

# Condensed Financial Statements as of March 31, 2018

## Main Table of Contents

<b>Condensed Report of the Board of Directors and Management</b>	<b>5</b>
Overview, targets and strategy	6
Explanation and analysis of results and business standing	12
Risks overview	43
Policies and critical accounting estimates, controls and procedures Controls and Procedures	82
<b>Certifications with regard to disclosure on the condensed financial statements</b>	<b>84</b>
<b>Independent Auditors' review report</b>	<b>86</b>
<b>Condensed Financial Statements</b>	<b>87</b>
<b>Corporate governance, other information about the Bank and its management</b>	<b>181</b>
<b>Addendums to condensed quarterly financial statements</b>	<b>188</b>
<b>Glossary and index of terms included in the condensed quarterly financial statements</b>	<b>192</b>

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

# Condensed Report of the Board of Directors and Management on the Financials Statements as of March 31, 2018

## Table of Contents

<b>Introduction</b>	<b>5</b>
<b>Forward-Looking Information</b>	<b>5</b>
<b>Overview, targets and strategy</b>	<b>6</b>
Condensed financial information and key performance indicators for the Bank Group	6
Major risks	9
Business goals and strategy	9
Developments in capital structure	9
Developments in financing sources	10
Significant developments in management of business operations	11
Significant developments in human resources and administration	11
Other matters	11
<b>Explanation and analysis of results and business standing</b>	<b>12</b>
Trends, phenomena and material changes	12
Significant events in the bank group's business	12
The general environment and effect of external factors on the bank group	12
Key and emerging risks	15
Independent auditors' review report	15
Events after the balance sheet date	15
Changes to critical accounting policies and to critical accounting estimates	15
Material developments in revenues, expenses and other comprehensive income	16
Analysis of developments in assets, liabilities, equity and capital adequacy	21
Assets and liabilities	21
Capital, capital adequacy and leverage	26
Other Off Balance Sheet Activity	30
Financial information by operating segments	30
Major Investees	41
<b>Risks overview</b>	<b>43</b>
Developments in risks and risks management	43
Risk factor assessment	45
Credit risk	46
Market risk and interest risk	67
Operating risk	77
Liquidity and financing risk	79
Other risks	80
Compliance and regulatory risk	80
Cross-border and aml risk	80
Reputation risk	81
Strategic risk	81
<b>Policies and critical accounting estimates, controls and procedures</b>	<b>82</b>
Policies and critical accounting estimates	82
Controls and procedures	83

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

Statement of profit and loss -highlights	6
Balance sheet -key items	7
Key financial ratios (in percent)	8
Information about official exchange rates and changes there	13
Changes in key equity indices in Israel (in %)	13
Changes in key debenture indices in Israel (in %)	14
Changes in key equity indices world-wide (in %)	14
Analysis of development in financing revenues from current operations	16
Total financing revenues by supervisory operating segment	17
Average balances of interest-bearing assets attributable to operations in Israel in the various linkage segments	17
Interest spreads (difference between interest income on assets and interest expenses on liabilities) based on average balances, attributable to operations in Israel in the various linkage segments	17
Development of expenses with respect to credit losses	18
Expenses with respect to credit losses by supervisory operating segments of the Group	18
Cost-Income	19
Development of Group return on equity and ratio of tier i capital to risk elements, liquidity coverage ratio and leverage ratio at the end of the quarter	20
Earnings and dividends per share	20
Development of key balance sheet items for the Bank Group	21
Loans to the public, net by linkage basis	21
Loans to the public, net by supervisory operating segments	22
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	22
Development of key off balance sheet items for the Bank Group	23
Composition of Group securities by portfolio	24
Distribution of Group security portfolio by linkage segment	24
Distribution of Group security portfolio by issuer type	24
Composition of deposits from the public by linkage segments	25
Composition of deposits from the public by supervisory operating segments	25
Evolution of deposits from the public for the Group by depositor size	25
Composition of shareholders' equity	26
Supervisory capital and risk assets on the consolidated report	27
Development of Group ratio of capital to risk elements	28
Composition of risk assets and capital requirements with respect to credit risk by exposure group	28
Risk assets and capital requirements with respect to market risk	28
Leverage ratio of the bank	29
Details of dividends distributed by the Bank	29
Details of dividends distributed by the Bank	29

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 management, operating and/or custodial services	30
Financial results by supervisory operating segment	31
Operating results of private banking segment	34
Operating results of micro and small business segment	35
Operating results of medium business segment	36
Operating results of large business segment	37
Operating results of institutional investor segment	38
Operating results of the financial management segment	39
Operating results of overseas operations	40
Mapping of risk factors, their potential impact on the Bank Group and executives	45
Major borrowers	46
Credit for equity transactions	47
Credit to leveraged companies	48
Summary of overall problematic credit risk and non-performing assets before provision for credit losses, in accordance with provisions measurement and disclosure of impaired debts, credit risk and provision for credit losses	48
Major risk benchmarks related to credit quality	48
Analysis of movement in balance of provision for credit losses	49
Major risk benchmarks related to provision for credit losses	49
Credit risk to individuals -balances and various risk attributes	50
Information about problematic credit risk before provision for credit losses	51
Expense rate with respect to credit losses to individuals	51
Information about credit risk in the construction and real estate economic sector in Israel, by real estate collateral type	53
Information about credit risk in the construction and real estate economic sector in Israel, by asset status	54
Credit risk by economic sector	55
Exposure to Foreign Countries -Consolidated <sup>(1)</sup>	58
Credit exposure to foreign financial institutions	61
Volume of mortgages granted by the Household segment	63
Details of various risk attributes of the housing loan portfolio	64
Provision for credit losses with respect to housing loans for which a minimum provision for credit losses was made by extent of arrears	66
VaR for the Bank Group	67
Impact of a parallel shift of the curve by 2% on the economic value of the Bank's portfolio in EVE terms	67
Exposure of the Bank and its subsidiaries to changes in interest rates	68
Fair value of financial instruments before impact of hypothetical changes in interest rates	76
Net fair value of financial instruments, after impact of changes in interest rates	76
Analysis of the sensitivity of Bank Group capital to changes in major exchange rates and in the CPI	77

# Condensed Report of the Board of Directors and Management on Financial Statements as of March 31, 2018

## Introduction

At the meeting of the Board of Directors of Mizrahi Tefahot Bank held on May 7, 2018, it was resolved to approve and publish the Report of the Board of Directors and Management, the Risks Report and Other Supervisory Disclosures and the condensed consolidated financial statements of Mizrahi Tefahot Bank Ltd. and its subsidiaries as of March 31, 2018.

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

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

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

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

[www.mizrahi-tefahot.co.il](http://www.mizrahi-tefahot.co.il) >> about the bank >> investor relations >> financial statements.

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

## Forward-Looking Information

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

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

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

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

## Overview, targets and strategy

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

### Condensed financial information and key performance indicators for the Bank Group (NIS in millions)

	For the quarter ended March 31, 2018	For the quarter ended December 31, 2017	For the quarter ended September 30, 2017	For the quarter ended June 30, 2017	For the quarter ended March 31, 2017	All of 2017
<b>Statement of profit and loss -highlights</b>						
Interest revenues, net	1,081	1,136	1,011	1,173	1,027	4,347
Non-interest financing revenues (expenses)	90	55	61	21	(1)	136
Commissions and other revenues	373	409	374	365	369	1,517
<b>Total revenues</b>	<b>1,544</b>	<b>1,600</b>	<b>1,446</b>	<b>1,559</b>	<b>1,395</b>	<b>6,000</b>
Expenses with respect to credit losses	82	60	41	42	49	192
Operating and other expenses <sup>(1)</sup>	912	939	972	877	823	3,611
Of which: Payroll and associated expenses <sup>(1)</sup>	569	593	636	555	487	2,271
Pre-tax profit	550	601	433	640	523	2,197
Provision for taxes on profit	192	222	161	231	192	806
<b>Net profit<sup>(2)</sup></b>	<b>343</b>	<b>365</b>	<b>261</b>	<b>400</b>	<b>321</b>	<b>1,347</b>

Group net profit in the first quarter of 2018 amounted to NIS 343 million, compared to NIS 321 million in the corresponding period last year -an increase by 6.9%.

This reflects annualized return on equity of 10.3%, compared to 10.2% in 2017.

According to the Bank's current dividends policy, a dividend of 40% would be distributed with respect to earnings of the first quarter of 2018 (NIS 137.2 million). For more information see chapter "Dividends", on page 29.

#### The following major factors affected Group operating income in the first quarter of 2018 compared to the corresponding period last year:

- Total revenues increased in the first quarter of 2018 by 10.9% over the corresponding period last year. For more information on the effect of the Consumer Price Index and other non-linear effects on revenues, see "Analysis of development of financing revenues from current operations" below.
- Increase in operating and other expenses:  
Operating and other expenses in the first quarter of 2018 include the "auto pilot" effect on payroll and associated expenses, as well as the immediate effect of the collective bargaining agreement for 2016-2021(3) signed with the Employees' Union in December 2017.

Data for the first quarter of 2017 exclude the effect of this agreement. This effect was charged to profit and loss in the third quarter of 2017.

The accelerated implementation of the voluntary retirement program as from soon after signing the agreement and the effect of savings with respect to the program have yet to be reflected in the financial results on these financial statements. The offsetting effect of the retirement program will be reflected in subsequent reporting periods.

Therefore, operating expenses were mostly affected by higher payroll and associated expenses, for a total increase by 10.8% compared to the corresponding period last year.

See below for explanation of each component of operating expenses.

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

(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.

(3) For more information about the effect of the agreement and implementation of a voluntary retirement program, see Note 22.A.6 to the 2017 financial statements.

**Condensed financial information and key performance indicators for the Bank Group -Continued**  
(NIS in millions )

	As of March 31, 2018	As of December 31, 2017	As of September 30, 2017	As of June 30, 2017	As of March 31, 2017
<b>Balance sheet -key items</b>					
Balance sheet total	242,805	239,572	239,578	235,056	234,071
Loans to the public, net	183,628	181,118	178,621	177,133	173,068
Cash and deposits with banks	43,156	41,130	42,578	39,146	41,683
Securities	9,057	10,133	10,938	10,560	11,791
Buildings and equipment	1,378	1,403	1,359	1,391	1,550
Deposits from the public	187,066	183,573	184,221	180,680	180,722
Debentures and subordinated notes	29,864	29,923	29,129	27,851	26,924
Deposits from banks	885	1,125	1,462	1,454	1,474
Shareholders' equity <sup>(1)</sup>	13,890	13,685	13,399	13,276	13,015

Quarterly development of balance sheet items shows consistent growth in Bank business:

- Total assets as of March 31, 2018 amounted to NIS 242.8 billion, an increase by NIS 8.7 billion compared to March 31, 2017 (an increase by NIS 3.2 billion compared to the end of 2017).
- Loans to the public, net as of March 31, 2018 amounted to NIS 183.6 billion, an increase by NIS 10.6 billion compared to March 31, 2017 (an increase by NIS 2.5 billion compared to the end of 2017).
- Deposits from the public as of March 31, 2018 amounted to NIS 187.1 billion, an increase by NIS 6.3 billion compared to March 31, 2017 (an increase by NIS 3.5 billion compared to the end of 2017).
- Debentures and subordinated notes as of March 31, 2018 amounted to NIS 29.9 billion, an increase by NIS 2.9 billion compared to March 31, 2017 (essentially unchanged compared to end of 2017).
- Shareholders' equity as of March 31, 2018 amounted to NIS 13.9 billion, an increase by NIS 0.9 billion compared to March 31, 2017 (an increase by NIS 0.2 billion compared to the end of 2017).

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

## Key financial ratios (in percent)

	For the quarter ended March 31, 2018	For the quarter ended December 31, 2017	For the quarter ended September 30, 2017	For the quarter ended June 30, 2017	For the quarter ended March 31, 2017	For 2017
<b>Key performance benchmarks</b>						
Net profit return on equity <sup>(1)(2)</sup>	10.3	11.2	<sup>(8)</sup> 8.0	12.7	10.4	10.2
Net profit return on risk assets <sup>(1)(2)(3)</sup>	0.97	1.05	0.76	1.19	0.97	0.99
Return on average assets <sup>(2)</sup>	0.57	0.61	0.44	0.68	0.55	0.57
Deposits from the public to loans to the public, net	101.9	101.4	103.4	102.0	104.4	101.4
Ratio of Tier I capital to risk elements	10.16	10.20	10.16	10.15	10.12	10.20
Leverage ratio <sup>(4)</sup>	5.43	5.48	5.36	5.42	5.27	5.48
(Quarterly) liquidity coverage ratio <sup>(5)</sup>	125	118	117	122	118	118
Ratio of revenues to average assets	2.59	2.70	2.46	2.69	2.42	2.55
Cost income ratio <sup>(6)</sup>	59.1	58.7	<sup>(8)</sup> 67.2	56.3	59.0	60.2
Basic earnings per share (in NIS)	1.47	1.58	1.12	1.72	1.38	5.80
<b>Key credit quality benchmarks</b>						
Ratio of provision for credit losses to total loans to the public	0.81	0.81	0.81	0.82	0.84	0.81
Ratio of impaired debts or debts in arrears 90 days or longer to total loans to the public	1.09	1.02	0.97	0.89	0.95	1.02
Expenses with respect to credit losses to loans to the public, net for the period <sup>(2)</sup>	0.18	0.13	0.09	0.09	0.12	0.11
Ratio of net accounting write-offs to average loans to the public <sup>(2)</sup>	0.13	0.11	0.09	0.09	0.11	0.09
<b>Additional information</b>						
Share price (in NIS) at end of the quarter	67.03	64.19	63.33	63.50	61.44	64.19
Dividends per share (in Agorot) <sup>(7)</sup>	47	34	52	42	17	144
Ratio of net interest revenues to average assets <sup>(2)</sup>	1.80	1.91	1.71	2.02	1.78	1.84
Ratio of commissions to average assets <sup>(2)</sup>	0.62	0.68	0.63	0.62	0.64	0.64

Financial ratios indicate:

- Net profit return in the first quarter of 2018 was at 10.3%, higher than the return for all of 2017.
- The liquidity coverage ratio as of March 31, 2018 is 125%, including the effect of implementation of Bank of Israel directives to apply a reduced withdrawal rate with respect to operational deposits, as from the first quarter of 2018.
- In the first quarter of 2018, the Bank maintained a cost-income ratio lower than 60%.

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

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- (1) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and equity attributable to shareholders of the Bank.
- (2) Calculated on annualized basis.
- (3) Net profit to average risk assets.
- (4) Leverage Ratio -ratio of Tier I capital,(according to Basel rules) to total exposure. This ratio is calculated in conformity with Proper Banking Conduct Directive 218
- (5) Liquidity Coverage Ratio -ratio of total High-Quality Liquid Assets to net cash outflow. This ratio is calculated in conformity with Proper Banking Conduct Directive 221, in terms of simple averages of daily observations during the reported quarter.
- (6) Total operating and other expenses to total operating and financing revenues and expenses with respect to credit losses.
- (7) Therate of dividends is calculated based on the actual amount of dividends actually distributed in the reported quarter.
- (8) Expenses with respect to signing the MOU with the Employees' Union and with respect to the negative known CPI in the third quarter of 2017, resulted in a decrease in return by 4.6% (in absolute terms) and an increase in the cost-income ratio by 13.4% (in absolute terms).

## Major risks

The Bank's risks mapping produced a listing of the following major risks: Credit risk (and credit concentration), market risk, interest risk (and, in particular, interest risk in the bank portfolio), liquidity risk, operating risk, including , information security and cyber risk, IT risk and legal risk, compliance and regulatory risk, cross-border and AML risk, reputation risk and strategic-business risk. The Bank regularly reviews the risk mapping, so as to ensure that it covers all of its business operations, market conditions and regulatory requirements. For further details see chapter "Major risks" of the 2017 Report of the Board of Directors and Management. For more information about developments in risks, see chapter "Risks overview" below and the detailed Risks Management Report on the Bank website.

For more information about an investigation by the US Department of Justice concerning Bank Group business with its US clients, see Note 10.B.4 to the financial statements.

## 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 2017 Report of the Board of Directors and Management.

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

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

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.

Other than that, since publication of the 2017 financial statements, there were no changes to the Bank's business goals and strategy.

## 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.

### Raising of capital sources

In conjunction with the Bank's work plan, which is set by the Board of Directors and includes growth objectives for different lines of business, an assessment is made of the impact of achieving these objectives on total risk assets for the Bank, and accordingly on its capital adequacy ratio. Accordingly, along with business and profitability objectives, a plan is set to raise capital sources in order to maintain capital adequacy, in accordance with instructions of the Board of Directors concerning capital adequacy.

The plan includes issue of contingent subordinated notes (Contingent Convertibles -CoCo) as needed and should ensure that the overall capital ratio as from 2018 would be at least 13.4%.

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

## Developments in financing sources

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

### Deposits

The Bank distinguishes between different source types by term and by client type. The Bank reviews depositor concentration; management and the Board of Directors have specified restrictions and guidelines with regard to concentration risk which apply to individual depositors, liquid means with regard to major / institutional depositors and resource composition. Quantitative and qualitative indicators to be regularly monitored, which estimate change in concentration risk -have been specified as part of liquidity risk management.

Total deposits from the public for the Group as of March 31, 2018 amounted to NIS 187.1 billion, compared to NIS 183.6 billion at end of 2017: an increase by 1.9%. Deposits from the public in the NIS-denominated, non-CPI linked segment increased in the first quarter of 2018 by 3.9%; deposits in the CPI-linked segment decreased by 10.4%; and deposits denominated in or linked to foreign currency decreased by 0.1%. 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.

As of the balance sheet date, all obligatory notes, including subordinated notes, issued to the public by Tefahot Issue, amounted to NIS 25.7 billion in total par value (as of December 31, 2017: similar), of which NIS 0.7 billion in CoCo (Contingent Convertible) subordinated notes with loss-absorption provisions through principal write-off (compliant with Basel III provisions and recognized by the supervisor of Banks as Tier II capital), as well as NIS 0.5 billion in subordinated notes (included in Tier II capital for maintaining minimum capital ratio and gradually written down, subject to transitional provisions).

In the first quarter of 2018, there were no further issuances by Tefahot Issuances.

### Complex capital instruments

The revalued balance of the complex capital instruments as of March 31, 2018 was NIS 3.7 billion (of which NIS 1.7 billion in CoCo contingent subordinated notes), similar to the end of 2017.

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

## Significant developments in management of business operations

### Agreement with Bank Igud shareholders

For more information see chapter "Significant developments in management of business operations" in the Report of the Board of Directors and Management for 2017.

### Sale of assets and liabilities in mortgage portfolio

On March 27, 2018, the Bank and institutional investors signed an agreement for sale of 80% of assets and liabilities in a housing loan portfolio valued in total at NIS 0.9 billion. The loan portfolio consists of housing loans extended by the Bank from April 1, 2014 through September 30, 2015. The loan portfolio sold includes loans with LTV ratios ranging below 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*).

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

## Significant developments in human resources and administration

### Developments in labor relations

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

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

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

### Labor and payroll agreements at the Technology Division

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

In recent months, discussions are under way with the division's employee representation and the MAOF trade union as to implementation of the linkage to the collective bargaining agreement signed by the Bank and the Employees' Union at Bank Mizrahi Tefahot in late 2017. The Bank made appropriate provisions for this matter.

## Other matters

### Legal Proceedings

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

### Inquiry by the US Department of Justice

For more information about the US DOJ inquiry with regard to Bank Group business with its US clients and for more information about a motion for approval of a derivative claim and motion for approval of a class action lawsuit on this matter, see Note 10.B, sections 3.A and 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

##### Agreement with Bank Igud shareholders

For more information see chapter "Business goals and strategy" above and chapter "Significant developments in management of business operations" in the Report of the Board of Directors and Management for 2017.

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

##### Major developments in the banking industry in Israel and overseas

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

Other developments in 2018:

On February 25, 2018, the Bank of Israel issued the final outline designed to reduce the cross commission in deferred charge transactions, in multiple stages in 2019-2023, from 0.7% of transaction amount today, down to 0.5%. Furthermore, an outline was specified to reduce the cross commission for immediate charge transactions, from 0.3% of transaction amount today, down to 0.25%.

For more information about the outline to reduce the cross commission, see chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" (Legislation and Supervision of Bank Group Operations) of these financial statements.

#### Developments in the Israeli and global economy in the first quarter of 2018

##### Israeli economy

###### Real Developments

In 2017, GDP growth was at 3.3%, compared to 4.0% in 2016 and to 2.6% in 2015. The GDP growth rate was more moderate due to the following effects: Decline in consumption of durable goods, after excessive growth in this item in 2016, due to increased purchasing of vehicles following changes to green taxation rules and more moderate growth in investments in the economy and in residential construction. Conversely, exports grew at an accelerated pace, led by growth in export of services. Bank of Israel estimates that economic indicators for the first quarter of 2018 indicate a strong growth rate, which may even exceed the potential growth rate of the economy.

The labor market continues to indicate strong activity at near-full employment. In the first quarter of 2018, the average unemployment rate declined to 3.7%, compared to an average 4.2% for all of 2017. The average participation rate in the labor force decreased slightly in the first quarter of this year, to 63.8% compared to 64.0% for all of 2017.

###### Inflation and exchange rates

In the first quarter of 2018, the Consumer Price Index decreased by 0.1%, compared to an increase by 0.1% in the corresponding period last year. The lower CPI resulted primarily from lower prices of clothing and footwear as well as fruits and vegetables. The lower prices were offset by higher prices of transportation and communications, education, culture and entertainment and food prices. In the twelve months ended March 2018, the CPI increased by 0.2%.

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

	March 31, 2018	December 31, 2017	Change in %
Exchange rate of:			
USD (in NIS)	3.514	3.467	1.4
EUR (in NIS)	4.329	4.153	4.2

On May 3, 2018, the USD/NIS exchange rate was 3.632 -a 3.4% devaluation since March 31, 2018. The EUR/NIS exchange rate on this date was 4.347 -a devaluation of 0.4% since March 31, 2018.

### Monetary policy

In the first quarter of 2018, the Bank of Israel interest rate was unchanged at 0.1%. The monetary policy of the Bank of Israel year to date was impacted, *inter alia*, by a slight devaluation of the NIS vis-à-vis the currency basket, moderate inflationary expectations and continued expansive monetary policy in major world economies, along with higher risk due to concerns about a developing trade war and higher geo-political tensions.

### Fiscal policy

At the end of the first quarter of 2018, the government budget recorded a NIS 2.1 billion cumulative deficit, compared to a NIS 2.3 billion cumulative budget deficit in the corresponding period last year. The deficit rate in relation to the GDP for the 12 months ended March 2018 was 1.9%, compared to 2.3% in the corresponding period last year. Note that the deficit target for 2018 is 2.9%. In the first quarter of this year, expenditure by Government ministries increased by 9.3% compared to the corresponding period last year. Total tax collection increased in the first quarter of 2018 by a nominal 6.3% compared to the corresponding period last year.

### Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, in the first two months of 2018 demand for new apartments (apartments sold and apartments constructed not for sale) was 5.7 thousand apartments, a decrease by 19% over the corresponding period last year and an increase by 32% over the corresponding period in 2016. The decrease was due, *inter alia*, to housing buyers (who do not currently own housing) waiting to win an apartment in the "Buyer price" program and to lower demand for apartments by investors. In the first quarter of 2018, housing loans given to the public amounted to NIS 14.3 billion, compared to NIS 13.1 billion in the corresponding period last year and NIS 15.0 billion in the corresponding period in 2016.

According to data from the Central Bureau of Statistics, housing prices in terms of the most recent 12 months, increased in February 2018 by 0.8%, compared to 2.2% in 2017 and to 6.7% in 2016.

### Capital market

Trading on global equity markets in the first quarter of 2018 was negative, led by stock exchanges in the USA and in Europe and carried over by major equity benchmarks in the Israeli market.

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

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

The average daily trading volume of shares and convertible securities in the first quarter of 2018 amounted to NIS 1.6 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 %):

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

### Global economy

The US economy grew in the third quarter of 2018 at an annualized 2.3%, compared to 2.9% in the previous quarter and similar to the growth rate for all of 2017. In the first quarter of 2018, industrial output and retail commerce benchmarks were higher and the purchasing manager index continued to indicate economic expansion. The labor market showed positive trends: The average number of new jobs in the US economy was higher than expected, while unemployment remained at a low 4.1%; the participation rate remained stable at 63%. Real wage growth was stable at 2.7% for the trailing twelve months; the core inflation rate increased to 2.1% for the twelve months ended March 2018. Following the positive economic indicators, the Fed increased its interest rate in March 2018 by 0.25 percentage points, to 1.50%-1.75%, following three interest rate increases in 2017.

The GDP growth rate in the Euro Zone in 2017 was 2.5%, compared to 1.8% in 2016 and to 2.0% in 2015. However, in the first two months of 2018, the growth rate of the industrial output and retail trade benchmarks was somewhat more moderate. The purchasing manager index and the expectation benchmarks remain high compared to their level in recent years. Unemployment continued to decline, to 8.5% in February 2018. Core inflation remained at 1.0% for the twelve months ended March 2018.

In the first quarter of 2018, GDP in China grew at an annualized 6.8%, similar to the previous two quarters and slightly lower compared to 6.9% growth rate for all of 2017. In the first quarter of this year, the industrial output index grew at a similar pace to 2017; the retail commerce index was slightly more moderate. The purchasing manager index continued to indicate expansion in economic activity.

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

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

## Key and emerging risks

In its operations, the Bank is exposed to a succession of risks which may potentially impact its financial results and its image.

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

In the first quarter of 2018 there were no significant loss events.

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

## Independent Auditors' review report

The Independent Auditor has drawn attention in their review report to Note 8, section 3 and to Note 10.B.3(a-d) to the financial statements, with regard to contingent liabilities at the Bank, including claims filed against the Bank, including motions for class action status, as well as to Note 10.B.4 with regard to the US DOJ inquiry with regard to Bank Group business with its US clients.

## Events after the balance sheet date

For more information about distribution of dividends with respect to earnings of the first quarter of 2018, see chapter "Analysis of developments in assets, liabilities, equity and capital adequacy" below and the statement of changes to shareholders' equity and the Note "Events after the balance sheet date" of these condensed financial statements.

## Changes to critical accounting policies and to critical accounting estimates

As stated in Note 1.C. to these financial statements, the group-based provision for credit losses is based, *inter alia*, on historical loss rates in various economic sectors, divided into problematic and non-problematic debt, for the 8 years ended on the report date.

For more information about application of the Supervisor of Banks' directives concerning sector liability limit, see Note 1.D.3.

## Material developments in revenues, expenses and other comprehensive income

Group net profit in the first quarter of 2018 amounted to NIS 343 million, compared to NIS 321 million in the corresponding period last year -an increase by 6.9%. This reflects annualized return on equity of 10.3%, compared to 10.2% in 2017.

### Analysis of developments in revenues, expenses and other comprehensive income

**Net interest revenues and non-interest financing revenues** in the first quarter of 2018 amounted to NIS 1,171 million, as described on these financial statements, compared to NIS 1,026 million in the corresponding period last year, an increase by 14.1%.

**Net interest revenues and non-interest financing revenues<sup>(1)</sup>** from current operations in the first quarter of 2018 amounted to NIS 1,136 million, as described below, compared to NIS 1,047 million in the corresponding period last year, an increase by 8.5%.

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

	2018 First Quarter	2017 Fourth Quarter	2017 Third Quarter	2017 Second Quarter	2017 First Quarter	Change in % First quarter of 2018 to first quarter of 2017
Interest revenues, net	1,081	1,136	1,011	1,173	1,027	
Non-interest financing revenues (expenses) <sup>(1)</sup>	90	55	61	21	(1)	
<b>Total financing revenues</b>	<b>1,171</b>	<b>1,191</b>	<b>1,072</b>	<b>1,194</b>	<b>1,026</b>	<b>14.1</b>
Less:						
Effect of CPI	(39)	10	(62)	105	(21)	
Revenues from collection of interest on problematic debts	12	10	11	9	13	
Gains from realized debentures and available-for-sale securities and gains from debentures held for trading, net	2	2	16	18	7	
Effect of accounting treatment of derivatives at fair value and others <sup>(2)</sup>	60	45	12	(5)	(20)	
<b>Total effects other than current operations</b>	<b>35</b>	<b>67</b>	<b>(23)</b>	<b>127</b>	<b>(21)</b>	
<b>Total financing revenues from current operations</b>	<b>1,136</b>	<b>1,124</b>	<b>1,095</b>	<b>1,067</b>	<b>1,047</b>	<b>8.5</b>

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

(2) The effect of accounting treatment of derivatives at fair value is due to the difference between accounting treatment of balance sheet instruments, charged to the profit and loss statement on an accrual basis (interest, linkage differentials and exchange rate differentials only), vs. derivatives measured at their fair value.

Other effects include:

- Other impacts include the effect of Bank coverage against tax exposure with respect to overseas investments, by allocating excess financing sources against such investments.

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

Operating segment	First Quarter 2018	First Quarter 2017	Change amount	Change rate (In %)
<b>Individuals:</b>				
Households -housing loans	357	304	53	17.4
Households -other	308	280	28	10.0
Private banking	16	14	2	14.3
<b>Total -individuals</b>	<b>681</b>	<b>598</b>	<b>83</b>	<b>13.9</b>
<b>Business operations:</b>				
Small and micro businesses	232	205	27	13.2
Medium businesses	58	48	10	20.8
Large businesses	128	112	16	14.3
Institutional investors	31	24	7	29.2
<b>Total -business operations</b>	<b>449</b>	<b>389</b>	<b>60</b>	<b>15.4</b>
Financial management	(11)	(1)	(10)	-
<b>Total activity in Israel</b>	<b>1,119</b>	<b>986</b>	<b>133</b>	<b>13.5</b>
Overseas operations	52	40	12	30.0
<b>Total</b>	<b>1,171</b>	<b>1,026</b>	<b>145</b>	<b>14.1</b>

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

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

Linkage segment	First Quarter 2018	First Quarter 2017	First Quarter Change in %
Israeli currency -non-linked	160,097	150,790	6.2
Israeli currency -linked to the CPI	51,780	49,792	4.0
Foreign currency (including Israeli currency linked to foreign currency)	12,277	11,971	2.6
<b>Total</b>	<b>224,154</b>	<b>212,553</b>	<b>5.5</b>

Change in average balances of interest-bearing assets in the various segments is primarily due to growth in loans to the public, primarily in the NIS-denominated segment and in the CPI-linked segment.

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

Linkage segments	First Quarter 2018	First Quarter 2017
Israeli currency -non-linked	1.92	2.02
Israeli currency -linked to the CPI	0.98	0.70
Foreign currency	1.69	1.86
<b>Total</b>	<b>1.65</b>	<b>1.69</b>

(1) Revenue and expense rates were calculated relative to interest-bearing assets and liabilities.

(2) Average balances before deduction of provision with respect to credit losses.

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

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

In the foreign currency segment -the decrease in interest spread is due to FED interest rate increases in December 2017 and in March 2018. Given the structure of sources and uses at the Bank, concurrent revenue is included under derivatives operations.

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

**Expenses with respect to credit losses** for the Group amounted to NIS 82 million in the first quarter of 2018, or an annualized rate of 0.18% of total loans to the public, net, compared with NIS 49 million in the corresponding period last year -an annualized rate of 0.12% of total loans to the public, net in the corresponding period last year -a decrease by NIS 33 million in total.

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

	First Quarter 2018	First Quarter 2017
Provision for credit losses on individual basis (including accounting write-offs)	55	41
Provision for credit losses on Group basis:		
By extent of arrears	-	(5)
Other	27	13
<b>Total expenses with respect to credit losses</b>	<b>82</b>	<b>49</b>
Rate of the expenses with respect to credit losses as percentage of total loans to the public, net (annualized)	0.18%	0.12%
Of which: With respect to commercial loans other than housing loans	0.49%	0.35%
Of which: With respect to housing loans	0.02%	-

Total expenses with respect to credit losses were affected by a decrease in collection of debt previously written-off, compared to the corresponding period last year and by an increase in the group-based provision due to the increase in loans to the public in this quarter.

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

Operating segment	First Quarter 2018	First Quarter 2017
<b>Individuals:</b>		
Households -housing loans	6	-
Households -other	22	24
Private banking	-	-
<b>Total -individuals</b>	<b>28</b>	<b>24</b>
<b>Business operations:</b>		
Small and micro businesses	38	32
Medium businesses	4	(3)
Large businesses	8	(2)
Institutional investors	-	(2)
<b>Total -business operations</b>	<b>50</b>	<b>25</b>
Financial management	1	(1)
<b>Total activity in Israel</b>	<b>79</b>	<b>48</b>
Overseas operations	3	1
<b>Total</b>	<b>82</b>	<b>49</b>

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 463 million in the first quarter of 2018, compared with NIS 368 million in the corresponding period last the third -an increase by NIS 95 million. **See explanation below.**

**Non-interest financing revenues (expenses)** in the first quarter of 2018 amounted to NIS 90 million, compared to expenses amounting to NIS 1 million in the corresponding period last year.

This item includes, *inter alia*, the effect of fair value, gains (losses) from transactions in debentures and securities and expenses (revenues) with respect to linkage differentials on CPI derivatives, where the corresponding revenues (expenses) are recognized as interest revenues, in conformity with accounting rules. See analysis of financing revenues from current operations above.

**Commission revenues** in the first quarter of 2018, amounted to NIS 362 million compared with NIS 357 million in the corresponding period last year -an increase by NIS 5 million. This is due to continued growth in business volume and despite the negative effect of various regulatory directives.

**Other revenues** in the first quarter of 2018, amounted to NIS 11 million compared with NIS 12 million in the corresponding period last year -a decrease by NIS 1 million.

**Operating and other expenses** in the first quarter of 2018, amounted to NIS 912 million compared with NIS 823 million in the corresponding period last year -an increase by NIS 89 million.

See details by operating expense component below.

**Payroll and associated expenses** amounted to NIS 569 million in the first quarter of 2018, compared with NIS 487 million in the corresponding period last year -an increase by NIS 82 million.

Payroll and associated expenses in the first quarter of 2018 include the "auto pilot" effect on payroll and associated expenses, as well as the immediate effect of the collective bargaining agreement for 2016-2021<sup>(1)</sup> signed with the Employees' Union in December 2017.

Data for the first quarter of 2017, as noted above, exclude the effect of this agreement. This effect was charged to profit and loss in the third quarter of 2017.

The accelerated implementation of the voluntary retirement program as from soon after signing the agreement and the effect of savings with respect to the program have yet to be reflected in the financial results on these financial statements. The offsetting effect of the retirement program will be reflected in subsequent reporting periods.

**Maintenance and depreciation expenses** for buildings and equipment amounted to NIS 189 million in the first quarter of 2018, compared with NIS 186 million in the corresponding period last year - an increase by 1.6%.

**Other expenses** in the first quarter of 2018 amounted to NIS 154 million, compared to NIS 150 million in the corresponding period last year - an increase by 2.7%.

Cost-Income ratio information<sup>(2)</sup> (in percent):

	2018 First Quarter	2017 Fourth Quarter	2017 Third Quarter	2017 Second Quarter	2017 First Quarter	2017 Annual
Cost-income ratio	59.1	58.7	67.2 <sup>(3)</sup>	56.3	59.0	60.8

(1) For more information about the effect of the agreement and implementation of a voluntary retirement program, see Note 22.A.6 to the 2017 financial statements.

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

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

**Pre-tax profit for the Group** in the first quarter of 2018 amounted to NIS 550 million, compared to NIS 523 million in the corresponding period last year -an increase by NIS 27 million. See detailed explanation above.

**The rate of provision for taxes** on profit in the first quarter of 2018 was 34.9% -compared to 36.7% in the corresponding period last year. The rate of provision for taxes was impacted by a decrease in the statutory tax rate applicable to the Bank and by the effect of Bank coverage against tax exposure with respect to overseas investments, by allocating excess financing sources against such investments.

**The Bank's share of after-tax profit of associated companies** - in the first quarter of 2018 there was no profit with respect to associated companies, compared to loss of NIS 1 million with respect to associated companies in the corresponding period last year.

The share of the non-controlling interests in net results of subsidiaries attributable to Bank Yahav in the first quarter of 2018 amounted to NIS 15 million, compared to NIS 9 million in the corresponding period last year.

**Net profit attributable to shareholders of the Bank** in the first quarter of 2018 amounted to NIS 343 million, compared to NIS 321 million in the corresponding period last year.

**Other comprehensive income attributable to shareholders of the Bank** decreased by NIS 47 million compared to 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 securities available for sale at fair value. See Note 4 to the financial statements for details.

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

	2018 First Quarter	2017 Fourth Quarter	2017 Third Quarter	2017 Second Quarter	2017 First Quarter	All of 2017
Net return on equity	10.3	11.2	<sup>(5)</sup> 8.0	12.7	10.4	10.2
Ratio of Tier I capital to risk elements at end of quarter	10.16	10.20	10.16	10.15	10.12	10.20
(Quarterly) liquidity coverage ratio	<sup>(6)</sup> 125	118	117	122	118	118
Leverage ratio at end of quarter	5.43	5.48	5.36	5.42	5.27	5.48

(1) Annualized return.

(2) Return on average shareholders' equity, including "total capital resources", as presented in reporting of revenue and expense rates, less average balance of minority interests and less/plus the average balance of unrealized gains/losses from adjustment to fair value of debentures held for trading as well as gains/losses from debentures available for sale.

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

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

(5) Expenses in respect of the memorandum of understanding with the Employees' Union and in respect of the negative known CPI resulted in a decrease in the rate of return in the third quarter of 2017, by 4.6% (absolute).

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

## Earnings and dividends per share

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

	First Quarter 2018	First Quarter 2017	All of 2017
Basic earnings per share	1.47	1.38	5.80
Diluted earnings per share	1.46	1.37	5.76
Dividends per share	47.03	17.14	143.91

## 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:

	March 31, 2018	March 31, 2017	December 31, 2017	Change in % over March 31, 2017	Change in % over December 31, 2017
Balance sheet total	242,805	234,071	239,572	3.7	1.3
Cash and deposits with banks	43,156	41,683	41,130	3.5	4.9
Loans to the public, net	183,628	173,068	181,118	6.1	1.4
Securities	9,057	11,791	10,133	(23.2)	(10.6)
Buildings and equipment	1,378	1,550	1,403	(11.1)	(1.8)
Deposits from the public	187,066	180,722	183,573	3.5	1.9
Deposits from banks	885	1,474	1,125	(40.0)	(21.3)
Debentures and subordinated notes	29,864	26,924	29,923	10.9	(0.2)
Shareholders' equity	13,890	13,015	13,685	6.7	1.5

**Cash and deposits with banks** -the balance of cash and deposits with banks increased in the first quarter of 2018 by NIS 2.0 billion. The increase in cash balance is part of on-going management of Bank liquidity.

**Loans to the public, net** -The ratio of loans to the public, net to total assets on the consolidated balance sheet as of March 31, 2018 was 76%, similar to the end of 2017. Loans to the public, net for the Group increased in the first quarter of 2017 by NIS 2.5 billion, an increase by 1.4%.

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:

	March 31, 2018	March 31, 2017	December 31, 2017	Change in % over March 31, 2017	Change in % over December 31, 2017
<b>Israeli currency</b>					
Non-linked	122,386	113,615	120,730	7.7	1.4
CPI-linked	50,660	49,387	50,293	2.6	0.7
Foreign currency and foreign currency linked	10,582	10,066	10,095	5.1	4.8
<b>Total</b>	<b>183,628</b>	<b>173,068</b>	<b>181,118</b>	<b>6.1</b>	<b>1.4</b>

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

	March 31, 2018	March 31, 2017	December 31, 2017	Change in % over March 31, 2017	Change in % over December 31, 2017
<b>Individuals:</b>					
Households -housing loans	120,721	115,378	119,556	4.6	1.0
Households -other	20,115	18,591	19,825	8.2	1.5
Private banking	99	98	119	1.0	(16.8)
<b>Total -individuals</b>	<b>140,935</b>	<b>134,067</b>	<b>139,500</b>	<b>5.1</b>	<b>1.0</b>
<b>Business operations:</b>					
Small and micro businesses	17,184	15,617	16,717	10.0	2.8
Medium businesses	5,906	4,907	5,779	20.4	2.2
Large businesses	14,735	13,801	14,846	6.8	(0.7)
Institutional investors	1,258	1,541	1,160	(18.4)	8.4
<b>Total -business operations</b>	<b>39,083</b>	<b>35,866</b>	<b>38,502</b>	<b>9.0</b>	<b>1.5</b>
Overseas operations	3,610	3,135	3,116	15.2	15.9
<b>Total</b>	<b>183,628</b>	<b>173,068</b>	<b>181,118</b>	<b>6.1</b>	<b>1.4</b>

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 (NIS in millions)	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2017	As of March 31, 2017	As of March 31, 2017	As of December 31, 2017	As of December 31, 2017	As of December 31, 2017
	Credit risk <sup>(1)</sup> On balance sheet	Credit risk <sup>(1)</sup> Off balance sheet	As of March 31, 2018 Credit risk <sup>(1)</sup> Total	Credit risk <sup>(1)</sup> On balance sheet	As of March 31, 2017 Credit risk <sup>(1)</sup> Off balance sheet	As of March 31, 2017 Credit risk <sup>(1)</sup> Total	Credit risk <sup>(1)</sup> On balance sheet	Credit risk <sup>(1)</sup> Off balance sheet	Credit risk <sup>(1)</sup> Total
<b>1. Problematic credit risk</b>									
Impaired credit risk	870	165	1,035	668	194	862	723	165	888
Inferior credit risk	278	2	280	436	-	436	315	-	315
Credit risk under special supervision <sup>(2)</sup>	1,531	28	1,559	1,448	65	1,513	1,499	30	1,529
<b>Total problematic credit risk</b>	<b>2,679</b>	<b>195</b>	<b>2,874</b>	<b>2,552</b>	<b>259</b>	<b>2,811</b>	<b>2,537</b>	<b>195</b>	<b>2,732</b>
Of which: Non-impaired debts in arrears 90 days or longer <sup>(2)</sup>	1,145			985			1,136		
<b>2. Non-performing assets<sup>(3)</sup></b>	<b>843</b>			<b>637</b>			<b>697</b>		

(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 1,087 million (as of March 31, 2017 -NIS 900 million; as of December 31, 2017 -NIS 1,072 million).

(3) Assets not accruing interest.

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

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

**Credit risk** is composed of on-balance-sheet risk and off-balance-sheet credit risk, which are weighted by nature of the borrower and credit type, as per Bank of Israel directives. On-balance-sheet risk includes balances of loans to the public, derivatives purchased by the public and Group investment in public debentures. Off-balance-sheet credit risk includes guarantees and transactions in off-balance-sheet instruments, obligations to provide credit and unutilized credit facilities. Total credit risk as of March 31, 2018 amounted to NIS 243 billion, compared to NIS 235 billion as of December 31, 2017, an increase by 3.5%.

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

	March 31, 2018	March 31, 2017	December 31, 2017	Change in % over March 31, 2017	Change in % over December 31, 2017
<b>Off balance sheet financial instruments other than derivatives<sup>(1)</sup>:</b>					
Unutilized debitory account and other credit facilities in accounts available on demand	16,527	17,922	15,045	(7.8)	9.9
Guarantees to home buyers	11,211	12,318	10,795	(9.0)	3.9
Irrevocable commitments for loans approved but not yet granted	<sup>(3)</sup> 16,207	11,501	12,044	40.9	34.6
Unutilized revolving credit card facilities	6,914	7,579	6,801	(8.8)	1.7
Commitments to issue guarantees	5,928	6,499	5,981	(8.8)	(0.9)
Guarantees and other liabilities	6,216	5,153	5,677	20.6	9.5
Loan guarantees	2,336	2,048	2,283	14.1	2.3
Documentary credit	257	389	201	(33.9)	27.9
<b>Financial derivatives<sup>(2)</sup>:</b>					
Total par value of derivative financial instruments	235,382	234,381	220,633	0.4	6.7
(On-balance sheet) assets with respect to derivatives	3,153	3,951	3,421	(20.2)	(7.8)
(On-balance sheet) liabilities with respect to derivatives	2,660	4,143	3,082	(35.8)	(13.7)

(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.

