158	33	39	230
Commodities and other contracts	1	–	5	6
Other financial assets	16	–	–	16
Other	–	–	5	5
Total assets	**3,861**	**4,412**	**551**	**8,824**
Liabilities				
Deposits with respect to borrowing from clients	569	–	–	569
Liabilities with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	–	64	46	110
Other	–	724	33	757
Currency contracts	58	579	550	1,187
Contracts for shares	158	20	38	216
Commodities and other contracts	2	–	4	6
Other financial liabilities	658	–	–	658
Other	–	–	1	1
Total liabilities	**1,445**	**1,387**	**672**	**3,504**

(1) Fair value measurement of derivative instruments classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value – continued:

1. On recurring basis

	June 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	802	3,459	–	4,261
Of foreign governments	1,588	–	–	1,588
Of banks and financial institutions overseas	–	467	–	467
Of others overseas	–	17	–	17
Shares	1	–	–	1
Securities held for trading:				
Debentures of the Government of Israel	421	–	–	421
Securities loaned or acquired in resale agreements	22	–	–	22
Credit with respect to loans to clients	512	–	–	512
Assets with respect to derivatives[(1)]				
Interest contracts:				
NIS / CPI	–	138	125	263
Other	–	516	19	535
Currency contracts	63	1,258	1,101	2,422
Contracts for shares	56	41	130	227
Commodities and other contracts	1	–	5	6
Other financial assets	6	–	–	6
Other	–	–	4	4
Total assets	**3,472**	**5,896**	**1,384**	**10,752**
Liabilities				
Deposits with respect to borrowing from clients	512	–	–	512
Liabilities with respect to derivative instruments[(1)]				
Interest contracts:				
NIS / CPI	–	75	49	124
Other	–	717	38	755
Currency contracts	63	1,236	965	2,264
Contracts for shares	57	58	102	217
Commodities and other contracts	1	–	3	4
Other financial liabilities	222	–	–	222
Total liabilities	**855**	**2,086**	**1,157**	**4,098**

(1) Fair value measurement of derivative instruments classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value – continued:

1. On recurring basis

	As of December 31, 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 parties.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value – continued:

2. On non-recurring basis

	June 30, 2019 (unaudited)				For the three months ended June 30, 2019	For the six months ended June 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	68	84	(2)	5

	June 30, 2018 (unaudited)				For the three months ended June 30, 2018	For the six months ended June 30, 2018
	Fair value				Gains	Gains
	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total		
Impaired credit whose collection is contingent on collateral	–	–	92	92	3	1

	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 June 30, 2019 (unaudited)								
		Realized / unrealized gains (losses) included, net[1]							
	Fair value as of March 31, 2019	In statement of profit and loss	In statement of other compre-hensive income under Equity	Acqui-sitions	Sales	Dispo-sitions	Transfer to level 3[4]	Fair value as of June 30, 2019	Unrealized gains (losses) with respect to instruments held as of June 30, 2019
Assets									
Assets with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	74	(16)	–	–	–	(10)	21	69	127
Other	16	(1)	–	11	–	–	–	26	166
Currency contracts	544	(8)	–	207	–	(336)	–	407	207
Contracts for shares	133	(76)	–	7	–	(25)	–	39	–
Commodities and other contracts	5	1	–	–	–	(1)	–	5	–
Other	5	–	–	–	–	–	–	5	–
Total assets	**777**	**(100)**	**–**	**225**	**–**	**(372)**	**21**	**551**	**500**
Liabilities									
Liabilities with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	32	20	–	3	–	(9)	–	46	(17)
Other	30	(2)	–	5	–	–	–	33	302
Currency contracts	608	34	–	189	–	(281)	–	550	551
Contracts for shares	170	(104)	–	23	–	(51)	–	38	–
Commodities and other contracts	2	2	–	–	–	–	–	4	–
Other	2	(1)	–	–	–	–	–	1	–
Total liabilities	**844**	**(51)**	**–**	**220**	**–**	**(341)**	**–**	**672**	**836**

(1) Realized gains (losses) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gains and losses included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value under Other Comprehensive Income.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

(3) Included in statement of profit and loss under "Non-interest financing revenues".