(3) 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 Regulation 451 "Procedures for extending housing loans".

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 quarter of 2018 by NIS 1.1 billion, and decreased by NIS 2.7 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:

March 31, 2018					
	Carrying amount	Amortized cost (for shares -cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value <sup>(1)</sup>
Securities held to maturity	2,507	2,507	64	-	2,571
Securities available for sale	6,356	6,439	(2)9	(2)(92)	6,356
Securities held for trade	194	197	-	(3)(3)	194
<b>Total securities</b>	<b>9,057</b>	<b>9,143</b>	<b>73</b>	<b>(95)</b>	<b>9,121</b>
March 31, 2017					
	Carrying amount	Amortized cost (for shares -cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value <sup>(1)</sup>
Securities held to maturity	3,250	3,250	76	-	3,326
Securities available for sale	8,339	8,373	(2)19	(2)(53)	8,339
Securities held for trade	202	202	-	-	202
<b>Total securities</b>	<b>11,791</b>	<b>11,825</b>	<b>95</b>	<b>(53)</b>	<b>11,867</b>
December 31, 2017					
	Carrying amount	Amortized cost (for shares -cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value <sup>(1)</sup>
Securities held to maturity	3,267	3,267	75	-	3,342
Securities available for sale	6,657	6,678	(2)24	(2)(45)	6,657
Securities held for trade	209	209	-	-	209
<b>Total securities</b>	<b>10,133</b>	<b>10,154</b>	<b>99</b>	<b>(45)</b>	<b>10,208</b>

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

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

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

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

	March 31, 2018	March 31, 2017	December 31, 2017	Change in % over March 31, 2017	Change in % over December 31, 2017
Israeli currency					
Non-linked	3,261	5,993	3,859	(45.6)	(15.5)
CPI-linked	677	773	753	(12.4)	(10.1)
Foreign currency and foreign currency linked	5,030	4,932	5,422	2.0	(7.2)
Non-monetary items	89	93	99	(4.3)	(10.1)
<b>Total</b>	<b>9,057</b>	<b>11,791</b>	<b>10,133</b>	<b>(23.2)</b>	<b>(10.6)</b>

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

	Carrying amount as of March 31, 2018	Carrying amount as of March 31, 2017	Carrying amount as of December 31, 2017
<b>Government debentures:</b>			
Government of Israel	7,152	10,037	7,612
Government of USA	1,350	1,569	2,233
South Korea Government	-	56	-
<b>Total government debentures</b>	<b>8,502</b>	<b>11,662</b>	<b>9,845</b>
<b>Debentures of banks in developed nations:</b>			
Germany	172	-	173
USA	-	18	-
Other	277	-	-
<b>Total debentures of banks in developed nations</b>	<b>449</b>	<b>18</b>	<b>173</b>
<b>Corporate debentures (composition by sector):</b>			
Public and community services	10	10	10
Financial services	7	8	6
<b>Total corporate debentures</b>	<b>17</b>	<b>18</b>	<b>16</b>
Shares	89	93	99
<b>Total securities</b>	<b>9,057</b>	<b>11,791</b>	<b>10,133</b>

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 quarter of 2018 by NIS 25 million. The change in balance of buildings and equipment is due to depreciation and realized assets as part of asset reorganization and improvements to the branch network, offset by new investments -primarily in technology.

**Deposits from the public** -these account for 77% of total consolidated balance sheet as of March 31, 2018, similar to their weight at the end of 2017. In the first quarter of 2018, deposits from the public with the Bank Group increased by NIS 3.5 billion, or 1.9% (increase by 3.5% over the end of the corresponding period last year).

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

	March 31, 2018	March 31, 2017	December 31, 2017	Change in % over March 31, 2017	Change in % over December 31,2017
Israeli currency					
Non-linked	138,334	127,550	133,194	8.5	3.9
CPI-linked	14,054	17,538	15,681	(19.9)	(10.4)
Foreign currency and foreign currency linked	34,678	35,634	34,698	(2.7)	(0.1)
<b>Total</b>	<b>187,066</b>	<b>180,722</b>	<b>183,573</b>	<b>3.5</b>	<b>1.9</b>

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

	March 31, 2018	March 31, 2017	December 31, 2017	Change in % over March 31, 2017	Change in % over December 31,2017
<b>Individuals:</b>					
Households -other	76,809	72,500	75,008	5.9	2.4
Private banking	12,384	11,211	12,448	10.5	(0.5)
<b>Total -individuals</b>	<b>89,193</b>	<b>83,711</b>	<b>87,456</b>	<b>6.5</b>	<b>2.0</b>
<b>Business operations:</b>					
Small and micro businesses	19,514	17,288	18,942	12.9	3.0
Medium businesses	7,213	5,890	7,138	22.5	1.1
Large businesses	25,910	30,293	26,284	(14.5)	(1.4)
Institutional investors	40,045	38,081	38,881	5.2	3.0
<b>Total -business operations</b>	<b>92,682</b>	<b>91,552</b>	<b>91,245</b>	<b>1.2</b>	<b>1.6</b>
Overseas operations	5,191	5,459	4,872	(4.9)	6.5
<b>Total</b>	<b>187,066</b>	<b>180,722</b>	<b>183,573</b>	<b>3.5</b>	<b>1.9</b>

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

	March 31, 2018	March 31, 2017	December 31, 2017
<b>Maximum deposit</b>			
Up to 1	64,696	60,868	63,493
Over 1 to 10	42,287	39,146	41,125
Over 10 to 100	27,058	26,013	26,906
Over 100 to 500	23,823	27,311	23,911
Above 500	29,202	27,384	28,138
<b>Total</b>	<b>187,066</b>	<b>180,722</b>	<b>183,573</b>

**Deposits from banks** -The balance of deposits from banks as of March 31, 2018 amounted to NIS 0.9 billion, a decrease by NIS 0.2 billion compared to December 31, 2017.

**Debentures and subordinated notes** -The balance of debentures and subordinated notes as of March 31, 2018 amounted to NIS 29.9 billion, similar to December 31, 2017.

## Capital, capital adequacy and leverage

Shareholders' equity attributable to shareholders of the Bank -Shareholders' equity attributable to equity holders of the Bank as of March 31, 2018 amounted to NIS 13.9 billion, compared to NIS 13.0 billion as of December 31, 2017 and as of March 31, 2017, an increase by 1.5% and 6.7%, respectively.

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

	March 31, 2018	March 31, 2017	December 31, 2017
Share capital and premium <sup>(1)</sup>	2,185	2,246	2,180
Capital reserve from benefit from share-based payment transactions	60	52	65
Treasury shares <sup>(2)</sup>	-	(76)	-
Total cumulative other loss <sup>(3)(4)</sup>	(411)	(298)	(383)
Retained earnings <sup>(5)</sup>	12,056	11,091	11,823
<b>Total</b>	<b>13,890</b>	<b>13,015</b>	<b>13,685</b>

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

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

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

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

(5) 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 balance sheet total for the Group as of March 31, 2018 was 5.72% compared to 5.71% as of December 31, 2017 and 5.56% as of March 31, 2017.

## Capital adequacy

### Supervisory capital

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

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

Tier I capital primarily consists of equity attributable to shareholders of the Bank (accounting equity on the books) and non-controlling 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 March 31, 2018, the Bank had no equity instruments included in additional Tier I capital.

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

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

## Capital planning at the Bank

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

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

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

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

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

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

The planning horizon is three years, in which the Bank challenges the strategic plan by a range of stress tests involving significant impact to Bank profitability and erosion of Bank capital. The outcome of the Bank's most recent capital planning indicates that the capital absorption buffer is sufficient. For more information see the Detailed Risks Report on the Bank website.

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

	March 31, 2018	March 31, 2017	December 31, 2017
<b>Capital for purpose of calculating minimum capital ratio</b>			
Tier I shareholders' equity	14,436	13,533	14,333
Tier I capital	14,436	13,533	14,333
Tier II capital	4,813	4,442	5,251
Total capital	19,249	17,975	19,584
<b>Weighted risk asset balances</b>			
Credit risk	131,801	124,319	130,525
Market risks	1,699	1,266	1,605
Operating risk	8,629	8,198	8,394
Total weighted risk asset balances	142,129	133,783	140,524

### Ratio of capital to risk elements

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

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

This requirement was gradually implemented through January 1, 2017. Accordingly, the minimum Tier I capital ratio and the minimum total equity ratio required by the Supervisor of Banks, on a consolidated basis, in conformity with data as of the reporting date, are 9.86% and 13.36%, respectively. See Note 9 to the financial statements for additional information.

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

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

	March 31, 2018	March 31, 2017	December 31, 2017
Ratio of Tier I capital to risk elements	10.16	10.12	10.20
Ratio of total capital to risk elements	(1)13.54	13.44	13.94
Minimum Tier I capital ratio required by Supervisor of Banks	9.86	9.87	9.86
Total minimum capital ratio required by the directives of the Supervisor of Banks	13.36	13.37	13.36

(1) The decrease in overall capital ratio is due to gradual reduction of capital instruments which no longer qualify as supervisory capital. In conformity with transition provisions of Basel III, these instruments are included in Tier II capital and are reduced at the start of each year through January 1, 2022.

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

Exposure group	March 31, 2018 Weighted risk asset balances	March 31, 2018 Capital requirement <sup>(1)</sup>	March 31, 2017 Weighted risk asset balances	March 31, 2017 Capital requirement <sup>(2)</sup>	December 31, 2017 Weighted risk asset balances	December 31, 2017 Capital requirement <sup>(3)</sup>
Sovereign debts	712	95	643	86	688	92
Public sector entity debts	821	110	649	87	766	102
Banking corporation debts	862	115	752	100	927	124
Corporate debts	37,608	5,024	35,626	4,763	37,362	4,992
Debts secured by commercial real estate	2,515	336	2,065	276	2,459	328
Retail exposure to individuals	14,454	1,931	13,388	1,790	14,217	1,899
Loans to small businesses	6,930	926	6,581	880	6,858	916
Residential mortgages	63,006	8,418	59,446	7,948	62,265	8,319
Other assets	4,355	582	4,432	593	4,454	595
<b>Total</b>	<b>131,263</b>	<b>17,537</b>	<b>123,582</b>	<b>16,523</b>	<b>129,996</b>	<b>17,367</b>

Risk assets and capital requirements with respect to market risk, CVA risk<sup>(4)</sup> and operating risk are as follows (NIS in millions):

	March 31, 2018 Weighted risk asset balances	March 31, 2018 Capital requirement <sup>(1)</sup>	March 31, 2017 Weighted risk asset balances	March 31, 2017 Capital requirement <sup>(2)</sup>	December 31, 2017 Weighted risk asset balances	December 31, 2017 Capital requirement <sup>(3)</sup>
Credit risk	131,263	17,537	123,582	16,523	129,996	17,367
Market risk	1,699	227	1,266	169	1,605	214
CVA risk with respect to derivatives <sup>(4)</sup>	538	72	737	99	529	71
Operating Risk <sup>(5)</sup>	8,629	1,153	8,198	1,096	8,394	1,121
<b>Total risk assets</b>	<b>142,129</b>	<b>18,989</b>	<b>133,783</b>	<b>17,887</b>	<b>140,524</b>	<b>18,773</b>

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

(2) The capital requirement was calculated at 13.37% of risk asset balances.

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

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

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

## Leverage ratio

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

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

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

Below is the Bank's leverage ratio<sup>(1)</sup> (in %):

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

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

For more information see Note 9 to the financial statements and the Detailed Risks Report on the Bank website.

For more information about adoption of updates to US GAAP with regard to leases, as from January 1, 2020, see Note 1.E.

## Dividends

### Dividend distribution policies

The Bank's revised dividends policy is to distribute dividends, as from 2018, with respect to quarterly earnings, at 40% of net profit attributable to shareholders of the Bank. For more information and for a summary of previous decisions by the Board of Directors with regard to dividend distribution policy, see Note 24 to the 2017 financial statements.

### Dividend distribution

Below are details of dividends distributed by the Bank since 2016 (in reported amounts):

Declaration date	Payment date	Dividends per share (Agorot)	Dividends as percent of profit	Total dividends paid (NIS in millions)
February 24, 2016	March 21, 2016	15.52	0.15	36.0
May 18, 2016	June 21, 2016	18.62	0.15	43.2
August 10, 2016	September 11, 2016	21.99	0.15	51.0
November 14, 2016	December 12, 2016	24.12	0.15	56.0
Total dividends distributed in 2016 <sup>(1)</sup>				186.2
March 20, 2017	April 26, 2017	17.12	0.15	39.8
May 15, 2017	June 20, 2017	41.45	0.30	96.3
August 28, 2017	September 26, 2017	51.63	0.30	120.0
November 13, 2017	December 10, 2017	33.67	0.30	78.3
Total dividends distributed in 2017 <sup>(2)</sup>				334.4
February 26, 2018	March 26, 2018	47.03	0.30	109.5

(1) Total dividends distributed with respect to 2016 earnings -NIS 190.0 million.

(2) Total dividends distributed with respect to 2017 earnings -NIS 404.1 million.

## Dividends declared with respect to earnings in the first quarter of 2018

On May 7, 2018, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 137.2 million, or 40% of earnings in the first quarter of 2018, in conformity with the aforementioned revised dividends policy.

The dividends are 589.1% of issued share capital, i.e. NIS 0.5891 per NIS 0.1 par value share. The effective date for dividends payment is May 22, 2018 and the payment date is June 5, 2018. The final dividends per share is subject to changes due to realized convertible securities of the Bank.

## Other Off Balance Sheet Activity

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

	March 31, 2018	March 31, 2017	December 31, 2017	Change in % over March 31, 2017	Change in % over December 31,2017
Securities <sup>(1)</sup>	222,439	222,964	222,623	(0.2)	(0.1)
Assets of provident funds for which the Group provides operating services	79,544	76,580	76,893	3.9	3.4
Assets held in trust by the Bank Group	79,681	72,363	80,258	10.1	(0.7)
Assets of mutual funds for which the Bank provides operating services	17,138	16,028	16,246	6.9	5.5
Other assets under management <sup>(2)</sup>	13,103	11,517	12,571	13.8	4.2

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

(2) Including:

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

## Financial Information by Operating Segments

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

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

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

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

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

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

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

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

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

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

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

### Financial Information by Supervisory Operating Segments:

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

	Net profit In the first quarter 2018	Net profit In the first quarter 2017	Share of total net profit (in %) In the first quarter 2018	Share of total net profit (in %) In the first quarter 2017
<b>Individuals:</b>				
Households -housing loans	157	130	41.6	39.3
Households -other	16	16	4.2	4.8
Private banking	3	2	0.8	0.6
<b>Total -individuals</b>	<b>176</b>	<b>148</b>	<b>46.7</b>	<b>44.7</b>
<b>Business operations:</b>				
Small and micro businesses	73	65	19.4	19.6
Medium businesses	28	26	7.4	7.9
Large businesses	68	68	18.0	20.5
Institutional investors	9	6	2.4	1.8
<b>Total -business operations</b>	<b>178</b>	<b>165</b>	<b>47.2</b>	<b>49.8</b>
Financial management	(34)	(10)	-	-
<b>Total activity in Israel</b>	<b>320</b>	<b>303</b>	<b>93.9</b>	<b>94.5</b>
Overseas operations	23	18	6.1	5.5
<b>Total</b>	<b>343</b>	<b>321</b>	<b>100.0</b>	<b>100.0</b>

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

## Household segment

### Supervisory definition

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

### Differences between the management approach and the supervisory definition

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

### Operating results in the household segment (NIS in millions)

	For the three months ended March 31,2018 Other	For the three months ended March 31, 2018 Housing loans	For the three months ended March 31,2018 Total	For the three months ended March 31, 2017 Other	For the three months ended March 31, 2017 Housing loans	For the three months ended March 31, 2017 Total
<b>Profit and profitability</b>						
Total interest revenues, net	308	357	665	280	304	584
Non-interest financing revenues	-	-	-	-	-	-
Commissions and other revenues	131	41	172	124	37	161
<b>Total revenues</b>	<b>439</b>	<b>398</b>	<b>837</b>	<b>404</b>	<b>341</b>	<b>745</b>
Expenses with respect to credit losses	22	6	28	24	-	24
Operating and other expenses	380	151	531	349	135	484
Profit before provision for taxes	37	241	278	31	206	237
Provision for taxes	13	84	97	11	76	87
After-tax profit	24	157	181	20	130	150
<b>Net profit:</b>						
Attributable to non-controlling interests	(8)	-	(8)	(4)	-	(4)
Attributable to shareholders of the banking corporation	16	157	173	16	130	146
<b>Balance sheet -key items:</b>						
Loans to the public (end balance)	20,354	121,356	141,710	18,793	115,996	134,789
Loans to the public, net (end balance)	20,115	120,721	140,836	18,591	115,378	133,969
Deposits from the public (end balance)	76,809	-	76,809	72,500	-	72,500
Average balance of loans to the public	20,000	121,072	141,072	18,159	115,665	133,824
Average balance of deposits from the public	75,571	-	75,571	71,924	-	71,924
Average balance of risk assets	17,424	67,327	84,751	16,455	63,684	80,139
<b>Credit margins and deposit margins:</b>						
Margin from credit granting operations	200	345	545	185	296	481
Margin from activities of receiving deposits	106	-	106	93	-	93
Other	2	12	14	2	8	10
<b>Total interest revenues, net</b>	<b>308</b>	<b>357</b>	<b>665</b>	<b>280</b>	<b>304</b>	<b>584</b>

Contribution of the household segment (in conformity with supervisory definitions) to Group profit in the first quarter of 2018 amounted to NIS 173 million, compared to NIS 146 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 quarter of 2018 amounted to NIS 157 million, compared to NIS 130 million in the corresponding period last year. Total interest revenues, net amounted to NIS 357 million, compared to NIS 304 million in the corresponding period last year, an increase by 17.4% -primarily due to an increase of NIS 5.4 billion in the average loan balance and to increase in credit spread. In the current quarter, expenses with respect to credit losses amounted to NIS 6 million, primarily due to increase in group-based provision for housing loans, due to increase in housing loan balances, compared to the first quarter of 2017, in which no expenses with respect to credit losses were recognized due to significant arrears repayment by clients. Operating expenses amounted to NIS 151 million, compared to NIS 135 million in the corresponding period last year.

The increase is due to the "auto pilot" effect and to the immediate effect of the collective bargaining agreement for 2016-2021. Data for the first quarter of 2017 exclude the effect of this agreement. For more information see chapter "Explanation and analysis of results and business standing".

Commissions and other revenues increased by NIS 4 million.

Contribution of other household operations (other than housing loans) in the first quarter of 2018 amounted to a profit of NIS 16 million, similar to the corresponding period last year. Interest revenues, net increased by NIS 28 million. The increase is due to increase in lending margins and to increase in margin from deposit operations, due to higher volumes of both lending and deposits. Commissions and other revenues amounted to NIS 131 million, compared to NIS 124 million in the corresponding period last year -due to increased business.

Expenses with respect to credit losses amounted to NIS 22 million, compared to NIS 24 million in the corresponding period last year.

Operating expenses amounted to NIS 380 million, compared with NIS 349 million in the corresponding period last year, an increase by 8.9%, due to effect of the collective bargaining agreement for 2016-2021, signed with the Employees' Union in December 2017, which increased payroll and associated expenses attributed to the segment .

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.

## **Private Banking Segment**

### **Supervisory definition**

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

### **Differences between the management approach and the supervisory definition**

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

## Operating results of private banking segment (NIS in millions)

	For the three months ended March 31, 2018	For the three months ended March 31, 2017
<b>Profit and profitability</b>		
Total interest revenues, net	16	14
Non-interest financing revenues	-	-
Commissions and other revenues	2	1
<b>Total revenues</b>	<b>18</b>	<b>15</b>
Expenses with respect to credit losses	-	-
Operating and other expenses	13	12
Profit before provision for taxes	5	3
Provision for taxes	2	1
<b>Net profit</b>	<b>3</b>	<b>2</b>
<b>Balance sheet -key items:</b>		
Loans to the public (end balance)	100	99
Loans to the public, net (end balance)	99	98
Deposits from the public (end balance)	12,384	11,211
Average balance of loans to the public	97	72
Average balance of deposits from the public	12,009	11,072
Average balance of risk assets	37	33
<b>Credit margins and deposit margins:</b>		
Margin from credit granting operations	-	-
Margin from activities of receiving deposits	16	14
Other	-	-
<b>Total interest revenues, net</b>	<b>16</b>	<b>14</b>

Contribution of the private banking segment (in conformity with the supervisory definitions) to Group profit in the first quarter of 2018 amounted to NIS 3 million, compared to NIS 2 million in the corresponding period last year.

Total interest revenues, net increased by NIS 2 million, due to increase in deposits from the public. Commissions and other revenues, as well as other items, were essentially unchanged.

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

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

## Micro and Small Business Segment

### Supervisory definition

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

### 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 (NIS in millions)

	For the three months ended March 31, 2018	For the three months ended March 31, 2017
<b>Profit and profitability</b>		
Total interest revenues, net	232	205
Non-interest financing revenues	-	-
Commissions and other revenues	89	80
<b>Total revenues</b>	<b>321</b>	<b>285</b>
Expenses with respect to credit losses	38	32
Operating and other expenses	170	150
Profit before provision for taxes	113	103
Provision for taxes	39	38
<b>After-tax profit</b>	<b>74</b>	<b>65</b>
Net profit attributed to non-controlling interests	(1)	-
<b>Net profit attributable to shareholders of the banking corporation</b>	<b>73</b>	<b>65</b>
<b>Balance sheet -key items:</b>		
Loans to the public (end balance)	17,511	15,894
Loans to the public, net (end balance)	17,184	15,617
Deposits from the public (end balance)	19,514	17,288
Average balance of loans to the public	17,293	15,356
Average balance of deposits from the public	19,587	17,022
Average balance of risk assets	16,644	14,680
<b>Credit margins and deposit margins:</b>		
Margin from credit granting operations	204	184
Margin from activities of receiving deposits	23	18
Other	5	3
<b>Total interest revenues, net</b>	<b>232</b>	<b>205</b>

Contribution of the micro and small business segment (in conformity with supervisory definitions) to Group profit in the first quarter of 2018 amounted to NIS 73 million, compared to NIS 65 million in the corresponding period last year, an increase by 12.3%.

Below are key factors affecting the change in segment contribution:

Interest revenues, net amounted to NIS 232 million, compared to NIS 205 million in the corresponding period last year -an increase by 13.2%, primarily due to increase in lending and deposit business.

Commissions and other revenues amounted to NIS 89 million, compared to NIS 80 million in the corresponding period last year -an increase by 11.3%, attributed to significant increase in business volume.

Expenses with respect to credit losses amounted to NIS 38 million, compared to NIS 32 million in the corresponding period last year. The increase in the provision for credit losses is due to a decrease in collection of debt previously written off and to an increase in the group-based provision due to an increase in loans to the public, compared to the corresponding period last year.

Operating expenses amounted to NIS 170 million, compared to NIS 150 million in the corresponding period last year -an increase by NIS 20 million, due to the "auto pilot" effect and to the immediate effect of the collective bargaining agreement for 2016-2021. Data for the first quarter of 2017 exclude the effect of this agreement. For more information see chapter "Explanation and analysis of results and business standing".

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

## Medium business segment

### Supervisory definition

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

### Differences between the management approach and the supervisory definition

- The commercial banking segment, according to the management approach, includes businesses with turnover between NIS 30 and 120 million, and total indebtedness between NIS 6 and 25 million. This means that some commercial banking clients (under the management approach) whose turnover is below NIS 50 million are classified to the micro and small business segment using the supervisory operating segments.
- On the other hand, business clients attributed to the business banking segment using the management approach and whose annual turnover is lower than NIS 250 million, are attributed to the medium business segment using the supervisory approach.

### Operating results of medium business segment (NIS in millions)

	For the three months ended March 31, 2018	For the three months ended March 31, 2017
<b>Profit and profitability</b>		
Total interest revenues, net	58	48
Non-interest financing revenues	-	-
Commissions and other revenues	18	15
<b>Total revenues</b>	<b>76</b>	<b>63</b>
Expenses with respect to credit losses	4	(3)
Operating and other expenses	29	25
Profit before provision for taxes	43	41
Provision for taxes	15	15
<b>Net profit</b>	<b>28</b>	<b>26</b>
<b>Balance sheet -key items:</b>		
Loans to the public (end balance)	5,987	4,992
Loans to the public, net (end balance)	5,906	4,907
Deposits from the public (end balance)	7,213	5,890
Average balance of loans to the public	6,229	4,899
Average balance of deposits from the public	7,288	6,178
Average balance of risk assets	7,136	6,004
<b>Credit margins and deposit margins:</b>		
Margin from credit granting operations	48	40
Margin from activities of receiving deposits	9	6
Other	1	2
<b>Total interest revenues, net</b>	<b>58</b>	<b>48</b>

Contribution of the medium business segment (in conformity with supervisory definitions) to Group profit in the first quarter of 2018 amounted to NIS 28 million, compared to NIS 26 million in the corresponding period last year.

Interest revenues, net increased by 20.8%, primarily due to increase in credit and deposit volumes in this segment.

Commission and other revenues increased by NIS 3 million compared to the corresponding period last year, an increase by 20%.

Expenses with respect to credit losses amounted to an expense of NIS 4 million, compared to a decrease in provision of NIS 3 million in the corresponding period last year, due to a decrease in collection of debt previously written off and to an increase in the group-based provision due to an increase in loans to the public, compared to the corresponding period last year.

Operating expenses amounted to NIS 29 million, compared to NIS 25 million in the corresponding period last year -an increase by NIS 4 million, in line with growth of business. The increase is due to the "auto pilot"

effect and to the immediate effect of the collective bargaining agreement for 2016-2021. Data for the first quarter of 2017 exclude the effect of this agreement. 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.

## Large business segment

### 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 higher than NIS 120 million, and total indebtedness higher than NIS 25 million. This means that some business banking clients (under the management approach) whose turnover is below NIS 250 million are classified to the medium business segment using the supervisory approach.
- Institutional investors served, under the management approach, by business banking are presented as a separate segment under supervisory operating segments.

### Operating results of large business segment (NIS in millions)

	For the three months ended March 31, 2018	For the three months ended March 31, 2017
<b>Profit and profitability</b>		
Total interest revenues, net	128	112
Non-interest financing revenues	-	-
Commissions and other revenues	27	32
<b>Total revenues</b>	<b>155</b>	<b>144</b>
Expenses with respect to credit losses	8	(2)
Operating and other expenses	43	38
Profit before provision for taxes	104	108
Provision for taxes	36	40
<b>Net profit</b>	<b>68</b>	<b>68</b>
<b>Balance sheet -key items:</b>		
Loans to the public (end balance)	14,913	14,014
Loans to the public, net (end balance)	14,735	13,801
Deposits from the public (end balance)	25,910	30,293
Average balance of loans to the public	14,523	15,347
Average balance of deposits from the public	25,581	29,831
Average balance of risk assets	20,229	20,886
<b>Credit margins and deposit margins:</b>		
Margin from credit granting operations	109	95
Margin from activities of receiving deposits	17	15
Other	2	2
<b>Total interest revenues, net</b>	<b>128</b>	<b>112</b>

Contribution of the large businesses segment (according to supervisory definitions) to Group profit in the first quarter of 2018 amounted to NIS 68 million, similar to the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Total interest revenues, net amounted to NIS 128 million, compared to NIS 112 million in the corresponding period last year, due to the higher lending spread.

Commissions and other revenues decreased by 15.6%.

Expenses with respect to credit losses were affected by the decrease in collection of debt previously written off and to an increase in the group-based provision due to an increase in loans to the public, compared to the corresponding period last year.

Operating expenses amounted to NIS 43 million, compared to NIS 38 million in the corresponding period last year -an increase by NIS 5 million, due to the "auto pilot" effect and to the immediate effect of the collective

bargaining agreement for 2016-2021. Data for the first quarter of 2017 exclude the effect of this agreement. 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.

## Institutional investor segment

### Supervisory definition

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

### 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 (NIS in millions)

	For the three months ended March 31, 2018	For the three months ended March 31, 2017
<b>Profit and profitability</b>		
Total interest revenues, net	31	24
Non-interest financing revenues	-	-
Commissions and other revenues	13	16
<b>Total revenues</b>	<b>44</b>	<b>40</b>
Expenses with respect to credit losses	-	(2)
Operating and other expenses	30	33
Profit before provision for taxes	14	9
Provision for taxes	5	3
<b>Net profit</b>	<b>9</b>	<b>6</b>
<b>Balance sheet -key items:</b>		
Loans to the public (end balance)	1,266	1,581
Loans to the public, net (end balance)	1,258	1,541
Deposits from the public (end balance)	40,045	38,081
Average balance of loans to the public	1,334	1,611
Average balance of deposits from the public	39,563	36,895
Average balance of risk assets	2,433	2,518
<b>Credit margins and deposit margins:</b>		
Margin from credit granting operations	9	8
Margin from activities of receiving deposits	22	15
Other	-	1
<b>Total interest revenues, net</b>	<b>31</b>	<b>24</b>

Contribution of the institutional investor segment (in conformity with the supervisory definitions) to Group profit in the first quarter of 2018 amounted to NIS 9 million, compared to NIS 6 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Interest revenues, net amounted to NIS 31 million, compared to NIS 24 million in the corresponding period last year -an increase by 29.2%, primarily due to increase in total deposits.

There were no expenses with respect to credit losses recognized in the current period, compared to a decrease in provision by NIS 2 million in the corresponding period last year. Other items were essentially unchanged.

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

## Financial Management Segment

### Supervisory definition

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

**Trade operations** -Investment in securities held for trade, market making operations for securities, operations involving derivatives not designated as hedges and which are not part of asset and liability management for the Bank, borrowing of securities for trading, short selling of securities, underwriting services for securities.

**Asset and liability management** -including investment in debentures available for sale and in debentures held to maturity, hedging using derivatives, ALM hedging, currency hedging of investments overseas.

**Real investments** -Investment in shares available for sale and in associated companies of businesses.

**Other financial management operations** -management, operation, trust and custody services for banks, sale and management of loan portfolios.

### 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 (NIS in millions)

	For the three months ended March 31, 2018	For the three months ended March 31, 2017
<b>Profit and profitability</b>		
Total interest expenses, net	(91)	2
Non-interest financing revenues	80	(3)
Commissions and other revenues	46	56
Total revenues	35	55
Reduced expenses with respect to credit losses	1	(1)
Operating and other expenses	77	62
Profit before provision for taxes	(43)	(6)
Provision for taxes	(15)	(2)
After-tax profit	(28)	(4)
Share of banking corporation in earnings of associated companies	-	(1)
Net profit before attribution to non-controlling interests	(28)	(5)
Net profit attributed to non-controlling interests	(6)	(5)
Net profit attributable to shareholders of the banking corporation	(34)	(10)
<b>Balance sheet -key items:</b>		
Average balance of risk assets	6,426	5,124
<b>Credit margins and deposit margins:</b>		
Margin from credit granting operations	-	-
Margin from activities of receiving deposits	-	-
Other	(91)	2
Total interest expenses, net	(91)	2

Contribution of the financial management segment (in conformity with supervisory definitions) to Group profit in the first quarter of 2018 amounted to a loss of NIS 34 million, compared to a loss of NIS 10 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Results of financing operations (net interest revenues and non-interest financing revenues) decreased by NIS 10 million compared to the corresponding period last year, primarily due to the effect of accounting treatment of derivatives at fair value and other effects and due to the effect of the Consumer Price Index. See also analysis of evolution of financing revenues in chapter "Material developments in revenues, expenses and other comprehensive income".

Commissions and other revenues amounted to NIS 46 million, compared to NIS 56 million in the corresponding period last year.

## Overseas operations

### 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 (NIS in millions)

	For the three months ended March 31, 2018	For the three months ended March 31, 2017
<b>Profit and profitability</b>		
Total interest revenues, net	42	38
Non-interest financing revenues	10	2
Commissions and other revenues	6	8
<b>Total revenues</b>	<b>58</b>	<b>48</b>
Expenses with respect to credit losses	3	1
Operating and other expenses	19	19
Profit before provision for taxes	36	28
Provision for taxes	13	10
<b>Net profit</b>	<b>23</b>	<b>18</b>
<b>Balance sheet -key items:</b>		
Loans to the public (end balance)	3,640	3,164
Loans to the public, net (end balance)	3,610	3,135
Deposits from the public, net (ending balance)	5,191	5,459
Average balance of loans to the public	3,188	3,080
Average balance of deposits from the public	5,295	5,352
Average balance of risk assets	3,671	3,459
<b>Credit margins and deposit margins:</b>		
Margin from credit granting operations	22	26
Margin from activities of receiving deposits	2	3
Other	18	9
<b>Total interest revenues, net</b>	<b>42</b>	<b>38</b>

Contribution of overseas operations to Group profit in the first quarter of 2018 amounted to NIS 23 million, compared to NIS 18 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Interest revenues, net, amounted to NIS 42 million, compared to NIS 38 million in the corresponding period last year.

Non-interest financing revenues increased by NIS 8 million, due to realized available-for-sale debentures.

Commission revenues decreased by NIS 2 million.

In the current period, a provision for credit losses was recorded, amounting to NIS 3 million, compared to a provision of NIS 1 million in the corresponding period last year.

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

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

## Major Investees

The Bank's share of earnings of investees in the first quarter of 2018 amounted to NIS 53 million, compared with NIS 18 million in the corresponding period last year. These data include impact of changes in exchange rates on the balance of investment in overseas investees, covered by the Bank's own sources.

Excluding the aforementioned effect of exchange rates, contribution of investees amounted to NIS 44 million, compared to NIS 31 million in the corresponding period last year -see explanation under Investees below.

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

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

The Group's share of Bank Yahav's net profit in the first quarter of 2018 amounted to NIS 15 million, compared to NIS 8 million in the corresponding period last year. Bank Yahav's net profit return on equity in the first quarter of 2018 was 9.7% on annualized basis, compared to 5.5% in the corresponding period last year. Bank Yahav's balance sheet total as of March 31, 2018 amounted to NIS 25,255 million, compared to NIS 24,782 million as of December 31, 2017 -an increase by NIS 473 million, or 1.9%. Net loans to the public as of March 31, 2018 amounted to NIS 9,711 million, compared to NIS 9,569 million as of December 31, 2017 -an increase by NIS 142 million, or 1.5%. Net deposits from the public as of March 31, 2018 amounted to NIS 21,317 million, compared to NIS 20,908 million as of December 31, 2017 -an increase by NIS 409 million, or 2.0%.

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

Tefahot Insurance is an insurance agency wholly owned by the Bank, which sells life insurance policies and property insurance policies of clients obtaining mortgages from the Bank. Net profit of Tefahot Insurance Agency in the first quarter of 2018 amounted to NIS 22 million, compared to NIS 18 million in the corresponding period last year.

Net profit return on equity in the first quarter of 2018 was 9.1%, compared to 8.1% in the corresponding period last year.

### **Other investees 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 quarter of 2018 NIS 6 million, net -similar to the corresponding period last year. Of this, NIS 4 million (compared to NIS 3 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, UMOHC B.V. ("United Mizrahi Overseas Holding Company"), incorporated in Holland.

Net profit of Mizrahi Bank Switzerland in the first quarter of 2018 amounted to CHF 0.1 million, compared to CHF 0.2 million in the corresponding period last year. Mizrahi Bank Switzerland's balance sheet total as of March 31, 2018 amounted to CHF 165 million, compared to CHF 174 million as of December 31, 2017.

Interest revenues and net interest revenues of Mizrahi Bank Switzerland in the first quarter of 2018 amounted to CHF 0.5 million, similar to the corresponding period last year. Pre-tax revenues in the first quarter of 2018 amounted to NIS CHF .0.2 million, compared to CHF 0.3 million in the corresponding period last year. Pre-tax revenues net of exchange rate effect amounted to NIS 1 million in the first quarter of 2018, similar to the corresponding period last year.

The balance of loans to the public as of March 31, 2018 amounted to CHF 73 million, compared to CHF 72 million as of December 31, 2017. Deposits with banks as of March 31, 2018 amounted to CHF 89 million, compared to CHF 100 million as of December 31, 2017. Deposits from the public as of March 31, 2018 amounted to CHF 103 million, compared to CHF 111 million as of December 31, 2017.

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

For more information about an investigation by the US Department of Justice concerning Bank Group business with its US clients, see Note 10.B.4 to the financial statements.

### **Investment in non-banking corporations**

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

Bank investments in non-banking corporations as of March 31, 2018 amounted to NIS 86 million, compared to NIS 93 million and NIS 97 million as of March 31, 2017 and as of December 31, 2017, respectively.

Net gains from investments in non-banking corporations, after provision for impairment, amounted in the first quarter of 2018 to NIS 6 million for the Bank, compared to NIS 4 million in the corresponding period last year.

## Risks overview

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

### Developments in risks and risks management

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

The Bank maintained a low risk profile in the first quarter of 2018. In the first quarter of this year, there were no deviations from the risk appetite specified by the Bank's Board of Directors for various risks. Risk benchmarks are within a reasonable distance from restrictions specified and in line with the strategic plan outline and with current work plans. Key financial ratios and profitability benchmarks show stable profit and capital for the Bank. The Bank has sufficient capital buffers to achieve its capital objectives under normal business conditions as well as under stress conditions.

#### Risks description

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

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

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

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

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

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

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

### **Description of risk appetite and risks management**

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

### **Stress testing**

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

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

## Risk factor assessment

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

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

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

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, based on monitoring of various quantitative risk benchmarks specified by the Bank, includes the direction of their development and are based on qualitative assessment of risk management and the effectiveness of control circles, in line with the Bank's ICAAP process and results thereof, led by the Bank's risk managers.

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

## Credit risk

### Risk description and development

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

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

In the first quarter of 2018, the Bank continued to deploy, implement and use advanced models under development for optimal analysis of the Bank's retail credit. As part of this effort, the Bank revised and redefined some of the risk benchmarks for estimating the Bank's risk appetite. The Bank is in the process of deployment of model results in the banking processes. Furthermore, the Bank's Training Center was included in this process, in order to develop training activities for using the model results in branches.

### Analysis of developments in credit quality and problematic credit risk

#### Significant exposure to groups of borrowers

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

As of March 31, 2018, the Bank had no borrower group which meets the aforementioned criteria.

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

#### Major borrowers

Below is the sector composition of the top 6 borrowers for the Group as of March 31, 2018 (NIS in millions):

Borrower no.	Sector	On-balance sheet	Off balance sheet	Total credit risk <sup>(1)</sup>
		credit risk <sup>(1)</sup>	credit risk <sup>(1)</sup>	
1.	Transport and storage	600	357	957
2.	Construction	247	493	740
3.	Construction	3	600	603
4.	Construction	8	522	530
5.	Construction	-	522	522
6.	Construction	205	244	449

(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 ownership plan).
- Acquisition of another corporation -the purchase of any capital rights in another corporation, or the purchase of all, or a significant share, of the assets of another corporation.
- Capital distribution -the payment of dividends or other transaction whose goal is to increase shareholder value.

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

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

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

Credit for equity transactions (NIS in millions):

Economic sector of acquired company	March 31, 2018	March 31, 2018	March 31, 2018	March 31, 2018	March 31, 2017	March 31, 2017	March 31, 2017	March 31, 2017	December 31, 2017	December 31, 2017	December 31, 2017	December 31, 2017
	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit losses	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit losses	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Individual provision for credit losses
Business services and other services	-	79	79	-	-	-	-	-	-	-	-	-
Total	-	79	79	-	-	-	-	-	-	-	-	-

Credit to leveraged companies (NIS in millions):

Economic sector of borrower	March 31, 2018	March 31, 2018	March 31, 2018	March 31, 2018	March 31, 2017	March 31, 2017	March 31, 2017	March 31, 2017	December 31, 2017	December 31, 2017	December 31, 2017	December 31, 2017
	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	86	6	92	-	-	-	-	-	-	-	-	-
Construction and real estate <sup>(1)</sup>	460	-	460	-	-	-	-	-	-	-	-	-
Commerce	442	41	483	-	478	140	618	-	108	16	124	-
Information and communications	40	110	150	-	-	95	95	-	40	90	130	-
Financial services	157	-	157	-	307	-	307	-	183	-	183	-
Public and community services	71	5	76	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1,256</b>	<b>162</b>	<b>1,418</b>	<b>-</b>	<b>785</b>	<b>235</b>	<b>1,020</b>	<b>-</b>	<b>331</b>	<b>106</b>	<b>437</b>	<b>-</b>

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

**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 March 31, 2018	Total credit risk March 31, 2017	Total credit risk December 31, 2017
<b>Problematic credit risk:</b>			
Impaired credit risk	1,035	862	888
Inferior credit risk	280	436	315
Credit risk under special supervision -housing	1,087	900	1,072
Credit risk under special supervision -other	472	613	457
<b>Total problematic credit risk</b>	<b>2,874</b>	<b>2,811</b>	<b>2,732</b>

The increase in impaired credit risk, compared to previous periods, is due to classification of a few individual clients. The decrease in inferior credit risk, compared to the corresponding period last year, is due to repayment of client loans.

The increase in housing credit under special supervision risk, compared to the corresponding period last year, is due to increase in the total mortgage portfolio.

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

	March 31, 2018	March 31, 2017	December 31, 2017
Ratio of impaired loans to the public to total loans to the public	0.5	0.4	0.4
Ratio of impaired loans to the public to total non-housing loans	1.4	1.2	1.2
Ratio of problematic loans to the public to total non-housing loans	2.5	2.9	2.3
Ratio of housing loans in arrears 90 days or longer to total loans to the public <sup>(1)(2)</sup>	0.6	0.5	0.6
Ratio of problematic credit risk to total credit risk with respect to the public	1.2	1.3	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 March 31, 2018 -Provision for credit losses

	Commercial	Housing	Individual - other	Total	Banks and governments	Total
Balance of provision as of December 31, 2017	699	630	245	1,574	1	1,575
Expenses with respect to credit losses	53	6	22	81	1	82
Accounting write-offs	(61)	(1)	(35)	(97)	-	(97)
Recovery of debts written off for accounting purposes in previous years	20	-	17	37	-	37
Net accounting write-offs	(41)	(1)	(18)	(60)	-	(60)
Balance of provision as of March 31, 2018	711	635	249	1,595	2	1,597

For the three months ended March 31, 2017 -Provision for credit losses

	Commercial	Housing	Individual - other	Total	Banks and governments	Total
Balance of provision as of December 31, 2017	724	615	208	1,547	2	1,549
Expenses with respect to credit losses	26	-	24	50	(1)	49
Accounting write-offs	(37)	(3)	(30)	(70)	-	(70)
Recovery of debts written off for accounting purposes in previous years	17	-	14	31	-	31
Net accounting write-offs	(20)	(3)	(16)	(39)	-	(39)
Balance of provision as of March 31, 2018	730	612	216	1,558	1	1,559

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):

	March 31, 2018	March 31, 2017	December 31, 2017
Ratio of provision for credit losses to total loans to the public	0.9	0.9	0.9
Ratio of provision for credit losses to total credit risk with respect to the public	0.7	0.7	0.7
Ratio of expenses with respect to credit losses to average balance of loans to the public, gross	0.2	0.1	0.1
Ratio of net write-offs to average balance of loans to the public, gross	0.1	0.1	0.1
Ratio of expenses with respect to credit losses to average balance of loans to the public, net	0.2	0.1	0.1
Of which: With respect to commercial loans other than housing loans <sup>(1)</sup>	<sup>(2)</sup> 0.5	0.3	0.3
Ratio of net write-offs to average balance of loans to the public, net	0.1	0.1	0.1

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

(2) Total expenses with respect to credit losses were affected by a decrease in collection of debt previously written-off, compared to the corresponding period last year and by an increase in the group-based provision due to the increase in loans to the public in this quarter.

## Credit risk to individuals (excluding housing loans)<sup>(1)</sup>

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<sup>(2)</sup>, 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 March 31, 2018	As of December 31, 2017	As of December 31, 2017
<b>Debts</b>			
Checking balances	1,959	1,930	2,176
Utilized credit card balances	3,755	3,053	3,623
Auto loans <sup>(3)</sup> -adjustable interest	1,300	1,344	1,366
Auto loans <sup>(3)(4)</sup> -fixed interest	818	442	738
Other loans and credit -variable interest	10,993	10,775	10,677
Other loans and credit -fixed interest	188	178	232
<b>Total debt (on-balance sheet credit)</b>	<b>19,013</b>	<b>17,722</b>	<b>18,812</b>
<b>Unutilized facilities, guarantees and other commitments</b>			
Checking accounts -unutilized facilities	4,029	3,681	3,780
Credit cards -unutilized facilities	5,734	6,616	5,661
Guarantees	175	194	187
Other liabilities	74	40	67
<b>Total unutilized facilities, guarantees and other commitments (off-balance sheet credit)</b>	<b>10,012</b>	<b>10,531</b>	<b>9,695</b>
<b>Total credit risk to individuals</b>	<b>29,025</b>	<b>28,253</b>	<b>28,507</b>
<b>Of which:</b>			
Part of loans maturing in over 5 years <sup>(5)</sup>	2,550	2,039	2,400
Bullet / balloon loans <sup>(6)</sup>	620	631	647
<b>Financial asset portfolio and other collateral against credit risk<sup>(7)</sup></b>			
Financial assets portfolio:			
Deposits	2,500	2,554	2,457
Securities	380	406	362
Other monetary assets	442	468	463
Other collateral <sup>(8)</sup>	1,042	1,208	1,098
<b>Total financial assets portfolio and other collateral against credit risk</b>	<b>4,364</b>	<b>4,636</b>	<b>4,380</b>

(1) As defined in Proper Banking Conduct Directive 451.

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

(3) Further to the request by the Supervisor of Banks for a credit risk analysis for the "automobile trading" sector and for consumer credit for automobile purchase, under various stress scenarios. The Bank's Risks Control conducted a comprehensive review of this issue, which was discussed in depth by administrative forums, including by the Board of Directors. Findings and recommendations of this review were incorporated in the credit policy document for 2018. As a result of risk analysis, there was no material effect on the group-based provision for credit losses.

(4) The increase is primarily due to transactions involving assignment of loan portfolios acquired by the Bank.

(5) Primarily loans to salaried Government employees, where loan repayment is directly deducted from the client's pay check and which bear significantly lower risk than similar loans for the same term.

(6) Loans with a grace period for principal longer than one year.

(7) Amounts presented are the financial assets portfolio and other collateral, only up to client debt amount.

(8) Collateral is after applying the safety factor, in conformity with Bank factors accounted for when extending credit.

Composition by increase in borrower indebtedness<sup>(1)</sup>

Loan ceiling and credit risk (NIS in thousands)	As of March	As of March	As of March	As of March	As of	As of
	31, 2018	31, 2018	31, 2017	31, 2017	December 31, 2017	December 31, 2017
	Number of Borrowers	Total credit risk	Number of Borrowers	Total credit risk	Number of Borrowers	Total credit risk
Up to 10	274,347	596	251,462	529	271,931	562
Above 10 Up to 20	85,814	1,216	79,614	1,098	84,818	1,208
Above 20 Up to 40	116,495	3,333	115,517	3,226	115,167	3,331
Above 40 Up to 80	117,937	6,697	120,170	6,646	116,728	6,559
Above 80 Up to 150	74,986	8,070	75,671	7,949	73,393	7,916
Above 150 Up to 300	36,293	7,310	35,394	6,974	35,058	7,071
Above 300	3,597	1,803	3,937	1,831	3,523	1,860
<b>Total</b>	<b>709,469</b>	<b>29,025</b>	<b>681,765</b>	<b>28,253</b>	<b>700,618</b>	<b>28,507</b>

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

Composition of on-balance sheet credit by fixed income<sup>(1)</sup> in account:

Income	As of March 31, 2018	As of March 31, 2018	As of December 31, 2017	As of December 31, 2017
	NIS in millions	In %	NIS in millions	In %
Accounts with no fixed income	642	3.4	680	3.6
Less than NIS 10 thousand.	6,027	31.7	6,143	32.7
Between NIS 10 thousand and NIS 20 thousand	6,677	35.1	6,548	34.8
Over NIS 20 thousand	5,667	29.8	5,441	28.9
<b>Total</b>	<b>19,013</b>	<b>100</b>	<b>18,812</b>	<b>100</b>

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

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

	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2017	As of March 31, 2017	As of March 31, 2017	As of December 31, 2017	As of December 31, 2017	As of December 31, 2017	As of December 31, 2017
	Credit risk <sup>(1)</sup> On balance sheet	Credit risk <sup>(1)</sup> Off balance sheet	As of March 31, 2018 Credit risk <sup>(1)</sup> Total	Credit risk <sup>(1)</sup> On balance sheet	Credit risk <sup>(1)</sup> Off balance sheet	Credit risk <sup>(1)</sup> Total	Credit risk <sup>(1)</sup> On balance sheet	Credit risk <sup>(1)</sup> Off balance sheet	Credit risk <sup>(1)</sup> Total	Credit risk <sup>(1)</sup> Total
Balance of problematic credit risk	215	4	219	179	4	183	217	4	221	
Problematic credit risk rate <sup>(2)</sup>	1.13%	0.04%	0.75%	1.01%	0.04%	0.65%	1.16%	0.03%	0.78%	

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

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

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

	As of March 31, 2018	As of March 31, 2017	As of December 31, 2017
Expense with respect to credit losses as percentage of total loans to the public to individuals	0.46%	0.59%	0.65%

Data for credit risk to individuals show that:

- Total debts by individuals (on-balance sheet credit) increased by 7.6% compared to March 31, 2017 and by 1.4% compared to December 31, 2017, primarily due to increase in loans and other credit.
- There was no significant change to composition of debts by individuals in the first quarter of 2018.

As of March 31, 2018

Checking accounts	10%
Credit cards	20%
Auto loans	11%
Other loans and credit	59%

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

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

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

#### **Credit risk in construction and real estate economic sector in Israel**

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

For more information about the Bank acquiring an insurance policy for guarantees, see chapter "Significant events in the Bank Group's business" of the 2017 Report of the Board of Directors and Management.

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

March 31, 2018 -Credit risk to the public<sup>(1)</sup>

	Credit risk On balance sheet <sup>(2)</sup>	Credit risk Off balance sheet <sup>(3)</sup>	Credit risk Total	Total problematic credit risk Impaired	Total problematic credit risk Other problematic <sup>(4)</sup>	Balance of provision for credit losses Balance sheet credit risk	Balance of provision for credit losses Off-balance sheet credit risk
Secured by real estate in Israel:							
Housing	8,462	14,699	23,161	128	4	64	27
Commercial and industrial	3,995	876	4,871	70	5	57	2
Total secured by real estate in Israel:	12,457	15,575	28,032	198	9	121	29
Not secured by real estate in Israel	2,643	3,331	5,974	141	62	45	14
Total for construction and real estate economic sector in Israel	15,100	18,906	34,006	339	71	166	44
Of which: Designated for project assistance	7,755	13,341	21,096	3	4	68	30

March 31, 2017 - Credit risk to the public<sup>(1)</sup>

	Credit risk On balance sheet <sup>(2)</sup>	Credit risk Off balance sheet <sup>(3)</sup>	Credit risk Total	Total problematic credit risk Impaired	Total problematic credit risk Other problematic <sup>(4)</sup>	Balance of provision for credit losses Balance sheet credit risk	Balance of provision for credit losses Off-balance sheet credit risk
Secured by real estate in Israel:							
Housing	6,342	13,786	20,128	153	47	39	34
Commercial and industrial	3,835	1,004	4,839	63	13	62	3
Total secured by real estate in Israel:	10,177	14,790	24,967	216	60	101	37
Not secured by real estate in Israel	2,363	3,205	5,568	136	44	39	15
Total for construction and real estate economic sector in Israel	12,540	17,995	30,535	352	104	140	52
Of which: Designated for project assistance	6,067	13,582	19,649	37	6	52	35

December 31, 2017 - Credit risk to the public<sup>(1)</sup>

	Credit risk On balance sheet <sup>(2)</sup>	Credit risk Off balance sheet <sup>(3)</sup>	Credit risk Total	Total problematic credit risk Impaired	Total problematic credit risk Other problematic <sup>(4)</sup>	Balance of provision for credit losses Balance sheet credit risk	Balance of provision for credit losses Off-balance sheet credit risk
Secured by real estate in Israel:							
Housing	7,783	14,204	21,987	126	5	63	30
Commercial and industrial	4,319	769	5,088	60	13	57	2
Total secured by real estate in Israel:	12,102	14,973	27,075	186	17	120	32
Not secured by real estate in Israel	2,700	2,950	5,650	132	67	47	9
Total for construction and real estate economic sector in Israel	14,802	17,923	32,725	318	84	167	41
Of which: Designated for project assistance	7,617	13,047	20,663	13	4	61	28

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

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

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

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

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

	March 31, 2018	March 31, 2018	March 31, 2018	March 31, 2017	March 31, 2017	March 31, 2017	December 31, 2017	December 31, 2017	December 31, 2017
	Credit risk <sup>(1)</sup> On balance sheet	Credit risk <sup>(1)</sup> Off balance sheet	Credit risk <sup>(1)</sup> Total	Credit risk <sup>(1)</sup> On balance sheet	Credit risk <sup>(1)</sup> Off balance sheet	Credit risk <sup>(1)</sup> Total	Credit risk <sup>(1)</sup> On balance sheet	Credit risk <sup>(1)</sup> Off balance sheet	Credit risk <sup>(1)</sup> Total
Real estate collateral in Israel									
Real estate yet to be completely constructed:									
Raw land	5,556	2,459	8,015	4,351	1,343	5,694	5,090	1,853	6,943
Real estate under construction	4,783	12,042	16,825	3,570	13,009	16,579	4,463	12,606	17,068
Real estate completely constructed	2,118	1,074	3,192	2,256	438	2,694	2,550	514	3,064
Total credit secured by real estate in Israel	12,457	15,575	28,032	10,177	14,790	24,967	12,102	14,973	27,075
Not secured by real estate in Israel	2,643	3,331	5,974	2,363	3,205	5,568	2,700	2,950	5,650
Total credit risk for construction and real estate	15,100	18,906	34,006	12,540	17,995	30,535	14,802	17,923	32,725

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

Credit risk data for the construction and real estate clients sector as of March 31, 2018 show that 51.36% of the on-balance sheet credit risk and 70.57% of the off-balance sheet credit risk is associated with closed assistance to real estate projects, mostly for residential construction in areas of strong demand in Central Israel and in Jerusalem. Most of the off-balance sheet credit is due to guarantees provided to home buyers pursuant to the Sale Act.

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

The share of the construction and real estate sector in Israel out of total credit risk to the public at the Bank as of March 31, 2018, as presented in chapter "Risks" below (Credit Risk by Economic Sector) is 14.22%. Note that according to Proper Banking Conduct Directive 315, the rate of indebtedness of the construction and real estate sector (for calculation of sector concentration) is 10.56% (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 March 31, 2018

Reported amounts (NIS in millions)

	Total credit risk <sup>(1)</sup>	Credit performance rating <sup>(5)</sup>	Total credit risk <sup>(1)</sup> Problematic <sup>(6)</sup>	Off balance sheet debts <sup>(2)</sup> and credit risk (other than derivatives) <sup>(3)</sup> Total	Off balance sheet debts <sup>(2)</sup> and credit risk (other than derivatives) <sup>(3)</sup> Debts	Off balance sheet debts <sup>(2)</sup> and credit risk (other than derivatives) <sup>(3)</sup> Problematic <sup>(6)</sup>	Off balance sheet debts <sup>(2)</sup> and credit risk (other than derivatives) <sup>(3)</sup> Impaired	Off balance sheet debts <sup>(2)</sup> and credit risk (other than derivatives) <sup>(3)</sup> Expenses with respect to credit losses	Off balance sheet debts <sup>(2)</sup> and credit risk (other than derivatives) <sup>(3)</sup> Net accounting write-offs	Off balance sheet debts <sup>(2)</sup> and credit risk (other than derivatives) <sup>(3)</sup> Credit losses <sup>(4)</sup> Balance of provision for credit losses
<b>Borrower activity in Israel</b>										
<b>Public -commercial</b>										
Agriculture, forestry and fishing	808	802	6	807	600	6	4	(1)	-	7
Mining and excavation	604	604	-	590	223	-	-	(1)	-	3
Industry and production	9,148	8,755	393	8,828	5,063	393	249	6	5	112
Construction and real estate - construction <sup>(7)</sup>	30,934	30,545	389	30,928	12,768	389	322	5	2	163
Construction and real estate - real estate operations	3,072	3,051	21	3,050	2,319	21	17	(2)	(1)	47
Electricity and water delivery	1,471	1,442	29	1,199	646	29	3	1	-	8
Commerce	10,520	10,216	304	10,387	8,002	304	205	32	17	165
Hotels, dining and food services	1,174	1,122	52	1,174	915	52	25	4	3	26
Transport and storage	2,353	2,335	18	2,342	1,672	18	7	3	4	12
Information and communications	1,046	1,032	14	1,040	416	14	8	-	1	5
Financial services	11,214	11,038	176	8,553	3,560	176	14	-	2	66
Other business services	3,952	3,857	95	3,921	2,733	95	45	6	7	49
Public and community services	2,199	2,169	30	2,121	1,709	30	22	-	1	11
<b>Total commercial</b>	<b>78,495</b>	<b>76,968</b>	<b>1,527</b>	<b>74,940</b>	<b>40,626</b>	<b>1,527</b>	<b>921</b>	<b>53</b>	<b>41</b>	<b>674</b>
Private individuals -housing loans	131,341	130,217	1,124	131,341	121,356	1,124	38	6	1	634
Private individuals -other	29,314	28,819	219	29,025	19,013	219	72	22	18	249
<b>Total public -activity in Israel</b>	<b>239,150</b>	<b>236,004</b>	<b>2,870</b>	<b>235,306</b>	<b>180,995</b>	<b>2,870</b>	<b>1,031</b>	<b>81</b>	<b>60</b>	<b>1,557</b>
Banks in Israel	1,457	1,457	-	307	233	-	-	1	-	1
Government of Israel	7,729	7,729	-	-	-	-	-	-	-	-
<b>Total activity in Israel</b>	<b>248,336</b>	<b>245,190</b>	<b>2,870</b>	<b>235,613</b>	<b>181,228</b>	<b>2,870</b>	<b>1,031</b>	<b>82</b>	<b>60</b>	<b>1,558</b>
<b>Borrower activity overseas</b>										
Total public -activity overseas	5,664	5,660	4	5,510	4,132	4	4	-	-	38
Overseas banks	3,948	3,948	-	2,672	2,523	-	-	-	-	1
Overseas governments	1,312	1,312	-	493	493	-	-	-	-	-
<b>Total activity overseas</b>	<b>10,924</b>	<b>10,920</b>	<b>4</b>	<b>8,675</b>	<b>7,148</b>	<b>4</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>39</b>
<b>Total</b>	<b>259,260</b>	<b>256,110</b>	<b>2,874</b>	<b>244,288</b>	<b>188,376</b>	<b>2,874</b>	<b>1,035</b>	<b>82</b>	<b>60</b>	<b>1,597</b>

- (1) On- and off-balance sheet credit risk, including with respect to derivatives (NIS in millions): Debts<sup>(2)</sup> -188,376; debentures -8,967; securities borrowed or acquired in conjunction with resale agreements -46; Assets with respect to derivatives -3,153; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits -58,718.
- (2) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements.
- (3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits, except for derivatives.
- (4) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).
- (5) Credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policies. This is in accordance with directives of the Supervisor of Banks.
- (6) On- and off-balance sheet credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
- (7) Includes on-balance sheet credit risk amounting to NIS 1,683 million and off-balance sheet credit risk amounting to NIS 1,773 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 5,312 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 March 31, 2017

Reported amounts (NIS in millions)

	Total credit risk <sup>(1)</sup>	Total credit risk <sup>(1)</sup>	Off balance sheet credit risk (other than derivatives) <sup>(3)</sup>	Off balance sheet credit risk (other than derivatives) <sup>(3)</sup>	Off balance sheet credit risk (other than derivatives) <sup>(3)</sup>	Off balance sheet credit risk (other than derivatives) <sup>(3)</sup>	Off balance sheet credit risk (other than derivatives) <sup>(3)</sup>	Off balance sheet credit risk (other than derivatives) <sup>(3)</sup>	Off balance sheet credit risk (other than derivatives) <sup>(3)</sup>	Off balance sheet credit risk (other than derivatives) <sup>(3)</sup>
	performance rating <sup>(5)</sup>	Proble-matic <sup>(6)</sup>	Total	Debts	Proble-matic <sup>(6)</sup>	Impaired	respect to credit losses	Net accounting write-offs	Credit losses(4)	Balance of provision for credit losses
<b>Borrower activity in Israel</b>										
<b>Public-commercial</b>										
Agriculture, forestry and fishing	796	779	17	796	609	17	6	4	-	12
Mining and excavation	722	722	-	688	330	-	-	-	-	4
Industry and production	8,406	8,209	197	8,251	4,971	197	90	4	4	92
Construction and real estate - construction <sup>(7)</sup>	28,213	27,644	<sup>(8)</sup> 379	28,209	10,537	<sup>(8)</sup> 379	282	1	6	135
Construction and real estate - real estate operations	2,322	2,245	77	2,315	1,998	77	70	(2)	-	57
Electricity and water delivery	2,157	2,152	5	1,700	537	5	3	1	1	4
Commerce	10,879	10,357	522	10,712	8,143	522	207	21	5	216
Hotels, dining and food services	1,058	1,030	28	1,058	824	28	10	5	1	23
Transport and storage	1,953	1,929	24	1,948	1,204	24	12	2	3	8
Information and communications	1,075	1,065	10	1,070	511	10	4	1	-	8
Financial services	<sup>(8)</sup> 11,313	<sup>(8)</sup> 10,990	323	<sup>(8)</sup> 9,409	<sup>(8)</sup> 3,444	323	17	(20)	(6)	82
Other business services	3,614	3,536	78	3,572	2,502	78	37	7	3	45
Public and community services	1,972	1,944	28	1,902	1,540	28	17	2	3	7
<b>Total commercial</b>	<b>74,480</b>	<b>72,602</b>	<b>1,688</b>	<b>71,630</b>	<b>37,150</b>	<b>1,688</b>	<b>755</b>	<b>26</b>	<b>20</b>	<b>693</b>
Private individuals -housing loans	122,027	121,091	936	122,027	115,996	936	36	-	3	611
Private individuals -other	<sup>(8)</sup> 28,359	<sup>(8)</sup> 27,938	183	<sup>(8)</sup> 28,253	<sup>(8)</sup> 17,722	183	67	24	16	216
<b>Total public -activity in Israel</b>	<b>224,866</b>	<b>221,631</b>	<b>2,807</b>	<b>221,910</b>	<b>170,868</b>	<b>2,807</b>	<b>858</b>	<b>50</b>	<b>39</b>	<b>1,520</b>
Banks in Israel	2,011	2,011	-	346	262	-	-	-	-	-
Government of Israel	10,673	10,673	-	1	1	-	-	-	-	-
<b>Total activity in Israel</b>	<b>237,550</b>	<b>234,315</b>	<b>2,807</b>	<b>222,257</b>	<b>171,131</b>	<b>2,807</b>	<b>858</b>	<b>50</b>	<b>39</b>	<b>1,520</b>
<b>Borrower activity overseas</b>										
Total public -activity overseas	7,376	7,372	4	7,143	3,665	4	4	-	-	38
Overseas banks	4,236	4,236	-	2,680	2,513	-	-	(1)	-	1
Overseas governments	1,347	1,347	-	311	311	-	-	-	-	-
<b>Total activity overseas</b>	<b>12,959</b>	<b>12,955</b>	<b>4</b>	<b>10,134</b>	<b>6,489</b>	<b>4</b>	<b>4</b>	<b>(1)</b>	<b>-</b>	<b>39</b>
<b>Total</b>	<b>250,509</b>	<b>247,270</b>	<b>2,811</b>	<b>232,391</b>	<b>177,620</b>	<b>2,811</b>	<b>862</b>	<b>49</b>	<b>39</b>	<b>1,559</b>

- (1) On- and off-balance sheet credit risk, including with respect to derivatives (NIS in millions): Debts<sup>(2)</sup> -177,620; debentures - 11,698; securities borrowed or acquired in conjunction with resale agreements -46; Assets with respect to derivatives -3,951; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits -57,194.
- (2) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements.
- (3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits, except for derivatives.
- (4) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).
- (5) Credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policies. This is in accordance with directives of the Supervisor of Banks.
- (6) On- and off-balance sheet credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
- (7) Includes on-balance sheet credit risk amounting to NIS 1,374 million and off-balance sheet credit risk amounting to NIS 1,447 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 6,165 million for which insurance has been acquired to cover the Sales Act guarantee portfolio from international re-insurers.
- (8) Reclassified.

## Credit Risk by Economic Sector -Consolidated -continued

As of December 31, 2017

Reported amounts (NIS in millions)

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

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

## Exposure to Foreign Countries -Consolidated<sup>(1)</sup>

Reported amounts (NIS in millions)

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

Country	Balance sheet exposure <sup>(2)</sup> Cross-border balance sheet exposure To governments <sup>(4)</sup>	Balance sheet exposure <sup>(2)</sup> Cross-border balance sheet exposure To banks	Balance sheet exposure <sup>(2)</sup> Cross-border balance sheet exposure To others	Balance sheet exposure <sup>(2)</sup> Country to local residents before deduction of local liabilities	Balance sheet exposure <sup>(2)</sup> Country to local residents Deduction with respect to local liabilities	Balance sheet exposure <sup>(2)</sup> Country to local residents Net balance sheet exposure after deduction of local liabilities	Balance sheet exposure <sup>(2)</sup> Total balance sheet exposure	Balance sheet exposure <sup>(2)</sup> On-balance sheet problematic credit risk	Balance sheet exposure <sup>(2)</sup> Impaired debts	Off-balance sheet exposure <sup>(2)(3)(5)</sup> Total off-balance sheet exposure	Off-balance sheet exposure <sup>(2)(3)(5)</sup> Of which: Off-balance sheet troubled credit risk	Off-balance sheet exposure <sup>(2)(3)(5)</sup> Cross-border balance sheet exposure Maturing in under 1 year	Off-balance sheet exposure <sup>(2)(3)(5)</sup> Cross-border balance sheet exposure Maturing in over 1 year
<b>March 31, 2018</b>													
USA	2,902	338	1,266	400	400	-	4,506	17	-	614	-	2,034	2,472
France	-	183	1,337	-	-	-	1,520	29	-	2,612	-	252	1,268
Germany	172	101	100	-	-	-	373	-	-	3,000	-	145	228
Other	75	549	2,503	1,311	457	854	3,981	20	-	1,443	-	1,072	2,055
Total exposure to foreign countries	3,149	1,171	5,206	1,711	857	854	10,380	66	-	7,669	-	3,503	6,023
Of which: Total exposure to LDC countries	3	-	532	-	-	-	535	5	-	116	-	156	379
To Greece, Portugal, Spain, Italy and Ireland	-	2	45	-	-	-	47	-	-	66 <sup>(6)</sup>	-	14	33
<b>March 31, 2017</b>													
USA	3,144	406	1,313	281	281	-	4,863	18	-	1,297	-	2,089	2,774
UK	-	146	408	1,013	525	488	1,042	14	-	3,402	-	190	364
Other	115	406	3,267	-	-	-	3,788	24	-	4,004	-	1,255	2,533
Total exposure to foreign countries	3,259	958	4,988	1,294	806	488	9,693	56	-	8,703	-	3,534	5,671
Of which: Total exposure to LDC countries	2	-	493	-	-	-	495	3	-	148	-	151	344
To Greece, Portugal, Spain, Italy and Ireland	-	2	48	-	-	-	50	-	-	454	-	12	38

Country	Balance sheet exposure <sup>(2)</sup> Cross-border balance sheet exposure To governments <sup>(4)</sup>	Balance sheet exposure <sup>(2)</sup> Cross-border balance sheet exposure To banks	Balance sheet exposure <sup>(2)</sup> Cross-border balance sheet exposure To others	Balance sheet exposure <sup>(2)</sup> of local liabilities before deduction of local liabilities	Balance sheet exposure <sup>(2)</sup> of local liabilities with respect to local liabilities	Balance sheet exposure <sup>(2)</sup> of local liabilities after deduction of local liabilities	Balance sheet exposure <sup>(2)</sup> Total balance sheet exposure	Balance sheet exposure <sup>(2)</sup> On-balance sheet problematic credit risk	Balance sheet exposure <sup>(2)</sup> Impaired debts	Off-balance sheet exposure <sup>(2)(3)(5)</sup> Total off-balance sheet exposure	Off-balance sheet exposure <sup>(2)(3)(5)</sup> Of which: Off-balance sheet troubled credit risk	Off-balance sheet exposure <sup>(2)(3)(5)</sup> Cross-border balance sheet exposure Maturing in under 1 year	Off-balance sheet exposure <sup>(2)(3)(5)</sup> Cross-border balance sheet exposure Maturing in over 1 year
December 31, 2017													
USA	3,231	336	1,239	368	368	-	4,806	15	-	654	-	1,532	3,274
France	-	142	1,295	-	-	-	1,437	21	-	2,565	-	210	1,227
Germany	172	61	98	-	-	-	331	-	-	2,999	-	106	225
Other	54	338	2,325	1,201	482	719	3,436	23	-	1,661	-	930	1,787
Total exposure to foreign countries	3,457	877	4,957	1,569	850	719	10,010	59	-	7,879	-	2,778	6,513
Of which: Total exposure to LDC countries	11	-	535	-	-	-	546	6	-	149	-	125	421
To Greece, Portugal, Spain, Italy and Ireland	-	3	43	-	-	-	46	1	-	66	-	14	32

See remarks below.

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## Exposure to foreign countries -consolidated<sup>(1)</sup> -continued

Reported amounts (NIS in millions)

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

	March 31, 2018 Balance sheet exposure	March 31, 2018 Off-balance sheet exposure	March 31, 2017 Balance sheet exposure	March 31, 2017 Off-balance sheet exposure	December 31, 2017 Balance sheet exposure	December 31, 2017 Off-balance sheet exposure
UK	1,553	650	-	-	1,343	687
France	-	-	1,297	929	-	-

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

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

- (1) Based on final risk, after effect of guarantees, liquid collateral and credit derivatives.
- (2) On- and off-balance sheet credit risk, problematic commercial credit risk and impaired debt are stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.
- (3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits, in conformity with Proper Banking Conduct Directive 313.
- (4) Governments, official institutions and central banks.
- (5) The balance of off-balance sheet exposure includes NIS 5,312 million with respect to acquiring insurance from international reinsurers for the portfolio of Sales Act guarantees for borrowers in the real estate sector in Israel. (as of December 31, 2017: NIS 5,237 million; as of March 31, 2017: NIS 6,165 million).

## Credit exposure to foreign financial institutions

Below is information on the Bank's exposure to foreign financial institutions<sup>(1)(2)</sup> (NIS in millions):  
March 31, 2018

External credit rating	On-balance sheet credit risk <sup>(3)</sup> Before offset of deposits with respect to master netting agreements <sup>(5)</sup>	On-balance sheet credit risk <sup>(3)</sup> After offset of deposits with respect to master netting agreements <sup>(6)</sup>	Off balance sheet credit risk <sup>(4)</sup>	Current credit exposure Before offset of deposits with respect to master netting agreements	Current credit exposure After offset of deposits with respect to master netting agreements <sup>(5)</sup>
AAA to AA-	596	534	5,655	6,251	6,189
A+ to A-	164	97	272	436	369
BBB+ to BBB-	50	50	-	50	50
BB+ to B-	-	-	20	20	20
Lower than B-	-	-	-	-	-
Unrated	-	-	-	-	-
<b>Total credit exposure to foreign financial institutions</b>	<b>810</b>	<b>681</b>	<b>5,947</b>	<b>6,757</b>	<b>6,628</b>

March 31, 2017

External credit rating	On-balance sheet credit risk <sup>(3)</sup> Before offset of deposits with respect to master netting agreements <sup>(5)</sup>	On-balance sheet credit risk <sup>(3)</sup> After offset of deposits with respect to master netting agreements <sup>(6)</sup>	Off balance sheet credit risk <sup>(4)</sup>	Current credit exposure Before offset of deposits with respect to master netting agreements	Current credit exposure After offset of deposits with respect to master netting agreements <sup>(5)</sup>
AAA to AA-	567	529	2,453	3,020	2,982
A+ to A-	413	208	4,702	5,115	4,910
BBB+ to BBB-	12	8	-	12	8
BB+ to B-	-	-	19	19	19
Lower than B-	-	-	-	-	-
Unrated	1	1	-	1	1
<b>Total credit exposure to foreign financial institutions</b>	<b>993</b>	<b>746</b>	<b>7,174</b>	<b>8,167</b>	<b>7,920</b>

December 31, 2017

External credit rating	On-balance sheet credit risk <sup>(3)</sup> Before offset of deposits with respect to master netting agreements <sup>(5)</sup>	On-balance sheet credit risk <sup>(3)</sup> After offset of deposits with respect to master netting agreements <sup>(6)</sup>	Off balance sheet credit risk <sup>(4)</sup>	Current credit exposure Before offset of deposits with respect to master netting agreements	Current credit exposure After offset of deposits with respect to master netting agreements <sup>(5)</sup>
AAA to AA-	746	648	5,581	6,327	6,229
A+ to A-	306	94	269	575	363
BBB+ to BBB-	73	72	-	73	72
BB+ to B-	-	-	20	20	20
Lower than B-	-	-	-	-	-
Unrated	2	2	-	2	2
<b>Total credit exposure to foreign financial institutions</b>	<b>1,127</b>	<b>816</b>	<b>5,870</b>	<b>6,997</b>	<b>6,686</b>

As of March 31, 2018, March 31, 2017 and December 31, 2017 there was no problematic credit risk, net. Problematic credit risk - credit risk for impaired, inferior credit or credit under special supervision.

- (1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the former. Bank exposure is almost entirely to banks and investment banks primarily incorporated in the UK, USA, Germany, Switzerland and France.
- (2) After deduction of provision for credit losses.
- (3) Bank deposits, loans to the public, investment in debentures, securities borrowed or acquired in conjunction with resale agreements and other assets with respect to derivatives.
- (4) Primarily guarantees and commitments to grant credit, including guarantees to secure indebtedness of third parties. The balance of off-balance sheet exposure to financial institutions includes NIS 5,312 million as of March 31, 2018 (as of March 31, 2017: NIS 6,165 million; as of December 31, 2017: NIS 5,237 million) with respect to acquiring insurance from international reinsurers for the portfolio of Sales Act guarantees for borrowers in the real estate sector in Israel.
- (5) Presented net of fair value of liabilities with respect to derivatives for counter-parties which have signed master netting agreements. Comparative figures were reclassified.
- (6) With respect to offset of cash deposits used as collateral for transactions with regard to financial derivatives.

The aforementioned credit exposure excludes exposure to financial institutions for which complete, explicit government guarantees are in place, and exclude investments in asset-backed securities. For more information with regard to credit exposure composition with respect to derivatives 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 derivatives. Futures transactions, weighted in accordance with rules stated in Proper Business Conduct Directive 313, are included as part of off-balance sheet credit risk, and are excluded from the above table.

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

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

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

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

### **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 tests to review the impact of macro-economic factors on portfolio risk - primarily the impact of unemployment and interest rates. The Bank has developed an advanced model for rating housing loans, which includes a rating for each loan and calculation of potential loss in case of failure. This model is in addition to the Bank's existing monitoring tools.

## Risk appetite and risk profile in mortgage segment

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

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

The Bank constantly monitors the risk profile of the mortgage portfolio and its development over time, in view of the specified risk appetite. In particular, this monitoring is conducted through the Bank's quarterly risks document which is presented to and approved by the Board of Directors and its Risks Management Committee. Such monitoring reveals that leading risk benchmarks continue to remain relatively low. These benchmarks include: LTV ratios, repayment ratio, rate of oblige 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 March 2018) was 54.1% (reflecting the LTV ratio upon loan origination -see more details below). The Bank also estimates the "actual" LTV ratio for the portfolio, based on changes to property values, based on estimates by the Central Bureau of Statistics against the outstanding portfolio balances. This ratio is significantly lower than the original LTV ratio due to the constantly higher housing prices. These data support the Bank's estimate that the potential for loss due to the Bank's mortgage portfolio, even in scenarios involving material decline in housing prices, is low. In addition, the Bank regularly reviews its mortgage portfolio under stress conditions, including under significant change in macro-economic conditions, using multiple methodologies. The outcome of stress testing indicates that portfolio risk has decreased and that the potential impact of a severe stress event in the market is low.

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

Loans granted (NIS in millions)	Up to three months	Up to three months	Rate of change In %
	2018	2017	
Mortgages issued (for housing and any purpose)			
From the Bank's funds	5,309	5,149	3.1
From funds of the Finance Ministry			
Directed loans	72	38	89.5
Standing loans and grants	18	18	-
<b>Total new loans</b>	<b>5,399</b>	<b>5,205</b>	<b>3.7</b>
Refinanced loans	587	326	80.1
<b>Total loans originated</b>	<b>5,986</b>	<b>5,531</b>	<b>8.2</b>
Number of borrowers (includes refinanced loans)	11,621	12,388	(6.2)

Below are details of various risk attributes of the housing loan portfolio<sup>(1)</sup> as of March 31, 2018 (NIS in millions):

Loan age <sup>(2)</sup> (time elapsed since loan grant)	Loan age <sup>(2)</sup> (time elapsed since loan grant)	Loan age <sup>(2)</sup> (time elapsed since loan grant)					Loan age <sup>(2)</sup> (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%	2,937	8,124	11,390	21,147	16,273	4,764	64,635
	35%-50%	300	1,015	1,739	3,992	4,482	1,008	12,536
	50%-80%	-	-	1	293	1,474	376	2,144
	Over 80%	-	-	-	36	124	68	228
60%-75%	Up to 35%	1,027	3,062	5,754	14,086	7,526	1,097	32,552
	35%-50%	87	351	757	1,845	1,873	295	5,208
	50%-80%	-	-	-	60	491	118	669
	Over 80%	-	-	-	-	40	15	55
Over 75%	Up to 35%	54	240	213	371	1,735	1,156	3,769
	35%-50%	4	27	19	59	373	387	869
	50%-80%	-	-	-	1	70	122	193
	Over 80%	-	-	-	-	7	29	36
<b>Total</b>		<b>4,409</b>	<b>12,819</b>	<b>19,873</b>	<b>41,890</b>	<b>34,468</b>	<b>9,435</b>	<b>122,894</b>

	Loan age <sup>(2)</sup> (time elapsed since loan grant)					Loan age <sup>(2)</sup> (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

Of which:

Loans granted with original amount over NIS 2 million	240	906	1,213	2,006	1,517	130	6,012
Percentage of total housing loans	5.4%	7.1%	6.1%	4.8%	4.4%	1.4%	4.9%

Loans bearing variable interest:

Non-linked, at prime lending rate	1,143	3,307	5,022	12,039	12,635	2,732	36,878
CPI-linked <sup>(3)</sup>	5	28	20	199	3,772	1,627	5,651
In foreign currency <sup>(3)</sup>	134	424	499	1,278	1,459	262	4,056
<b>Total</b>	<b>1,282</b>	<b>3,759</b>	<b>5,541</b>	<b>13,516</b>	<b>17,866</b>	<b>4,621</b>	<b>46,585</b>

Non-linked loans at prime lending rate, as percentage of total housing loans	25.9%	25.8%	25.3%	28.7%	36.7%	29.0%	30.0%
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CPI-linked loans bearing variable interest as percentage of total housing loans	0.1%	0.2%	0.1%	0.5%	10.9%	17.2%	4.6%
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Loans with LTV over 75% as percentage of total housing loans	1.3%	2.1%	1.2%	1.0%	6.3%	18.0%	4.0%
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(1) Balance of housing loans after provision by extent of arrears.

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

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

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

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

## **Attributes of the Bank's housing loan portfolio**

The Bank's policies with regard to mortgages are based on a conservative approach, limiting specific risk for each loan by reviewing various attributes. These attributes include: LTV ratio, ratio of repayment to regular borrower income, and borrower capacity to make current repayments even under scenarios involving a change in interest rates. Whenever loans are granted with attributes which do not meet one or more of the standards set by the Bank for these attributes, the Bank requires additional bolstering for the loan, such as guarantors for the loan, proven repayment capacity not based on regular borrower income etc. In recent years, due to expansion of the housing market and relatively low interest environment, the Bank has enhanced measures taken to monitor and mitigate risk, as reflected by a significant decrease in loan risk factors, as detailed below (all data below as of March 31, 2018).

### **LTV ratio**

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

The average loan-to-value ratio for the Bank's mortgage portfolio as of March 31, 2018 was 54.1%, compared to 54.6% in the corresponding period last year and similar to the LTV ratio as of December 31, 2017. Out of the total loan portfolio of the Bank, amounting to NIS 122.9 million, some 96% were granted with an original LTV ratio under 75%, which secures the loan even in case of an extreme 25% decrease in value of the property pledged as collateral.

The LTV ratio in this report is the historical LTV ratio calculated upon loan approval, and does not account for any current repayments which reduce the loan balance nor any changes in value of properties pledged as collateral. The significant increase in housing prices, as from late 2008 and, conversely, reduced loan balances due to current repayments result in a decrease in the current "actual" LTV ratio and, as noted above, based on changes to property values as estimated by the Central Bureau of Statistics, against current portfolio balances. This ratio is significantly lower than the historical LTV ratio. Total loans granted at LTV ratios over 75% in the past two years amounted to NIS 0.6 billion, or only 0.5% of the total housing loan portfolio.

Note, in this regard, that the Bank's average LTV ratio as of March 31, 2018, based on current outstanding balances (with no change to property value due to changes in housing prices) would have decreased as follows: For loans originated up to one year ago -by 4%. For loans originated one to 5 years ago -by 7%; for loans originated over 5 years ago -by 19%; for all loans in total -by 11%.

The percentage of loans granted with a high LTV ratio (over 75%) out of total housing loan portfolio of the Bank to 1.2% for loans granted 1-2 years ago, 2.1% for loans granted 3-12 months ago and 1.3% for loans granted in the first quarter of 2018.

### **Repayment as percentage of regular income**

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

The average repayment ratio for the Bank's housing loan portfolio is 26.9%. Some 82% of the Bank's mortgage portfolio were granted to borrowers with a repayment ratio under 35% (the average repayment ratio for these borrowers is 23.4%). Some 15.2% of the mortgage portfolio was granted to borrowers with a repayment ratio of 35% to 50% (the average repayment ratio for these borrowers is 39.6%). Some 2.5% of mortgages was granted to borrowers with a repayment ratio of 50% to 80% (the average repayment ratio for these borrowers is 59.6%), and only 0.3% was granted to borrowers with a repayment ratio over 80% (the average repayment ratio for these borrowers is 92.2%).

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

## Loans bearing variable interest

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

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

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

Total loans linked to the prime lending rate granted over the past two years, which constitute the major portion of risk associated with such mortgages, is NIS 9.5 billion, or only 7.7% 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 billion on March 31, 2018, or only 4.9% of the Bank's housing loan portfolio.

## Provision by extent of arrears

Below are details of the provision for credit losses with respect to housing loans for which a minimum provision for credit losses was made by extent of arrears, in accordance with appendix to Proper Banking Conduct Directive 314, as of March 31, 2018 (NIS in millions):

	Extent of arrears						Balance with respect to refinanced loans in arrears <sup>(2)</sup>	Total
	In arrears 30 to 89 days <sup>(1)</sup>	In arrears 90 days to 6 months	In arrears 90 days or longer	In arrears 6-15 months	In arrears 15-33 months	In arrears 90 days or longer		
Amount in arrears	6	14	15	10	214	253	46	305
Of which: Balance of provision for interest <sup>(3)</sup>	-	-	-	1	108	109	6	115
Recorded debt balance	393	523	272	60	128	983	106	1,482
Balance of provision for credit losses <sup>(4)</sup>	-	-	35	28	98	161	50	211
Debt balance, net	393	523	237	32	30	822	56	1,271

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

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

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

(4) Excludes balance of provision for interest.

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

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

The market risk in the negotiable portfolio is minimal, in line with Bank policy. The bank portfolio is exposed to increase in the interest rate curve due to the relatively long-term structure of uses (the mortgage portfolio) and continuing decrease in early mortgage repayment rates. Assessment of Bank exposure to interest risks in the first quarter of 2018 remains Medium. In the first quarter, risk values due to current operations increased. With regard to interest risk management. Exposure is monitored using various benchmarks in the normal course of business and under stress conditions. Following the updates to interest risk models, the limitations in terms of the EVE and VaR models were updated in the policy document.

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

	March 31, 2018	March 31, 2017	December 31, 2017
At end of period	593	764	533
Maximum value during period	640 (FEB)	764 (MAR)	781 (APR)
Minimum value during period	549 (JAN)	388 (FEB)	388 (FEB)

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

March 31, 2018- Change in fair value

	Israeli currency Non-linked	Israeli currency Linked to CPI	Foreign currency Dollar	Foreign currency EUR	Other	Total
2% increase	(753)	(1,488)	48	(47)	(1)	(2,241)
Decrease of 2%	1,340	1,850	(27)	53	1	3,217

March 31, 2017- Change in fair value

	Israeli currency Non-linked	Israeli currency Linked to CPI	Foreign currency Dollar	Foreign currency EUR	Other	Total
2% increase	(1,073)	(813)	(50)	(35)	5	(1,966)
Decrease of 2%	1,586	1,011	80	42	6	2,725

December 31, 2017- - Change in fair value

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

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

The increase in risk values is due to current mortgage operations.

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

Reported amounts (NIS in millions)

	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2017	As of March 31, 2017	As of December 31, 2017	As of December 31, 2017	As of December 31, 2017
	On Call	Over 1 to 3 months	Over 3 to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return In %	Average effective duration <sup>(2)</sup> in years	March 31, 2017 Total fair value	Internal rate of return In %	Average effective duration <sup>(2)</sup> in years	December 31, 2017 Total fair value	Internal rate of return In %	Average effective duration <sup>(2)</sup> in years
<b>Israeli currency -non-linked</b>																		
<b>Financial assets, amounts receivable with respect to derivatives and to complex financial assets</b>																		
Financial assets <sup>(1)</sup>	128,339	1,896	5,922	11,117	8,034	6,851	3,898	365	397	166,819	3.63	1.29	160,748	4.06	0.98	164,265	3.67	1.31
Financial derivatives (other than options)	5,717	4,928	28,022	9,315	6,825	6,162	19	-	-	60,988		0.96	68,497		1.07	60,731		0.97
Options (in terms of underlying asset)	699	1,012	1,977	461	154	-	-	-	-	4,303		1.25	4,397		1.32	4,155		1.36
<b>Total fair value</b>	<b>134,755</b>	<b>7,836</b>	<b>35,921</b>	<b>20,893</b>	<b>15,013</b>	<b>13,013</b>	<b>3,917</b>	<b>365</b>	<b>397</b>	<b>232,110</b>		<b>1.20</b>	<b>233,642</b>		<b>1.01</b>	<b>229,151</b>		<b>1.22</b>
<b>Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities</b>																		
Financial liabilities <sup>(1)</sup>	82,107	10,864	21,319	19,869	11,379	7,904	802	12	-	154,256	0.88	1.06	139,945	0.99	0.94	148,845	0.87	1.10
Financial derivatives (other than options)	18,309	19,153	16,540	8,535	7,070	6,197	-	-	-	75,804		0.89	83,977		0.95	75,000		0.90
Options (in terms of underlying asset)	522	741	2,320	242	82	-	-	-	-	3,907		0.97	4,257		1.07	3,814		1.10
<b>Total fair value</b>	<b>100,938</b>	<b>30,758</b>	<b>40,179</b>	<b>28,646</b>	<b>18,531</b>	<b>14,101</b>	<b>802</b>	<b>12</b>	<b>-</b>	<b>233,967</b>		<b>1.00</b>	<b>228,179</b>		<b>0.95</b>	<b>227,659</b>		<b>1.03</b>

	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2017	As of March 31, 2017	As of December 31, 2017	As of December 31, 2017		
	On Call to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return In %	Average effective duration <sup>(2)</sup> in years	As of March 31, 2017 Total fair value	Internal rate of return In %	Average effective duration <sup>(2)</sup> in years	As of December 31, 2017 Total fair value	Internal rate of return In %	Average effective duration <sup>(2)</sup> in years

**Financial instruments, net**

Exposure to interest rate

fluctuations in the sector	33,817	(22,922)	(4,258)	(7,753)	(3,518)	(1,088)	3,115	353	397	(1,857)		5,463			1,492		
Cumulative exposure in sector	33,817	10,895	6,637	(1,116)	(4,634)	(5,722)	(2,607)	(2,254)	(1,857)	(1,857)		5,463			1,492		

**Specific remarks:**

- (1) Excludes balance sheet balances of financial derivatives, fair value of off-balance sheet financial instruments and fair value of complex financial instruments.
- (2) Weighted average by fair value of average effective duration.