(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 June 30, 2018 (unaudited								
		Realized / unrealized gains (losses) included, net[1]							
	Fair value as of March 31, 2018	In statement of profit and loss	In statement of other compre-hensive income under Equity	Acqui-sitions	Sales	Dispo-sitions	Transfer to level 3[4]	Fair value as of June 30, 2018	Unrealized gains (losses) with respect to instruments held as of June 30, 2018
Assets									
Assets with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	162	(20)	–	–	–	(17)	–	125	49
Other	19	–	–	1	–	(1)	–	19	67
Currency contracts	832	174	–	535	–	(440)	–	1,101	560
Contracts for shares	126	39	–	16	–	(51)	–	130	–
Commodities and other contracts	6	(2)	–	1	–	–	–	5	–
Other	3	1	–	–	–	–	–	4	–
Total assets	**1,148**	**192**	**–**	**553**	**–**	**(509)**	**–**	**1,384**	**676**
Liabilities									
Liabilities with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	45	4	–	8	–	(14)	6	49	11
Other	37	–	–	1	–	–	–	38	64
Currency contracts	554	315	–	211	–	(115)	–	965	902
Contracts for shares	163	(23)	–	8	–	(46)	–	102	–
Commodities and other contracts	3	–	–	–	–	–	–	3	–
Total liabilities	**802**	**296**	**–**	**228**	**–**	**(175)**	**6**	**1,157**	**977**

(1) Realized gains (losses) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gains and losses included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value under Other Comprehensive Income.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

(3) Included in statement of profit and loss under "Non-interest financing revenues".

(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 six months ended June 30, 2019 (unaudited								
		Realized / unrealized gains (losses) included, net[1]							
	Fair value as of December 31, 2018	In statement of profit and loss	In statement of other compre-hensive income under Equity	Acqui-sitions	Sales	Dispo-sitions	Transfer to level 3[4]	Fair value as of June 30, 2019	Unrealized gains (losses) with respect to instruments held as of June 30, 2019
Assets									
Assets with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	75	(4)	–	–	–	(33)	31	69	127
Other	9	(3)	–	20	–	–	–	26	166
Currency contracts	1,092	(114)	–	460	–	(1,031)	–	407	207
Contracts for shares	156	(122)	–	66	–	(61)	–	39	–
Commodities and other contracts	3	3	–	1	–	(2)	–	5	–
Other	4	1	–	–	–	–	–	5	–
Total assets	**1,339**	**(239)**	**–**	**547**	**–**	**(1,127)**	**31**	**551**	**500**
Liabilities									
Liabilities with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	25	16	–	3	–	(14)	16	46	(17)
Other	27	1	–	5	–	–	–	33	302
Currency contracts	584	170	–	346	–	(550)	–	550	551
Contracts for shares	206	(188)	–	73	–	(53)	–	38	–
Commodities and other contracts	3	2	–	–	–	(1)	–	4	–
Other	8	(7)	–	–	–	–	–	1	–
Total liabilities	**853**	**(6)**	**–**	**427**	**–**	**(618)**	**16**	**672**	**836**

(1) Realized gains (losses) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gains and losses included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value under Other Comprehensive Income.
(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.
(3) Included in statement of profit and loss under "Non-interest financing revenues".
(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 six months ended June 30, 2019 (unaudited								
		Realized / unrealized gains (losses) included, net[1]							
	Fair value as of December 31, 2017	In statement of profit and loss	In statement of other compre-hensive income under Equity	Acqui-sitions	Sales	Dispo-sitions	Transfer to level 3[4]	Fair value as of June 30, 2018	Unrealized gains (losses) with respect to instruments held as of June 30, 2018
Assets									
Assets with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	146	(17)	–	1	–	(23)	18	125	49
Other	21	(2)	–	1	–	(1)	–	19	67
Currency contracts	603	224	–	1,036	–	(762)	–	1,101	560
Contracts for shares	123	57	–	44	–	(94)	–	130	–
Commodities and other contracts	6	(2)	–	1	–	–	–	5	–
Other	6	1	–	–	–	(3)	–	4	–
Total assets	**905**	**261**	**–**	**1,083**	**–**	**(883)**	**18**	**1,384**	**676**
Liabilities									
Liabilities with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	85	2	–	8	–	(56)	10	49	11
Other	35	2	–	1	–	–	–	38	64
Currency contracts	669	307	–	374	–	(385)	–	965	902
Contracts for shares	113	48	–	11	–	(70)	–	102	–
Commodities and other contracts	3	–	–	–	–	–	–	3	–
Total liabilities	**905**	**359**	**–**	**394**	**–**	**(511)**	**10**	**1,157**	**977**

(1) Realized gains (losses) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gains and losses included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value under Other Comprehensive Income.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

(3) Included in statement of profit and loss under "Non-interest financing revenues".

(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 compre-hensive income under Equity	Acqui-sitions	Sales	Dispo-sitions	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
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 parties.

(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 June 30, 2019	Valuation technique	Non-observed data	Range	Weighted average
Assets with respect to derivative instruments:					
Interest contracts – NIS CPI	66	Cash flows discounting	Inflationary expectations	1.17% – 1.10%	1.15%
Contracts for shares	246	Options pricing model	Standard deviation per share	38.63% – 36.95%	37.91%
Other	239	Cash flows discounting	Counter-party credit quality	2.85% – 0.30%	1.71%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	39	Cash flows discounting	Inflationary expectations	1.17% – 1.10%	1.12%
Other	633	Cash flows discounting	Counter-party credit quality	2.90% – 0.30%	1.78%

	Fair value as of June 30, 2018	Valuation technique	Non-observed data	Range	Weighted average
Assets with respect to derivative instruments:					
Interest contracts – NIS CPI	100	Cash flows discounting	Inflationary expectations	1.14%- 1.04%	1.06%
Contracts for shares	67	Options pricing model	Standard deviation per share	23.92% – 20.46%	21.40%
Other	981	Cash flows discounting	Counter-party credit quality	3.10% – 0.30%	1.62%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	43	Cash flows discounting	Inflationary expectations	1.12%- 1.04%	1.07%
Other	759	Cash flows discounting	Counter-party credit quality	2.65% – 0.30%	1.36%

	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 June 30, 2019, June 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 Board of Directors approved 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, 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.

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, dividend distributions 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 2nd to the 5th anniversaries of the issue date.

An offeree's eligibility for options pursuant to each of the aforementioned option plans, for any bonus year, is contingent on fulfillment of all of the following threshold conditions in the bonus year: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.

Note 16 – Other matters – continued

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.

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 on 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 shall 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

A. On August 12, 2019, after the balance sheet date, the Bank's Board of Directors resolved to distribute dividends amounting to a cumulative NIS 392 million. The cumulative amount to be distributed pursuant to this resolution is 40% of earnings in the first half of 2019.

The cumulative amount to be distributed by this resolution is 1,672.1% of issued share capital, i.e. NIS 1.6721 per NIS 0.1 par value share. The effective date for dividends payment is August 20, 2019 and the payment date is August 27, 2019. The final dividends per share is subject to changes due to realized convertible securities of the Bank. According to accounting rules, this amount would be deducted from retained earnings in the third quarter of 2019.

B. On August 04, 2019, after the balance sheet date, Tefahot Issuance issued a shelf prospectus (dated August 5, 2019) whereby the company may issue to the public securities of different types subject to statutory provisions – non-convertible debentures, non-convertible subordinated notes and commercial paper – through shelf offering reports in which it would complete all specifics of each offering, including details, terms and conditions of the securities and composition of the offered units, subject to statutory provisions and to bylaws and directives of the Tel Aviv Stock Exchange Ltd., as they may be at that time.

The prospectus is valid for two years after the publication date thereof. The Company may extend its validity for a further twelve months, subject to ISA consent.

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 half of 2019, the Bank Board of Directors held 13 plenary meetings. During this period there were also 34 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 BBoard of Directors' Credit Committee.

On March 27, 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.

Members of Bank management and senior officers

In the first half 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

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 Act, 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 Act, 2016

On April 12, 2016, the Credit Data Act 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 Act, 2002 would be rescinded.

This act is relevant for the Bank, both due to the Bank being an "information source", required to provide credit data for Bank clients to a central information repository at the Bank of Israel and due to the Bank being a "credit data user", authorized to receive credit data from the credit bureaus.