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

Reported amounts (NIS in millions)

	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2017	As of March 31, 2017	As of December 31, 2017	As of December 31, 2017	As of December 31, 2017	
	On Call to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 to 20 years	Over 20 years	Without maturity	As of March 31, 2018	As of March 31, 2018	As of March 31, 2017	As of March 31, 2017	As of March 31, 2017	As of December 31, 2017	As of December 31, 2017	As of December 31, 2017	
										Internal rate of return In %	Average effective duration <sup>(2)</sup> in years	Internal rate of return In %	Average effective duration <sup>(2)</sup> in years	Total fair value	Internal rate of return In %	Average effective duration <sup>(2)</sup> in years	Total fair value	
<b>Israeli currency -linked to the CPI</b>																		
<b>Financial assets, amounts receivable with respect to derivatives and to complex financial assets</b>																		
Financial assets <sup>(1)</sup>	2,053	2,825	9,864	16,785	13,215	4,074	2,143	254	12	51,225	2.79	3.10	47,817	2.81	2.80	50,926	2.78	3.03
Financial derivatives (other than options)	109	131	703	1,557	559	446	-	-	-	3,505		2.22	3,605		2.79	3,613		2.29
Total fair value	2,162	2,956	10,567	18,342	13,774	4,520	2,143	254	12	54,730		3.04	51,422		2.80	54,539		2.98
<b>Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities</b>																		
Financial liabilities <sup>(1)</sup>	425	820	6,811	10,158	9,333	7,329	2,286	-	3	37,165	0.99	3.57	40,274	1.22	3.41	38,814	1.07	3.75
Financial derivatives (other than options)	555	485	1,700	1,789	571	318	22	-	-	5,440		1.63	7,464		1.94	6,963		1.51
Total fair value	980	1,305	8,511	11,947	9,904	7,647	2,308	-	3	42,605		3.32	47,738		3.18	45,777		3.41

	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2017	As of March 31, 2017	As of December 31, 2017	As of December 31, 2017	As of December 31, 2017	
	On Call to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return In %	Average effective duration <sup>(2)</sup> in years	As of March 31, 2017 Total fair value	Internal rate of return In %	Average effective duration <sup>(2)</sup> in years	Total fair value	Internal rate of return In %	Average effective duration <sup>(2)</sup> in years
<b>Financial instruments, net</b>																		
Exposure to interest rate fluctuations in the sector	1,182	1,651	2,056	6,395	3,870	(3,127)	(165)	254	9	12,125		3,684			8,762			
Cumulative exposure in sector	1,182	2,833	4,889	11,284	15,154	12,027	11,862	12,116	12,125	12,125		3,684			8,762			

**Specific remarks:**

- (1) Excludes balance sheet balances of financial derivatives, fair value of off-balance sheet financial instruments and fair value of complex financial instruments.
- (2) Weighted average by fair value of average effective duration.

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

Reported amounts (NIS in millions)

	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2017	As of March 31, 2017	As of December 31, 2017	As of December 31, 2017	As of December 31, 2017	
	On Call to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return In %	Average effective duration <sup>(3)</sup> in years	Internal rate of return In %	Average effective duration <sup>(3)</sup> in years	Total fair value	Internal rate of return In %	Average effective duration <sup>(3)</sup> in years	
<b>Foreign currency<sup>(1)</sup></b>																		
<b>Financial assets, amounts receivable with respect to derivatives and to complex financial assets</b>																		
Financial assets <sup>(2)</sup>	7,554	4,987	2,060	1,130	1,824	1,289	100	-	61	19,005	2.77	1.08	18,271	1.99	1.29	18,131	2.14	0.97
Financial derivatives (other than options)	32,351	25,225	20,592	7,879	2,531	1,688	-	-	-	90,266		0.39	87,241		0.40	80,083		0.45
Options (in terms of underlying asset)	611	900	2,523	210	70	-	-	-	-	4,314		0.16	4,848		0.14	4,228		0.06
<b>Total fair value</b>	<b>40,516</b>	<b>31,112</b>	<b>25,175</b>	<b>9,219</b>	<b>4,425</b>	<b>2,977</b>	<b>100</b>	<b>-</b>	<b>61</b>	<b>113,585</b>		<b>0.50</b>	<b>110,360</b>		<b>0.54</b>	<b>102,442</b>		<b>0.53</b>
<b>Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities</b>																		
Financial liabilities <sup>(2)</sup>	19,897	8,022	6,895	708	137	15	-	-	-	35,674	1.53	0.28	37,072	0.72	0.32	35,744	1.17	0.29
Financial derivatives (other than options)	19,391	10,720	30,472	8,358	2,370	1,768	-	-	-	73,079		0.57	68,249		0.63	62,191		0.65
Options (in terms of underlying asset)	757	1,131	2,207	433	125	-	-	-	-	4,653		0.34	4,833		0.25	4,503		0.11
<b>Total fair value</b>	<b>40,045</b>	<b>19,873</b>	<b>39,574</b>	<b>9,499</b>	<b>2,632</b>	<b>1,783</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>113,406</b>		<b>0.47</b>	<b>110,154</b>		<b>0.51</b>	<b>102,438</b>		<b>0.50</b>

	As of March 31, 2018	As of March 31, 2018	As of March 31, 2017	As of March 31, 2017	As of December 31, 2017	As of December 31, 2017	As of December 31, 2017										
	On Call	Over 1 month	Over 3 months	Over 1 year	Over 3 years	Over 5 years	Over 10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return In %	Average effective duration <sup>(3)</sup> in years	Internal rate of return In %	Average effective duration <sup>(3)</sup> in years	Total fair value	Internal rate of return In %	Average effective duration <sup>(3)</sup> in years

**Financial instruments,  
net**

Exposure to interest rate  
fluctuations in the sector  
Cumulative exposure in  
sector

Exposure to interest rate fluctuations in the sector	471	11,239	(14,399)	(280)	1,793	1,194	100	-	61	179				206			4
Cumulative exposure in sector	471	11,710	(2,689)	(2,969)	(1,176)	18	118	118	179	179				206			4

**Specific remarks:**

- (1) Includes Israeli currency linked to foreign currency.
- (2) Excludes balance sheet balances of financial derivatives, fair value of off-balance sheet financial instruments and fair value of complex financial instruments.
- (3) Weighted average by fair value of average effective duration.

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

Reported amounts (NIS in millions)

	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2017	As of March 31, 2017	As of December 31, 2017	As of December 31, 2017	As of December 31, 2017						
	On Call to 1 month	Over 1 to 3 months	Over 3 to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return In %	Average effective duration <sup>(2)</sup> in years	Internal rate of return In %	Average effective duration <sup>(2)</sup> in years	Total fair value	Internal rate of return In %	Average effective duration <sup>(2)</sup> in years	
<b>Total exposure to interest rate fluctuations</b>																		
<b>Financial assets, amounts receivable with respect to derivatives and to complex financial assets</b>																		
Financial assets <sup>(1)</sup>	137,946	9,708	17,846	29,032	23,073	12,214	6,141	619	470	237,049	3.25	1.66	226,836	3.37	1.39	233,322	3.25	1.66
Financial derivatives (other than options)	38,177	30,284	49,317	18,751	9,915	8,296	19	-	-	154,759		0.65	159,343		0.74	144,427		0.71
Options (in terms of underlying asset)	1,310	1,912	4,500	671	224	-	-	-	-	8,617		0.70	9,245		0.70	8,383		0.70
<b>Total fair value</b>	<b>177,433</b>	<b>41,904</b>	<b>71,663</b>	<b>48,454</b>	<b>33,212</b>	<b>20,510</b>	<b>6,160</b>	<b>619</b>	<b>470</b>	<b>400,425</b>		<b>1.25</b>	<b>395,424</b>		<b>1.11</b>	<b>386,132</b>		<b>1.29</b>
<b>Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities</b>																		
Financial liabilities <sup>(1)</sup>	102,429	19,706	35,025	30,735	20,849	15,248	3,088	12	3	227,095	0.95	1.35	217,291	1.09	1.29	223,403	0.97	1.43
Financial derivatives (other than options)	38,255	30,358	48,712	18,682	10,011	8,283	22	-	-	154,323		0.77	159,690		0.86	144,154		0.83
Options (in terms of underlying asset)	1,279	1,872	4,527	675	207	-	-	-	-	8,560		0.62	9,090		0.63	8,317		0.56
<b>Total fair value</b>	<b>141,963</b>	<b>51,936</b>	<b>88,264</b>	<b>50,092</b>	<b>31,067</b>	<b>23,531</b>	<b>3,110</b>	<b>12</b>	<b>3</b>	<b>389,978</b>		<b>1.10</b>	<b>386,071</b>		<b>1.10</b>	<b>375,874</b>		<b>1.18</b>

	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2017	As of March 31, 2017	As of December 31, 2017	As of December 31, 2017	As of December 31, 2017	
	On Call	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return In %	Average effective duration <sup>(2)</sup> in years	As of March 31, 2017	Internal rate of return In %	Average effective duration <sup>(2)</sup> in years	Total fair value	Internal rate of return In %	Average effective duration <sup>(2)</sup> in years

**Financial instruments,  
net**

Exposure to interest rate  
fluctuations in the sector  
Cumulative exposure in  
sector

Exposure to interest rate fluctuations in the sector	35,470	(10,032)	(16,601)	(1,638)	2,145	(3,021)	3,050	607	467	10,447			9,353			10,258		
Cumulative exposure in sector	35,470	25,438	8,837	7,199	9,344	6,323	9,373	9,980	10,447	10,447			9,353			10,258		

**Specific remarks:**

- (1) Excludes balance sheet balances of financial derivatives, fair value of off-balance sheet financial instruments and fair value of complex financial instruments.
- (2) Weighted average by fair value of average effective duration.

**General remarks:**

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

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

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

	Israeli currency Non-linked	Israeli currency Linked to CPI	Foreign currency <sup>(2)</sup> Dollar	Foreign currency <sup>(2)</sup> EUR	Other	Total
<b>March 31, 2018</b>						
Financial assets <sup>(1)</sup>	166,819	51,225	13,368	3,591	2,046	237,049
Amounts receivable with respect to financial derivatives <sup>(3)</sup>	65,291	3,505	75,104	14,670	4,806	163,376
Financial liabilities <sup>(1)</sup>	(154,256)	(37,165)	(28,715)	(4,499)	(2,460)	(227,095)
Amounts payable with respect to financial derivatives <sup>(3)</sup>	(79,711)	(5,440)	(59,493)	(13,734)	(4,505)	(162,883)
<b>Total</b>	<b>(1,857)</b>	<b>12,125</b>	<b>264</b>	<b>28</b>	<b>(113)</b>	<b>10,447</b>
<b>December 31, 2017</b>						
Financial assets <sup>(1)</sup>	164,265	50,926	13,070	3,172	1,889	233,322
Amounts receivable with respect to financial derivatives <sup>(3)</sup>	64,886	3,613	68,750	10,741	4,820	152,810
Financial liabilities <sup>(1)</sup>	(148,845)	(38,814)	(28,725)	(4,643)	(2,376)	(223,403)
Amounts payable with respect to financial derivatives <sup>(3)</sup>	(78,814)	(6,963)	(52,978)	(9,320)	(4,396)	(152,471)
<b>Total</b>	<b>1,492</b>	<b>8,762</b>	<b>117</b>	<b>(50)</b>	<b>(63)</b>	<b>10,258</b>

Net fair value of financial instruments, after impact of changes in interest rates (NIS in millions)<sup>(4)</sup>:

	Israeli currency Non- linked	Israeli currency Linked to CPI	Foreign currency <sup>(2)</sup> Dollar	Foreign currency <sup>(2)</sup> EUR	Other	Total	Change in fair value NIS in millions	Change in fair value In %
<b>March 31, 2018</b>								
Change in interest rates:								
Concurrent immediate increase of 1%	(2,081)	12,046	183	(19)	(116)	10,013	(434)	(4.2)
Concurrent immediate increase of 0.1%	(1,883)	12,117	255	23	(113)	10,399	(48)	(0.5)
Concurrent immediate decrease of 1%	(1,560)	12,217	353	78	(110)	10,978	531	5.1
<b>December 31, 2017</b>								
Change in interest rates:								
Concurrent immediate increase of 1%	1,613	8,783	57	(92)	(65)	10,296	38	0.4
Concurrent immediate increase of 0.1%	1,503	8,764	110	(54)	(63)	10,260	2	-
Concurrent immediate decrease of 1%	1,421	8,739	185	(6)	(60)	10,279	21	0.2

(1) Includes Israeli currency linked to foreign currency.

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

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

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

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

For further details of assumptions used in calculation of the fair value of financial instruments, see Note 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 March 31, 2018, capital increase (erosion) (NIS in millions):

	10% increase	5% increase	Decrease of 5%	Scenarios Decrease of 10%	Historical stress scenario <sup>(1)</sup> Maximum increase	Historical stress scenario <sup>(1)</sup> Maximum decrease
CPI <sup>(2)</sup>	1,314.3	669.2	(697.9)	(1,395.9)	212.7	(107.7)
Dollar	70.7	29.5	(24.8)	(41.5)	18.1	(12.6)
Pound						
Sterling	(2.5)	(1.3)	0.9	0.1	(1.0)	0.9
Yen	3.6	(0.3)	0.1	0.8	(0.2)	0.1
EUR	9.8	2.5	(2.9)	(12.5)	1.6	(1.1)
Swiss Franc	0.2	0.1	(0.4)	(1.1)	0.3	(0.5)

(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 411.2 million and NIS (418.8) million, respectively.

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

### Share price risk

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

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

## Operating risk

### Risk description and development

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

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

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

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).

In the first quarter of 2018, there were no significant events in the various operating risk areas.

The Bank applies Proper Banking Conduct Directive 355 concerning "Management of business continuity". In the first quarter of 2018, a DRP exercise took place (disaster recovery for IT), including testing of systems that were not part of the previous exercise and elimination of gaps from previous exercises.

As part of deployment of the business continuity plan, a meeting of internal control trustees took place, including delivery of a detailed review of BCP (Business Continuity Plan) procedures and the role of internal control trustees during emergencies. Knowledge items were created and disseminated with regard to business continuity in the knowledge management system for branch employees, in support of deployment and knowledge improvement.

The Bank participated in an exercise by the IDF Civilian Command, in coordination with the Bank Security Officer, which included an exercise in branches, including evacuation to a protected shelter, exercise of security procedures and review of branch performance in evacuation and assistance to the disabled in evacuation to the shelter.

### **Information security and cyber security**

Directive 361 with regard to Cyber Defense Management provides guidelines for proper management of cyber risks, which require expansion and adjustment of the IT risks management framework with regard to the threat space perception and the required defensive capabilities. Accordingly, the Bank has an approved strategy and comprehensive cyber defense policy and has specified the defense lines for its implementation, has appointed an Information Security and Cyber Defense Manager, reporting to the Manager, Risks Control Division -responsible, *inter alia*, for setting policy on information security and cyber defense at the Bank, development of a cyber defense work plan, monitoring the implementation of this work plan and review of the effectiveness of systems and processes for information security and cyber defense.

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

In the first quarter of 2018, as part of an extensive wave of fraud attempts in the banking system, multiple attempts were made to transfer funds from client accounts which were victims of a phishing attack, where their account credentials and credit card information were stolen by using a fake website.

These attempts were effectively identified by the defense systems applied by the Bank to protect its client accounts.

The Bank immediately notified the clients whose accounts showed suspicious login or transfer attempts and instructed these clients to cancel their credit cards.

This event was reported to relevant parties at the Bank and elsewhere. No damage was incurred by the Bank nor by Bank clients.

### **Information technology risk**

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

### **Legal risk**

Proper Banking Conduct Directive no. 350 concerning "Operating risks" defines legal risk as including, but not being limited to exposure to fines or penalties arising from supervisory action, as well as from individual arrangements.

The Bank's Legal Division regularly analyzes the legal risk components, the risk boundaries (arising, for example, from the counter-party identity, from creation of collateral etc.) as well as specific risk attributes while reviewing its risk level and exposure with attention to the different lines of business at the Bank. For more information about an investigation by the US Department of Justice concerning Bank Group business with its US clients, see Note 10.B.4 to the financial statements.

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

## Liquidity and financing risk

### Risk description 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 quarter of 2018.

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

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

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

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

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

### Liquidity coverage ratio

In conformity with Proper Conduct of Banking Business Regulation 221 "Liquidity coverage ratio", the minimum regulatory requirement as from January 1, 2017 is 100%. As part of its risks management policy, the Bank's Board of Directors specified that additional safety cushions are to be maintained, beyond the regulatory minimum ratio; hence the target liquidity coverage ratio for the Bank and the Group in 2018 would be 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 first quarter of 2018 was 125%. As noted above, in the first quarter of 2018 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 March 31, 2018, the balance of the three largest depositor groups at the Bank Group amounted to NIS 9.0 billion.

raising sources and Bank liquidity status -In the first quarter of 2018, there was an increase in the Bank's balance of deposits from the public. The balance of deposits from the public rose from NIS 183.6 billion on December 31, 2017 to NIS 187.1 billion on March 31, 2018, an increase by 1.9%.

In the non-linked segment, total deposits from the public amounted to NIS 138.3 billion, an increase by 3.9% compared to end of 2017. In the CPI-linked sector, deposits from the public amounted to NIS 14.1 billion, a decrease by 10.4%, and in the foreign currency sector -to NIS 34.7 billion, a decrease by 0.1% compared to end of 2017.

## Other risks

### Compliance and regulatory risk

#### Risk description and its development

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

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

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

The decrease is due, *inter alia*, to further addressing the risks classified as High and further increase in control and training and increased efficiency of work processes in this area, including re-organization of the Compliance Division and creation of a specialized Compliance Risk Management Department. This is in view of further increased regulatory activity reflected, *inter alia*, in new directives being issued frequently, which the Bank is preparing for.

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

### Cross-border and AML risk

#### Risk description and its development

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

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

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

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

Cross-border risk remained unchanged in the first quarter of 2018 and is defined as low-medium. The Bank continues preparations and manages risk, *inter alia*, by revising procedures, introducing computer-based work processes, reorganization of the Compliance Division and creation of a specialized Cross-border Risk Management Department, delivery of training, review of files and having clients sign as required.

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.

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

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

AML risk remained unchanged in the first quarter of 2018, due to continued intensive training and deployment activity, along with risk-focused controls and further deployment of an IT system to replace existing systems for identification of unusual activity and for reporting. This is along with the increase in business activity and in view of further increased regulatory activity reflected, *inter alia*, in new directives being issued frequently, which the Bank is preparing for.

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

## Reputation risk

### Risk description and its development

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

In the first quarter of 2018 there were no events which negatively impacted the Bank's reputation.

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

## Strategic risk

### Risk description and its development

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.

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

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

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

## Policies and critical accounting estimates, controls and procedures

### Policies and critical accounting estimates

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

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

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

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

#### Provisions for legal claims

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

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

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

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

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

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

Note that the provision for legal claims and contingent liabilities depends on multiple factors and involves a high degree of uncertainty. New information to be received by the Bank in future with regard to existing exposures as of the approval date of the financial statements may materially impact the exposure amount or the provision required with respect to such exposure. For more information about an investigation by the US Department of Justice concerning Bank Group business with its US clients, see Note 10.B.4 to the financial statements.

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

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

## Controls and Procedures

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

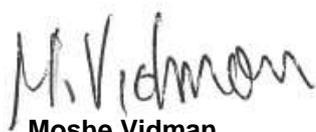
The Disclosure Certification relates to the controls and procedures that were designed to assure that the information that the Bank requires for disclosure in accordance with the Public Reporting Regulations of the Supervisor of Banks, is accumulated, processed and sent to the Bank's Executive Management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

### Evaluation of controls and procedures with regard to disclosure

Further to adjustment of controls and procedures with regard to disclosure concerning the change in structure of the financial statements, made in 2017, in the first quarter of 2018 additional adjustments were made with regard to quarterly financial statements. Bank management, together with the Bank President & CEO and the Chief Accountant of the Bank, evaluated the effectiveness of the Bank's disclosure controls and procedures as of March 31, 2018. Based on this evaluation, the Bank President & CEO and the Chief Accountant of the Bank concluded that at the end of the period ended March 31, 2018, the disclosure controls and procedures are effective for recording, processing, summarizing and reporting the information that the Bank is required to disclose in the quarterly report, in accordance with the Public Reporting Regulations of the Supervisor of Banks, on the date stipulated in these Regulations.

### Changes to internal controls

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



**Moshe Vidman**

Chairman of the Board of Directors



**Eldad Fresher**

President & CEO

Approval date:

Ramat Gan

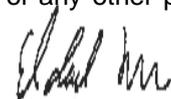
May 7, 2018

## Certification

I, ELDAD FRESHER, certify that:

1. I have reviewed the quarterly report of Bank Mizrahi Tefahot Ltd. ("the Bank") for the quarter ended March 31, 2018 ("the Report").
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact nor omit to state any material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, would not be misleading with respect to the period covered by the Report.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of the dates and for the periods presented in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure<sup>(1)</sup> and to the Bank's internal controls over financial reporting<sup>(1)</sup> as well as:
  - A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those entities, particularly during the period in which the Report is being prepared;
  - B. We have set such internal controls over financial reporting, or had it set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks;
  - C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and
  - D. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during this quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and
5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank's independent auditors, the Board of Directors and the Audit and Balance Sheet Committees of the Board of Directors of the Bank:
  - A. All significant deficiencies and material weaknesses in the determination or operation of internal controls over financial reporting which are reasonably likely to impair the Bank's ability to record, process, summarize and report financial information; and
  - B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal controls over financial reporting.

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



**Eldad Fresher**  
President & CEO

May 7, 2018

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

## Certification

I, MENAHEM AVIV, certify that:

1. I have reviewed the quarterly report of Bank Mizrahi Tefahot Ltd. ("the Bank") for the quarter ended March 31, 2018 ("the Report").
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact nor omit to state any material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, would not be misleading with respect to the period covered by the Report.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of the dates and for the periods presented in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure<sup>(1)</sup> and to the Bank's internal controls over financial reporting<sup>(1)</sup> as well as:
  - A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those entities, particularly during the period in which the Report is being prepared;
  - B. We have set such internal controls over financial reporting, or had it set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks;
  - C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and
  - D. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during this quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and
5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank's independent auditors, the Board of Directors and the Audit and Balance Sheet Committees of the Board of Directors of the Bank:
  - A. All significant deficiencies and material weaknesses in the determination or operation of internal controls over financial reporting which are reasonably likely to impair the Bank's ability to record, process, summarize and report financial information; and
  - B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal controls over financial reporting.

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



**Menahem Aviv**  
Vice-president,  
Chief Accountant

May 7, 2018

## 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 March 31, 2018, the condensed consolidated interim statements of profit and loss, comprehensive income, changes to shareholder equity and cash flows for the three-month periods then ended. The Board of Directors and management are responsible for preparation and presentation of financial information for this interim period, 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 interim financial information of certain consolidated subsidiaries, whose assets included in consolidation constitute 6.33% of total consolidated assets as of March 31, 2018, and whose net interest revenues before expenses with respect to credit losses included in the consolidated statements of profit and loss constitute 9.93% of total consolidated net interest revenues before expenses with respect to credit losses for the three-month period then ended. Furthermore, we did not review the condensed interim financial information of an associated company treated according to the equity method, the investment in which amounted to NIS 19 million as of March 31, 2018. The condensed financial information for the interim period of the aforementioned companies was reviewed by other independent auditors, we have been provided with their review reports and our conclusions, in as much as it relates to the financial information with respect to those companies, is based on the review reports by those other independent auditors.

### Review scope

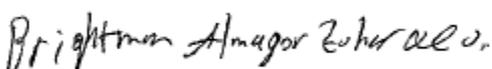
We have conducted our review in accordance with Review Standard no. 1 of the Institute of Certified Public Accountants in Israel "Review of Financial Information for Interim Periods Conducted by the Entity's Independent Auditor" and with the review standard whose application to review of banking corporations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

### Conclusion

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

Without qualifying our conclusion, we draw your attention to:

- A. Note 8.3, section 3 and to Note Note 10.B.3.(a-d) with regard to contingent liabilities of the Bank and a subsidiary thereof, including lawsuits filed against the Bank and motions for class action status.
- B. Note 10.B.4. with regard to an investigation by the US Department of Justice concerning Bank Group business with its US clients.



**Brightman Almagor Zohar & Co.**

**Certified Public Accountants**

**Member of Deloitte Touche Tohmatsu Limited**

Tel Aviv, May 7, 2018

# Condensed Financial Statements

## Table of Contents

Condensed consolidated statement of profit and loss	89
Condensed consolidated statement of profit and loss - Continued	90
Condensed consolidated statement of comprehensive income	90
Condensed consolidated balance sheet	91
Condensed Consolidated Statement of Changes in Shareholders' Equity	92
Condensed consolidated statement of cash flows(1)	94
Note 1 - Reporting Principles and Accounting Policies	96
Note 2 - Interest revenues and expenses	100
Note 3 - Non-interest financing revenues	101
Note 4 - Cumulative other comprehensive income (loss)	102
Note 5 - Securities	104
Note 6 - Credit risk, loans to the public and provision for credit losses	108
Note 7 - Deposits from the Public	111
Note 8 - Employees' Rights	112
Note 9 - Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks	114
Note 10 - Contingent Liabilities and Special Commitments	118
Note 11 - Derivatives and hedging activities	127
Note 12 - Operating Segments	136
Note 13 - Additional information about credit risk, loans to the public and provision for credit losses	149
Note 14 - Assets and Liabilities by Linkage Basis	166
Note 15 - Balances and estimates of fair value of financial instruments	169
Note 16 - Events after the balance sheet date	180



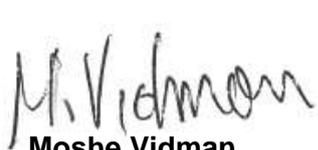
## Condensed consolidated statement of profit and loss

Reported amounts (NIS in millions)

	Note	For the three months ended March 31, 2018 (unaudited)	For the three months ended March 31, 2017 (unaudited)	For the year ended December 31, 2017 (audited)
Interest revenues	2	1,449	1,356	6,222
Interest expenses	2	368	329	1,875
Interest revenues, net		1,081	1,027	4,347
Expenses with respect to credit losses	6,13	82	49	192
Interest revenues, net after expenses with respect to credit losses		999	978	4,155
<b>Non-interest revenues</b>				
Non-interest financing revenues (expenses)	3	90	(1)	136
Commissions		362	357	1,423
Other revenues		11	12	94
Total non-interest revenues		463	368	1,653
<b>Operating and other expenses</b>				
Payroll and associated expenses		569	( <sup>1</sup> )487	( <sup>1</sup> )2,271
Maintenance and depreciation of buildings and equipment		189	186	742
Other expenses		154	( <sup>1</sup> )150	( <sup>1</sup> )598
Total operating and other expenses		912	823	3,611
Pre-tax profit		550	523	2,197
Provision for taxes on profit		192	192	806
After-tax profit		358	331	1,391
Share of loss of associated companies, after tax		-	(1)	-
<b>Net profit:</b>				
Before attribution to non-controlling interests		358	330	1,391
Attributable to non-controlling interests		(15)	(9)	(44)
Attributable to shareholders of the Bank		343	321	1,347

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

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



**Moshe Vidman**  
Chairman of the Board of  
Directors



**Eldad Fresher**  
President & CEO



**Menahem Aviv**  
Vice-president, Chief  
Accountant

Approval date:  
Ramat Gan, May 7, 2018

## Condensed consolidated statement of profit and loss - Continued

Reported amounts (NIS in millions)

	For the three months ended March 31, 2018 (unaudited)	For the three months ended March 31, 2017 (unaudited)	For the year ended December 31, 2017 (audited)
<b>Diluted earnings per share<sup>(1)</sup> (in NIS)</b>			
Basic earnings			
Net profit attributable to shareholders of the Bank	1.47	1.38	5.80
Weighted average number of ordinary shares used to calculate basic earnings	232,806,410	232,190,303	232,357,974
Diluted earnings			
Net profit attributable to shareholders of the Bank	1.46	1.37	5.76
Weighted average number of ordinary shares used to calculate diluted earnings	234,290,173	233,804,973	234,002,171

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

## Condensed consolidated statement of comprehensive income

Reported amounts (NIS in millions)

	For the three months ended March 31, 2018 (unaudited)	For the three months ended March 31, 2017 (unaudited)	For the year ended December 31, 2017 (audited)
<b>Net profit:</b>			
Before attribution to non-controlling interests	358	330	1,391
Attributable to non-controlling interests	(15)	(9)	(44)
Net profit attributable to shareholders of the Bank	343	321	1,347
<b>Other comprehensive income (loss) before taxes</b>			
Adjustments for presentation of available-for-sale securities at fair value, net	(64)	11	22
Adjustments from translation of financial statements of investments in associated companies <sup>(1)</sup>	-	(1)	(4)
Net loss from cash flow hedges	(1)	(1)	(8)
Adjustment of liabilities with respect to employees' benefits <sup>(2)</sup>	23	21	(132) <sup>(3)</sup>
Total other comprehensive income (loss), before tax	(42)	30	(122)
Related tax effect	15	(11)	44
<b>Other comprehensive income (loss) after taxes<sup>(4)</sup></b>			
Other comprehensive income (loss), before attribution to non-controlling interests	(27)	19	(78)
Less other comprehensive income (loss) attributed to non-controlling interests	(1)	-	12
Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes	(28)	19	(66)
<b>Comprehensive income:</b>			
Before attribution to non-controlling interests	331	349	1,313
Attributable to non-controlling interests	(16)	(9)	(32)
Comprehensive income attributable to shareholders of the Bank	315	340	1,281

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

(2) Includes adjustments with respect to actuarial estimates included in the reported period for defined-benefit pension plans and current amortization of adjustments with respect to liabilities to profit and loss.

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

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

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

## Condensed consolidated balance sheet

Reported amounts (NIS in millions)

	Note	As of March 31, 2018 (unaudited)	As of March 31, 2017 (unaudited)	As of December 31 2017 (audited)
<b>Assets</b>				
Cash and deposits with banks		43,156	41,683	41,130
Securities <sup>(1)(2)</sup>	5	9,057	11,791	10,133
Securities loaned or purchased in resale agreements		46	46	76
Loans to the public	6,13	185,127	174,533	182,602
Provision for credit losses	6,13	(1,499)	(1,465)	(1,484)
Loans to the public, net		183,628	173,068	181,118
Loans to Governments		493	312	456
Investments in associated companies		32	33	32
Buildings and equipment		1,378	1,550	1,403
Intangible assets and goodwill		87	87	87
Assets with respect to derivatives	11	3,153	3,951	3,421
Other assets		1,775	1,550	1,716
<b>Total assets</b>		<b>242,805</b>	<b>234,071</b>	<b>239,572</b>
<b>Liabilities and Equity</b>				
Deposits from the public	7	187,066	180,722	183,573
Deposits from banks		885	1,474	1,125
Deposits from the Government		52	56	51
Debentures and subordinated notes		29,864	26,924	29,923
Liabilities with respect to derivatives	11	2,660	4,143	3,082
Other liabilities <sup>(3)</sup>		7,730	7,118	7,491
<b>Total liabilities</b>		<b>228,257</b>	<b>220,437</b>	<b>225,245</b>
<b>Shareholders' equity attributable to shareholders of the</b>				
Bank		13,890	13,015	13,685
Non-controlling interests		658	619	642
<b>Total equity</b>		<b>14,548</b>	<b>13,634</b>	<b>14,327</b>
<b>Total liabilities and equity</b>		<b>242,805</b>	<b>234,071</b>	<b>239,572</b>

(1) Of which: NIS 6,463 million at fair value on consolidated basis (March 31, 2017 - NIS 8,450 million; December 31, 2017 - NIS 6,768 million).

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

(3) Of which: Provision for credit losses with respect to off balance sheet credit instruments amounting to NIS 96 million (on March 31, 2017 - NIS 93 million, on December 31, 2017 - NIS 90 million).

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

## Condensed Consolidated Statement of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

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For the three months ended March 31, 2018 (unaudited)

	Share capital and premium <sup>(1)</sup>	Capital reserve from benefit from share- based payment transactions	Treasury shares	Total paid-up share capital and capital reserves	Cumulative other comprehensive income (loss) <sup>(3)</sup>	Retained earnings <sup>(4)</sup>	Total shareholders' equity	Non-controlling interests	Total equity
Balance as of December 31, 2017	2,180	65	-	2,245	(383)	11,823	13,685	642	14,327
Net profit for the period	-	-	-	-	-	343	343	15	358
Dividends paid <sup>(6)</sup>	-	-	-	-	-	(110)	(110)	-	(110)
Benefit from share-based payment transactions	-	-	-	-	-	-	-	-	-
Related tax effect	-	-	-	-	-	-	-	-	-
Realization of share-based payment transactions <sup>(2)</sup>	5	(5)	-	-	-	-	-	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-	(28)	-	(28)	1	(27)
Balance as of March 31, 2018	2,185	60	-	2,245	(411)	12,056	13,890	658	14,548

For the three months ended March 31, 2017 (unaudited)

	Share capital and premium <sup>(1)</sup>	Capital reserve from benefit from share- based payment transactions	Treasury shares	Total paid-up share capital and capital reserves	Cumulative other comprehensive income (loss) <sup>(3)</sup>	Retained earnings <sup>(4)</sup>	Total shareholders' equity	Non-controlling interests	Total equity
Balance as of December 31, 2016	2,239	58	(76)	2,221	(317)	10,810	12,714	610	13,324
Net profit for the period	-	-	-	-	-	321	321	9	330
Dividends paid <sup>(5)</sup>	-	-	-	-	-	(40)	(40)	-	(40)
Benefit from share-based payment transactions	-	-	-	-	-	-	-	-	-
Related tax effect	-	1	-	1	-	-	1	-	1
Realization of share-based payment transactions <sup>(2)</sup>	7	(7)	-	-	-	-	-	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-	19	-	19	-	19
Balance as of March 31, 2017	2,246	52	(76)	2,222	(298)	11,091	13,015	619	13,634

For the year ended December 31, 2017 (audited)

	Share capital and premium <sup>(1)</sup>	Capital reserve from benefit from share- based payment transactions	Treasury shares	Total paid-up share capital and capital reserves	Cumulative other comprehensive income (loss) <sup>(3)</sup>	Retained earnings <sup>(4)</sup>	Total shareholders' equity	Non-controlling interests	Total equity
Balance as of December 31, 2016	2,239	58	(76)	2,221	(317)	10,810	12,714	610	13,324
Net profit for the period	-	-	-	-	-	1,347	1,347	44	1,391
Dividends paid <sup>(5)</sup>	-	-	-	-	-	(334)	(334)	-	(334)
Benefit from share-based payment transactions	-	24	-	24	-	-	24	-	24
Related tax effect	-	-	-	-	-	-	-	-	-
Realization of share-based payment transactions <sup>(2)</sup>	17	(17)	-	-	-	-	-	-	-
Cancellation of treasury shares <sup>(8)</sup>	(76)	-	76	-	-	-	-	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-	<sup>(9)</sup> (66)	-	(66)	(12)	(78)
Balance as of December 31, 2017	2,180	65	-	2,245	(383)	11,823	13,685	642	14,327

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

(2) In the first quarter of 2018, 209,742 ordinary NIS 0.1 par value shares were issued (In the first quarter of 2017 and in all of 2017, 212,323 and 533,719 ordinary NIS 0.1 par value shares were issued, respectively) for exercise of options pursuant to the Employee Stock Option Plan. In the first quarter of 2017 and in all of 2017, 9,137 ordinary NIS 0.1 par value shares were issued to the Bank President & CEO.

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

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

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

(6) On March 26, 2018, the Bank paid dividends amounting to NIS 109.5 million, in conformity with a decision by the Bank Board of Directors.

(7) On May 7, 2018, after the balance sheet date, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 137.2 million, or 40% of earnings in the first quarter of 2018. According to accounting rules, this amount will be deducted from retained earnings in the second quarter of 2018.

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

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

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

## Condensed consolidated statement of cash flows<sup>(1)</sup>

Reported amounts (NIS in millions)

	For the three months ended March 31, 2018 (unaudited)	For the three months ended March 31, 2017 (unaudited)	For the year ended December 31, 2017 (audited)
<b>Cash flows provided by current operations</b>			
Net profit	358	330	1,391
<b>Adjustments</b>			
Share of the Bank in undistributed earnings of associated companies	-	1	-
Depreciation of buildings and equipment	60	63	245
Expenses with respect to credit losses	82	49	192
Gain from sale of securities available for sale	(5)	(11)	(52)
Realized and unrealized loss from adjustment to fair value of securities held for trading	3	3	1
Gain from sale of buildings and equipment	-	-	(55)
Expenses arising from share-based payment transactions	-	-	24
Deferred taxes, net	14	(29)	9
Change in employee provisions and liabilities	7	(17)	98
Adjustments with respect to exchange rate differentials	8	64	82
Proceeds from sale of loan portfolios	-	(1)	(4)
Accrual differences included with investment and financing operations	(45)	23	32
<b>Net change in current assets</b>			
Assets with respect to derivatives	267	(368)	155
Securities held for trade	12	143	138
Other assets, net	(26)	(22)	(74)
<b>Net change in current liabilities</b>			
Liabilities with respect to derivatives	(422)	577	(484)
Other liabilities	245	387	388
<b>Net cash provided by current operations</b>	<b>558</b>	<b>1,192</b>	<b>2,086</b>

(1) Restated. Layout of the disclosures concerning the cash flows statement was adapted to US GAAP as specified in provisions of Topic 230 of the Codification. For more information see Note 1.D.1.

## Condensed consolidated statement of cash flows<sup>(1)</sup> - Continued

Reported amounts (NIS in millions)

	For the three months ended March 31, 2018 (unaudited)	For the three months ended March 31, 2017 (unaudited)	For the year ended December 31, 2017 (audited)
<b>Cash flows provided by investment activities</b>			
Net change in deposits with banks	(396)	179	(403)
Net change in loans to the public	(3,185)	(2,431)	(11,865)
Net change in loans to Governments	(9)	18	(126)
Net change in securities loaned or acquired in resale agreements	30	(37)	(67)
Acquisition of debentures held to maturity	-	(111)	(111)
Proceeds from redemption of securities held to maturity	723	-	-
Acquisition of securities available for sale	(1,170)	(2,355)	(4,501)
Proceeds from sale of securities available for sale	646	516	4,671
Proceeds from redemption of securities available for sale	791	221	-
Proceeds from sale of loan portfolios	796	871	2,586
Purchase of loan portfolios	(253)	(218)	(702)
Acquisition of buildings and equipment	(35)	(21)	(247)
Proceeds from sale of buildings and equipment	-	-	328
Proceeds from realized investment in associates	-	-	1
Net cash provided by investment activities	(2,062)	(3,368)	(10,436)
<b>Cash flows provided by financing operations</b>			
Net change in deposits from the public	3,493	2,470	5,321
Net change in deposits from banks	(240)	(63)	(412)
Net change in deposits from Government	1	6	1
Issuance of debentures and subordinated notes	-	-	6,909
Redemption of debentures and subordinated notes	(2)	(57)	(4,051)
Dividends paid to shareholders	(110)	-	(334)
Net cash provided by financing operations	3,142	2,356	7,434
Increase (decrease) in cash	1,638	201	(916)
Cash balance at beginning of the period	40,497	41,495	41,495
Effect of changes in exchange rate on cash balances	(8)	(64)	(82)
Cash balance at end of the period	42,127	41,632	40,497
<b>Interest and taxes paid / received</b>			
Interest received	1,637	1,834	6,521
Interest paid	279	269	1,717
Dividends received	6	4	4
Income taxes received	-	60	64
Income taxes paid	278	151	780
<b>Appendix A - Non-cash Transactions</b>			
Acquisition of buildings and equipment	-	7	25

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

## Note 1 - Reporting Principles and Accounting Policies

### A. Overview

On May 7, 2018, the Bank Board of Directors authorized publication of these condensed financial statements as of March 31, 2018.

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

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

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

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

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

### B. Reclassification on the financial statements

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

### C. Use of estimates

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

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

As from reporting periods starting on January 1, 2018 (unless otherwise noted), the Bank applies the following new accounting standards and directives:

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

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

## Note 1 - Reporting Principles and Accounting Policies - continued

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

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

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

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

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

### 2. Share-based payment

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

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

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

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

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

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

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

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

### 3. Limit on sector indebtedness

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

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

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

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

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

## Note 1 - Reporting Principles and Accounting Policies - continued

### 4. Improved presentation of expenses with respect to pension and other post-employment benefits

On January 1, 2018, the Supervisor of Banks issued a circular with regard to codification update 2017-07 re improved presentation of expenses with respect to pension and other post-employment benefits.

The update clarifies that components of benefit cost included under payroll expenses on the statement of profit and loss should be separated, so that only cost of service remains under payroll expenses, with all other costs presented under non-operating expenses (Other Expenses). Furthermore, the update clarifies that only the cost of service may be capitalized, in cases where payroll expenses may be capitalized, and other components of the benefit cost may not be capitalized.

According to the circular, the Bank retroactively applies the directives to these financial statements, including by reclassification of comparative figures.

Below are details of the effect of initial implementation on profit and loss data:

	For the three months ended March 31, 2017 (unaudited) Amount presented in these financial statements	For the three months ended March 31, 2017 Effect of classification	For the three months ended March 31, 2017 In conformity with previous provisions	For the year ended December 31, 2017 (audited) Amount presented in these financial statements	For the year ended December 31, 2017 Effect of classification	For the year ended December 31, 2017 In conformity with previous provisions
<b>Profit and loss</b>						
Payroll and associated expenses	487	(11)	498	2,271	(55)	2,326
Other expenses	150	11	139	598	55	543

### 5. Recognition of revenues from contracts with clients

On January 11, 2015, the Supervisor of Banks issued a circular concerning adoption of an update to accounting rules with regard to revenues from contracts with clients. The circular updates the Public Reporting Directives in view of the publication of ASU 2014-09, a new standard on revenue recognition in US accounting rules. In conformity with provisions of the standard, revenue is to be recognized at the amount expected to be received in consideration of transfer of goods or provision of services to clients.

The new standard does not apply, *inter alia*, to financial instruments and to contractual rights or obligations within the scope of chapter 310 of the codification. Furthermore, the Bank of Israel directives clarify that, in general, provisions of the new standards would not apply to accounting treatment of interest revenues and expenses nor to non-interest financing revenues.

The Bank applies provisions of the new standard as from January 1, 2018.

Application of this circular has no effect on the Bank's financial statements.

## Note 1 - Reporting Principles and Accounting Policies - continued

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

Standard / update topic	Issue date	Start date	Issued by	Standard summary	Effect on the Bank's financial statements
ASU 2017-04 Impairment of goodwill	January 2017	January 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 in the amount of the difference between the fair value of the reported unit and its carrying amount, taking into account the effect of taxes on income. However, the impairment loss may not exceed the goodwill allocated to the reporting unit.	No material effect is expected
Receivables ASU 2017-08	March 2017	January 1, 2019	US Financial Accounting Standards Board ("FASB")	The amortization period of premium on debentures with optional early redemption by the issuer is to be calculated based on the earliest redemption date.	No material effect is expected
Adoption of updates to US GAAP with regard to provision for credit losses ASU 2016-13	March 2018	January 1, 2021	<b>Supervisor of Banks</b>	Provision for credit losses is to be calculated in conformity with expected loss over the credit term. This is <i>in lieu</i> of estimation of the loss incurred and yet to be identified; estimation of the provision for credit losses shall include significant use of forward-looking information, reflecting reasonable forecasts with regard to future economic events; the new rules for calculating the provision for credit losses shall apply to loans (including housing loans), debentures held to maturity and certain off-balance sheet credit exposures.	The Bank is studying the impact of adopting the standards.
Adoption of updates to US GAAP with regard to recognition and measurement of financial Instruments ASU 2016-01	March 2018	January 1, 2019	<b>Supervisor of Banks</b>	Negotiable shares in the available-for-sale portfolio shall be measured at fair value through profit and loss; changes to fair value of financial liabilities measured at fair value, due to instrument-specific credit risk, shall be recognized on Other Comprehensive Income rather than on the statement of profit and loss; presentation of financial instruments on the balance sheet shall be revised.	The Bank is studying the impact of adopting the standards.
Adoption of updates to US GAAP with regard to derivatives and hedging activities ASU 2017-12	March 2018	January 1, 2019	<b>Supervisor of Banks</b>	The rules expand the capacity of banking corporations to hedge certain risk components, thereby aligning the presentation of hedging instruments and hedged items on the financial statements; the rules simplify the application of accounting directives with regard to hedging, primarily through relief in requirements for review of the hedge effectiveness and hedge documentation; the rules update the disclosure re derivatives activities of banking corporations.	The Bank is studying the impact of adopting the standards.
Adoption of updates to US GAAP with regard to leases ASU 2016-02	March 2018	January 1, 2020	<b>Supervisor of Banks</b>	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, assets recorded under operating lease transactions shall be weighted at the same risk weighting assigned to other assets.	The Bank is studying the impact of adopting the standards.

## Note 2 - Interest revenues and expenses

Reported amounts (NIS in millions)

	For the three months ended March 31, 2018 (unaudited)	For the three months ended March 31, 2017 (unaudited)	For the year ended December 31, 2017 (audited)
<b>A. Interest revenues<sup>(1)</sup></b>			
From loans to the public	1,375	1,301	5,989
From loans to Governments	4	3	11
From deposits with the Bank of Israel and from cash	18	17	74
From deposits with banks	1	3	8
From debentures	51	32	140
<b>Total interest revenues</b>	<b>1,449</b>	<b>1,356</b>	<b>6,222</b>
<b>B. Interest expenses</b>			
On deposits from the public	288	227	1,261
On deposits from governments	-	-	2
On deposits from banks	2	3	11
On debentures and subordinated notes	78	98	599
On other liabilities	-	1	2
<b>Total interest expenses</b>	<b>368</b>	<b>329</b>	<b>1,875</b>
<b>Total interest revenues, net</b>	<b>1,081</b>	<b>1,027</b>	<b>4,347</b>
<b>C. Details of net effect of hedging derivatives on interest revenues</b>			
	4	(4)	(6)
<b>D. Details of interest revenues on accrual basis from debentures</b>			
Held to maturity	10	10	43
Available for sale	41	21	94
Held for trading	-	1	3
<b>Total included under interest revenues</b>	<b>51</b>	<b>32</b>	<b>140</b>

(1) Includes the effective element in the hedging ratios.

## Note 3 - Non-interest financing revenues

Reported amounts (NIS in millions)

	For the three months ended March 31, 2018 (unaudited)	For the three months ended March 31, 2017 (unaudited)	For the year ended December 31, 2017 (audited)
<b>A. Non-interest financing revenues (expenses) with respect to non-trading operations</b>			
<b>1. From activity in derivatives</b>			
Non-effective element of hedging ratios <sup>(1)</sup>	(2)	(3)	-
Net revenues (expenses) with respect to ALM derivatives <sup>(2)</sup>	294	(785)	(1,089)
<b>Total from activity in derivatives</b>	<b>292</b>	<b>(788)</b>	<b>(1,089)</b>
<b>2. From investment in debentures</b>			
Gains on sale of debentures available for sale	5	10	44
<b>Total from investment in debentures</b>	<b>5</b>	<b>10</b>	<b>44</b>
<b>3. Exchange rate differences, net</b>			
	(248)	799	1,196
<b>4. Gains from investment in shares</b>			
Gains on sale of available-for-sale shares	1	1	8
Provision for impairment of available-for-sale shares	(1)	-	-
Dividends from available-for-sale shares	6	3	4
<b>Total from investment in shares</b>	<b>6</b>	<b>4</b>	<b>12</b>
<b>5. Net gain with respect to loans sold</b>			
	-	1	4
<b>Total non-interest financing revenues with respect to non-trade operations</b>	<b>55</b>	<b>26</b>	<b>167</b>
<b>B. Non-interest financing revenues (expenses) with respect to trading operations<sup>(3)</sup></b>			
Net revenues (expenses) with respect to other derivatives	38	(24)	(30)
Realized losses from adjustment to fair value of debentures held for trade, net	-	(2)	-
Unrealized losses from adjustment to fair value of debentures held for trade, net	(3)	(1)	(1)
<b>Total from trading operations<sup>(4)</sup></b>	<b>35</b>	<b>(27)</b>	<b>(31)</b>
<b>Details of non-interest financing revenues (expenses) with respect to trading operations, by risk exposure</b>			
Interest exposure	-	2	2
Foreign currency exposure	33	(28)	(37)
Exposure to shares	2	1	4
Exposure to commodities and others	-	(2)	-
<b>Total</b>	<b>35</b>	<b>(27)</b>	<b>(31)</b>

(1) Excludes the effective element in the hedging ratios.

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

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

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

## Note 4 - Cumulative other comprehensive income (loss)

Reported amounts (NIS in millions)

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

Other comprehensive income (loss), before attribution to non-controlling interests  
for the three months ended March 31, 2018 (unaudited)

	Adjustments for presentation of securities available for sale at fair value	Translation adjustments <sup>(1)</sup>	Net gains from cash flow hedges	Adjustments with respect to employee benefits	Total	Other comprehensive income attributed to non-controlling interests	Other comprehensive income attributable to shareholders of the Bank
Balance as of December 31, 2017	(15)	(2)	4	(387)	(400)	(17)	(383)
Net change in the period	(41)	-	(1)	15	(27)	1	(28)
Balance as of March 31, 2018	(56)	(2)	3	(372)	(427)	(16)	(411)

For the three months ended March 31, 2017 (unaudited)

	Adjustments for presentation of securities available for sale at fair value	Translation adjustments <sup>(1)</sup>	Net gains from cash flow hedges	Adjustments with respect to employee benefits	Total	Other comprehensive income attributed to non-controlling interests	Other comprehensive income attributable to shareholders of the Bank
Balance as of December 31, 2016	(29)	1	9	(303)	(322)	(5)	(317)
Net change in the period	7	(1)	(1)	14	19	-	19
Balance as of March 31, 2017	(22)	-	8	(289)	(303)	(5)	(298)

For the year ended December 31, 2017 (audited)

	Adjustments for presentation of securities available for sale at fair value	Translation adjustments <sup>(1)</sup>	Net gains from cash flow hedges	Adjustments with respect to employee benefits	Total	Other comprehensive income attributed to non-controlling interests	Other comprehensive income attributable to shareholders of the Bank
Balance as of December 31, 2016	(29)	1	9	(303)	(322)	(5)	(317)
Net change in the period	14	(3)	(5)	(84) <sup>(2)</sup>	(78)	(12)	(66)
Balance as of December 31, 2017	(15)	(2)	4	(387)	(400)	(17)	(383)

(1) Foreign currency translation adjustments of associated companies whose functional currency differs from that of the Bank.

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

## Note 4 - Cumulative other comprehensive income (loss) - continued

Reported amounts (NIS in millions)

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

	For the three months ended March 31, 2018	For the three months ended March 31, 2018	For the three months ended March 31, 2018	For the three months ended March 31, 2017	For the three months ended March 31, 2017	For the three months ended March 31, 2017	For the year ended December 31, 2017	For the year ended December 31, 2017	For the year ended December 31, 2017
	Before tax (unaudited)	Tax effect (unaudited)	After tax (unaudited)	Before tax (unaudited)	Tax effect (unaudited)	After tax (unaudited)	Before tax (audited)	Tax effect (audited)	After tax (audited)
<b>Change in items of other comprehensive income (loss), before attribution to non-controlling interests:</b>									
<b>Adjustments for presentation of securities available for sale at fair value</b>									
Net unrealized gains (losses) from adjustments to fair value	(69)	25	(44)	21	(8)	13	66	(23)	43
Losses (gains) with respect to available-for-sale securities reclassified to the statement of profit and loss <sup>(1)</sup>	5	(2)	3	(10)	4	(6)	(44)	15	(29)
<b>Net change in the period</b>	<b>(64)</b>	<b>23</b>	<b>(41)</b>	<b>11</b>	<b>(4)</b>	<b>7</b>	<b>22</b>	<b>(8)</b>	<b>14</b>
<b>Translation adjustments</b>									
Adjustments from translation of financial statements <sup>(2)</sup>	-	-	-	(1)	-	(1)	(4)	1	(3)
<b>Net change in the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1)</b>	<b>-</b>	<b>(1)</b>	<b>(4)</b>	<b>1</b>	<b>(3)</b>
<b>Cash flows hedges</b>									
Net gains (losses) with respect to cash flows hedging	-	-	-	(1)	-	(1)	(8)	3	(5)
Net (gains) losses with respect to cash flow hedges reclassified to the statement of profit and loss <sup>(3)</sup>	(1)	-	(1)	-	-	-	-	-	-
<b>Net change in the period</b>	<b>(1)</b>	<b>-</b>	<b>(1)</b>	<b>(1)</b>	<b>-</b>	<b>(1)</b>	<b>(8)</b>	<b>3</b>	<b>(5)</b>
<b>Employee benefits</b>									
Net actuarial gain (loss) for the period	16	(6)	10	18	(6)	12	(150)	54	<sup>(4)</sup> (96)
Net losses reclassified to the statement of profit and loss	7	(2)	5	3	(1)	2	18	(6)	12
<b>Net change in the period</b>	<b>23</b>	<b>(8)</b>	<b>15</b>	<b>21</b>	<b>(7)</b>	<b>14</b>	<b>(132)</b>	<b>48</b>	<b>(84)</b>
<b>Total net change in the period</b>	<b>(42)</b>	<b>15</b>	<b>(27)</b>	<b>30</b>	<b>(11)</b>	<b>19</b>	<b>(122)</b>	<b>44</b>	<b>(78)</b>
Total net change in the period attributable to non-controlling interests	(1)	-	(1)	-	-	-	18	(6)	12
<b>Total net change in the period attributable to shareholders of the Bank</b>	<b>(43)</b>	<b>15</b>	<b>(28)</b>	<b>30</b>	<b>(11)</b>	<b>19</b>	<b>(104)</b>	<b>38</b>	<b>(66)</b>

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

(2) Foreign currency translation adjustments of associated companies whose functional currency differs from that of the Bank.

(3) Pre-tax amount included in the statement of profit and loss under "Interest revenues". For more information see Note 2.C. to the financial statements.

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

## Note 5 - Securities

As of March 31, 2018 (unaudited)

Reported amounts (NIS in millions)

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value <sup>(1)</sup>
<b>(1) Debentures held to maturity</b>					
of Government of Israel	2,507	2,507	64	-	2,571
Total debentures held to maturity	2,507	2,507	64	-	2,571

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value <sup>(1)</sup>
<b>(2) Securities available for sale</b>					
<b>Debentures and bonds -</b>					
Of the Government of Israel <sup>(2)</sup>	4,451	4,480	9	(38)	4,451
Of foreign governments <sup>(2)(5)</sup>	1,350	1,399	-	(49)	1,350
Of foreign financial institutions	449	453	-	(4)	449
Of others overseas	17	18	-	(1)	17
Total debentures available for sale	6,267	6,350	9	(92)	6,267
Shares <sup>(3)</sup>	89	89	-	-	89
Total securities available for sale	6,356	6,439	<sup>(4)</sup> 9	<sup>(4)</sup> (92)	6,356

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value <sup>(1)</sup>
<b>(3) Securities held for trade</b>					
<b>Debentures -</b>					
of Government of Israel	194	197	-	(3)	194
Total securities held for trade	194	197	-	<sup>(6)</sup> (3)	194
Total securities	9,057	9,143	73	(95)	9,121

(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 425 million.

(3) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 87 million.

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

(5) Primarily US government debentures.

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

Remarks:

- For more information about operations involving investments in debentures - see Notes 2.D, 3.A.2 and 3.B to the financial statements. For more information about investment in shares - see Note 3.A.4 to the financial statements.

- 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 March 31, 2017 (unaudited)

Reported amounts (NIS in millions)

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value <sup>(1)</sup>
<b>(1) Debentures held to maturity</b>					
of Government of Israel	3,250	3,250	76	-	3,326
Total debentures held to maturity	3,250	3,250	76	-	3,326

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value <sup>(1)</sup>
<b>(2) Securities available for sale</b>					
<b>Debentures and bonds -</b>					
Of the Government of Israel <sup>(2)</sup>	6,585	6,585	18	(18)	6,585
Of foreign governments <sup>(2)(5)</sup>	1,625	1,658	1	(34)	1,625
Of foreign financial institutions	18	18	-	-	18
Of others overseas	18	19	-	(1)	18
Total debentures available for sale	8,246	8,280	19	(53)	8,246
Shares <sup>(3)</sup>	93	93	-	-	93
Total securities available for sale	8,339	8,373	<sup>(4)</sup> 19	<sup>(4)</sup> (53)	8,339

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value <sup>(1)</sup>
<b>(3) Securities held for trade</b>					
<b>Debentures -</b>					
of Government of Israel	202	202	-	-	202
Total securities held for trade	202	202	-	-	202
Total securities	11,791	11,825	95	(53)	11,867

(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 494 million.

(3) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 91 million.

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

(5) Primarily US government debentures.

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 investment in shares - see Note 3.A.4 to the financial statements.
- The distinction between Israeli and foreign debentures was made in conformity with the country of residence of the authority which issued the securities.

## Note 5 - Securities - Continued

As of December 31, 2017 (audited)

Reported amounts (NIS in millions)

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value <sup>(1)</sup>
<b>(1) Debentures held to maturity</b>					
of Government of Israel	3,267	3,267	75	-	3,342
Total debentures held to maturity	3,267	3,267	75	-	3,342

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value <sup>(1)</sup>
<b>(2) Securities available for sale</b>					
<b>Debentures and bonds -</b>					
Of the Government of Israel <sup>(2)</sup>	4,136	4,117	24	(5)	4,136
Of foreign governments <sup>(2)(5)</sup>	2,233	2,271	-	(38)	2,233
Of foreign financial institutions	173	174	-	(1)	173
Of others overseas	16	17	-	(1)	16
Total debentures available for sale	6,558	6,579	24	(45)	6,558
Shares <sup>(3)</sup>	99	99	-	-	99
Total securities available for sale	6,657	6,678	<sup>(4)</sup> 24	<sup>(4)</sup> (45)	6,657

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value <sup>(1)</sup>
<b>(3) Securities held for trade</b>					
<b>Debentures -</b>					
of Government of Israel	209	209	-	-	209
Total securities held for trade	209	209	-	-	209
Total securities	10,133	10,154	99	(45)	10,208

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

(2) Of which: Securities pledged to lenders, amounting to NIS 424 million.

(3) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 98 million.

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

(5) Primarily US government debentures.

Remarks:

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

## Note 5 - Securities - Continued

Reported amounts (NIS in millions)

### (4) Fair value and unrealized losses, by time period and impairment rate, of securities available for sale, which include unrealized loss:

As of March 31, 2018

	Less than 12 months Fair value <sup>(1)</sup>	Less than 12 months Unrealized losses 0%-20%	Less than 12 months Unrealized losses 20%-40%	Less than 12 months Total	12 months or more Fair value <sup>(1)</sup>	12 months or more Unrealized losses 0%-20%	12 months or more Unrealized losses 20%-40%	12 months or more Total
<b>Debentures -</b>								
of Government of Israel	1,254	28	-	28	637	10	-	10
Of foreign governments	343	5	-	5	914	44	-	44
Of foreign financial institutions	172	4	-	4	-	-	-	-
Of others overseas	-	-	-	-	10	1	-	1
<b>Total securities available for sale</b>	<b>1,769</b>	<b>37</b>	<b>-</b>	<b>37</b>	<b>1,561</b>	<b>55</b>	<b>-</b>	<b>55</b>

As of March 31, 2017

	Less than 12 months Fair value <sup>(1)</sup>	Less than 12 months Unrealized losses 0%-20%	Less than 12 months Unrealized losses 20%-40%	Less than 12 months Total	12 months or more Fair value <sup>(1)</sup>	12 months or more Unrealized losses 0%-20%	12 months or more Unrealized losses 20%-40%	12 months or more Total
<b>Debentures -</b>								
of Government of Israel	3,272	18	-	18	184	1	-	1
Of foreign governments	1,289	34	-	34	-	-	-	-
<b>Total securities available for sale</b>	<b>4,561</b>	<b>52</b>	<b>-</b>	<b>52</b>	<b>184</b>	<b>1</b>	<b>-</b>	<b>1</b>

As of December 31, 2017

	Less than 12 months Fair value <sup>(1)</sup>	Less than 12 months Unrealized losses 0%-20%	Less than 12 months Unrealized losses 20%-40%	Less than 12 months Total	12 months or more Fair value <sup>(1)</sup>	12 months or more Unrealized losses 0%-20%	12 months or more Unrealized losses 20%-40%	12 months or more Total
<b>Debentures -</b>								
of Government of Israel	674	1	-	1	611	4	-	4
Of foreign governments	339	4	-	4	1,110	34	-	34
Of foreign financial institutions	173	1	-	1	-	-	-	-
Of others overseas	-	-	-	-	10	1	-	1
<b>Total securities available for sale</b>	<b>1,186</b>	<b>6</b>	<b>-</b>	<b>6</b>	<b>1,731</b>	<b>39</b>	<b>-</b>	<b>39</b>

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

(2) The Bank has no securities in a position of unrecognized loss.

### (5) Asset-backed and mortgage-backed securities

As of March 31, 2018, March 31, 2017 and December 31, 2017, there was no balance of asset-backed or mortgage-backed securities.

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

Reported amounts (NIS in millions)

### A. Debts<sup>(1)</sup>, loans to the public and balance of provision for credit losses

As of March 31, 2018 (unaudited)

	Loans to the public Commercial	Loans to the public Housing	Loans to the public Individual - other	Loans to the public Total	Banks and governments	Total
Recorded debt balance of debts <sup>(1)</sup>						
reviewed on individual basis	34,116	38	718	34,872	3,249	38,121
reviewed on group basis	10,015	121,685	18,555	150,255	-	150,255
Of which: By extent of arrears	1,386	121,685	-	123,071	-	123,071
<b>Total debts</b>	<b>44,131</b>	<b>(2)121,723</b>	<b>19,273</b>	<b>185,127</b>	<b>3,249</b>	<b>188,376</b>
Of which:						
Impaired debts under restructuring	138	-	58	196	-	196
Other impaired debts	623	38	13	674	-	674
<b>Total impaired debts</b>	<b>761</b>	<b>38</b>	<b>71</b>	<b>870</b>	<b>-</b>	<b>870</b>
Debts in arrears 90 days or longer	35	1,087	23	1,145	-	1,145
Other problematic debts	543	-	121	664	-	664
<b>Total problematic debts</b>	<b>1,339</b>	<b>1,125</b>	<b>215</b>	<b>2,679</b>	<b>-</b>	<b>2,679</b>
Provision for credit losses with respect to debts <sup>(1)</sup>						
reviewed on individual basis	499	4	28	531	2	533
reviewed on group basis	125	631	212	968	-	968
Of which: Provision by extent of arrears <sup>(3)</sup>	5	631	-	636	-	636
<b>Total provision for credit losses</b>	<b>624</b>	<b>635</b>	<b>240</b>	<b>1,499</b>	<b>2</b>	<b>1,501</b>
Of which: With respect to impaired debts	122	4	16	142	-	142

As of March 31, 2017 (unaudited)

	Loans to the public Commercial	Loans to the public Housing	Loans to the public Individual - other	Loans to the public Total	Banks and governments	Total
Recorded debt balance of debts <sup>(1)</sup>						
reviewed on individual basis	29,964	36	<sup>(4)</sup> 623	30,623	3,087	33,710
reviewed on group basis	<sup>(4)</sup> 10,245	116,304	<sup>(4)</sup> 17,361	143,910	-	143,910
Of which: By extent of arrears	1,053	115,650	-	116,703	-	116,703
<b>Total debts</b>	<b>40,209</b>	<b>(2)116,340</b>	<b>17,984</b>	<b>174,533</b>	<b>3,087</b>	<b>177,620</b>
Of which:						
Impaired debts under restructuring	102	-	47	149	-	149
Other impaired debts	464	36	19	519	-	519
<b>Total impaired debts</b>	<b>566</b>	<b>36</b>	<b>66</b>	<b>668</b>	<b>-</b>	<b>668</b>
Debts in arrears 90 days or longer	61	900	24	985	-	985
Other problematic debts	810	-	89	899	-	899
<b>Total problematic debts</b>	<b>1,437</b>	<b>936</b>	<b>179</b>	<b>2,552</b>	<b>-</b>	<b>2,552</b>
Provision for credit losses with respect to debts <sup>(1)</sup>						
reviewed on individual basis	537	2	20	559	1	560
reviewed on group basis	108	610	188	906	-	906
Of which: Provision by extent of arrears <sup>(3)</sup>	5	610	-	615	-	615
<b>Total provision for credit losses</b>	<b>645</b>	<b>612</b>	<b>208</b>	<b>1,465</b>	<b>1</b>	<b>1,466</b>
Of which: With respect to impaired debts	135	2	13	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 6,484 million (as of March 31, 2017 - NIS 5,844 million).

(3) Includes balance of provision in excess of that required by extent of arrears, assessed on individual basis, amounting to NIS 17 million (as of March 31, 2017 - NIS 16 million), and assessed on group basis, amounting to NIS 425 million (as of March 31, 2017 - NIS 406 million).

(4) Reclassified.

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

Reported amounts (NIS in millions)

### A. Debts<sup>(1)</sup>, loans to the public and balance of provision for credit losses - Continued

As of December 31, 2017 (audited)

	Loans to the public Commercial	Loans to the public Housing	Loans to the public Individual - other	Loans to the public Total	Banks and governments	Total
Recorded debt balance of debts <sup>(1)</sup>						
reviewed on individual basis	33,392	33	<sup>(4)</sup> 655	34,080	2,543	36,623
reviewed on group basis	9,605	120,514	<sup>(4)</sup> 18,403	148,522	-	148,522
Of which: By extent of arrears	1,265	120,514	-	121,779	-	121,779
<b>Total debts</b>	<b>42,997</b>	<sup>(2)</sup> <b>120,547</b>	<b>19,058</b>	<b>182,602</b>	<b>2,543</b>	<b>185,145</b>
Of which:						
Impaired debts under restructuring	105	-	50	155	-	155
Other impaired debts	515	33	20	568	-	568
<b>Total impaired debts</b>	<b>620</b>	<b>33</b>	<b>70</b>	<b>723</b>	<b>-</b>	<b>723</b>
Debts in arrears 90 days or longer	42	1,072	22	1,136	-	1,136
Other problematic debts	553	-	125	678	-	678
<b>Total problematic debts</b>	<b>1,215</b>	<b>1,105</b>	<b>217</b>	<b>2,537</b>	<b>-</b>	<b>2,537</b>
Provision for credit losses with respect to debts <sup>(1)</sup>						
reviewed on individual basis	499	2	24	525	1	526
reviewed on group basis	119	628	212	959	-	959
Of which: Provision by extent of arrears <sup>(3)</sup>	5	628	-	633	-	633
<b>Total provision for credit losses</b>	<b>618</b>	<b>630</b>	<b>236</b>	<b>1,484</b>	<b>1</b>	<b>1,485</b>
Of which: With respect to impaired debts	119	2	15	136	-	136

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

(2) Includes general-purpose loans secured by a lien on a residential apartment, amounting to NIS 6,291 million.

(3) Includes balance of provision beyond that required by extent of arrears, calculated on individual basis amounting to NIS 16 million, and calculated on group basis amounting to NIS 421 million.

(4) Reclassified.

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

Reported amounts (NIS in millions)

### B. Change in balance of provision for credit losses

For the three months ended March 31, 2018 (unaudited) - Provision for credit losses

	Loans to the public Commercial	Loans to the public Housing	Loans to the public Individual - other	Loans to the public Total	Banks and governments	Total
Balance of provision for credit losses at start of period	699	630	245	1,574	1	1,575
Expenses with respect to credit losses	53	6	22	81	1	82
Net accounting write-off <sup>(1)</sup>	(61)	(1)	(35)	(97)	-	(97)
Recovery of debts written off in previous years <sup>(1)</sup>	20	-	17	37	-	37
Net accounting write-offs	(41)	(1)	(18)	(60)	-	(60)
Balance of provision for credit losses at end of period	711	635	249	1,595	2	1,597
Of which: With respect to off balance sheet credit instruments	87	-	9	96	-	96

For the three months ended March 31, 2017 (unaudited)

	Loans to the public Commercial	Loans to the public Housing	Loans to the public Individual - other	Loans to the public Total	Banks and governments	Total
Balance of provision for credit losses at start of period	724	615	208	1,547	2	1,549
Expenses with respect to credit losses	26	-	24	50	(1)	49
Net accounting write-off <sup>(1)</sup>	(37)	(3)	(30)	(70)	-	(70)
Recovery of debts written off in previous years <sup>(1)</sup>	17	-	14	31	-	31
Net accounting write-offs	(20)	(3)	(16)	(39)	-	(39)
Balance of provision for credit losses at end of period	730	612	216	1,558	1	1,559
Of which: With respect to off balance sheet credit instruments	85	-	8	93	-	93

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

## Note 7 - Deposits from the Public

Reported amounts (NIS in millions)

### A. Deposit types by location and depositor type

	March 31, 2018 unaudited	March 31, 2017 unaudited	December 31, 2017 (audited)
<b>In Israel</b>			
On-call			
Non interest-bearing	44,217	38,501	44,324
Interest-bearing	21,971	19,648	22,189
<b>Total on-call</b>	<b>66,188</b>	<b>58,149</b>	<b>66,513</b>
Term deposits	115,687	117,114	112,188
<b>Total deposits in Israel<sup>(1)</sup></b>	<b>181,875</b>	<b>175,263</b>	<b>178,701</b>
<b>Outside of Israel</b>			
On-call			
Non interest-bearing	552	657	504
Interest-bearing	4	7	5
<b>Total on-call</b>	<b>556</b>	<b>664</b>	<b>509</b>
Term deposits	4,635	4,795	4,363
<b>Total deposits overseas</b>	<b>5,191</b>	<b>5,459</b>	<b>4,872</b>
<b>Total deposits from the public</b>	<b>187,066</b>	<b>180,722</b>	<b>183,573</b>
(1) Includes:			
Deposits from individuals	89,193	83,711	87,456
Deposits from institutional investors	40,045	38,081 <sup>(2)</sup>	38,881
Deposits from corporations and others	52,637	53,471 <sup>(2)</sup>	52,364

### B. Deposits from the public by size

	March 31, 2018 (unaudited)	March 31, 2017 (unaudited)	December 31, 2017 (audited)
<b>Maximum deposit</b>			
Up to 1	64,696	60,868	63,493
Over 1 to 10	42,287	39,146	41,125
Over 10 to 100	27,058	26,013	26,906
Over 100 to 500	23,823	27,311	23,911
Above 500	29,202	27,384	28,138
<b>Total</b>	<b>187,066</b>	<b>180,722</b>	<b>183,573</b>

(2) A balance amounting to NIS 700 million was reclassified from "balance of deposits from institutional investors" to "balance of deposits from other corporations".

## Note 8 - Employees' Rights

### Description of benefits

1. Employment terms of the vast majority of Group employees and managers are subject to provisions of collective bargaining agreements. Pension liabilities to these employees, except for Bank Yahav employees, are covered by regular deposits to pension, provident and severance-pay funds, which release the Bank from severance-pay liabilities for those employees by law. For more information about various benefits to Bank employees and managers, see Note 22 to the financial statements as of December 31, 2017.
2. Remuneration policy for all Bank employees other than officers  
On March 20, 2017, the Board of Directors resolved, after receiving the recommendation from the Remuneration Committee, to approve a revised remuneration policy for all Bank employees, other than officers who are subject to the revised remuneration policy for Bank officers, as noted above (hereinafter: "the revised remuneration policy for all Bank employees"). For more information see Note 22.A.5. to the 2017 financial statements.
3. For more information about an economic arbitration between the Bank and the Mizrahi Tefahot Employees' Union, see Note 22.A.6. to the 2017 financial statements. Management believes, based on the opinion of legal counsel, that exposure with respect to this arbitration cannot be estimated.  
For more information about signing of a new collective bargaining agreement with the Employees' Union in December 2017 and implications of this agreement, see Note 22.A.6. to the 2017 financial statements.
4. Payroll agreements for employees represented by the Council of Managers and Authorized Signatories  
The labor agreement with the Council of Managers is effective through 2017. Negotiations have started in order to sign a new labor agreement for the coming years.
5. Labor and payroll agreements at the Technology Division  
Employment terms of employees of Mizrahi Tefahot Technology Division Ltd. (hereinafter: "the Technology Division") are arranged in the labor constitution that was signed in 1989 and in a series of agreements signed by the Technology Division Employee Council, the Labor Union and the Technology Division over the years.  
Employees of the Technology Division have their pay linked to the pay for Bank employees.  
In recent months, discussions are under way with the division's employee representation and the MAOF trade union as to implementation of the linkage to the collective bargaining agreement signed by the Bank and the Employees' Union at Bank Mizrahi Tefahot in late 2017. The Bank made appropriate provisions for this matter.

## Note 8 - Employees' Rights - Continued

### 6. Net benefit cost components recognized in profit and loss with respect to defined-benefit and defined-contribution pension plans (NIS in millions)<sup>(1)</sup>

	For the three months ended March 31, 2018 (unaudited)	For the three months ended March 31, 2017 (unaudited)	For the year ended December 31, 2017 (audited)
Under payroll and associated expenses			
Cost of service <sup>(2)</sup>	13	10	42
Under other expenses			
Cost of interest <sup>(3)</sup>	10	10	42
Expected return on plan assets <sup>(4)</sup>	(1)	(1)	(4)
Deduction of non-allowed amounts:			
Net actuarial loss <sup>(5)</sup>	8	3	18
Total under other expenses	17	12	56
Total benefit cost, net	30	22	98
Total expense with respect to defined-contribution pension	35	30	121
Total expenses recognized on profit and loss	65	52	219

### 7. Deposits to defined-benefit pension plans (NIS in millions)

	Forecast For <sup>(6)</sup> 2018	For the three months ended March 31, Actual deposits For the three months ended March 31, 2018 (unaudited)	For the three months ended March 31, Actual deposits For the three months ended March 31, 2017 (unaudited)	For the year ended December 31, Actual deposits For the year ended December 31, 2017 (audited)
Deposits	5	1.4	1.5	6.3

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

(2) Cost of service is the current accrual of future employees' benefits in the period.

(3) Cost of interest is the amount recognized in the period, set based on the increase in obligation with respect to expected benefit due to passage of time.

(4) Expected return is the expected return on plan assets, determined based on expected long-term rates of return on plan assets and based on the established market value of plan assets.

(5) Deduction of net gain or loss previously recognized in Cumulative Other Comprehensive Income.

(6) Estimated deposits to be paid into defined-benefit pension plans through end of 2018.

## Note 9 - Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks

Reported amounts (NIS in millions)

### A. Capital adequacy pursuant to directives of the Supervisor of Banks

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

	March 31, 2018 (unaudited)	March 31, 2017 (unaudited)	December 31, 2017 (audited)
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#### 1. Consolidated data

##### A. Capital for purpose of calculating minimum capital ratio

Tier I shareholders' equity	14,436	13,533	14,333
Tier I capital	14,436	13,533	14,333
Tier II capital	4,813	4,442	5,251
<b>Total capital</b>	<b>19,249</b>	<b>17,975</b>	<b>19,584</b>

##### B. Weighted risk asset balances

Credit risk	131,801	124,319	130,525
Market risks	1,699	1,266	1,605
Operating risk	8,629	8,198	8,394
<b>Total weighted risk asset balances<sup>(1)</sup></b>	<b>142,129</b>	<b>133,783</b>	<b>140,524</b>

	March 31, 2018 (unaudited) In %	March 31, 2017 (unaudited) In %	December 31, 2017 (audited) In %
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##### C. Ratio of capital to risk elements

Ratio of Tier I shareholders' equity capital to risk elements	10.16	10.12	10.20
Ratio of Tier I capital to risk elements	10.16	10.12	10.20
Ratio of total capital to risk elements	13.54	13.44	13.94
Minimum Tier I capital ratio required by Supervisor of Banks <sup>(2)</sup>	9.86	9.87	9.86
<b>Total minimum capital ratio required by the Supervisor of Banks<sup>(2)</sup></b>	<b>13.36</b>	<b>13.37</b>	<b>13.36</b>

#### 2. Significant subsidiaries

##### Bank Yahav for Government Employees Ltd. and its subsidiaries

Ratio of Tier I shareholders' equity capital to risk elements	9.39	9.53	9.27
Ratio of Tier I capital to risk elements	9.39	9.53	9.27
Ratio of total capital to risk elements	13.11	13.42	13.01
Minimum Tier I capital ratio required by Supervisor of Banks	9.00	9.00	9.00
<b>Total minimum capital ratio required by the Supervisor of Banks</b>	<b>12.50</b>	<b>12.50</b>	<b>12.50</b>

(1) Of the total weighted balance of risk assets, NIS 270 million was deducted due to adjustments with respect to the streamlining plan (on March 31, 2017: NIS 230 million; on December 31, 2017: NIS 298 million).

(2) The minimum capital ratio required by the Supervisor of Banks is increased by a capital requirement reflecting 1% of the outstanding balance of housing loans as of the report date.

## Note 9 - Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks - Continued

Reported amounts (NIS in millions)

### A. Capital adequacy pursuant to directives of the Supervisor of Banks - continued

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

	March 31, 2018 (unaudited)	March 31, 2017 (unaudited)	December 31, 2017 (audited)
<b>3. Capital components for calculation of capital ratio (on consolidated basis)</b>			
<b>A. Tier I capital</b>			
Shareholders' equity	14,548	13,634	14,327
Differences between shareholders' equity and Tier I capital	(260)	(173)	(169)
<b>Total Tier I capital before regulatory adjustments and deductions</b>	<b>14,288</b>	<b>13,461</b>	<b>14,158</b>
Regulatory adjustments and deductions:			
Goodwill	(87)	(87)	(87)
Regulatory adjustments and other deductions	(13)	(19)	(11)
<b>Total supervisory adjustments and deductions, before adjustments with respect to the streamlining plan - Tier I capital</b>	<b>(100)</b>	<b>(106)</b>	<b>(98)</b>
Total adjustments with respect to the streamlining program <sup>(1)</sup>	248	178	273
<b>Total Tier I capital after regulatory adjustments and deductions</b>	<b>14,436</b>	<b>13,533</b>	<b>14,333</b>
<b>B. Tier II capital</b>			
Tier II capital: Instruments, before deductions	3,367	3,044	3,821
Tier II capital: Provisions, before deductions	1,446	1,398	1,430
<b>Total Tier II capital, before deductions</b>	<b>4,813</b>	<b>4,442</b>	<b>5,251</b>
Deductions:			
Total deductions - Tier II capital	-	-	-
<b>Total Tier II capital</b>	<b>4,813</b>	<b>4,442</b>	<b>5,251</b>
	March 31, 2018 (unaudited) In %	March 31, 2017 (unaudited) In %	December 31, 2017 (audited) In %

### 4. Effect of transitional provisions on Tier I capital

#### Ratio of capital to risk elements

Ratio of Tier I equity to risk elements, before effect of transition provision of Directive 299 and before effect of adjustments with respect to the streamlining plan<sup>(2)</sup>

Ratio of Tier I equity to risk elements, before effect of transition provision of Directive 299 and before effect of adjustments with respect to the streamlining plan <sup>(2)</sup>	9.96	9.92	9.92
Effect of transition provisions, before effect of adjustments with respect to the streamlining plan	-	0.06	0.06
Effect of adjustments with respect to the streamlining plan	0.20	0.14	0.22
<b>Ratio of Tier I capital to risk elements before application of transitional provisions</b>	<b>10.16</b>	<b>10.12</b>	<b>10.20</b>

(1) Of which, NIS 183 million with respect to streamlining program concerning employees' rights and NIS 65 million with respect to streamlining program concerning real estate (on March 31, 2017: NIS 178 million with respect to streamlining program concerning employees' rights; on December 31, 2017: NIS 202 million with respect to streamlining program concerning employees' rights and NIS 71 million with respect to streamlining program concerning real estate).

(2) Before effect of transitional provisions concerning adoption of US GAAP with regard to employees' rights.

## Note 9 - Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks - Continued

Reported amounts (NIS in millions)

### B. Liquidity coverage ratio pursuant to directives of the Supervisor of Banks

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

	March 31, 2018 (unaudited) In %	March 31, 2017 (unaudited) In %	December 31, 2017 (audited)
<b>1. Consolidated data</b>			
Liquidity coverage ratio <sup>(1)</sup>	<sup>(3)</sup> 125	118	118
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100	100
<b>2. Bank data</b>			
Liquidity coverage ratio <sup>(1)</sup>	125	118	118
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100	100
<b>3. Significant subsidiaries</b>			
Bank Yahav for Government Employees Ltd. and its subsidiaries			
Liquidity coverage ratio <sup>(1)</sup>	257	353	260
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100	100

### C. Leverage ratio pursuant to directives of the Supervisor of Banks

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

	March 31, 2018 (unaudited)	March 31, 2017 (unaudited)	December 31, 2017 (audited)
<b>1. Consolidated data</b>			
Tier I capital <sup>(1)</sup>	14,436	13,533	14,333
Total exposure	265,621	256,712	261,504
	March 31, 2018 (unaudited) In %	March 31, 2017 (unaudited) In %	December 31, 2017 (audited)
Leverage ratio	5.43	5.27	5.48
Minimum leverage ratio required by the Supervisor of Banks <sup>(2)</sup>	5.00	5.00	5.00
<b>2. Significant subsidiaries</b>			
Bank Yahav for Government Employees Ltd. and subsidiaries thereof			
Leverage ratio	5.15	5.04	5.14
Minimum leverage ratio required by the Supervisor of Banks <sup>(2)</sup>	4.70	4.70	4.70

(1) For effect of transition provisions and effect of adjustments with respect to the streamlining program, see sections A.3, A.4 above.

(2) Banking corporations are required to achieve the minimum leverage ratio required by the Supervisor of Banks as from January 1, 2018.

(3) The liquidity coverage ratio as of March 31, 2018 includes the effect of implementation of Bank of Israel directives to apply a reduced withdrawal rate with respect to operational deposits, as from the first quarter of 2018.

## Note 9 - Capital adequacy, liquidity and leverage pursuant to directives of the Supervisor of Banks - Continued

Reported amounts (NIS in millions)

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 201-222 and in the Q&A file. For more information about the Supervisor of Banks' directives regarding capital adequacy, see Note 25 to the 2017 financial statements.

E. On March 15, 2018, the Supervisor of Banks issued a circular revising Proper Banking Conduct Directive 203 "Measurement and capital adequacy - Credit risk" with regard to risk weighting of loans with LTV ratio higher than 60%.

The circular stipulated that loans with LTV ratio higher than 60% would be assigned a 60% risk weighting, compared to 75% prior to this revision. The revision is designed to provide relief to young couples and second home buyers who purchase apartments with a high LTV ratio.

The revision is effective as from the circular issue date. The Bank is applying this directive.

Application of this directive reduces risk assets due to origination of housing loans with LTV ratio higher than 60%, originated as from the circular issue date.

## Note 10 - Contingent Liabilities and Special Commitments

Reported amounts (NIS in millions)

### A. Other liabilities and special commitments

	March 31, 2018 (unaudited)	March 31, 2017 (unaudited)	December 31, 2017 (audited)
1. Computerization and software service contracts	286	280	240
2. Acquisition and renovation of buildings	8	11	5
3. Long-term leases - rent for buildings and equipment with respect to contracting payable in coming years <sup>(1)</sup> :			
First year	181	162	179
Second year	179	157	179
Third year	174	155	174
Fourth year	168	147	168
Fifth year	167	146	167
Sixth year and thereafter	1,714	1,652	1,645
Total rent for buildings and equipment	2,583	2,419	2,512
4. Credit sales operations			
The following table provides a summary of credit sales operations at the Bank:			

	For the three months ended March 31, 2018 (unaudited)	For the three months ended March 31, 2017 (unaudited)	For the year ended December 31, 2017 (audited)
Carrying amount of credit sold	818	890	2,598
Consideration	827	892	2,625
Service obligation - expense with respect to operating services	9	1	23
Total net gain (loss) with respect to credit sold	-	1	4

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

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

## Note 10 - Contingent Liabilities and Special Commitments - continued

### B. Contingent liabilities and other special commitments

1. For details of other contingent liabilities and special commitments by the Bank group, see Note 26 to the 2017 financial statements. Below is a description of material changes relative to the Note provided in the 2017 annual report.
2. Various claims are pending against the Bank and its subsidiaries, namely, claims of customers, as well as motions for recognition of various class actions. In the estimation of the management of the Bank, based on the estimation of the managements of its subsidiaries and on the opinion of their legal counsel as to the possible outcome of the pending claims and motions for approval of claims as class actions, the financial statements include appropriate provisions, where necessary, to cover possible damages.

Below are details of material claims, including motions for class action status and claims where the claim amount (excluding interest and expenses) exceeds 1% of the Bank's shareholder equity, in which developments and changes have occurred compared to the description included in the 2017 financial statements:

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

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

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

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

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

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

## Note 10 - Contingent Liabilities and Special Commitments - continued

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

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

On November 7, 2017, the parties submitted to the Court the signed settlement agreement and its appendices with the application for approval thereof. On March 8, 2018, a further hearing 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 April 10, another hearing took place and was continued to May 28, 2018.

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

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

This motion, along with the motion for the lawsuit in section A. above, are in negotiations of a settlement agreement, as stated in section A. above.

- C) In September 2011, a claim and motion for class action status was filed with the Central District Court against the Bank, Bank Leumi Lelsrael Ltd. and Bank HaPoalim Ltd., for alleged unlawful charging of compounded interest, in contravention of statutes and agreements, on housing loans - including targeted loans, eligibility loans and additional loans, excluding standing loans. The total claim amount against the banks was NIS 927 million. The Bank's share of this claim amounts to NIS 364 million.

In May 2012, the Bank filed its response to this claim, claiming *inter alia* that it was unfounded, that the Bank acted in accordance with statutory provisions and did not charge any compounded interest in the manner in which banks in general and the Bank, in particular, acted. The position of the Supervisor of Banks, which supports the banks' position, was also filed in this case.

In July 2013, an evidentiary hearing took place and the experts on behalf of the parties were questioned. The plaintiffs filed their summation. In September 2014, the Bank filed its summation and in December 2014, the plaintiffs filed their summary responses.

## Note 10 - Contingent Liabilities and Special Commitments - continued

On August 16, 2015 a verdict was issued, rejecting the motion for class action status.