In conformity with the Act, an information repository is being created at the Bank of Israel. A credit bureau would receive information from this repository and a credit provider may request a credit report, credit indication (definitive recommendation on whether to extend credit) and monitoring (monitoring of changes to the borrower's standing over the loan term) from the credit bureau. In order to obtain information, the credit provider must obtain explicit consent from the borrower (to obtain an indication, it is sufficient to inform the borrower). A client may ask the Bank of Israel to exclude their credit data from the repository or not to provide such data for compiling a credit report.

Over the preparation period for application of the Act (from publishing of the Act through its effective start date), the Bank provided information about clients to the repository being created, as instructed from time to time by the Bank of Israel.

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

The Non-banking Loans Arrangement Law (Amendment 5), 2017

On August 6, 2017, the Law, known as the "Fair Credit Law", was published. The provisions of the Law would apply only to new loans. The original effective start date of the Law 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 Law 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 Law (such as arrears interest for housing loans or CPI-linked loans).

In the third year after implementation of the Law, the Finance Minister will examine the average interest rate for credit extended by banks and will be authorized to reduce the maximum borrowing cost.

The Bank is preparing to implement the Act. Application of the Act is not expected to have any material impact on the Bank's financial statements.

Reduction of Cash Usage Act, 2018

On March 18, 2018, the Reduction of Cash Usage Act, 2018 was made public.

The Act is designed to reduce the use of cash in transactions – by both payer and payee.

The Act also governs payment by check. The Act stipulates certain restrictions on the use of cash and checks.

The Act became effective on January 1, 2019, except for certain sections effective as from July 1, 2019.

Pursuant to the Act, the Supervisor of Banks may impose monetary sanctions on banking corporations that pay a check in breach of any of the restrictions applicable to such check pursuant to Addendum II.

The Supervision of Banks may start imposing sanctions as from July 1, 2019.

The Bank applies the Act. Application of the Act is not expected to have any material impact on the Bank's financial statements.

Insolvency and Financial Rehabilitation Act, 2018

The Insolvency and Financial Rehabilitation Act, 2018 (hereinafter: "the Act") was published on March 15, 2018. The Act will become 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, eliminating the old ordinances and arrangements provided for in the Companies Law.

The Act has three major goals:

- Financial rehabilitation of the debtor. Regard credit default and insolvency as a financial mishap, rather than a moral flaw.
- Increase in debt percentage to be repaid to un-secured creditors.
- Increase certainty and stability of the Law, through shorter proceedings and reduced bureaucratic burden.

The Act stipulates changes to various matters, such as: Threshold for launch of insolvency proceedings, duration of insolvency proceedings, linkage and interest, floating lien, mutual debt offsetting, the position of a 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 is preparing to implement 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.

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 Law (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.

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.

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 01, 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 June 30, 2019			For the three months ended June 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	191,700	[(7)]2,482	5.28	180,016	[(7)]2,113	4.78
Outside of Israel	3,531	59	6.85	3,313	51	6.30
Total	**195,231**	**2,541**	**5.31**	**183,329**	**2,164**	**4.81**
Loans to the Government						
In Israel	134	–	–	194	1	2.08
Outside of Israel	489	8	6.71	298	5	6.88
Total	**623**	**8**	**5.24**	**492**	**6**	**4.97**
Deposits with banks						
In Israel	983	3	1.23	1,139	1	0.35
Outside of Israel	203	1	1.99	252	1	1.60
Total	**1,186**	**4**	**1.36**	**1,391**	**2**	**0.58**
Deposits with central banks						
In Israel	36,981	19	0.21	36,901	8	0.09
Outside of Israel	5,530	33	2.41	2,891	13	1.81
Total	**42,511**	**52**	**0.49**	**39,792**	**21**	**0.21**
Securities loaned or purchased in resale agreements						
In Israel	82	–	–	40	–	–
Outside of Israel	–	–	–	–	–	–
Total	**82**	**–**	**–**	**40**	**–**	**–**
Debentures held to maturity and available for sale[(4)]						
In Israel	7,918	36	1.83	8,499	38	1.80
Outside of Israel	550	4	2.94	854	5	2.36
Total	**8,468**	**40**	**1.90**	**9,353**	**43**	**1.85**
Debentures held for trading[(5)]						
In Israel	240	2	3.38	50	1	8.24
Outside of Israel	–	–	–	–	–	–
Total	**240**	**2**	**3.38**	**50**	**1**	**8.24**
Total interest-bearing assets	**248,341**	**2,647**	**4.33**	**234,447**	**2,237**	**3.87**
Receivables for credit card operations	3,708			3,421		
Other non-interest bearing assets[(6)]	5,107			5,253		
Total assets	**257,156**			**243,121**		
Total interest-bearing assets attributable to operations outside of Israel	**10,303**	**105**	**4.14**	**7,608**	**75**	**4.00**

See remarks below.

Interest Revenues and Expenses Rates - of the Bank and its Subsidiaries[(1)] – Continued

Reported amounts (NIS in millions)

	For the six months ended June 30, 2019			For the six months ended June 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	190,243	[(7)]3,997	4.25	178,493	[(7)]3,444	3.90
Outside of Israel	3,477	119	6.96	3,251	95	5.93
Total	**193,720**	**4,116**	**4.29**	**181,744**	**3,539**	**3.93**
Loans to the Government						
In Israel	138	1	1.45	198	2	2.03
Outside of Israel	488	16	6.66	277	8	5.86
Total	**626**	**17**	**5.51**	**475**	**10**	**4.25**
Deposits with banks						
In Israel	1,168	8	1.37	958	2	0.42
Outside of Israel	230	2	1.75	270	1	0.74
Total	**1,398**	**10**	**1.44**	**1,228**	**3**	**0.49**
Deposits with central banks						
In Israel	36,460	37	0.20	37,496	15	0.08
Outside of Israel	6,138	73	2.39	2,880	24	1.67
Total	**42,598**	**110**	**0.52**	**40,376**	**39**	**0.19**
Securities loaned or purchased in resale agreements						
In Israel	88	–	–	61	–	–
Outside of Israel	–	–	–	–	–	–
Total	**88**	**–**	**–**	**61**	**–**	**–**
Debentures held to maturity and available for sale						
In Israel	8,697	68	1.57	7,704	84	2.19
Outside of Israel	724	9	2.50	870	10	2.31
Total	**9,421**	**77**	**1.64**	**8,574**	**94**	**2.20**
Debentures held for trading						
In Israel	240	3	2.52	532	1	0.38
Outside of Israel	–	–	–	–	–	–
Total	**240**	**3**	**2.52**	**532**	**1**	**0.38**
Total interest-bearing assets	**248,091**	**4,333**	**3.52**	**232,990**	**3,686**	**3.19**
Receivables for credit card operations	3,643			3,401		
Other non-interest bearing assets	5,102			3,061		
Total assets	**256,836**			**239,452**		
Total interest-bearing assets attributable to operations outside of Israel	**11,057**	**219**	**4.00**	**7,548**	**138**	**3.69**

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 June 30, 2019			For the three months ended June 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	25,874	24	0.37	21,604	18	0.33
Term deposits	120,085	626	2.10	115,410	479	1.67
Outside of Israel						
On-call	468	–	–	601	–	–
Term deposits	4,555	25	2.21	4,717	19	1.62
Total	**150,982**	**675**	**1.80**	**142,332**	**516**	**1.46**
Deposits from the Government						
In Israel	40	–	–	50	–	–
Outside of Israel	–	–	–	–	–	–
Total	**40**	**–**	**–**	**50**	**–**	**–**
Deposits from banks						
In Israel	987	2	0.81	1,262	2	0.64
Outside of Israel	2	2	–	2	–	–
Total	**989**	**4**	**1.63**	**1,264**	**2**	**0.63**
Securities loaned or sold in conjunction with repurchase agreements						
In Israel	–	–	–	–	–	–
Outside of Israel	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**
Debentures and subordinated notes						
In Israel	28,319	423	6.11	30,077	373	5.05
Outside of Israel	–	–	–	–	–	–
Total	**28,319**	**423**	**6.11**	**30,077**	**373**	**5.05**
Other liabilities						
In Israel	254	2	3.19	49	1	8.42
Outside of Israel	–	–	–	–	–	–
Total	**254**	**2**	**3.19**	**49**	**1**	**8.42**
Total interest-bearing liabilities	**180,584**	**1,104**	**2.47**	**173,772**	**892**	**2.07**
Non-interest bearing deposits from the public	50,614			44,855		
Payables for credit card transactions	3,826			3,421		
Other non-interest bearing liabilities[8]	5,929			6,456		
Total liabilities	**240,953**			**228,504**		
Total equity resources	**16,203**			**14,617**		
Total liabilities and equity resources	**257,156**			**243,121**		
Interest margin			**1.86**			**1.80**
Net return[9] on interest-bearing assets						
In Israel	238,038	1,465	2.48	226,839	1,289	2.29
Outside of Israel	10,303	78	3.06	7,608	56	2.98
Total	**248,341**	**1,543**	**2.51**	**234,447**	**1,345**	**2.31**
Total interest-bearing liabilities attributable to operations outside of Israel	**5,025**	**27**	**2.17**	**5,320**	**19**	**1.44**