On December 7, 2015, the parties appealed the verdict to the Supreme Court. The parties filed their summations and response summations.

On March 14, 2018, a hearing of the appeal by the Supreme Court took place, where the appellants accepted the recommendation made by the Court and agreed to withdraw their appeal. Therefore, this hearing was concluded with a verdict which rejects the appeal without awarding of expenses.

- 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 hearing of this motion with the first aforementioned motion and the Court has agreed to said motion and has combined both claims.

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

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

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

On October 25, 2015, another pre-trial hearing took place. In this hearing, the Court combined the hearing of motions filed against the credit card companies and the Postal Bank with those filed against the banks. Evidentiary hearings took place in March 2016. The plaintiffs filed their summations in April 2016. Given the banks' motion to dismiss the plaintiffs' summation, an extension was granted for the banks to file their summations within 60 days after the decision on the motion to dismiss. On August 10, 2016, the Court accepted the motion by the banks and ordered the summation by the plaintiffs to be dismissed; on September 4, 2016, the plaintiffs filed new summations; and on January 17, 2017, the Bank filed its summation and the plaintiffs filed their response summations. On March 1, 2018, a verdict was handed down rejecting the motions and requiring the defendants to pay the expenses. On March 18, 2017, concurrently with filing of the appeal, the plaintiffs filed a motion to delay execution of the verdict (payment of expenses) and a motion seeking exemption from a bond deposit and a motion to add evidence in the appeal. The Court decision was given on the same date, granting a temporary stay of proceedings for payment of expenses; the banks should file their response to the motion by May 6, 2018.

## Note 10 - Contingent Liabilities and Special Commitments - continued

E) In December 2015, a motion for class action status was filed against Bank Yahav, alleging that Bank Yahav charged individual clients (and small businesses) commissions whose amount and rate exceed the allowed maximum, specified in the price list for non-small businesses. This claim does not specify an estimated claim amount. The parties have negotiated a settlement agreement and on January 15, 2018, the parties filed a motion with the Court to approve the settlement agreement. On March 28, 2018, the Court issued a verdict confirming the settlement agreement.

F) In January 2016, a claim and motion for class action status was filed with the Jerusalem District Court, amounting in total to NIS 697.5 million, against the Bank, First International Bank of Israel Ltd., Bank Otzar HaChayal Ltd., Bank Yahav for Government Employees Ltd. and Bank Igud Lelsrael Ltd. (hereinafter: "the defendants"). This claim alleges discrimination of the Arab population with regard to access to banking services, in that the defendants do not maintain branches close to Arab population and do not make their banking services accessible to this population - in alleged violation of the Prohibition of Discrimination in Products, Services and in Access to Entertainment Venues and to Public Venues Act, 2000.

The plaintiff seeks a verdict stating, in conformity with the Class Action Lawsuit Act, that the claim is to be filed on behalf of all Israeli residents who are Muslim, Christian or Druze, who suffer from discrimination in access to banking services by the defendants, due to absence of bank branches of the defendants in their town.

The plaintiffs set their claim against all defendants at NIS 697.5 million, noting that each defendant's share of the damage caused to class members is based on their market share - as is their share in compensation to class members. The Bank filed its response to the motion on August 4, 2016 and the plaintiffs filed their response there to on November 13, 2016.

A pre-trial hearing took place on December 19, 2016, at which the Court recommended that the parties reach a settlement in this case. As proposed by the Court, the parties have started negotiations. On May 10, 2017, another pre-trial hearing took place where the parties informed the Court that they had not reached understandings. On May 24, 2017, the plaintiffs filed data obtained from the Bank of Israel about the banks in 2009 and thereafter, the respondents filed their own updated data. Evidentiary hearings took place in November. The parties filed their written summations and verbal summations were heard on November 30, 2017.

On December 28, 2017, a verdict was issued rejecting the motion for approval. On February 11, 2018, this verdict was appealed to the Supreme Court. On March 21, 2018, the plaintiffs filed a motion seeking to reduce the bond amount set in this case, the Bank filed its response and a decision is still pending.

G) In December 2016, a motion for class action status was filed with the Central District Court against the Bank, Bank HaPoalim, Bank Leumi and Discount Bank, alleging charging of foreign currency-related fees not in conformity with provisions of the complete price list, as stated in Banking Regulations (Customer Service) (Fees), 2008 and in violation of Section 9 of the Banking Act (Customer Service), 1981. According to the plaintiff, the defendant banks charge minimum fees with respect to various foreign currency-related transactions, graduated according to transaction amount, allegedly in contravention of provisions of the complete price list, whereby the defendant banks must list the fee they charge for a range of transactions as "Percentage (minimum, maximum)". The plaintiff further claims that the defendant banks are in breach of the Anti-Trust Act by maintaining a restrictive arrangement.

The plaintiff notes that they do not have the final data, which are available to the defendants. However, they estimate the damage incurred to be at least NIS 500 million.

## Note 10 - Contingent Liabilities and Special Commitments - continued

The Bank's response was filed on April 23, 2017 and the plaintiff's response was filed on May 21, 2017. On July 3, 2017, a pre-trial hearing took place after which the plaintiff was allowed to amend their motion and to file it no later than October 15, 2017. On September 3, 2017, a revised motion was filed and the Bank has filed its response to the revised motion. On December 24, 2017, a pre-trial hearing took place, after which the Court asked to receive the Bank of Israel position on the question under dispute. On February 12, 2018, the Supervisor of Banks submitted its position, whereby charging a minimum commission for gradual foreign currency transfer from overseas to overseas, provided that the basic structure of minimum and maximum commissions is maintained, does not constitute a breach of the commission rules included in the complete price list. On that date, the Court handed down its resolution, whereby the plaintiffs would inform the Court by February 26, 2018, whether they wish to pursue the case in view of the position of the Supervisor of Banks. On March 13, 2018, a hearing took place at which the plaintiffs asked to withdraw their motion for approval. Consequently, a verdict was handed down, confirming the plaintiffs' withdrawal without award of expenses.

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 72 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 well as appeals to the High Court of Justice, as itemized below, which, in the opinion of the Bank's management, based on the opinion of the managements of its subsidiaries, and on the opinion of their legal counsel, the prospects for which cannot be estimated on the date of the financial statements, so that no provision was made for these.

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

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

## Note 10 - Contingent Liabilities and Special Commitments - continued

On May 10, 2015, the Court approved, in conjunction with the motion for approval, a hearing arrangement agreed by the parties in this case, with regard to dates for filing statements of claim whereby, *inter alia*, at this stage the deadlines for filing the defendants' responses to the motion for approval would be suspended and soon after a decision is given, *inter alia*, with regard to the aforementioned motion to join and subject to it, the schedule for filing these responses would be set considering, *inter alia*, the progress made in proceedings with the Department of Justice in the USA. It should be noted, with regard to the motion for discovery, that on May 3, 2015, a preliminary hearing of this motion took place wherein the Court approved the agreement reached by the parties, that the hearing of the actual motion for discovery would currently be suspended, pending completion of document discovery for filing with authorities in the USA. In December 2015, the Court resolved that the motion for approval would be dismissed, but the dismissal would be delayed that should the motion for discovery be allowed and should the plaintiff of the motion for discovery file a motion for approval 90 days after receiving the documents in a timely manner as instructed by the Court in its resolution, the motion for approval would be dismissed. Should the discovery motion be dismissed, or should a motion for approval not be filed by 90 days after receiving the documents - the motion for approval would be considered a preliminary motion to any other motion, if filed.

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

On April 12, 2017, the Court directed the Attorney General to inform the Court in 45 days' time of their intention to join the proceeding. On April 12, 2017, the Court directed the Attorney General to inform the Court of their intention to join the proceeding. On August 3, 2017, the Attorney General submitted a notice on behalf thereof, regarding their appearance in the discovery process, to which they attached their position. On September 10, 2017, the Bank and the other respondents filed their responses to the Attorney General's position.

On September 19, the Court approved a procedural arrangement reached by the parties in the case, whereby the hearing of this case will be suspended at this stage, subject to the respondents reporting to the Court and to the plaintiff as from December 31, 2017, once every 90 days, of the inquiry by the US DOJ.

On December 26, 2017, the Court ordered the parties to inform the Court, no later than April 1, 2018, where they stand on the matter and on continued hearing of the claim. In conformity with the Court resolution dated September 19, 2017, the Bank filed with the Court, on March 29, 2018, a revised notice about the inquiry; the Court ordered a follow-up update after further 90 days.

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

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

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

## Note 10 - Contingent Liabilities and Special Commitments - continued

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; a pre-trial hearing is scheduled for July 2, 2018.

- C) In December 2017, a motion for approval of class action status was filed with the Jerusalem District Court against the Bank and against Bank Otzar HaChayal, Bank Leumi Le-Israel Ltd. and Bank Mercantile Discount. The motion concerns credit extended under the Small Business Fund.

The plaintiffs allege that the respondent banks, providing credit under the Small Business Fund, require borrowers to deposit part of the loan funds, which constitutes forbidden service contingent on service, while allegedly raising the effective interest rate for the loan. They further allege that this conduct by the banks constitutes a restrictive trade practice.

The plaintiff set the claim amount for the Bank at over NIS 147 million. The Bank must submit its response by June 10, 2018 and a pre-trial hearing is scheduled for June 24, 2018.

- D) In December 2017, a claim and motion for approval of class action status was filed with the Central District Court amounting to NIS 124 million. The claim involves setting of interest rate in housing loans bearing adjustable interest - debentures. The plaintiffs allege that the Bank issues an approval in principle to the client, listing the debenture base as the only mechanism for interest calculation in the adjustable interest track - debentures for the term of the loan. However, the loan agreement includes another mechanism titled "Emergency Protection Mechanism" for setting the interest rate, in addition to the original mechanism, without providing proper disclosure. It is further alleged that the condition stipulated by the Bank in the agreement, with regard to triggering of the Emergency Protection Mechanism, is unfair and gives the Bank an unreasonable advantage over its clients.

The Bank must submit its response by May 1, 2018; a pre-trial hearing is scheduled for July 9, 2018.

4. Further to section 12 of Note 26 to the financial statements as of December 31, 2017 ("the Financial Statements"), the US Department of Justice (DOJ) addressed the Bank with further requests to conduct further reviews, including with regard to further accounts, which might be relevant for the inquiry, and to produce documents with regard to the subject matters of the inquiry, relating to the Bank Group. The Bank is acting to respond and to comply with these requests.

In a letter from the month of April 2018, the DOJ informed the Bank that it would be providing the Bank with a draft agreement (D.P.A. - Deferred Prosecution Agreement).

The Bank is engaged in preliminary contacts with the US DOJ with regard to a possible outline for concluding the inquiry, regarding the type of agreement and principles thereof. However, negotiations have yet to start, including with regard to financial implications for the Bank Group, if any, of such an agreement when reached.

According to the opinion of the Bank's legal counsel, based on data in the computer-based repository which has been validated and considering arrangements made by the US DOJ with other banks with regard to inquiry concerning undisclosed accounts of US taxpayers, certain data in the repository may be relevant to Bank Group exposure, should the Bank's position relating to them not prevail.

## Note 10 - Contingent Liabilities and Special Commitments - continued

Based on the aforementioned opinion, the provision with respect to this inquiry amounts to USD 46.1 million (NIS 161.9 million). This amount was calculated for data which may be relevant, according to opinion of the Bank's legal counsel and for components which, according to the opinion of the Bank's legal counsel, should be accounted for, as the case may be: The estimated tax amount which the US clients associated with said data ("the relevant clients") should have paid to the IRS in the USA, revenues accrued by the Bank due to banking activity of the relevant clients and the percentage of monetary assets of the relevant clients (and excluding other payment components, such as fines). As for data related to Mizrahi Switzerland business with US clients, the provision was calculated based on a theoretical assumption whereby Mizrahi Switzerland Bank is included in category 2 in the Swiss Program.

It is possible that after analysis and validation of the information and data, to be conducted in conformity with additional requests addressed to the Bank by the US DOJ, as set forth above, relevant data would be added resulting in updates to the provision amount.

Note that the Bank's legal counsel has expressed their opinion that at this stage, it is not possible to estimate the potential loss which the Bank Group may incur with respect to this inquiry, the relevant exposure amount nor the exposure range for the Bank Group. This is due, inter alia, to the fact that based on the professional experience of US legal counsel, such conclusions cannot be made prior to analysis of all data and information to be provided and because, other than preliminary discussions as noted above, negotiations with the US DOJ with regard to formulating an appropriate outline for the Bank Group have yet to start.

In view of the foregoing, it is possible that in the future the realized loss may turn out to be significantly higher than the amount of the provision recorded to date.

## Note 11 - Derivatives and hedging activities

Reported amounts (NIS in millions)

### A) Activity on consolidated basis

As of March 31, 2018 (unaudited)

	Interest contracts NIS - CPI	Interest contracts Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
<b>1. Stated amounts of derivatives</b>						
<b>A. Hedging derivatives<sup>(1)</sup></b>						
Forward contracts	699	-	-	-	-	699
Other option contracts:						-
Options written	-	18	-	-	-	18
Swaps	550	789	-	-	-	1,339
<b>Total</b>	<b>1,249</b>	<b>807</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,056</b>
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	550	789	-	-	-	1,339
<b>B. ALM derivatives<sup>(1)(2)</sup></b>						
Forward contracts	4,038	-	97,696	-	45	101,779
Option contracts traded on stock exchange:						-
Options written	-	-	8	-	-	8
Options purchased	-	-	148	-	-	148
Other option contracts:						-
Options written	-	-	14,581	-	-	14,581
Options purchased	-	-	12,996	-	-	12,996
Swaps	2,887	30,510	7,517	-	-	40,914
<b>Total</b>	<b>6,925</b>	<b>30,510</b>	<b>132,946</b>	<b>-</b>	<b>45</b>	<b>170,426</b>
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	2,775	18,042	-	-	-	20,817
<b>C. Other derivatives<sup>(1)</sup></b>						
Forward contracts	-	-	1,106	-	-	1,106
Option contracts traded on stock exchange:						-
Options written	-	-	4,485	11,481	6,178	22,144
Options purchased	-	-	4,485	11,481	6,178	22,144
Other option contracts:						-
Options written	-	-	-	73	-	73
Options purchased	-	70	-	29	-	99
Swaps	-	3	21	4,802	-	4,826
<b>Total</b>	<b>-</b>	<b>73</b>	<b>10,097</b>	<b>27,866</b>	<b>12,356</b>	<b>50,392</b>
Includes interest rate swaps on which the Bank agreed to pay an interest rate	-	3	-	-	-	3

(1) Except for credit derivatives and spot contracts for foreign currency swaps.

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

**Note 11 - Derivatives and hedging activities - continued**  
**Reported amounts (NIS in millions)**

**A) Activity on consolidated basis - continued**

As of March 31, 2018 (unaudited)

	Interest contracts NIS - CPI	Interest contracts Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
<b>D. Credit derivatives and spot contracts for foreign currency swaps</b>						
Credit derivatives in which the Bank is beneficiary	-	-	-	-	814	814
Foreign currency spot swap contracts	-	-	11,694	-	-	11,694
<b>Total</b>	-	-	11,694	-	814	12,508
<b>Total stated amounts of derivatives</b>	<b>8,174</b>	<b>31,390</b>	<b>154,737</b>	<b>27,866</b>	<b>13,215</b>	<b>235,382</b>
<b>2. Fair value, gross, of derivatives</b>						
<b>A. Hedging derivatives<sup>(1)</sup></b>						
Positive fair value, gross	13	1	-	-	-	14
Negative fair value, gross	1	41	-	-	-	42
<b>B. ALM derivatives<sup>(1)(2)</sup></b>						
Positive fair value, gross	300	626	1,809	-	1	2,736
Negative fair value, gross	131	836	1,193	-	1	2,161
<b>C. Other derivatives<sup>(1)</sup></b>						
Positive fair value, gross	-	-	80	321	-	401
Negative fair value, gross	-	-	41	414	-	455
<b>D. Credit derivatives</b>						
Credit derivatives in which the Bank is beneficiary						
Positive fair value, gross	-	-	-	-	5	5
Negative fair value, gross	-	-	-	-	2	2
<b>Total</b>						
Positive fair value, gross <sup>(3)</sup>	313	627	1,889	321	6	3,156
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
<b>Carrying amount of assets with respect to derivatives</b>	<b>313</b>	<b>627</b>	<b>1,889</b>	<b>321</b>	<b>6</b>	<b>3,156</b>
Of which: Carrying amount of assets with respect to derivatives not subject to a master netting agreement or to similar agreements	139	94	1,095	191	6	1,525
<b>Total</b>						
Negative fair value, gross	132	877	1,234	414	3	2,660
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
<b>Carrying amount of liabilities with respect to derivatives</b>	<b>132</b>	<b>877</b>	<b>1,234</b>	<b>414</b>	<b>3</b>	<b>2,660</b>
Of which: Carrying amount of liabilities with respect to derivatives not subject to a master netting agreement or to similar agreements	43	211	744	273	3	1,274

(1) Except for credit derivatives.

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

(3) Of which: Positive gross fair value of assets with respect to embedded derivatives amounting to NIS 3 million.

## Note 11 - Derivatives and hedging activities - continued

Reported amounts (NIS in millions)

### A) Activity on consolidated basis - continued

As of March 31, 2017 (unaudited)

	Interest contracts NIS - CPI	Interest contracts Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
<b>1. Stated amounts of derivatives</b>						
<b>A. Hedging derivatives<sup>(1)</sup></b>						
Forward contracts	1,632	-	-	-	-	1,632
Other option contracts:						-
Options written	-	18	-	-	-	18
Swaps	-	1,314	-	-	-	1,314
<b>Total</b>	<b>1,632</b>	<b>1,332</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,964</b>
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	1,314	-	-	-	1,314
<b>B. ALM derivatives<sup>(1)(2)</sup></b>						
Forward contracts	6,095	200	95,638	-	31	101,964
Option contracts traded on stock exchange:						-
Options written	-	-	350	40	-	390
Options purchased	-	-	346	40	-	386
Other option contracts:						-
Options written	-	-	11,859	-	-	11,859
Options purchased	-	-	11,002	49	-	11,051
Swaps	1,738	32,828	7,611	-	-	42,177
<b>Total</b>	<b>7,833</b>	<b>33,028</b>	<b>126,806</b>	<b>129</b>	<b>31</b>	<b>167,827</b>
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,626	19,268	-	-	-	20,894
<b>C. Other derivatives<sup>(1)</sup></b>						
Forward contracts	-	-	1,125	-	-	1,125
Option contracts traded on stock exchange:						-
Options written	-	-	7,580	8,008	6,828	22,416
Options purchased	-	-	7,580	8,008	6,828	22,416
Other option contracts:						-
Options written	-	50	-	50	-	100
Options purchased	-	123	-	41	-	164
Swaps	-	4	15	8,927	-	8,946
<b>Total</b>	<b>-</b>	<b>177</b>	<b>16,300</b>	<b>25,034</b>	<b>13,656</b>	<b>55,167</b>
Includes interest rate swaps on which the Bank agreed to pay an interest rate	-	4	-	-	-	4

(1) Except for credit derivatives and spot contracts for foreign currency swaps.

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

## Note 11 - Derivatives and hedging activities - continued

Reported amounts (NIS in millions)

### A) Activity on consolidated basis - continued

As of March 31, 2017 (unaudited)

	Interest contracts NIS - CPI	Interest contracts Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
<b>D. Credit derivatives and spot contracts for foreign currency swaps</b>						
Credit derivatives in which the Bank is beneficiary	-	-	-	-	902	902
Foreign currency spot swap contracts	-	-	7,521	-	-	7,521
<b>Total</b>	-	-	7,521	-	902	8,423
<b>Total stated amounts of derivatives</b>	9,465	34,537	150,627	25,163	14,589	234,381
<b>2. Fair value, gross, of derivatives</b>						
<b>A. Hedging derivatives<sup>(1)</sup></b>						
Positive fair value, gross	18	9	-	-	-	27
Negative fair value, gross	1	80	-	-	-	81
<b>B. ALM derivatives<sup>(1)(2)</sup></b>						
Positive fair value, gross	349	931	2,101	16	1	3,398
Negative fair value, gross	190	1,206	2,193	-	1	3,590
<b>C. Other derivatives<sup>(1)</sup></b>						
Positive fair value, gross	-	1	115	411	-	527
Negative fair value, gross	-	-	97	374	-	471
<b>D. Credit derivatives</b>						
Credit derivatives in which the Bank is beneficiary						
Positive fair value, gross	-	-	-	-	4	4
Negative fair value, gross	-	-	-	-	1	1
<b>Total</b>						
Positive fair value, gross <sup>(3)</sup>	367	941	2,216	427	5	3,956
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
<b>Carrying amount of assets with respect to derivatives</b>	367	941	2,216	427	5	3,956
Of which: Carrying amount of assets with respect to derivatives not subject to a master netting agreement or to similar agreements	183	170	1,016	202	4	1,575
<b>Total</b>						
Negative fair value, gross	191	1,286	2,290	374	2	4,143
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
<b>Carrying amount of liabilities with respect to derivatives</b>	191	1,286	2,290	374	2	4,143
Of which: Carrying amount of liabilities with respect to derivatives not subject to a master netting agreement or to similar agreements	46	283	1,615	364	1	2,309

(1) Except for credit derivatives.

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

(3) Of which: Positive gross fair value of assets with respect to embedded derivatives amounting to NIS 5 million.

## Note 11 - Derivatives and hedging activities - continued

Reported amounts (NIS in millions)

### A) Activity on consolidated basis - continued

As of December 31, 2017 (audited)

	Interest contracts NIS - CPI	Interest contracts Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
<b>1. Stated amounts of derivatives</b>						
<b>A. Hedging derivatives<sup>(1)</sup></b>						
Forward contracts	1,500	-	-	-	-	1,500
Other option contracts:						
Options written	-	17	-	-	-	17
Swaps	-	937	-	-	-	937
<b>Total</b>	<b>1,500</b>	<b>954</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,454</b>
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	937	-	-	-	937
<b>B. ALM derivatives<sup>(1)(2)</sup></b>						
Forward contracts	5,125	-	89,541	-	46	94,712
Option contracts traded on stock exchange:						
Options written	-	-	97	-	-	97
Options purchased	-	-	288	-	-	288
Other option contracts:						
Options written	-	-	12,328	-	-	12,328
Options purchased	-	-	11,392	-	-	11,392
Swaps	2,458	28,923	7,707	-	-	39,088
<b>Total</b>	<b>7,583</b>	<b>28,923</b>	<b>121,353</b>	<b>-</b>	<b>46</b>	<b>157,905</b>
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	2,346	17,768	-	-	-	20,114
<b>C. Other derivatives<sup>(1)</sup></b>						
Forward contracts	-	-	1,050	-	-	1,050
Option contracts traded on stock exchange:						
Options written	-	-	4,803	13,503	5,853	24,159
Options purchased	-	-	4,803	13,503	5,853	24,159
Other option contracts:						
Options written	-	-	-	49	-	49
Options purchased	-	69	-	41	-	110
Swaps	-	3	28	5,031	-	5,062
<b>Total</b>	<b>-</b>	<b>72</b>	<b>10,684</b>	<b>32,127</b>	<b>11,706</b>	<b>54,589</b>
Includes interest rate swaps on which the Bank agreed to pay an interest rate	-	3	-	-	-	3

(1) Except for credit derivatives and spot contracts for foreign currency swaps.

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

## Note 11 - Derivatives and hedging activities - continued

Reported amounts (NIS in millions)

### A) Activity on consolidated basis - continued

As of December 31, 2017 (audited)

	Interest contracts NIS - CPI	Interest contracts Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
<b>D. Credit derivatives and spot contracts for foreign currency swaps</b>						
Credit derivatives in which the Bank is beneficiary	-	-	-	-	776	776
Foreign currency spot swap contracts	-	-	4,909	-	-	4,909
<b>Total</b>	-	-	4,909	-	776	5,685
<b>Total stated amounts of derivatives</b>	9,083	29,949	136,946	32,127	12,528	220,633
<b>2. Fair value, gross, of derivatives</b>						
<b>A. Hedging derivatives<sup>(1)</sup></b>						
Positive fair value, gross	11	7	-	-	-	18
Negative fair value, gross	3	58	-	-	-	61
<b>B. ALM derivatives<sup>(1)(2)</sup></b>						
Positive fair value, gross	304	651	1,964	-	1	2,920
Negative fair value, gross	175	910	1,544	-	1	2,630
<b>C. Other derivatives<sup>(1)</sup></b>						
Positive fair value, gross	-	-	92	392	-	484
Negative fair value, gross	-	-	59	330	-	389
<b>D. Credit derivatives</b>						
Credit derivatives in which the Bank is beneficiary						
Positive fair value, gross	-	-	-	-	5	5
Negative fair value, gross	-	-	-	-	2	2
<b>Total</b>						
Positive fair value, gross <sup>(3)</sup>	315	658	2,056	392	6	3,427
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
<b>Carrying amount of assets with respect to derivatives</b>	315	658	2,056	392	6	3,427
Of which: Carrying amount of assets with respect to derivatives not subject to a master netting agreement or to similar agreements	140	79	904	227	5	1,355
<b>Total</b>						
Negative fair value, gross	178	968	1,603	330	3	3,082
Fair value amounts offset on the balance sheet	-	-	-	-	-	-
<b>Carrying amount of liabilities with respect to derivatives</b>	178	968	1,603	330	3	3,082
Of which: Carrying amount of liabilities with respect to derivatives not subject to a master netting agreement or to similar agreements	45	217	982	279	3	1,526

(1) Except for credit derivatives.

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

(3) Of which: Positive gross fair value of assets with respect to embedded derivatives amounting to NIS 6 million.

## Note 11 - Derivatives and hedging activities - continued

Reported amounts (NIS in millions)

### B) Credit risk on derivatives according to counter-party to the contract - Consolidated

As of March 31, 2018 (unaudited)

	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
<b>Carrying amount of assets with respect to derivatives<sup>(1)</sup></b>	<b>77</b>	<b>1,470</b>	<b>36</b>	<b>38</b>	<b>1,535</b>	<b>3,156</b>
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(1,171)	-	-	(54)	(1,225)
Mitigation of credit risk with respect to cash collateral received	-	(271)	-	(16)	(247)	(534)
Net amount of assets with respect to derivatives	77	28	36	22	1,234	1,397
Off-balance sheet credit risk on derivatives <sup>(3)</sup>	142	717	196	-	1,303	2,358
Mitigation of off-balance sheet credit risk	-	(583)	-	-	(24)	(607)
Net off-balance sheet credit risk with respect to derivatives	142	134	196	-	1,279	1,751
<b>Total credit risk on derivatives</b>	<b>219</b>	<b>162</b>	<b>232</b>	<b>22</b>	<b>2,513</b>	<b>3,148</b>
<b>Carrying amount of liabilities with respect to derivatives</b>	<b>76</b>	<b>1,625</b>	<b>37</b>	<b>17</b>	<b>905</b>	<b>2,660</b>
Gross amounts not offset on the balance sheet:						
Financial instruments	-	(1,171)	-	-	(54)	(1,225)
Pledged cash collateral	-	(454)	-	-	-	(454)
Net amount of liabilities with respect to derivatives	76	-	37	17	851	981

As of March 31, 2017 (unaudited)

	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
<b>Carrying amount of assets with respect to derivatives<sup>(2)</sup></b>	<b>184</b>	<b>2,523</b>	<b>7</b>	<b>17</b>	<b>1,225</b>	<b>3,956</b>
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(1,664)	-	-	(45)	(1,709)
Mitigation of credit risk with respect to cash collateral received	-	(580)	-	(12)	-	(592)
Net amount of assets with respect to derivatives	184	279	7	5	1,180	1,655
Off-balance sheet credit risk on derivatives <sup>(3)</sup>	289	1,021	209	-	1,418	2,937
Mitigation of off-balance sheet credit risk	-	(494)	-	-	(125)	(619)
Net off-balance sheet credit risk with respect to derivatives	289	527	209	-	1,293	2,318
<b>Total credit risk on derivatives</b>	<b>473</b>	<b>806</b>	<b>216</b>	<b>5</b>	<b>2,473</b>	<b>3,973</b>
<b>Carrying amount of liabilities with respect to derivatives</b>	<b>180</b>	<b>2,104</b>	<b>7</b>	<b>-</b>	<b>1,852</b>	<b>4,143</b>
Gross amounts not offset on the balance sheet:						
Financial instruments	-	(1,664)	-	-	(45)	(1,709)
Pledged cash collateral	-	(251)	-	-	(11)	(262)
Net amount of liabilities with respect to derivatives	180	189	7	-	1,796	2,172

(1) Includes positive fair value, gross, of embedded derivatives amounting to NIS 3 million.

(2) Includes positive fair value, gross, of embedded derivatives amounting to NIS 5 million.

(3) The difference, if positive, between the total amount with respect to derivatives (including with respect to derivatives with negative fair value) included under borrower indebtedness, as calculated for restrictions on indebtedness of a borrower, before mitigation of credit risk, and the carrying amount of assets with respect to derivatives of the borrower.

## Note 11 - Derivatives and hedging activities - continued

Reported amounts (NIS in millions)

### B) Credit risk with respect to financial derivatives according to counter-party to the contract - Consolidated - continued

As of December 31, 2017 (audited)

	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
<b>Carrying amount of assets with respect to derivatives<sup>(1)</sup></b>	<b>86</b>	<b>2,014</b>	<b>14</b>	<b>57</b>	<b>1,256</b>	<b>3,427</b>
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(1,426)	-	-	(40)	(1,466)
Mitigation of credit risk with respect to cash collateral received	-	(520)	-	(56)	(303)	(879)
Net amount of assets with respect to derivatives	86	68	14	1	913	1,082
Off-balance sheet credit risk on derivatives <sup>(2)</sup>	169	1,224	170	-	843	2,406
Mitigation of off-balance sheet credit risk	-	(468)	-	-	(92)	(560)
Net off-balance sheet credit risk with respect to derivatives	169	756	170	-	751	1,846
Total credit risk on derivatives	255	824	184	1	1,664	2,928
<b>Carrying amount of liabilities with respect to derivatives</b>	<b>86</b>	<b>1,760</b>	<b>14</b>	<b>-</b>	<b>1,222</b>	<b>3,082</b>
Gross amounts not offset on the balance sheet:						
Financial instruments	-	(1,426)	-	-	(40)	(1,466)
Pledged cash collateral	-	(281)	-	-	-	(281)
Net amount of liabilities with respect to derivatives	86	53	14	-	1,182	1,335

(1) Includes positive fair value, gross, of embedded derivatives amounting to NIS 6 million.

(2) The difference, if positive, between the total amount with respect to derivatives (including with respect to derivatives with negative fair value) included under borrower indebtedness, as calculated for restrictions on indebtedness of a borrower, before mitigation of credit risk, and the carrying amount of assets with respect to derivatives of the borrower.

In the three-month period ended March 31, 2018, the Bank recognized credit losses with respect to derivatives, amounting to NIS 1 million (in the three-month period ended March 31, 2017 the Bank recognized credit losses with respect to derivatives amounting to NIS 4 million and in all of 2017, the Bank recognized revenues from a decrease in credit losses with respect to derivatives amounting to NIS 2 million).

## Note 11 - Derivatives and hedging activities - continued

Reported amounts (NIS in millions)

### C) Maturity dates - stated amounts: year-end balances - Consolidated

As of March 31, 2018 (unaudited)

	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts:					
NIS - CPI	1,473	2,950	2,827	924	8,174
Other	1,695	8,515	14,428	6,752	31,390
Currency contracts	86,927	57,825	9,437	548	154,737
Contracts for shares	24,763	2,699	404	-	27,866
Commodities and other contracts	12,380	248	316	271	13,215
<b>Total</b>	<b>127,238</b>	<b>72,237</b>	<b>27,412</b>	<b>8,495</b>	<b>235,382</b>

As of March 31, 2017 (unaudited)

	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts:					
NIS - CPI	599	2,274	5,695	897	9,465
Other	2,046	6,171	17,927	8,393	34,537
Currency contracts	97,900	40,650	10,332	1,745	150,627
Contracts for shares	17,828	7,240	95	-	25,163
Commodities and other contracts	13,670	225	297	397	14,589
<b>Total</b>	<b>132,043</b>	<b>56,560</b>	<b>34,346</b>	<b>11,432</b>	<b>234,381</b>

As of December 31, 2017 (audited)

	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts:					
NIS - CPI	1,438	3,325	3,500	820	9,083
Other	2,263	4,764	15,261	7,661	29,949
Currency contracts	78,476	46,524	10,897	1,049	136,946
Contracts for shares	28,062	3,562	503	-	32,127
Commodities and other contracts	11,737	239	204	348	12,528
<b>Total</b>	<b>121,976</b>	<b>58,414</b>	<b>30,365</b>	<b>9,878</b>	<b>220,633</b>

## 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.

## Note 12 - Operating Segments - continued

**Financial management** - includes trading operations, asset and liability management and non-banking investments.

Trade operations - Investment in securities held for trade, market making operations for securities, operations involving derivatives not designated as hedges and which are not part of asset and liability management for the Bank, borrowing of securities for trading, short selling of securities, underwriting services for securities.

Asset and liability management - including investment in debentures available for sale and in debentures held to maturity, hedging using derivatives, ALM hedging, deposits with banks and deposits from banks in Israel and overseas, currency hedging of investments overseas, deposits with and from Governments.

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 three months ended March 31, 2018 (unaudited)**

Reported amounts (NIS in millions)

	Operations in Israel Households Housing loans	Operations in Israel Households Others	Operations in Israel Households Of which: Credit cards	Operations in Israel Households Total	Operations in Israel Private banking	Operations in Israel Small and micro businesses	Operations in Israel Medium businesses	Operations in Israel Large businesses	Operations in Israel Institutional investors	Operations in Israel Financial Managemen t Segment	Operations in Israel Total activity in Israel	Operations overseas Total operations overseas	Total
Interest revenues from externals	688	228	9	916	-	243	62	132	11	22	1,386	63	1,449
Interest expenses from externals	-	99	-	99	30	16	12	43	66	84	350	18	368
Interest revenues, net from externals	688	129	9	817	(30)	227	50	89	(55)	(62)	1,036	45	1,081
Interest revenues, net - inter- segment	(331)	179	(1)	(152)	46	5	8	39	86	(29)	3	(3)	-
<b>Total interest revenues, net</b>	<b>357</b>	<b>308</b>	<b>8</b>	<b>665</b>	<b>16</b>	<b>232</b>	<b>58</b>	<b>128</b>	<b>31</b>	<b>(91)</b>	<b>1,039</b>	<b>42</b>	<b>1,081</b>
Total non-interest financing revenues	-	-	-	-	-	-	-	-	-	80	80	10	90
Total commissions and other revenues	41	131	35	172	2	89	18	27	13	46	367	6	373
<b>Total non-interest revenues</b>	<b>41</b>	<b>131</b>	<b>35</b>	<b>172</b>	<b>2</b>	<b>89</b>	<b>18</b>	<b>27</b>	<b>13</b>	<b>126</b>	<b>447</b>	<b>16</b>	<b>463</b>
<b>Total revenues</b>	<b>398</b>	<b>439</b>	<b>43</b>	<b>837</b>	<b>18</b>	<b>321</b>	<b>76</b>	<b>155</b>	<b>44</b>	<b>35</b>	<b>1,486</b>	<b>58</b>	<b>1,544</b>
Expenses with respect to credit losses	6	22	-	28	-	38	4	8	-	1	79	3	82
Operating and other expenses to externals	151	379	12	530	13	171	28	43	30	78	893	19	912
Operating and other expenses - inter-segment	-	1	-	1	-	(1)	1	-	-	(1)	-	-	-
<b>Total operating and other expenses</b>	<b>151</b>	<b>380</b>	<b>12</b>	<b>531</b>	<b>13</b>	<b>170</b>	<b>29</b>	<b>43</b>	<b>30</b>	<b>77</b>	<b>893</b>	<b>19</b>	<b>912</b>
Pre-tax profit	241	37	31	278	5	113	43	104	14	(43)	514	36	550
Provision for taxes on profit	84	13	11	97	2	39	15	36	5	(15)	179	13	192
<b>After-tax profit</b>	<b>157</b>	<b>24</b>	<b>20</b>	<b>181</b>	<b>3</b>	<b>74</b>	<b>28</b>	<b>68</b>	<b>9</b>	<b>(28)</b>	<b>335</b>	<b>23</b>	<b>358</b>
Share of banking corporation in earnings of associated companies	-	-	-	-	-	-	-	-	-	-	-	-	-
Net profit before attribution to non-controlling interests	157	24	20	181	3	74	28	68	9	(28)	335	23	358
Net profit attributed to non- controlling interests	-	(8)	(1)	(8)	-	(1)	-	-	-	(6)	(15)	-	(15)

	Operations in Israel Households Housing loans	Operations in Israel Households Others	Operations in Israel Households Of which: Credit cards	Operations in Israel Households Total	Operations in Israel Private banking	Operations in Israel Small and micro businesses	Operations in Israel Medium businesses	Operations in Israel Large businesses	Operations in Israel Institutional investors	Operations in Israel Financial Manageme nt Segment	Operations in Israel Total activity in Israel	Operations overseas Total operations overseas	Total
Net profit attributable to shareholders of the banking corporation	157	16	19	173	3	73	28	68	9	(34)	320	23	343
Average balance of assets	121,072	20,000	3,662	141,072	97	17,293	6,229	14,523	1,334	50,561	231,109	8,816	239,925
Of which: Investments in associated companies	-	-	-	-	-	-	-	-	-	32	32	-	32
Average balance of loans to the public	121,072	20,000	3,662	141,072	97	17,293	6,229	14,523	1,334	-	180,548	3,188	183,736
Balance of loans to the public at end of reported period	121,356	20,354	3,743	141,710	100	17,511	5,987	14,913	1,266	-	181,487	3,640	185,127
Balance of impaired debts	38	71	-	109	-	429	76	256	-	-	870	-	870
Balance of debt in arrears 90 days or longer	1,086	23	-	1,109	-	35	-	-	-	-	1,144	1	1,145
Average balance of liabilities	-	79,233	3,662	79,233	12,009	19,587	7,288	25,581	39,563	34,186	217,447	7,996	225,443
Of which: Average balance of deposits from the public	-	75,571	-	75,571	12,009	19,587	7,288	25,581	39,563	-	179,599	5,295	184,894
Balance of deposits from the public at end of reported period	-	76,809	-	76,809	12,384	19,514	7,213	25,910	40,045	-	181,875	5,191	187,066
Average balance of risk assets <sup>(1)</sup>	67,327	17,424	3,168	84,751	37	16,644	7,136	20,229	2,433	6,426	137,656	3,671	141,327
Balance of risk assets at end of reported period <sup>(1)</sup>	67,731	17,646	3,221	85,377	44	16,946	7,259	19,710	2,576	6,358	138,270	3,859	142,129
Average balance of assets under management <sup>(2)</sup>	8,366	44,289	-	52,655	2,182	20,589	3,106	26,251	150,107	12,702	267,592	-	267,592
<b>Composition of interest revenues, net:</b>													
Margin from credit granting operations	345	200	7	545	-	204							
Margin from activities of receiving deposits	-	106	1	106	16	23	48	109	9	-	915	22	937
Other	12	2	-	14	-	5	9	17	22	-	193	2	195
Total interest revenues, net	357	308	8	665	16	232	1	2	-	(91)	(69)	18	(51)

(1) Risk assets - as calculated for capital adequacy (Proper Banking Conduct Directive 201).

(2) Assets under management - includes clients' provident funds, study funds, mutual funds and securities.

**Note 12 - Operating Segments - continued**  
**Supervisory operating segments**  
**For the three months ended March 31, 2017 (unaudited)**

Reported amounts (NIS in millions)

	Operations in Israel Households Housing loans	Operations in Israel Households Others	Operations in Israel Households Of which: Credit cards	Operations in Israel Households Total	Operations in Israel Private banking	Operations in Israel Small and micro businesses	Operations in Israel Medium businesses	Operations in Israel Large businesses	Operations in Israel Institutional investors	Operations in Israel Financial Management Segment	Operations in Israel Total activity in Israel	Operations overseas Total operations overseas	Total
Interest revenues from externals	647	210	8	857	-	219	50	135	11	31	1,303	53	1,356
Interest expenses from externals	-	84	-	84	23	12	6	25	70	97	317	12	329
Interest revenues, net from externals	647	126	8	773	(23)	207	44	110	(59)	(66)	986	41	1,027
Interest revenues, net - inter-segment	(343)	154	(1)	(189)	37	(2)	4	2	83	68	3	(3)	-
Total interest revenues, net	304	280	7	584	14	205	48	112	24	2	989	38	1,027
Total non-interest financing revenues	-	-	-	-	-	-	-	-	-	(3)	(3)	2	(1)
Total commissions and other revenues	37	124	35	161	1	80	15	32	16	56	361	8	369
Total non-interest revenues	37	124	35	161	1	80	15	32	16	53	358	10	368
Total revenues	341	404	42	745	15	285	63	144	40	55	1,347	48	1,395
Expenses with respect to credit losses	-	24	-	24	-	32	(3)	(2)	(2)	(1)	48	1	49
Operating and other expenses to externals	135	348	11	483	12	151	25	38	32	63	804	19	823
Operating and other expenses - inter-segment	-	1	-	1	-	(1)	-	-	1	(1)	-	-	-
Total operating and other expenses	135	349	11	484	12	150	25	38	33	62	804	19	823
Pre-tax profit	206	31	31	237	3	103	41	108	9	(6)	495	28	523
Provision for taxes on profit	76	11	11	87	1	38	15	40	3	(2)	182	10	192
After-tax profit	130	20	20	150	2	65	26	68	6	(4)	313	18	331
Share of banking corporation in earnings of associated companies	-	-	-	-	-	-	-	-	-	(1)	(1)	-	(1)
Net profit before attribution to non-controlling interests	130	20	20	150	2	65	26	68	6	(5)	312	18	330
Net profit attributed to non-controlling interests	-	(4)	(1)	(4)	-	-	-	-	-	(5)	(9)	-	(9)

	Operations in Israel Households Housing loans	Operations in Israel Households Others	Operations in Israel Households Of which: Credit cards	Operations in Israel Households Total	Operations in Israel Private banking	Operations in Israel Small and micro businesses	Operations in Israel Medium businesses	Operations in Israel Large businesses	Operations in Israel Institutional investors	Operations in Israel Financial Management Segment	Operations in Israel Total activity in Israel	Operations overseas Total operations overseas	Total
Net profit attributable to shareholders of the banking corporation	130	16	19	146	2	65	26	68	6	(10)	303	18	321
Average balance of assets	115,665	18,159	2,817	133,824	72	15,356	4,899	15,347	1,611	47,609	218,718	10,794	229,512
Of which: Investments in associated companies	-	-	-	-	-	-	-	-	-	33	33	-	33
Average balance of loans to the public	115,665	18,159	2,817	133,824	72	15,356	4,899	15,347	1,611	-	171,109	3,080	174,189
Balance of loans to the public at end of reported period	115,996	18,793	3,330	134,789	99	15,894	4,992	14,014	1,581	-	171,369	3,164	174,533
Balance of impaired debts	37	66	-	103	-	304	64	196	-	-	667	1	668
Balance of debt in arrears 90 days or longer	900	25	-	925	-	38	12	10	-	-	985	-	985
Average balance of liabilities	-	74,741	2,817	74,741	11,072	17,022	6,178	29,831	36,895	31,545	207,284	8,722	216,006
Of which: Average balance of deposits from the public	-	71,924	-	71,924	11,072	17,022	6,178	29,831	36,895	-	172,922	5,352	178,274
Balance of deposits from the public at end of reported period	-	72,500	-	72,500	11,211	17,288	5,890	30,293	38,081	-	175,263	5,459	180,722
Average balance of risk assets <sup>(1)</sup>	63,684	16,455	3,013	80,139	33	14,680	6,004	20,886	2,518	5,124	129,384	3,459	132,843
Balance of risk assets at end of reported period <sup>(1)</sup>	64,121	16,537	2,973	80,658	43	14,877	6,088	20,958	2,661	4,972	130,257	3,526	133,783
Average balance of assets under management <sup>(2)</sup>	6,706	39,408	-	46,114	2,347	15,741	4,298	25,717	146,486	11,520	252,223	-	252,223
<b>Composition of interest revenues, net:</b>													
Margin from credit granting operations	296	185	7	481	-	184	40	95	8	-	808	26	834
Margin from activities of receiving deposits	-	93	-	93	14	18	6	15	15	-	161	3	164
Other	8	2	-	10	-	3	2	2	1	2	20	9	29
Total interest revenues, net	304	280	7	584	14	205	48	112	24	2	989	38	1,027

(1) Risk assets - as calculated for capital adequacy (Proper Banking Conduct Directive 201).

(2) Assets under management - includes clients' provident funds, study funds, mutual funds and securities.

(3) Reclassified. This reclassification is primarily due to Bank Yahav operations, mainly presented under the Household segment. After reclassification, Bank Yahav operations are also presented under Financial Management.

**Note 12 - Operating Segments - continued**  
**Supervisory operating segments**  
**For the year ended December 31, 2017 (audited)**

Reported amounts (NIS in millions)

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	Operations in Israel Households Housing loans	Operations in Israel Households Others	Operations in Israel Households Of which: Credit cards	Operations in Israel Households Total	Operations in Israel Private banking	Operations in Israel Small and micro businesses	Operations in Israel Medium businesses	Operations in Israel Large businesses	Operations in Israel Institutional investors	Operations in Israel Financial Managemen t Segment	Operations in Israel Total activity in Israel	Operations overseas Total operations overseas	Total
Interest revenues from externals	3,294	861	33	4,155	2	904	222	506	42	158	5,989	233	6,222
Interest expenses from externals	-	461	-	461	124	65	26	159	340	645	1,820	55	1,875
Interest revenues, net from externals	3,294	400	33	3,694	(122)	839	196	347	(298)	(487)	4,169	178	4,347
Interest revenues, net - inter- segment	(1,983)	743	(5)	(1,240)	181	56	10	117	410	482	16	(16)	-
Total interest revenues, net	1,311	1,143	28	2,454	59	895	206	464	112	(5)	4,185	162	4,347
Total non-interest financing revenues	-	-	-	-	-	-	-	(1)	(1)	131	129	7	136
Total commissions and other revenues	145	502	145	647	10	335	76	134	44	<sup>(3)</sup> 242	1,488	29	1,517
Total non-interest revenues	145	502	145	647	10	335	76	133	43	373	1,617	36	1,653
Total revenues	1,456	1,645	173	3,101	69	1,230	282	597	155	368	5,802	198	6,000
Expenses with respect to credit losses	24	122	-	146	1	149	7	(89)	(22)	(1)	191	1	192
Operating and other expenses to externals	600	1,503	45	2,103	52	662	104	168	125	326	3,540	71	3,611
Operating and other expenses - inter-segment	-	3	-	3	1	(3)	2	2	-	(5)	-	-	-
Total operating and other expenses	600	1,506	45	2,106	53	659	106	170	125	321	3,540	71	3,611
Pre-tax profit	832	17	128	849	15	422	169	516	52	48	2,071	126	2,197
Provision for taxes on profit	305	6	47	311	6	155	62	189	19	18	760	46	806
After-tax profit	527	11	81	538	9	267	107	327	33	30	1,311	80	1,391
Share of banking corporation in earnings of associated companies	-	-	-	-	-	-	-	-	-	-	-	-	-
Net profit before attribution to non-controlling interests	527	11	81	538	9	267	107	327	33	30	1,311	80	1,391
Net profit attributed to non- controlling interests	-	(21)	(3)	(21)	-	(1)	-	-	-	(22)	(44)	-	(44)

	Operations in Israel Households Housing loans	Operations in Israel Households Others	Operations in Israel Households Of which: Credit cards	Operations in Israel Households Total	Operations in Israel Private banking	Operations in Israel Small and micro businesses	Operations in Israel Medium businesses	Operations in Israel Large businesses	Operations in Israel Institutional investors	Operations in Israel Financial Managemen t Segment	Operations in Israel Total activity in Israel	Operations overseas Total operations overseas	Total
Net profit attributable to shareholders of the banking corporation	527	(10)	78	517	9	266	107	327	33	8	1,267	80	1,347
Average balance of assets	118,042	18,866	3,415	136,908	86	16,190	5,704	14,642	1,413	49,529	224,472	10,140	234,612
Of which: Investments in associated companies	-	-	-	-	-	-	-	-	-	33	33	-	33
Average balance of loans to the public	118,042	18,866	3,415	136,908	86	16,190	5,704	14,642	1,413	-	174,943	3,031	177,974
Balance of loans to the public at end of reported period	120,186	20,059	3,611	140,245	121	17,045	5,854	15,011	1,175	-	179,451	3,151	182,602
Balance of impaired debts	33	70	-	103	-	396	64	160	-	-	723	-	723
Balance of debt in arrears 90 days or longer	1,071	22	-	1,093	-	42	-	-	-	-	1,135	1	1,136
Average balance of liabilities	-	76,920	3,415	76,920	11,563	18,284	6,470	27,864	38,748	32,221	212,070	8,694	220,764
Of which: Average balance of deposits from the public	-	73,505	-	73,505	11,563	18,284	6,470	27,864	38,748	-	176,434	5,102	181,536
Balance of deposits from the public at end of reported period	-	75,008	-	75,008	12,448	18,942	7,138	26,284	38,881	-	178,701	4,872	183,573
Average balance of risk assets <sup>(1)</sup>	65,085	16,675	3,051	81,760	28	15,484	6,484	20,887	2,334	5,872	132,849	3,495	136,344
Balance of risk assets at end of reported period <sup>(1)</sup>	66,921	17,202	3,115	84,123	31	16,344	7,014	20,747	2,290	6,493	137,042	3,482	140,524
Average balance of assets under management <sup>(2)</sup>	7,080	42,450	-	49,530	2,367	18,184	3,432	26,700	147,742	12,174	260,129	-	260,129
<b>Composition of interest revenues, net:</b>													
Margin from credit granting operations	1,268	744	28	2,012	1	786	176	393	34	-	3,402	93	3,495
Margin from activities of receiving deposits	-	396	-	396	58	84	25	60	76	-	699	12	711
Other	43	3	-	46	-	25	5	11	2	(5)	84	57	141
Total interest revenues, net	1,311	1,143	28	2,454	59	895	206	464	112	(5)	4,185	162	4,347

(1) Risk assets - as calculated for capital adequacy (Proper Banking Conduct Directive 201).

(2) Assets under management - includes clients' provident funds, study funds, mutual funds and securities.

(3) Includes capital gains under Other Revenues amounting to NIS 47 million before tax, from realization of assets in conjunction with asset reorganization and streamlining of the Bank's branch network.

## 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 derivatives, as well as custom banking services designed for needs in specific fields. Operations of the various segments are conducted via Bank branches, trading room, Business Centers, Bank HQ departments and subsidiaries in Israel and overseas.

For more information about measurement of Bank operations in conformity with the supervisory segments approach, as specified by the Supervisor of Banks, see chapter "Supervisory operating segments" 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 6-25 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 three months ended March 31, 2018 (unaudited)**

Reported amounts (NIS in millions)

	House- holds - other	Households - mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial manage- ment	Total consoli- dated
Interest revenues, net:								
From outside operating segments	160	629	(2)	156	45	170	(77)	1,081
Inter-segment	206	(319)	21	25	4	71	(8)	-
<b>Total interest revenues, net</b>	<b>366</b>	<b>310</b>	<b>19</b>	<b>181</b>	<b>49</b>	<b>241</b>	<b>(85)</b>	<b>1,081</b>
Non-interest financing revenues	1	-	-	-	-	11	78	90
Commissions and other revenues	131	39	15	74	12	49	53	373
<b>Total revenues</b>	<b>498</b>	<b>349</b>	<b>34</b>	<b>255</b>	<b>61</b>	<b>301</b>	<b>46</b>	<b>1,544</b>
Expenses with respect to credit losses	19	6	-	40	(3)	18	2	82
Operating and other expenses	395	144	22	144	35	86	86	912
Pre-tax profit	84	199	12	71	29	197	(42)	550
Provision for taxes on profit	29	69	4	25	10	69	(14)	192
<b>After-tax profit</b>	<b>55</b>	<b>130</b>	<b>8</b>	<b>46</b>	<b>19</b>	<b>128</b>	<b>(28)</b>	<b>358</b>
Share in net profits of associated companies, after tax	-	-	-	-	-	-	-	-
Net profit:								
Before attribution to non-controlling interests	55	130	8	46	19	128	(28)	358
Attributable to non-controlling interests	(8)	-	-	(1)	-	-	(6)	(15)
<b>Net profit attributable to shareholders of the Bank</b>	<b>47</b>	<b>130</b>	<b>8</b>	<b>45</b>	<b>19</b>	<b>128</b>	<b>(34)</b>	<b>343</b>
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity) <sup>(1)</sup>	11.6%	8.2%	63.3%	18.1%	13.3%	16.6%	-	10.3%
Average balance of loans to the public, net	24,178	115,956	1,003	12,101	5,213	23,776	-	182,227
Average balance of deposits from the public	82,857	-	8,023	18,703	6,617	59,248	9,446	184,894
Average balance of assets	25,472	116,108	1,632	12,230	5,253	27,855	51,375	239,925
Average balance of risk assets <sup>(2)</sup>	20,590	64,520	604	10,628	5,881	32,259	6,845	141,327

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

(2) Risk weighted assets - as calculated for capital adequacy (Proper Banking Conduct Directive No. 201).

**Note 12 - Operating Segments - continued**  
**Operating segments in conformity with the management approach.**  
**For the three months ended March 31, 2017 (unaudited)**

Reported amounts (NIS in millions)

	House- holds - other <sup>(3)</sup>	Households - mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial manage- ment	Total consoli- dated
Interest revenues, net:								
From outside operating segments	209	593	(4)	145	39	148	(103)	1,027
Inter-segment	122	(331)	22	15	3	51	118	-
<b>Total interest revenues, net</b>	<b>331</b>	<b>262</b>	<b>18</b>	<b>160</b>	<b>42</b>	<b>199</b>	<b>15</b>	<b>1,027</b>
Non-interest financing revenues	1	-	-	-	-	6	(8)	(1)
Commissions and other revenues	127	36	15	70	12	57	52	369
<b>Total revenues</b>	<b>459</b>	<b>298</b>	<b>33</b>	<b>230</b>	<b>54</b>	<b>262</b>	<b>59</b>	<b>1,395</b>
Expenses with respect to credit losses	22	-	-	32	-	(4)	(1)	49
Operating and other expenses	364	130	23	131	31	79	65	823
Pre-tax profit	73	168	10	67	23	187	(5)	523
Provision for taxes on profit	27	62	4	25	8	69	(3)	192
<b>After-tax profit</b>	<b>46</b>	<b>106</b>	<b>6</b>	<b>42</b>	<b>15</b>	<b>118</b>	<b>(2)</b>	<b>331</b>
Share in net profits of associated companies, after tax	-	-	-	-	-	-	(1)	(1)
Net profit:								
Before attribution to non-controlling interests	46	106	6	42	15	118	(3)	330
Attributable to non-controlling interests	(4)	-	-	-	-	-	(5)	(9)
<b>Net profit attributable to shareholders of the Bank</b>	<b>42</b>	<b>106</b>	<b>6</b>	<b>42</b>	<b>15</b>	<b>118</b>	<b>(8)</b>	<b>321</b>
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity) <sup>(1)</sup>	10.8%	7.0%	37.3%	18.7%	12.4%	15.7%	-	10.4%
Average balance of loans to the public, net	22,371	110,936	865	11,111	4,543	23,013	-	172,839
Average balance of deposits from the public	77,855	-	7,967	17,274	6,195	58,913	10,070	178,274
Average balance of assets	23,129	111,211	1,546	11,247	4,595	28,850	48,934	229,512
Average balance of risk assets <sup>(2)</sup>	19,298	61,114	719	9,479	4,993	31,447	5,793	132,843

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

(2) Risk weighted assets - as calculated for capital adequacy (Proper Banking Conduct Directive No. 201).

(3) Reclassified. This reclassification is primarily due to Bank Yahav operations, mainly presented under the Household segment. After reclassification, Bank Yahav operations are also presented under Financial Management.

**Note 12 - Operating Segments - continued**  
**Operating segments in conformity with the management approach.**  
**For the year ended December 31, 2017 (audited)**

Reported amounts (NIS in millions)

	Households - other	Households - mortgages	Private banking	Small busi- nesses	Commercial banking	Business banking	Financial manage- ment	Total consoli- dated
Interest revenues, net:								
From outside operating segments	548	3,043	(11)	585	162	564	(544)	4,347
Inter-segment	837	(1,915)	85	109	22	295	567	-
<b>Total interest revenues, net</b>	<b>1,385</b>	<b>1,128</b>	<b>74</b>	<b>694</b>	<b>184</b>	<b>859</b>	<b>23</b>	<b>4,347</b>
Non-interest financing revenues	4	-	1	1	1	23	106	136
Commissions and other revenues	504	144	52	275	46	238	258 <sup>(3)</sup>	1,517
<b>Total revenues</b>	<b>1,893</b>	<b>1,272</b>	<b>127</b>	<b>970</b>	<b>231</b>	<b>1,120</b>	<b>387</b>	<b>6,000</b>
Expenses with respect to credit losses								
	117	23	-	142	7	(88)	(9)	192
Operating and other expenses	1,572	557	92	561	134	340	355	3,611
Pre-tax profit	204	692	35	267	90	868	41	2,197
Provision for taxes on profit	75	254	13	98	33	318	15	806
<b>After-tax profit</b>	<b>129</b>	<b>438</b>	<b>22</b>	<b>169</b>	<b>57</b>	<b>550</b>	<b>26</b>	<b>1,391</b>
Share in net profits of associated companies, after tax	-	-	-	-	-	-	-	-
Net profit:								
Before attribution to non-controlling interests	129	438	22	169	57	550	26	1,391
Attributable to non-controlling interests	(21)	-	-	(1)	-	-	(22)	(44)
<b>Net profit attributable to shareholders of the Bank</b>	<b>108</b>	<b>438</b>	<b>22</b>	<b>168</b>	<b>57</b>	<b>550</b>	<b>4</b>	<b>1,347</b>
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity) <sup>(1)</sup>								
	6.7%	6.9%	33.4%	16.8%	10.6%	16.8%	1.1%	10.2%
Average balance of loans to the public, net	23,026	113,112	919	11,598	4,750	23,106	-	176,511
Average balance of deposits from the public	80,092	-	7,931	18,252	6,389	58,954	9,918	181,536
Average balance of assets	24,383	113,510	1,550	11,758	4,809	28,527	50,075	234,612
Average balance of risk assets <sup>(2)</sup>	19,691	62,374	646	9,947	5,257	32,022	6,407	136,344

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

(2) Risk weighted assets - as calculated for capital adequacy (Proper Banking Conduct Directive No. 201).

(3) Includes capital gains under Other Revenues amounting to NIS 47 million before tax, from realization of assets in conjunction with asset reorganization and streamlining of the Bank's branch network.

## Note 12 - Operating Segments - continued

### C. Effect of attribution of expenses related to the US DOJ inquiry on operating segments

Had the expenses related to the US DOJ inquiry been attributed to the private banking segment and to overseas operations (rather than to the financial management segment, as attributed by the Bank), according to the supervisory approach, the results of the private banking segment for the first quarter of 2018 would have amounted to a loss of NIS 2 million. Results of the private banking segment for the first quarter of 2017 would have amounted to a loss of NIS 7 million.

Results of the private banking segment according to the supervisory approach for 2017 would have amounted to a loss of NIS 11 million.

Results of the financial management segment according to the supervisory approach for the first quarter of 2018 would have amounted to a loss of NIS 29 million. Results of the financial management segment for the first quarter of 2017 would have amounted to a loss of NIS 1 million.

Results of the financial management segment according to the supervisory approach for 2017 would have amounted to income of NIS 28 million.

Results of overseas operations according to the supervisory approach would have been unchanged in the first quarter of 2018 and 2017 and for all of 2017.

According to the management approach, results of the private banking segment for the first quarter of 2018 would have amounted to a profit of NIS 3 million. Results of the private banking segment for the first quarter of 2017 would have amounted to a loss of NIS 3 million.

Results of the private banking segment according to the management approach for 2017 would have amounted to income amounting to NIS 2 million.

Results of the financial management segment according to the management approach for the first quarter of 2018 would have amounted to a loss of NIS 29 million. Results of the financial management segment for the first quarter of 2017 would have amounted to a profit of NIS 1 million.

Results of the financial management segment according to the management approach for 2017 would have amounted to income amounting to NIS 24 million.

## 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<sup>(1)</sup> and credit instruments

#### 1. Change in balance of provision for credit losses

For the three months ended March 31, 2018 (unaudited) - Provision for credit losses

	Loans to the public Commercial	Loans to the public Housing	Loans to the public Individual - other	Loans to the public Total	Banks and governments	Total
Balance of provision for credit losses at start of period	699	630	245	1,574	1	1,575
Expenses with respect to credit losses	53	6	22	81	1	82
Net accounting write-off <sup>(2)</sup>	(61)	(1)	(35)	(97)	-	(97)
Recovery of debts written off in previous years <sup>(2)</sup>	20	-	17	37	-	37
Net accounting write-offs	(41)	(1)	(18)	(60)	-	(60)
Balance of provision for credit losses at end of period	711	635	249	1,595	2	1,597
Of which: With respect to off balance sheet credit instruments	87	-	9	96	-	96

For the three months ended March 31, 2017 (unaudited) - Provision for credit losses

	Loans to the public Commercial	Loans to the public Housing	Loans to the public Individual - other	Loans to the public Total	Banks and governments	Total
Balance of provision for credit losses at start of period	724	615	208	1,547	2	1,549
Expenses with respect to credit losses	26	-	24	50	(1)	49
Net accounting write-off <sup>(2)</sup>	(37)	(3)	(30)	(70)	-	(70)
Recovery of debts written off in previous years <sup>(2)</sup>	17	-	14	31	-	31
Net accounting write-offs	(20)	(3)	(16)	(39)	-	(39)
Balance of provision for credit losses at end of period	730	612	216	1,558	1	1,559
Of which: With respect to off balance sheet credit instruments	85	-	8	93	-	93

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

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

## Note 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<sup>(1)</sup> 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:

As of March 31, 2018 (unaudited)

	Loans to the public Commercial	Loans to the public Housing	Loans to the public Individual - other	Loans to the public Total	Banks and governments	Total
Recorded debt balance of debts <sup>(1)</sup>						
reviewed on individual basis	34,116	38	718	34,872	3,249	38,121
reviewed on group basis	10,015	121,685	18,555	150,255	-	150,255
Of which: the provision for credit losses is assessed by extent of arrears	1,386	121,685	-	123,071	-	123,071
<b>Total debts</b>	<b>44,131</b>	<b>(2)121,723</b>	<b>19,273</b>	<b>185,127</b>	<b>3,249</b>	<b>188,376</b>
Provision for credit losses with respect to debts <sup>(1)</sup>						
reviewed on individual basis	499	4	28	531	2	533
reviewed on group basis	125	631	212	968	-	968
Of which: Loans for which a provision for credit losses is assessed by extent of arrears <sup>(3)</sup>	5	631	-	636	-	636
<b>Total provision for credit losses</b>	<b>624</b>	<b>635</b>	<b>240</b>	<b>1,499</b>	<b>2</b>	<b>1,501</b>

As of March 31, 2017 (unaudited)

	Loans to the public Commercial	Loans to the public Housing	Loans to the public Individual - other	Loans to the public Total	Banks and governments	Total
Recorded debt balance of debts <sup>(1)</sup>						
reviewed on individual basis	29,964	36	(4)623	30,623	3,087	33,710
reviewed on group basis	(4)10,245	116,304	(4)17,361	143,910	-	143,910
Of which: the provision for credit losses is assessed by extent of arrears	1,053	115,650	-	116,703	-	116,703
<b>Total debts</b>	<b>40,209</b>	<b>(2)116,340</b>	<b>17,984</b>	<b>174,533</b>	<b>3,087</b>	<b>177,620</b>
Provision for credit losses with respect to debts <sup>(1)</sup>						
reviewed on individual basis	537	2	20	559	1	560
reviewed on group basis	108	610	188	906	-	906
Of which: Loans for which a provision for credit losses is assessed by extent of arrears <sup>(3)</sup>	5	610	-	615	-	615
<b>Total provision for credit losses</b>	<b>645</b>	<b>612</b>	<b>208</b>	<b>1,465</b>	<b>1</b>	<b>1,466</b>

As of December 31, 2017 (audited)

	Loans to the public Commercial	Loans to the public Housing	Loans to the public Individual - other	Loans to the public Total	Banks and governments	Total
Recorded debt balance of debts <sup>(1)</sup>						
reviewed on individual basis	33,392	33	(4)655	34,080	2,543	36,623
reviewed on group basis	9,605	120,514	(4)18,403	148,522	-	148,522
Of which: the provision for credit losses is assessed by extent of arrears	1,265	120,514	-	121,779	-	121,779
<b>Total debts</b>	<b>42,997</b>	<b>(2)120,547</b>	<b>19,058</b>	<b>182,602</b>	<b>2,543</b>	<b>185,145</b>
Provision for credit losses with respect to debts <sup>(1)</sup>						
reviewed on individual basis	499	2	24	525	1	526
reviewed on group basis	119	628	212	959	-	959
Of which: Loans for which a provision for credit losses is assessed by extent of arrears <sup>(3)</sup>	5	628	-	633	-	633
<b>Total provision for credit losses</b>	<b>618</b>	<b>630</b>	<b>236</b>	<b>1,484</b>	<b>1</b>	<b>1,485</b>

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

(2) Includes general-purpose loans secured by a lien on a residential apartment, amounting to NIS 6,484 million (as of March 31, 2017: NIS 5,844 million and as of December 31, 2017: NIS 6,291 million).

(3) Includes balance of provision in excess of that required by extent of arrears, assessed on individual basis, amounting to NIS 17 million (as of March 31, 2017: NIS 16 million, as of December 31, 2017: NIS 16 million), and assessed on group basis, amounting to NIS 425 million (as of March 31, 2017: NIS 406 million, as of December 31, 2017: NIS 421 million).

(4) Reclassified.

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

Reported amounts (NIS in millions)

### B. Debts<sup>(1)</sup>

#### 1.A. Credit quality and arrears

As of March 31, 2018 (unaudited)

	Non problematic	Problematic <sup>(2)</sup> Non impaired	Problematic <sup>(2)</sup> Impaired <sup>(3)</sup>	Total	Non impaired debts - additional information In arrears 90 days or longer <sup>(4)</sup>	Non impaired debts - additional information In arrears 30 to 89 days <sup>(5)</sup>
<b>Borrower activity in Israel</b>						
<b>Public - commercial</b>						
Construction and real estate - construction <sup>(8)</sup>	12,545	60	163	12,768	7	18
Construction and real estate - real estate operations	2,298	4	17	2,319	-	4
Financial services	3,385	161	14	3,560	-	10
Commercial - other	21,062	353	564	21,979	28	88
<b>Total commercial</b>	<b>39,290</b>	<b>578</b>	<b>758</b>	<b>40,626</b>	<b>35</b>	<b>120</b>
Private individuals - housing loans	120,232	<sup>(7)</sup> 1,086	38	121,356	<sup>(7)</sup> 1,086	<sup>(6)</sup> 393
Private individuals - other	18,798	144	71	19,013	23	79
<b>Total public - activity in Israel</b>	<b>178,320</b>	<b>1,808</b>	<b>867</b>	<b>180,995</b>	<b>1,144</b>	<b>592</b>
Banks in Israel	233	-	-	233	-	-
Government of Israel	-	-	-	-	-	-
<b>Total activity in Israel</b>	<b>178,553</b>	<b>1,808</b>	<b>867</b>	<b>181,228</b>	<b>1,144</b>	<b>592</b>
<b>Borrower activity overseas</b>						
<b>Public - commercial</b>						
Construction and real estate	1,943	-	-	1,943	-	-
Commercial - other	1,559	-	3	1,562	-	-
<b>Total commercial</b>	<b>3,502</b>	<b>-</b>	<b>3</b>	<b>3,505</b>	<b>-</b>	<b>-</b>
Private individuals	626	1	-	627	1	-
<b>Total public - activity overseas</b>	<b>4,128</b>	<b>1</b>	<b>3</b>	<b>4,132</b>	<b>1</b>	<b>-</b>
Overseas banks	2,523	-	-	2,523	-	-
Overseas governments	493	-	-	493	-	-
<b>Total activity overseas</b>	<b>7,144</b>	<b>1</b>	<b>3</b>	<b>7,148</b>	<b>1</b>	<b>-</b>
<b>Total public</b>	<b>182,448</b>	<b>1,809</b>	<b>870</b>	<b>185,127</b>	<b>1,145</b>	<b>592</b>
<b>Total banks</b>	<b>2,756</b>	<b>-</b>	<b>-</b>	<b>2,756</b>	<b>-</b>	<b>-</b>
<b>Total governments</b>	<b>493</b>	<b>-</b>	<b>-</b>	<b>493</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>185,697</b>	<b>1,809</b>	<b>870</b>	<b>188,376</b>	<b>1,145</b>	<b>592</b>

(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 65 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 98 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 1,683 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<sup>(1)</sup>

#### 1.A. Credit quality and arrears - continued

As of March 31, 2017 (unaudited)

	Non problematic	Problematic <sup>(2)</sup> Non impaired	Problematic <sup>(2)</sup> Impaired <sup>(3)</sup>		Non impaired debts - additional information In arrears 90 Total days or longer <sup>(4)</sup>	Non impaired debts - additional information In arrears 30 to 89 days <sup>(5)</sup>
<b>Borrower activity in Israel</b>						
<b>Public - commercial</b>						
Construction and real estate - construction <sup>(6)</sup>	10,402	43	92	10,537	13	23
Construction and real estate - real estate operations	1,921	7	70	1,998	-	6
Financial services	<sup>(9)</sup> 3,118	309	17	<sup>(9)</sup> 3,444	-	3
Commercial - other	20,276	512	383	21,171	48	96
<b>Total commercial</b>	<b>35,717</b>	<b>871</b>	<b>562</b>	<b>37,150</b>	<b>61</b>	<b>128</b>
Private individuals - housing loans	115,060	<sup>(7)</sup> 900	36	115,996	<sup>(7)</sup> 900	<sup>(6)</sup> 373
Private individuals - other	<sup>(9)</sup> 17,543	113	66	<sup>(9)</sup> 17,722	24	97
<b>Total public - activity in Israel</b>	<b>168,320</b>	<b>1,884</b>	<b>664</b>	<b>170,868</b>	<b>985</b>	<b>598</b>
Banks in Israel	262	-	-	262	-	-
Government of Israel	1	-	-	1	-	-
<b>Total activity in Israel</b>	<b>168,583</b>	<b>1,884</b>	<b>664</b>	<b>171,131</b>	<b>985</b>	<b>598</b>
<b>Borrower activity overseas</b>						
<b>Public - commercial</b>						
Construction and real estate	1,583	-	1	1,584	-	-
Commercial - other	1,472	-	3	1,475	-	1
<b>Total commercial</b>	<b>3,055</b>	<b>-</b>	<b>4</b>	<b>3,059</b>	<b>-</b>	<b>1</b>
Private individuals	606	-	-	606	-	-
<b>Total public - activity overseas</b>	<b>3,661</b>	<b>-</b>	<b>4</b>	<b>3,665</b>	<b>-</b>	<b>1</b>
Overseas banks	2,513	-	-	2,513	-	-
Overseas governments	311	-	-	311	-	-
<b>Total activity overseas</b>	<b>6,485</b>	<b>-</b>	<b>4</b>	<b>6,489</b>	<b>-</b>	<b>1</b>
<b>Total public</b>	<b>171,981</b>	<b>1,884</b>	<b>668</b>	<b>174,533</b>	<b>985</b>	<b>599</b>
<b>Total banks</b>	<b>2,775</b>	<b>-</b>	<b>-</b>	<b>2,775</b>	<b>-</b>	<b>-</b>
<b>Total governments</b>	<b>312</b>	<b>-</b>	<b>-</b>	<b>312</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>175,068</b>	<b>1,884</b>	<b>668</b>	<b>177,620</b>	<b>985</b>	<b>599</b>

(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 38 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 126 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 1,374 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<sup>(1)</sup>

#### 1.A. Credit quality and arrears - continued

As of December 31, 2017 (audited)

	Non problematic	Problematic <sup>(2)</sup> Non impaired	Problematic <sup>(2)</sup> Impaired <sup>(3)</sup>	Total	Non impaired debts - additional information In arrears 90 days or longer <sup>(4)</sup>	Non impaired debts - additional information In arrears 30 to 89 days <sup>(5)</sup>
<b>Borrower activity in Israel</b>						
<b>Public - commercial</b>						
Construction and real estate - construction <sup>(8)</sup>	12,310	72	145	12,527	8	36
Construction and real estate - real estate operations	2,245	5	15	2,265	1	13
Financial services	3,191	187	15	3,393	-	2
Commercial - other	20,676	331	442	21,449	33	89
<b>Total commercial</b>	<b>38,422</b>	<b>595</b>	<b>617</b>	<b>39,634</b>	<b>42</b>	<b>140</b>
Private individuals - housing loans	119,085	<sup>(7)</sup> 1,071	33	120,189	<sup>(7)</sup> 1,071	<sup>(6)</sup> 390
Private individuals - other	18,595	147	70	18,812	22	73
<b>Total public - activity in Israel</b>	<b>176,102</b>	<b>1,813</b>	<b>720</b>	<b>178,635</b>	<b>1,135</b>	<b>603</b>
Banks in Israel	213	-	-	213	-	-
Government of Israel	1	-	-	1	-	-
<b>Total activity in Israel</b>	<b>176,316</b>	<b>1,813</b>	<b>720</b>	<b>178,849</b>	<b>1,135</b>	<b>603</b>
<b>Borrower activity overseas</b>						
<b>Public - commercial</b>						
Construction and real estate	1,849	-	-	1,849	-	-
Commercial - other	1,511	-	3	1,514	-	-
<b>Total commercial</b>	<b>3,360</b>	<b>-</b>	<b>3</b>	<b>3,363</b>	<b>-</b>	<b>-</b>
Private individuals	603	1	-	604	1	-
<b>Total public - activity overseas</b>	<b>3,963</b>	<b>1</b>	<b>3</b>	<b>3,967</b>	<b>1</b>	<b>-</b>
Overseas banks	1,874	-	-	1,874	-	-
Overseas governments	455	-	-	455	-	-
<b>Total activity overseas</b>	<b>6,292</b>	<b>1</b>	<b>3</b>	<b>6,296</b>	<b>1</b>	<b>-</b>
<b>Total public</b>	<b>180,065</b>	<b>1,814</b>	<b>723</b>	<b>182,602</b>	<b>1,136</b>	<b>603</b>
Total banks	2,087	-	-	2,087	-	-
Total governments	456	-	-	456	-	-
<b>Total</b>	<b>182,608</b>	<b>1,814</b>	<b>723</b>	<b>185,145</b>	<b>1,136</b>	<b>603</b>

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

(2) Credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.

(3) Generally, impaired debts do not accrue interest revenues. For information about certain impaired debt restructured using problematic debt restructuring, see Note 13.B.2.c. to the financial statements.

(4) Classified as problematic non-impaired debts. Accruing interest revenues.

(5) Accruing interest revenues. Debts in arrears 30 to 89 days amounting to NIS 63 million were classified as problematic non-impaired debts.

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

(7) Includes balance of housing loans amounting to NIS 102 million provided for by extent of arrears of borrower, for which an agreement has been signed for repayment of arrears by the borrower, where a change was made to the repayment schedule for the outstanding loan balance not yet due.

(8) Includes debts amounting to NIS 1,571 million, extended to certain purchase groups which are in the process of construction.

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

Reported amounts (NIS in millions)

### 1. B. Credit quality

The state of debts arrears is monitored daily and automatically, providing one of the key indications of credit quality. The state of arrears, and consequently classification of the debt, are based, inter alia, on the actual number of days in arrears for each debt.

#### Non-performing debts

Debt measured on individual basis is classified as non-performing (not accruing interest revenues) after 90 days in arrears. Debt previously restructured as problematic debt and which is again in arrears with regard to the new terms thereof - is also classified as non-performing. Debt measured on 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:

As of March 31, 2018 (unaudited) - Credit segment

Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Debts in good standing	42,792	120,598	19,058	493	2,756	185,697
Problematic non-impaired debts <sup>(1)</sup>	578	1,087	144	-	-	1,809
Impaired debts	761	38	71	-	-	870
<b>Total</b>	<b>44,131</b>	<b>121,723</b>	<b>19,273</b>	<b>493</b>	<b>2,756</b>	<b>188,376</b>

As of March 31, 2017 (unaudited) - Credit segment

Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Debts in good standing	<sup>(2)</sup> 38,772	115,404	<sup>(2)</sup> 17,805	312	2,775	175,068
Problematic non-impaired debts <sup>(1)</sup>	871	900	113	-	-	1,884
Impaired debts	566	36	66	-	-	668
<b>Total</b>	<b>40,209</b>	<b>116,340</b>	<b>17,984</b>	<b>312</b>	<b>2,775</b>	<b>177,620</b>

As of December 31, 2017 (audited) - Credit segment

Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Debts in good standing	41,782	119,442	18,841	456	2,087	182,608
Problematic non-impaired debts <sup>(1)</sup>	595	1,072	147	-	-	1,814
Impaired debts	620	33	70	-	-	723
<b>Total</b>	<b>42,997</b>	<b>120,547</b>	<b>19,058</b>	<b>456</b>	<b>2,087</b>	<b>185,145</b>

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

(2) Reclassified.

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

Reported amounts (NIS in millions)

### B. Debts<sup>(1)</sup>

#### 2. Additional information about impaired debts

##### A. Impaired debts and individual provision

As of March 31, 2018 (unaudited)

	Balance of impaired debts for which an individual provision has been made <sup>(2)(3)</sup>	Balance of individual provision	Balance of impaired debts for which no individual provision has been made <sup>(2)</sup>	Total balance of impaired debts <sup>(2)</sup>	Contractual principal balance of impaired debts
<b>Borrower activity in Israel</b>					
<b>Public - commercial</b>					
Construction and real estate - construction	67	20	96	163	234
Construction and real estate - real estate operations	9	2	8	17	49
Financial services	6	5	8	14	24
Commercial - other	318	95	246	564	657
<b>Total commercial</b>	<b>400</b>	<b>122</b>	<b>358</b>	<b>758</b>	<b>964</b>
Private individuals - housing loans	24	4	14	38	38
Private individuals - other	26	16	45	71	90
<b>Total public - activity in Israel</b>	<b>450</b>	<b>142</b>	<b>417</b>	<b>867</b>	<b>1,092</b>
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
<b>Total activity in Israel</b>	<b>450</b>	<b>142</b>	<b>417</b>	<b>867</b>	<b>1,092</b>
<b>Borrower activity overseas</b>					
<b>Public - commercial</b>					
Construction and real estate	-	-	-	-	4
Commercial - other	3	-	-	3	4
<b>Total commercial</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>8</b>
Private individuals	-	-	-	-	3
<b>Total public - activity overseas</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>11</b>
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
<b>Total activity overseas</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>11</b>
<b>Total public</b>	<b>453</b>	<b>142</b>	<b>417</b>	<b>870</b>	<b>1,103</b>
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
<b>Total</b>	<b>453</b>	<b>142</b>	<b>417</b>	<b>870</b>	<b>1,103</b>
Of which:					
Measured at present value of cash flows	440	142	320	760	
Debts under problematic debts restructuring	125	21	71	196	

(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<sup>(1)</sup>

#### 2. Additional information about impaired debts

##### A. Impaired debts and individual provision - continued

As of March 31, 2017 (unaudited)

	Balance of impaired debts for which an individual provision has been made <sup>(2)(3)</sup>	Balance of individual provision	Balance of impaired debts for which no individual provision has been made <sup>(2)</sup>	Total balance of impaired debts <sup>(2)</sup>	Contractual principal balance of impaired debts
<b>Borrower activity in Israel</b>					
<b>Public - commercial</b>					
Construction and real estate - construction	61	14	31	92	176
Construction and real estate - real estate operations	52	-	18	70	237
Financial services	9	6	8	17	35
Commercial - other	271	115	112	383	474
<b>Total commercial</b>	<b>393</b>	<b>135</b>	<b>169</b>	<b>562</b>	<b>922</b>
Private individuals - housing loans	16	2	20	36	36
Private individuals - other	21	13	45	66	69
<b>Total public - activity in Israel</b>	<b>430</b>	<b>150</b>	<b>234</b>	<b>664</b>	<b>1,027</b>
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
<b>Total activity in Israel</b>	<b>430</b>	<b>150</b>	<b>234</b>	<b>664</b>	<b>1,027</b>
<b>Borrower activity overseas</b>					
<b>Public - commercial</b>					
Construction and real estate	1	-	-	1	1
Commercial - other	3	-	-	3	3
<b>Total commercial</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>4</b>
Private individuals	-	-	-	-	-
<b>Total public - activity overseas</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>4</b>
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
<b>Total activity overseas</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>4</b>
<b>Total public</b>	<b>434</b>	<b>150</b>	<b>234</b>	<b>668</b>	<b>1,031</b>
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
<b>Total</b>	<b>434</b>	<b>150</b>	<b>234</b>	<b>668</b>	<b>1,031</b>
Of which:					
Measured at present value of cash flows	401	150	188	589	
Debts under problematic debts restructuring	121	10	28	149	

(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<sup>(1)</sup>

#### 2. Additional information about impaired debts

##### A. Impaired debts and individual provision - continued

As of December 31, 2017 (audited)

	Balance of impaired debts for which an individual provision has been made <sup>(2)(3)</sup>	Balance of individual provision	Balance of impaired debts for which no individual provision has been made <sup>(2)</sup>	Total balance of impaired debts <sup>(2)</sup>	Contractual principal balance of impaired debts
<b>Borrower activity in Israel</b>					
<b>Public - commercial</b>					
Construction and real estate - construction	73	19	72	145	223
Construction and real estate - real estate operations	9	1	6	15	47
Financial services	6	5	9	15	26
Commercial - other	297	94	145	442	481
<b>Total commercial</b>	<b>385</b>	<b>119</b>	<b>232</b>	<b>617</b>	<b>777</b>
Private individuals - housing loans	15	2	18	33	33
Private individuals - other	24	15	46	70	83
<b>Total public - activity in Israel</b>	<b>424</b>	<b>136</b>	<b>296</b>	<b>720</b>	<b>893</b>
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
<b>Total activity in Israel</b>	<b>424</b>	<b>136</b>	<b>296</b>	<b>720</b>	<b>893</b>
<b>Borrower activity overseas</b>					
<b>Public - commercial</b>					
Construction and real estate	-	-	-	-	3
Commercial - other	3	-	-	3	3
<b>Total commercial</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>6</b>
Private individuals	-	-	-	-	3
<b>Total public - activity overseas</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>9</b>
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
<b>Total activity overseas</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>9</b>
<b>Total public</b>	<b>427</b>	<b>136</b>	<b>296</b>	<b>723</b>	<b>902</b>
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
<b>Total</b>	<b>427</b>	<b>136</b>	<b>296</b>	<b>723</b>	<b>902</b>
Of which:					
Measured at present value of cash flows	418	136	227	645	
Debts under problematic debts restructuring	69	17	86	155	

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

(2) Recorded debt balance.

(3) Debt balance net of accounting write-off, if made.

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

Reported amounts (NIS in millions)

### B. Debts<sup>(1)</sup>

#### 2. Additional information about impaired debts

##### B. Average balance and interest revenues<sup>(4)</sup>

	For the three months ended As of March 31, 2018 (unaudited) Average balance of impaired debts <sup>(2)</sup>	For the three months ended As of March 31, 2018 (unaudited) Interest revenues recorded <sup>(3)</sup>	For the three months ended As of March 31, 2018 (unaudited) Of which: Recorded on cash basis	For the three months ended As of March 31, 2017 (unaudited) Average balance of impaired debts <sup>(2)</sup>	For the three months ended As of March 31, 2017 (unaudited) Interest revenues recorded <sup>(3)</sup>	For the three months ended As of March 31, 2017 (unaudited) Of which: Recorded on cash basis
<b>Borrower activity in Israel</b>						
<b>Public - commercial</b>						
Construction and real estate - construction	154	1	1	99	-	-
Construction and real estate - real estate operations	16	-	-	74	-	-
Financial services	15	-	-	17	-	-
Commercial - other	503	1	1	382	2	2
<b>Total commercial</b>	<b>688</b>	<b>2</b>	<b>2</b>	<b>572</b>	<b>2</b>	<b>2</b>
Private individuals - housing loans	36	-	-	32	-	-
Private individuals - other	71	1	1	68	1	1
<b>Total public - activity in Israel</b>	<b>795</b>	<b>3</b>	<b>3</b>	<b>672</b>	<b>3</b>	<b>3</b>
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
<b>Total activity in Israel</b>	<b>795</b>	<b>3</b>	<b>3</b>	<b>672</b>	<b>3</b>	<b>3</b>
<b>Borrower activity overseas</b>						
<b>Public - commercial</b>						
Construction and real estate	-	-	-	1	-	-
Commercial - other	3	-	-	3	-	-
<b>Total commercial</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>-</b>	<b>-</b>
Private individuals	-	-	-	-	-	-
<b>Total public - activity overseas</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>-</b>	<b>-</b>
Overseas banks	-	-	-	-	-	-
Overseas governments	-	-	-	-	-	-
<b>Total activity overseas</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>-</b>	<b>-</b>
<b>Total public</b>	<b>798</b>	<b>3</b>	<b>3</b>	<b>676</b>	<b>3</b>	<b>3</b>
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
<b>Total(4)</b>	<b>798</b>	<b>3</b>	<b>3</b>	<b>676</b>	<b>3</b>	<b>3</b>

(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 debts accrued interest at the original terms, the Bank would have recognized interest revenues amounting to NIS 18 million (as of March 31, 2017 - NIS 16 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<sup>(1)</sup>

#### 2. Additional information about impaired debts

#### C. Problematic debts under restructuring

As of March 31, 2018 (unaudited) - Recorded debt balance

	Not accruing interest revenues	Accruing interest revenues <sup>(2)</sup> 90 days or longer	Accruing interest revenues <sup>(2)</sup> , 30-89 days	Accruing interest revenues <sup>(2)</sup> not in arrears	Total <sup>(3)</sup>
<b>Borrower activity in Israel</b>					
<b>Public - commercial</b>					
Construction and real estate - construction	34	-	-	-	34
Construction and real estate - real estate operations	2	-	-	-	2
Financial services	3	-	-	-	3
Commercial - other	96	-	-	3	99
<b>Total commercial</b>	<b>135</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>138</b>
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	34	-	1	23	58
<b>Total public - activity in Israel</b>	<b>169</b>	<b>-</b>	<b>1</b>	<b>26</b>	<b>196</b>
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
<b>Total activity in Israel</b>	<b>169</b>	<b>-</b>	<b>1</b>	<b>26</b>	<b>196</b>
<b>Borrower activity overseas</b>					
<b>Public - commercial</b>					
Construction and real estate	-	-	-	-	-
Commercial - other	-	-	-	-	-
<b>Total commercial</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Private individuals	-	-	-	-	-
<b>Total public - activity overseas</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
<b>Total activity overseas</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total public</b>	<b>169</b>	<b>-</b>	<b>1</b>	<b>26</b>	<b>196</b>
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
<b>Total</b>	<b>169</b>	<b>-</b>	<b>1</b>	<b>26</b>	<b>196</b>

(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 March 31, 2018, the Bank had no commitments to provide additional credit to debtors subject to problematic debt restructuring, for which credit terms have been revised.