See remarks below.

Interest Revenues and Expenses Rates - of the Bank and its Subsidiaries[1] – Continued

Reported amounts (NIS in millions)

	For the six months ended June 30, 2019			For the six months ended June 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	24,849	35	0.28	21,799	21	0.19
Term deposits	121,360	968	1.60	113,991	748	1.32
Outside of Israel						
On-call	529	–	–	568	–	–
Term deposits	4,739	53	2.25	4,724	35	1.49
Total	**151,477**	**1,056**	**1.40**	**141,082**	**804**	**1.14**
Deposits from the Government						
In Israel	41	–	–	51	–	–
Outside of Israel	–	–	–	–	–	–
Total	**41**	**–**	**–**	**51**	**–**	**–**
Deposits from banks						
In Israel	991	4	0.81	1,283	4	0.62
Outside of Israel	1	2	–	1	–	–
Total	**992**	**6**	**1.21**	**1,284**	**4**	**0.62**
Securities loaned or sold in conjunction with repurchase agreements						
In Israel	–	–	–	–	–	–
Outside of Israel	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**
Debentures and subordinated notes						
In Israel	28,959	494	3.44	30,095	451	3.02
Outside of Israel	–	–	–	–	–	–
Total	**28,959**	**494**	**3.44**	**30,095**	**451**	**3.02**
Other liabilities						
In Israel	221	3	2.73	74	1	2.72
Outside of Israel	–	–	–	–	–	–
Total	**221**	**3**	**2.73**	**74**	**1**	**2.72**
Total interest-bearing liabilities	**181,690**	**1,559**	**1.72**	**172,586**	**1,260**	**1.47**
Non-interest bearing deposits from the public	49,379			44,846		
Payables for credit card transactions	3,712			3,401		
Other non-interest bearing liabilities[8]	6,101			5,672		
Total liabilities	**240,882**			**226,505**		
Total equity resources	**15,954**			**12,947**		
Total liabilities and equity resources	**256,836**			**239,452**		
Interest margin			**1.80**			**1.72**
Net return[9] on interest-bearing assets						
In Israel	237,034	2,610	2.21	225,442	2,323	2.07
Outside of Israel	11,057	164	2.99	7,548	103	2.75
Total	**248,091**	**2,774**	**2.25**	**232,990**	**2,426**	**2.09**
Total interest-bearing liabilities attributable to operations outside of Israel	**5,269**	**55**	**2.10**	**5,293**	**35**	**1.33**

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 June 30, 2019			For the three months ended June 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	169,728	1,232	2.94	161,041	1,084	2.72
Total interest-bearing liabilities	119,251	(251)	(0.84)	116,327	(218)	(0.75)
Interest margin			**2.10**			**1.97**
Israeli currency – linked to the CPI						
Total interest-bearing assets	55,665	1,206	8.95	52,169	977	7.70
Total interest-bearing liabilities	35,852	(692)	(7.95)	35,765	(574)	(6.58)
Interest margin			**1.00**			**1.12**
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	12,645	104	3.33	13,629	101	3.00
Total interest-bearing liabilities	20,456	(134)	(2.65)	16,360	(81)	(2.00)
Interest margin			**0.68**			**1.00**
Total – operations in Israel						
Total interest-bearing assets	238,038	2,542	4.34	226,839	2,162	3.87
Total interest-bearing liabilities	175,559	(1,077)	(2.48)	168,452	(873)	(2.09)
Interest margin			**1.86**			**1.78**

See remarks below.

Interest Revenues and Expenses Rates - of the Bank and its Subsidiaries[1] – Continued

Reported amounts (NIS in millions)

	For the six months ended June 30, 2019			For the six months ended June 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	167,751	2,443	2.93	160,512	2,149	2.70
Total interest-bearing liabilities	120,062	(491)	(0.82)	115,283	(438)	(0.76)
Interest margin			**2.11**			**1.94**
Israeli currency – linked to the CPI						
Total interest-bearing assets	55,701	1,449	5.27	51,972	1,195	4.65
Total interest-bearing liabilities	35,867	(751)	(4.23)	36,060	(638)	(3.57)
Interest margin			**1.04**			**1.08**
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	13,582	222	3.30	12,958	204	3.17
Total interest-bearing liabilities	20,492	(262)	(2.57)	15,950	(149)	(1.88)
Interest margin			**0.73**			**1.29**
Total – operations in Israel						
Total interest-bearing assets	237,034	4,114	3.50	225,442	3,548	3.17
Total interest-bearing liabilities	176,421	(1,504)	(1.71)	167,293	(1,225)	(1.47)
Interest margin			**1.79**			**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 June 30, 2019 – compared to the three months ended June 30, 2018			For the six months ended June 30, 2019 compared to the six months ended June 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	151	218	369	247	306	553
Outside of Israel	4	4	8	8	16	24
Total	**155**	**222**	**377**	**255**	**322**	**577**
Other interest-bearing assets						
In Israel	(1)	12	11	–	13	13
Outside of Israel	17	5	22	43	14	57
Total	**16**	**17**	**33**	**43**	**27**	**70**
Total interest revenues	**171**	**239**	**410**	**298**	**349**	**647**
Interest-bearing liabilities						
Deposits from the public						
In Israel	40	113	153	71	163	234
Outside of Israel	(1)	7	6	–	18	18
Total	**39**	**120**	**159**	**71**	**181**	**252**
Other interest-bearing liabilities						
In Israel	(27)	78	51	(21)	66	45
Outside of Israel	–	2	2	–	2	2
Total	**(27)**	**80**	**53**	**(21)**	**68**	**47**
Total interest expenses	**12**	**200**	**212**	**50**	**249**	**299**

(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 June 30, 2019 and June 30, 2018, and for the six-month periods ended June 30, 2019 and June 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 20 million, NIS (96) million, NIS (18) million and NIS (70) million, respectively.
(5) From the average balance of debentures held for trading, for the three-month periods ended June 30, 2019 and June 30, 2018, and for the six-month periods ended June 30, 2019 and June 30, 2018, we deducted (added) the average balance of unrealized gains from adjustment to fair value of debentures held for trading amounting to NIS 4 million, NIS (3) million, NIS 2 million and NIS (2) million, respectively.
(6) Includes derivative instruments, other non-interest bearing assets, net of provision for credit losses.
(7) Commissions amounting to NIS 74 million, NIS 64 million, NIS 145 million and NIS 127 million were included in interest revenues for the three-month periods ended June 30, 2019 and June 30, 2018 and for the six-month periods ended June 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

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 a n extreme scenario.
V	**VaR** – A model used to estimate overall exposure to diverse market risk factors. The VaR (Value at Risk) obtained by the model is a statistical estimate of the maximum expected loss for the Bank due to materialization of market risks factors in a given time period at a pre-determined statistical confidence level.

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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Human Connections in the Mirror of Art

The mosaic of works of art provides a unique glimpse into human connections, as reflected in the artists' perceptive outlook. In their works, the artists capture a moment in time in which a human encounter takes place. It may be an everyday, mundane encounter, or an extraordinary one – between two people or many, indoors or outdoors. The human encounters cross the boundaries of the canvas to reach and touch the observer.

The concept of "human connection" lies at the core of the bank's credo, it is our deepest value and guides us in every endeavor. And here, again, we see that in art as in life, there is no substitute for human touch.

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