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

Reported amounts (NIS in millions)

### B. Debts<sup>(1)</sup>

#### 2. Additional information about impaired debts

#### C. Problematic debts under restructuring - continued

As of March 31, 2017 (unaudited) - Recorded debt balance

	Not accruing interest revenues	Accruing interest revenues <sup>(2)</sup> in arrears 90 days or longer	Accruing interest revenues <sup>(2)</sup> , in arrears 30-89 days	Accruing interest revenues <sup>(2)</sup> not in arrears	Total <sup>(3)</sup>
<b>Borrower activity in Israel</b>					
<b>Public - commercial</b>					
Construction and real estate - construction	13	-	-	-	13
Construction and real estate - real estate operations	48	-	1	-	49
Financial services	3	-	-	-	3
Commercial - other	31	-	-	6	37
<b>Total commercial</b>	<b>95</b>	<b>-</b>	<b>1</b>	<b>6</b>	<b>102</b>
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	23	-	1	23	47
<b>Total public - activity in Israel</b>	<b>118</b>	<b>-</b>	<b>2</b>	<b>29</b>	<b>149</b>
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
<b>Total activity in Israel</b>	<b>118</b>	<b>-</b>	<b>2</b>	<b>29</b>	<b>149</b>
<b>Borrower activity overseas</b>					
<b>Public - commercial</b>					
Construction and real estate	-	-	-	-	-
Commercial - other	-	-	-	-	-
<b>Total commercial</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Private individuals	-	-	-	-	-
<b>Total public - activity overseas</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
<b>Total activity overseas</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total public</b>	<b>118</b>	<b>-</b>	<b>2</b>	<b>29</b>	<b>149</b>
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
<b>Total</b>	<b>118</b>	<b>-</b>	<b>2</b>	<b>29</b>	<b>149</b>

(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<sup>(1)</sup>

#### 2. Additional information about impaired debts

#### C. Problematic debts under restructuring - continued

As of December 31, 2017 (audited) - Recorded debt balance

	Not accruing interest revenues	Accruing interest revenues <sup>(2)</sup> in arrears 90 days or longer	Accruing interest revenues <sup>(2)</sup> , in arrears 30-89 days	Accruing interest revenues <sup>(2)</sup> not in arrears	Total <sup>(3)</sup>
<b>Borrower activity in Israel</b>					
<b>Public - commercial</b>					
Construction and real estate - construction	15	-	-	-	15
Construction and real estate - real estate operations	2	-	-	-	2
Financial services	3	-	-	-	3
Commercial - other	81	-	-	4	85
<b>Total commercial</b>	<b>101</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>105</b>
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	28	-	1	21	50
<b>Total public - activity in Israel</b>	<b>129</b>	<b>-</b>	<b>1</b>	<b>25</b>	<b>155</b>
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
<b>Total activity in Israel</b>	<b>129</b>	<b>-</b>	<b>1</b>	<b>25</b>	<b>155</b>
<b>Borrower activity overseas</b>					
<b>Public - commercial</b>					
Construction and real estate	-	-	-	-	-
Commercial - other	-	-	-	-	-
<b>Total commercial</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Private individuals	-	-	-	-	-
<b>Total public - activity overseas</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
<b>Total activity overseas</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total public</b>	<b>129</b>	<b>-</b>	<b>1</b>	<b>25</b>	<b>155</b>
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
<b>Total</b>	<b>129</b>	<b>-</b>	<b>1</b>	<b>25</b>	<b>155</b>

(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<sup>(1)</sup>

#### 2. Additional information about impaired debts

#### C. Problematic debts under restructuring - continued

Restructurings made<sup>(2)</sup> For the three months ended

	As of March 31, 2018 (unaudited) Number of contracts	As of March 31, 2018 (unaudited) Recorded debt balance before restructuring	As of March 31, 2018 (unaudited) Recorded debt balance after restructuring	As of March 31, 2017 (unaudited) Number of contracts	As of March 31, 2017 (unaudited) Recorded debt balance before restructuring	As of March 31, 2017 (unaudited) Recorded debt balance after restructuring
<b>Borrower activity in Israel</b>						
<b>Public - commercial</b>						
Construction and real estate - construction	14	21	21	9	1	1
Construction and real estate - real estate operations	5	1	1	2	-	-
Financial services	1	-	-	1	-	-
Commercial - other	85	25	25	42	4	4
<b>Total commercial</b>	<b>105</b>	<b>47</b>	<b>47</b>	<b>54</b>	<b>5</b>	<b>5</b>
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	269	17	16	199	9	9
<b>Total public - activity in Israel</b>	<b>374</b>	<b>64</b>	<b>63</b>	<b>253</b>	<b>14</b>	<b>14</b>
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
<b>Total activity in Israel</b>	<b>374</b>	<b>64</b>	<b>63</b>	<b>253</b>	<b>14</b>	<b>14</b>
<b>Borrower activity overseas</b>						
<b>Public - commercial</b>						
Construction and real estate	-	-	-	-	-	-
Commercial - other	-	-	-	-	-	-
<b>Total commercial</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Private individuals	-	-	-	-	-	-
<b>Total public - activity overseas</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Overseas banks	-	-	-	-	-	-
Overseas governments	-	-	-	-	-	-
<b>Total activity overseas</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total public</b>	<b>374</b>	<b>64</b>	<b>63</b>	<b>253</b>	<b>14</b>	<b>14</b>
<b>Total banks</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total governments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>374</b>	<b>64</b>	<b>63</b>	<b>253</b>	<b>14</b>	<b>14</b>

(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<sup>(1)</sup>

#### 2. Additional information about impaired debts

#### C. Problematic debts under restructuring - continued

Restructurings made which are in default<sup>(2)</sup> For the three months ended - Recorded debt balance

	As of March 31, 2018 (unaudited)	As of March 31, 2018 (unaudited)	As of March 31, 2017 (unaudited)	As of March 31, 2017 (unaudited)
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
<b>Borrower activity in Israel</b>				
<b>Public - commercial</b>				
Construction and real estate - construction	2	-	5	-
Construction and real estate - real estate operations	2	-	-	-
Financial services	1	-	-	-
Commercial - other	20	4	8	-
<b>Total commercial</b>	<b>25</b>	<b>4</b>	<b>13</b>	<b>-</b>
Private individuals - housing loans	-	-	-	-
Private individuals - other	39	1	36	1
<b>Total public - activity in Israel</b>	<b>64</b>	<b>5</b>	<b>49</b>	<b>1</b>
Banks in Israel	-	-	-	-
Government of Israel	-	-	-	-
<b>Total activity in Israel</b>	<b>64</b>	<b>5</b>	<b>49</b>	<b>1</b>
<b>Borrower activity overseas</b>				
<b>Public - commercial</b>				
Construction and real estate	-	-	-	-
Commercial - other	-	-	-	-
<b>Total commercial</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Private individuals	-	-	-	-
<b>Total public - activity overseas</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Overseas banks	-	-	-	-
Overseas governments	-	-	-	-
<b>Total activity overseas</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total public</b>	<b>64</b>	<b>5</b>	<b>49</b>	<b>1</b>
<b>Total banks</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total governments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>64</b>	<b>5</b>	<b>49</b>	<b>1</b>

(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<sup>(1)</sup>

#### 3. Additional information about housing loans

Below is the composition of balances by loan-to-value ratio (LTV)<sup>(1)</sup>, repayment type and interest type:

As of March 31, 2018 (unaudited)

	Housing loan balance	Housing loan balance		Of which: Variable interest	Off-balance sheet credit risk
		Total	Bullet / balloon		Total
Senior lien: LTV ratio	Up to 60%	78,874	2,944	50,880	3,668
	Over 60%	42,600	524	27,835	1,602
Junior lien or no lien		249	2	184	4,715
<b>Total</b>		<b>121,723</b>	<b>3,470</b>	<b>78,899</b>	<b>9,985</b>

As of March 31, 2017 (unaudited)

	Housing loan balance	Housing loan balance		Of which: Variable interest	Off-balance sheet credit risk
		Total	Bullet / balloon		Total
Senior lien: LTV ratio	Up to 60%	73,612	2,644	47,454	3,772
	Over 60%	42,512	464	28,059	1,455
Junior lien or no lien		216	3	159	1,247
<b>Total</b>		<b>116,340</b>	<b>3,111</b>	<b>75,672</b>	<b>6,474</b>

As of December 31, 2017 (audited)

	Housing loan balance	Housing loan balance		Of which: Variable interest	Off-balance sheet credit risk
		Total	Bullet / balloon		Total
Senior lien: LTV ratio	Up to 60%	77,785	2,905	50,100	3,702
	Over 60%	42,511	516	27,835	1,459
Junior lien or no lien		251	2	185	1,554
<b>Total</b>		<b>120,547</b>	<b>3,423</b>	<b>78,120</b>	<b>6,715</b>

(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 March 31, 2018 (unaudited)	For the three months ended March 31, 2018 (unaudited)	For the three months ended March 31, 2018 (unaudited)	For the three months ended March 31, 2018 (unaudited)	For the three months ended March 31, 2017 (unaudited)	For the three months ended March 31, 2017 (unaudited)	For the three months ended March 31, 2017 (unaudited)	For the three months ended March 31, 2017 (unaudited)	For the year ended December 31, 2017 (audited)	For the year ended December 31, 2017 (audited)	For the year ended December 31, 2017 (audited)	For the year ended December 31, 2017 (audited)
	Commercial	Housing	Other	Total	Commercial	Housing	Other	Total	Commercial	Housing	Other	Total
Loans acquired	114	-	139	253	90	-	128	218	109	-	593	702
Loans sold	86	732	-	818	160	730	-	890	290	2,308	-	2,598

### D. Off-balance sheet financial instruments

#### Contractual balances or their denominated amounts at end of quarter

	March 31, 2018 Balance <sup>(1)</sup> (unaudited)	March 31, 2017 Balance <sup>(1)</sup> (unaudited)	December 31, 2017 Balance <sup>(1)</sup> (audited)	March 31, 2018 Provision for credit losses (unaudited)	March 31, 2017 Provision for credit losses (unaudited)	December 31, 2017 Provision for credit losses (audited)
Transactions in which the balance represents a credit risk:						
- Utilized debitory account and other credit facilities in accounts available on demand	16,527	17,922	15,045	21	20	20
- Guarantees to home buyers <sup>(3)</sup>	11,211	12,318	10,795	7	8	6
- Irrevocable commitments for loans approved but not yet granted	<sup>(4)</sup> 16,207	11,501	12,044	12	14	12
- Utilized revolving credit card facilities	6,914	7,579	6,801	4	4	4
- Commitments to issue guarantees <sup>(3)</sup>	5,928	6,499	5,981	4	4	4
- Other guarantees and liabilities <sup>(2)(3)</sup>	6,216	5,153	5,677	26	23	23
- Loan guarantees <sup>(3)</sup>	2,336	2,048	2,283	21	19	20
- Documentary credit	257	389	201	1	1	1

(1) Contractual balances or their stated amounts at the end of the period, before effect of provision for credit losses.

(2) Includes the Bank's liabilities for its share in the risks fund of the MAOF Clearinghouse of NIS 34 million. (as of March 31, 2017 and December 31, 2017 - NIS 59 million and NIS 38 million, respectively).

For more information see Note 26.C.2. and Note 27.B. to Financial Statements as of December 31, 2017.

(3) The Bank provides guarantees to improve the credit and transaction capacity of its clients.

The term to maturity of guarantees to home buyers is typically up to three years.

With respect to these guarantees and to commitment to issue such guarantees, the Bank has acquired a credit exposure insurance policy. The insurance policy covers 80% of the guarantees and is effective as from December 31, 2016.

The term to maturity of other guarantees, performance guarantees and credit backing guarantees is typically up to one year.

(4) Includes the effect of extension of the lock period for approval in principle of housing loans, from 12 days to 24 days, in conformity with the revision of Proper Conduct of Banking Business Regulation 451 "Procedures for extending housing loans".

## Note 14 - Assets and Liabilities by Linkage Basis

As of March 31, 2018 (unaudited)

Reported amounts (NIS in millions)

	Israeli currency Non-linked	Israeli currency CPI-linked	In foreign currency <sup>(1)</sup> USD	In foreign currency <sup>(1)</sup> EUR	In foreign currency <sup>(1)</sup> Other currencies	Non- monetary items <sup>(2)</sup>	Total
<b>Assets</b>							
Cash and deposits with banks	40,243	122	2,221	363	207	-	43,156
Securities	3,261	677	4,554	476	-	89	9,057
Securities borrowed or bought in conjunction with resale agreements	38	8	-	-	-	-	46
Loans to the public, net <sup>(3)</sup>	122,386	50,660	6,237	2,545	1,800	-	183,628
Loans to Governments	-	-	291	202	-	-	493
Investments in associated companies	35	-	-	-	-	(3)	32
Buildings and equipment	-	-	-	-	-	1,378	1,378
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	1,573	348	927	247	58	-	3,153
Other assets	1,169	396	127	-	39	44	1,775
<b>Total assets</b>	<b>168,705</b>	<b>52,211</b>	<b>14,357</b>	<b>3,833</b>	<b>2,104</b>	<b>1,595</b>	<b>242,805</b>
<b>Liabilities</b>							
Deposits from the public	138,334	14,054	27,899	4,391	2,388	-	187,066
Deposits from banks	178	8	568	93	38	-	885
Deposits from the Government	26	2	24	-	-	-	52
Debentures and subordinated notes	8,378	21,486	-	-	-	-	29,864
Liabilities with respect to derivatives	1,553	77	659	328	43	-	2,660
Other liabilities	6,001	1,147	340	8	34	200	7,730
<b>Total liabilities</b>	<b>154,470</b>	<b>36,774</b>	<b>29,490</b>	<b>4,820</b>	<b>2,503</b>	<b>200</b>	<b>228,257</b>
<b>Difference</b>	<b>14,235</b>	<b>15,437</b>	<b>(15,133)</b>	<b>(987)</b>	<b>(399)</b>	<b>1,395</b>	<b>14,548</b>
<b>Impact of hedging derivatives:</b>							
derivatives (other than options)	1,237	(1,237)	-	-	-	-	-
<b>Non-hedging derivatives:</b>							
derivatives (other than options)	(16,005)	(969)	15,390	1,147	437	-	-
Net in-the-money options (in terms of underlying asset)	626	-	(588)	50	(88)	-	-
Net out-of-the-money options (in terms of underlying asset)	(298)	-	541	(180)	(63)	-	-
<b>Total</b>	<b>(205)</b>	<b>13,231</b>	<b>210</b>	<b>30</b>	<b>(113)</b>	<b>1,395</b>	<b>14,548</b>
Net in-the-money options (capitalized par value)	(760)	-	576	358	(174)	-	-
Net out-of-the-money options (capitalized par value)	1,594	-	(826)	(1,003)	235	-	-

(1) Includes linked to foreign currency.

(2) Includes derivatives whose base relates to a non-monetary item.

(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted *pro-rata* from the different linkage bases.

## Note 14 - Assets and Liabilities by Linkage Basis - Continued

As of March 31, 2017 (unaudited)

Reported amounts (NIS in millions)

	Israeli currency Non-linked	Israeli currency CPI-linked	In foreign currency <sup>(1)</sup> USD	In foreign currency <sup>(1)</sup> EUR	In foreign currency <sup>(1)</sup> Other currencies	Non- monetary items <sup>(2)</sup>	Total
<b>Assets</b>							
Cash and deposits with banks	38,681	121	2,450	182	249	-	41,683
Securities	5,993	773	4,417	515	-	93	11,791
Securities borrowed or bought in conjunction with resale agreements	40	6	-	-	-	-	46
Loans to the public, net <sup>(3)</sup>	113,615	49,387	6,614	1,802	1,650	-	173,068
Loans to Governments	-	-	132	180	-	-	312
Investments in associated companies	35	-	-	-	-	(2)	33
Buildings and equipment	-	-	-	-	-	1,550	1,550
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	3,083	348	389	93	38	-	3,951
Other assets	1,003	405	66	15	16	45	1,550
<b>Total assets</b>	<b>162,450</b>	<b>51,040</b>	<b>14,068</b>	<b>2,787</b>	<b>1,953</b>	<b>1,773</b>	<b>234,071</b>
<b>Liabilities</b>							
Deposits from the public	127,550	17,538	28,208	4,897	2,529	-	180,722
Deposits from banks	251	17	1,118	63	25	-	1,474
Deposits from the Government	26	3	27	-	-	-	56
Debentures and subordinated notes	5,690	21,234	-	-	-	-	26,924
Liabilities with respect to derivatives	3,328	159	487	140	29	-	4,143
Other liabilities	5,633	1,013	254	11	40	167	7,118
<b>Total liabilities</b>	<b>142,478</b>	<b>39,964</b>	<b>30,094</b>	<b>5,111</b>	<b>2,623</b>	<b>167</b>	<b>220,437</b>
<b>Difference</b>	<b>19,972</b>	<b>11,076</b>	<b>(16,026)</b>	<b>(2,324)</b>	<b>(670)</b>	<b>1,606</b>	<b>13,634</b>
<b>Impact of hedging derivatives:</b>							
derivatives (other than options)	1,612	(1,612)	-	-	-	-	-
<b>Non-hedging derivatives:</b>							
derivatives (other than options)	(16,581)	(2,436)	16,284	2,149	584	-	-
Net in-the-money options (in terms of underlying asset)	22	-	(247)	265	(40)	-	-
Net out-of-the-money options (in terms of underlying asset)	(36)	-	123	(94)	7	-	-
<b>Total</b>	<b>4,989</b>	<b>7,028</b>	<b>134</b>	<b>(4)</b>	<b>(119)</b>	<b>1,606</b>	<b>13,634</b>
Net in-the-money options (capitalized par value)	(471)	-	(304)	802	(27)	-	-
Net out-of-the-money options (capitalized par value)	1,130	-	(655)	(442)	(33)	-	-

Reported amounts (NIS in millions)

(1) Includes linked to foreign currency.

(2) Includes derivatives whose base relates to a non-monetary item.

(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted *pro-rata* from the different linkage bases.

## Note 14 - Assets and Liabilities by Linkage Basis - Continued

As of December 31, 2017 (audited)

Reported amounts (NIS in millions)

	Israeli currency Non-linked	Israeli currency CPI-linked	In foreign currency <sup>(1)</sup> USD	In foreign currency <sup>(1)</sup> EUR	In foreign currency <sup>(1)</sup> Other currencies	Non- monetary items <sup>(2)</sup>	Total
<b>Assets</b>							
Cash and deposits with banks	38,800	122	1,689	299	220	-	41,130
Securities	3,859	753	4,993	429	-	99	10,133
Securities borrowed or bought in conjunction with resale agreements	68	8	-	-	-	-	76
Loans to the public, net <sup>(3)</sup>	120,730	50,293	6,220	2,240	1,635	-	181,118
Loans to Governments	-	-	257	199	-	-	456
Investments in associated companies	28	7	-	-	-	(3)	32
Buildings and equipment	-	-	-	-	-	1,403	1,403
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	2,551	402	268	145	55	-	3,421
Other assets	1,167	423	50	-	33	43	1,716
<b>Total assets</b>	<b>167,203</b>	<b>52,008</b>	<b>13,477</b>	<b>3,312</b>	<b>1,943</b>	<b>1,629</b>	<b>239,572</b>
<b>Liabilities</b>							
Deposits from the public	133,194	15,681	27,805	4,556	2,337	-	183,573
Deposits from banks	291	10	754	70	-	-	1,125
Deposits from the Government	25	2	24	-	-	-	51
Debentures and subordinated notes	8,321	21,602	-	-	-	-	29,923
Liabilities with respect to derivatives	2,315	130	420	179	38	-	3,082
Other liabilities	5,841	1,165	253	11	38	183	7,491
<b>Total liabilities</b>	<b>149,987</b>	<b>38,590</b>	<b>29,256</b>	<b>4,816</b>	<b>2,413</b>	<b>183</b>	<b>225,245</b>
<b>Difference</b>	<b>17,216</b>	<b>13,418</b>	<b>(15,779)</b>	<b>(1,504)</b>	<b>(470)</b>	<b>1,446</b>	<b>14,327</b>
<b>Impact of hedging derivatives:</b>							
derivatives (other than options)	1,489	(1,489)	-	-	-	-	-
<b>Non-hedging derivatives:</b>							
derivatives (other than options)	(15,974)	(2,133)	16,069	1,513	525	-	-
Net in-the-money options (in terms of underlying asset)	427	-	(278)	(65)	(84)	-	-
Net out-of-the-money options (in terms of underlying asset)	(106)	-	133	7	(34)	-	-
<b>Total</b>	<b>3,052</b>	<b>9,796</b>	<b>145</b>	<b>(49)</b>	<b>(63)</b>	<b>1,446</b>	<b>14,327</b>
Net in-the-money options (capitalized par value)	(32)	-	(232)	281	(17)	-	-
Net out-of-the-money options (capitalized par value)	356	-	110	(604)	138	-	-

(1) Includes linked to foreign currency.

(2) Includes derivatives whose base relates to a non-monetary item.

(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted *pro-rata* from the different linkage bases.

## Note 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

As of March 31, 2018 (unaudited)

	Book balance	Fair value Level 1 <sup>(1)</sup>	Fair value Level 2 <sup>(1)</sup>	Fair value Level 3 <sup>(1)</sup>	Fair value Total
<b>Financial assets</b>					
Cash and deposits with banks	43,156	7,517	34,465	1,174	43,156
Securities <sup>(3)</sup>	9,057	5,519	3,515	87	9,121
Securities loaned or purchased in resale agreements	46	46	-	-	46
Loans to the public, net	183,628	502	9,996	<sup>(5)</sup> 173,124	183,622
Loans to Governments	493	-	-	493	493
Investments in associated companies	35	-	-	35	35
Assets with respect to derivatives	3,153	171	1,837	<sup>(2)</sup> 1,145	3,153
Other financial assets	665	11	-	654	665
<b>Total financial assets</b>	<b>240,233</b>	<b>13,766</b>	<b>49,813</b>	<b>176,712</b>	<b>240,291</b>
<b>Financial liabilities</b>					
Deposits from the public	187,066	502	50,631	138,029	189,162
Deposits from banks	885	-	517	368	885
Deposits from the Government	52	-	-	54	54
Debentures and subordinated notes	29,864	29,293	-	1,662	30,955
Liabilities with respect to derivatives	2,660	170	1,688	<sup>(2)</sup> 802	2,660
Other financial liabilities	6,039	481	4,133	1,425	6,039
<b>Total financial liabilities</b>	<b><sup>(4)</sup>226,566</b>	<b>30,446</b>	<b>56,969</b>	<b>142,340</b>	<b>229,755</b>

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

Level 3 - Fair value measurements using significant non-observed data.

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

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

(4) Includes assets and liabilities amounting to NIS 61,011 million and NIS 52,981 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 3 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 March 31, 2017 (unaudited)

	Book balance	Fair value Level 1 <sup>(1)</sup>	Fair value Level 2 <sup>(1)</sup>	Fair value Level 3 <sup>(1)</sup>	Fair value Total
<b>Financial assets</b>					
Cash and deposits with banks	41,683	6,838	33,610	1,258	41,706
Securities <sup>(3)</sup>	11,791	8,517	3,259	91	11,867
Securities loaned or purchased in resale agreements	46	46	-	-	46
Loans to the public, net	173,068	400	10,323	<sup>(5)</sup> 161,778	172,501
Loans to Governments	312	-	-	304	304
Investments in associated companies	35	-	-	35	35
Assets with respect to derivatives	3,951	274	2,646	<sup>(2)</sup> 1,031	3,951
Other financial assets	470	121	-	349	470
<b>Total financial assets</b>	<b>231,356</b>	<b>16,196</b>	<b>49,838</b>	<b>164,846</b>	<b>230,880</b>
<b>Financial liabilities</b>					
Deposits from the public	180,722	400	44,668	137,633	182,701
Deposits from banks	1,474	-	363	1,176	1,539
Deposits from the Government	56	-	-	61	61
Debentures and subordinated notes	26,924	26,069	-	1,582	27,651
Liabilities with respect to derivatives	4,143	260	2,446	<sup>(2)</sup> 1,437	4,143
Other financial liabilities	5,339	508	3,995	836	5,339
<b>Total financial liabilities</b>	<b><sup>(4)</sup>218,658</b>	<b>27,237</b>	<b>51,472</b>	<b>142,725</b>	<b>221,434</b>

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

Level 3 - Fair value measurements using significant non-observed data.

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

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

(4) Includes assets and liabilities amounting to NIS 61,862 million and NIS 49,072 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.

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

## Note 15 - Balances and estimates of fair value of financial instruments - continued

Reported amounts (NIS in millions)

### A. Fair value balances - continued

As of December 31, 2017 (audited)

	Book balance	Fair value Level 1 <sup>(1)</sup>	Fair value Level 2 <sup>(1)</sup>	Fair value Level 3 <sup>(1)</sup>	Fair value Total
<b>Financial assets</b>					
Cash and deposits with banks	41,130	4,043	36,048	1,021	41,112
Securities <sup>(3)</sup>	10,133	6,950	3,160	98	10,208
Securities loaned or purchased in resale agreements	76	76	-	-	76
Loans to the public, net	181,118	395	10,300	<sup>(5)</sup> 170,276	180,971
Loans to Governments	456	-	-	456	456
Investments in associated companies	33	-	-	36	36
Assets with respect to derivatives	3,421	193	2,329	<sup>(2)</sup> 899	3,421
Other financial assets	562	57	-	505	562
<b>Total financial assets</b>	<b>236,929</b>	<b>11,714</b>	<b>51,837</b>	<b>173,291</b>	<b>236,842</b>
<b>Financial liabilities</b>					
Deposits from the public	183,573	395	51,213	134,120	185,728
Deposits from banks	1,125	-	372	754	1,126
Deposits from the Government	51	-	-	54	54
Debentures and subordinated notes	29,923	29,411	-	1,478	30,889
Liabilities with respect to derivatives	3,082	193	1,984	<sup>(2)</sup> 905	3,082
Other financial liabilities	5,606	517	3,935	1,154	5,606
<b>Total financial liabilities</b>	<b><sup>(4)</sup>223,360</b>	<b>30,516</b>	<b>57,504</b>	<b>138,465</b>	<b>226,485</b>

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

Level 3 - Fair value measurements using significant non-observed data.

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

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

(4) Includes assets and liabilities amounting to NIS 60,751 million and NIS 53,863 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.

(5) Of which embedded derivatives in loans to the public, net amounting to NIS 6 million.

## Note 15 - Balances and estimates of fair value of financial instruments - continued

Reported amounts (NIS in millions)

### B. Items measured at fair value:

#### 1. On recurring basis

As of March 31, 2018 (unaudited)

	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
<b>Assets</b>				
<b>Securities available for sale</b>				
<b>Debentures:</b>				
of Government of Israel	1,402	3,049	-	4,451
Of foreign governments	1,350	-	-	1,350
Of banks and financial institutions overseas	-	449	-	449
Of others overseas	-	17	-	17
Shares	2	-	-	2
<b>Securities held for trading:</b>				
Debentures of the Government of Israel	194	-	-	194
Of banks and financial institutions overseas	-	-	-	-
<b>Securities loaned or purchased in resale agreements</b>				
	46	-	-	46
<b>Credit with respect to loans to clients</b>				
	502	-	-	502
<b>Assets with respect to derivatives<sup>(1)</sup></b>				
<b>Interest contracts:</b>				
NIS / CPI	-	151	162	313
Other	-	608	19	627
Currency contracts	39	1,018	832	1,889
Contracts for shares	132	60	126	318
Commodities and other contracts	-	-	6	6
<b>Other financial assets</b>				
	11	-	-	11
<b>Other</b>				
	-	-	3	3
<b>Total assets</b>	<b>3,678</b>	<b>5,352</b>	<b>1,148</b>	<b>10,178</b>
<b>Liabilities</b>				
<b>Deposits with respect to borrowing from clients</b>				
	502	-	-	502
<b>Liabilities with respect to derivatives<sup>(1)</sup></b>				
<b>Interest contracts:</b>				
NIS / CPI	-	87	45	132
Other	-	840	37	877
Currency contracts	38	642	554	1,234
Contracts for shares	132	119	163	414
Commodities and other contracts	-	-	3	3
<b>Other financial liabilities</b>				
	481	-	-	481
<b>Total liabilities</b>	<b>1,153</b>	<b>1,688</b>	<b>802</b>	<b>3,643</b>

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

## Note 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 March 31, 2017 (unaudited)

	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
<b>Assets</b>				
<b>Securities available for sale</b>				
<b>Debentures:</b>				
of Government of Israel	3,362	3,223	-	6,585
Of foreign governments	1,625	-	-	1,625
Of banks and financial institutions in Israel	-	-	-	-
Of banks and financial institutions overseas	-	18	-	18
Of others overseas	-	18	-	18
Shares	2	-	-	2
<b>Securities held for trading:</b>				
Debentures of the Government of Israel	202	-	-	202
Of banks and financial institutions overseas	-	-	-	-
<b>Securities loaned or purchased in resale agreements</b>				
	46	-	-	46
<b>Credit with respect to loans to clients</b>				
	400	-	-	400
<b>Assets with respect to derivatives<sup>(1)</sup></b>				
				-
<b>Interest contracts:</b>				
NIS / CPI	-	253	114	367
Other	-	916	25	941
Currency contracts	96	1,474	646	2,216
Contracts for shares	178	3	241	422
Commodities and other contracts	-	-	5	5
<b>Other financial assets</b>				
	-	-	-	-
<b>Other</b>				
	-	-	5	5
<b>Total assets</b>	<b>5,911</b>	<b>5,905</b>	<b>1,036</b>	<b>12,852</b>
<b>Liabilities</b>				
Deposits with respect to borrowing from clients	400	-	-	400
<b>Securities loaned or sold in conjunction with resale agreements</b>				
	-	-	-	-
<b>Liabilities with respect to derivatives<sup>(1)</sup></b>				
				-
<b>Interest contracts:</b>				
NIS / CPI	-	110	81	191
Other	-	1,236	50	1,286
Currency contracts	98	1,100	1,092	2,290
Contracts for shares	162	-	212	374
Commodities and other contracts	-	-	2	2
<b>Other financial liabilities</b>				
	508	-	-	508
<b>Other</b>				
	-	-	-	-
<b>Total liabilities</b>	<b>1,168</b>	<b>2,446</b>	<b>1,437</b>	<b>5,051</b>

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

## Note 15 - Balances and estimates of fair value of financial instruments - continued

Reported amounts (NIS in millions)

### B. Items measured at fair value - continued

#### 1. On recurring basis

As of December 31, 2017 (unaudited)

	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
<b>Assets</b>				
<b>Securities available for sale</b>				
<b>Debentures:</b>				
of Government of Israel	1,165	2,971	-	4,136
Of foreign governments	2,233	-	-	2,233
Of banks and financial institutions overseas	-	173	-	173
Of others overseas	-	16	-	16
Shares	1	-	-	1
<b>Securities held for trading:</b>				
Debentures of the Government of Israel	209	-	-	209
<b>Securities loaned or purchased in resale agreements</b>				
	76	-	-	76
<b>Credit with respect to loans to clients</b>				
	395	-	-	395
<b>Assets with respect to derivatives<sup>(1)</sup></b>				
<b>Interest contracts:</b>				
NIS / CPI	-	169	146	315
Other	-	637	21	658
Currency contracts	52	1,401	603	2,056
Contracts for shares	141	122	123	386
Commodities and other contracts	-	-	6	6
<b>Other</b>	-	-	6	6
<b>Total assets</b>	<b>4,272</b>	<b>5,489</b>	<b>905</b>	<b>10,666</b>
<b>Liabilities</b>				
Deposits with respect to borrowing from clients	395	-	-	395
<b>Liabilities with respect to derivatives<sup>(1)</sup></b>				
<b>Interest contracts:</b>				
NIS / CPI	-	93	85	178
Other	-	933	35	968
Currency contracts	53	881	669	1,603
Contracts for shares	140	77	113	330
Commodities and other contracts	-	-	3	3
<b>Other financial liabilities</b>	<b>517</b>	<b>-</b>	<b>-</b>	<b>517</b>
<b>Other</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>	<b>1,105</b>	<b>1,984</b>	<b>905</b>	<b>3,994</b>

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

## Note 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

	As of March 31, 2018 (unaudited) Fair value Level 1 <sup>(1)</sup>	As of March 31, 2018 (unaudited) Fair value Level 2 <sup>(1)</sup>	As of March 31, 2018 (unaudited) Fair value Level 3 <sup>(1)</sup>	As of March 31, 2018 (unaudited) Fair value Total	For the three months ended March 31, 2018 (unaudited) (Losses)
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Impaired credit whose collection is contingent on collateral	-	-	112	112	(2)
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	As of March 31, 2017 (unaudited) Fair value Level 1 <sup>(1)</sup>	As of March 31, 2017 (unaudited) Fair value Level 2 <sup>(1)</sup>	As of March 31, 2017 (unaudited) Fair value Level 3 <sup>(1)</sup>	As of March 31, 2017 (unaudited) Fair value Total	For the three months ended March 31, 2017 (unaudited) Gains
--	---	---	---	--	---

Impaired credit whose collection is contingent on collateral	-	-	79	79	-
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	As of December 31, 2017 (audited) Fair value Level 1 <sup>(1)</sup>	As of December 31, 2017 (audited) Fair value Level 2 <sup>(1)</sup>	As of December 31, 2017 (audited) Fair value Level 3 <sup>(1)</sup>	As of December 31, 2017 (audited) Fair value Total	For the year ended December 31, 2017 (audited) Gains
--	--	--	--	---	--

Impaired credit whose collection is contingent on collateral	-	-	78	78	76
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- (1) Level 1 - Fair value measurement using quoted prices on an active market.  
Level 2 - Fair value measurements using other significant 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 March 31, 2018 (unaudited)

	Fair value as of December 31, 2017 (audited)	Realized / unrealized gains (losses) included, net <sup>(1)</sup> In statement of profit and loss	Realized / unrealized gains (losses) included, net <sup>(1)</sup> In statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of March 31, 2018 (unaudited)	Unrealized gains (losses) with respect to instruments held as of March 31, 2018 (unaudited)
<b>Assets</b>									
<b>Assets with respect to derivatives<sup>(3)(2)</sup></b>									
<b>Interest contracts:</b>									
NIS / CPI	146	3	-	1	-	(6)	18	162	85
Other	21	(2)	-	-	-	-	-	19	78
Currency contracts	603	50	-	501	-	(322)	-	832	422
Contracts for shares	123	18	-	28	-	(43)	-	126	-
Commodities and other contracts	6	-	-	-	-	-	-	6	-
<b>Other</b>	6	-	-	-	-	(3)	-	3	-
<b>Total assets</b>	<b>905</b>	<b>69</b>	<b>-</b>	<b>530</b>	<b>-</b>	<b>(374)</b>	<b>18</b>	<b>1,148</b>	<b>585</b>
<b>Liabilities</b>									
<b>Liabilities with respect to derivatives<sup>(3)(2)</sup></b>									
<b>Interest contracts:</b>									
NIS / CPI	85	(2)	-	-	-	(42)	4	45	13
Other	35	2	-	-	-	-	-	37	63
Currency contracts	669	(8)	-	163	-	(270)	-	554	447
Contracts for shares	113	71	-	3	-	(24)	-	163	-
Commodities and other contracts	3	-	-	-	-	-	-	3	-
<b>Total liabilities</b>	<b>905</b>	<b>63</b>	<b>-</b>	<b>166</b>	<b>-</b>	<b>(336)</b>	<b>4</b>	<b>802</b>	<b>523</b>

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

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

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

## Note 15 - Balances and estimates of fair value of financial instruments - continued

Reported amounts (NIS in millions)

### C. Change in items measured at fair value on recurrent basis, included in level 3 - Continued:

For the three months ended March 31, 2017 (unaudited)

	Fair value as of December 31, 2016 (audited)	Realized / unrealized gains (losses) included, net <sup>(1)</sup> In statement of profit and loss	Realized / unrealized gains (losses) included, net <sup>(1)</sup> In statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of March 31, 2017 (unaudited)	Unrealized gains (losses) with respect to instruments held as of March 31, 2017 (unaudited)
<b>Assets</b>									
<b>Assets with respect to derivatives<sup>(3)(2)</sup></b>									
<b>Interest contracts:</b>									
NIS / CPI	205	(56)	-	1	-	(42)	6	114	93
Other	517	(486)	-	-	-	(6)	-	25	138
Currency contracts	660	74	-	342	-	(430)	-	646	483
Contracts for shares	328	(52)	-	27	-	(62)	-	241	-
Commodities and other contracts	7	-	-	-	-	(2)	-	5	-
<b>Other</b>	<b>8</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3)</b>	<b>-</b>	<b>5</b>	<b>-</b>
<b>Total assets</b>	<b>1,725</b>	<b>(520)</b>	<b>-</b>	<b>370</b>	<b>-</b>	<b>(545)</b>	<b>6</b>	<b>1,036</b>	<b>714</b>
<b>Liabilities</b>									
<b>Liabilities with respect to derivatives<sup>(3)(2)</sup></b>									
<b>Interest contracts:</b>									
NIS / CPI	64	(31)	-	1	-	-	47	81	(51)
Other	669	(609)	-	-	-	(10)	-	50	240
Currency contracts	790	282	-	335	-	(315)	-	1,092	970
Contracts for shares	311	(57)	-	19	-	(61)	-	212	-
Commodities and other contracts	4	-	-	-	-	(2)	-	2	1
<b>Total liabilities</b>	<b>1,838</b>	<b>(415)</b>	<b>-</b>	<b>355</b>	<b>-</b>	<b>(388)</b>	<b>47</b>	<b>1,437</b>	<b>1,160</b>

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

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

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

## Note 15 - Balances and estimates of fair value of financial instruments - continued

Reported amounts (NIS in millions)

### C. Change in items measured at fair value on recurrent basis, included in level 3 - Continued:

For the year ended December 31, 2017 (audited)

	Fair value as of December 31, 2016 (audited)	Realized / unrealized gains (losses) included, net <sup>(1)</sup> In statement of profit and loss	Realized / unrealized gains (losses) included, net <sup>(1)</sup> In statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of December 31, 2017 (audited)	Unrealized gains (losses) with respect to instruments held as of December 31, 2017 (audited)
<b>Assets</b>									
<b>Assets with respect to derivatives<sup>(3)(2)</sup></b>									
<b>Interest contracts:</b>									
NIS / CPI	205	(69)	-	2	-	(87)	95	146	126
Other	517	(489)	-	2	-	(9)	-	21	134
Currency contracts	660	344	-	1,079	-	(1,480)	-	603	474
Contracts for shares	328	(98)	-	95	-	(202)	-	123	-
Commodities and other contracts	7	2	-	-	-	(3)	-	6	1
<b>Other</b>	8	-	-	3	-	(5)	-	6	-
<b>Total assets</b>	<b>1,725</b>	<b>(310)</b>	<b>-</b>	<b>1,181</b>	<b>-</b>	<b>(1,786)</b>	<b>95</b>	<b>905</b>	<b>735</b>
<b>Liabilities</b>									
<b>Liabilities with respect to derivatives<sup>(3)(2)</sup></b>									
<b>Interest contracts:</b>									
NIS / CPI	64	(30)	-	2	-	(20)	69	85	13
Other	669	(618)	-	1	-	(17)	-	35	198
Currency contracts	790	390	-	1,179	-	(1,690)	-	669	649
Contracts for shares	311	(64)	-	63	-	(197)	-	113	-
Commodities and other contracts	4	5	-	-	-	(6)	-	3	1
<b>Total liabilities</b>	<b>1,838</b>	<b>(317)</b>	<b>-</b>	<b>1,245</b>	<b>-</b>	<b>(1,930)</b>	<b>69</b>	<b>905</b>	<b>861</b>

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

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

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

**Note 15 - Balances and estimates of fair value of financial instruments - continued**  
**Reported amounts (NIS in millions)**

**D. Additional information about non-observed significant data and valuation techniques used in fair value measurement of items classified at Level 3:**

	Fair value as of March 31, 2018 (unaudited)	Valuation technique	Non-observed data	Range	Weighted average
<b>Assets with respect to derivatives:</b>					
Interest contracts - NIS CPI	103	Cash flows discounting	Inflationary expectations	0.85%- 0.57%	0.69%
Contracts for shares	137	Options pricing model	Standard deviation per share	42.65% - 19.55%	31.87%
Other	908	Cash flows discounting	Counter-party credit quality	3.10% - 0.30%	1.38%
<b>Liabilities with respect to derivatives:</b>					
Interest contracts - NIS CPI	38	Cash flows discounting	Inflationary expectations	0.85%- 0.57%	0.64%
Other	764	Cash flows discounting	Counter-party credit quality	3.10% - 0.30%	1.89%

	Fair value as of March 31, 2017 (unaudited)	Valuation technique	Non-observed data	Range	Weighted average
<b>Assets with respect to derivatives:</b>					
Interest contracts - NIS CPI	58	Cash flows discounting	Inflationary expectations	0.02% - (0.02%)	(0.01%)
Contracts for shares	5	Options pricing model	Standard deviation per share	165.11% - 165.11%	165.11%
Other	973	Cash flows discounting	Counter-party credit quality	3.10% - 0.30%	1.72%
<b>Liabilities with respect to derivatives:</b>					
Interest contracts - NIS CPI	59	Cash flows discounting	Inflationary expectations	0.02% - (0.02%)	(0.01%)
Other	1,378	Cash flows discounting	Counter-party credit quality	3.10% - 0.30%	1.92%

	Fair value as of December 31, 2017 (audited)	Valuation technique	Non-observed data	Range	Weighted average
<b>Assets with respect to derivatives:</b>					
Interest contracts - NIS CPI	104	Cash flows discounting	Inflationary expectations	0.43% - 0.41%	0.41%
Contracts for shares	-	Options pricing model	Standard deviation per share	44.53% - 29.56%	38.96%
Other	801	Cash flows discounting	Counter-party credit quality	3.10% - 0.30%	1.38%
<b>Liabilities with respect to derivatives:</b>					
Interest contracts - NIS CPI	80	Cash flows discounting	Inflationary expectations	0.43% - 0.41%	0.41%
Other	825	Cash flows discounting	Counter-party credit quality	3.10% - 0.30%	1.89%

## **Note 15 - Balances and estimates of fair value of financial instruments - continued**

Reported amounts (NIS in millions)

### **E. Transfers between Levels 1 and 2 of the fair value hierarchy**

There were no transfers from Level 2 and Level 3 to Level 1 during the reported period.

### **F. Election of fair value option**

Due to election of the fair value option, the Bank treats investments in certain debentures at fair value, charging the changes to profit and loss and classifies them under the portfolio held for trading - even though they had not been purchased for this purpose.

Election of the fair value option was made under the following circumstances:

1. Reduce volatility in profit and loss resulting from changes between the original measurement basis of financial instruments designated at the fair value option, and the measurement basis of derivative financial instruments used to manage risks with respect to such investments.
2. Complexity of implementing hedge accounting.
3. More accurate economic presentation of assets managed on fair value basis.

As of March 31, 2018, December 31, 2017 and March 31, 2017, the Bank did not select the fair value option.

## **Note 16 - Events after the balance sheet date**

On May 7, 2018, after the balance sheet date, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 137.2 million, or 40% of earnings in the first quarter of 2018.

The dividends are 589.1% of issued share capital, i.e. NIS 0.5891 per NIS 0.1 par value share. The effective date for dividends payment is May 22, 2018 and the payment date is June 5, 2018. The final dividends per share is subject to changes due to realized convertible securities of the Bank. According to accounting rules, this amount will be deducted from retained earnings in the first quarter of 2018.

# Corporate governance, other information about the Bank and its management

## Table of Contents

CORPORATE GOVERNANCE	182
Board of Directors and management	182
Internal Auditor	182
Transactions with controlling shareholders and related parties	182
Controlling shareholders	182
Human Resources	182
Legislation and Supervisory Regulation of Bank Group Operations	183
Bank's credit rating	187
Operating segments	187

## Corporate governance

### Board of Directors and management

#### Board of Directors

During the first quarter of 2018, the Bank's Board of Directors held 5 plenary meetings. During this period there were also 17 meetings of Board committees and one Board member workshop.

#### Members of Bank management and senior officers

In the first quarter of 2018 there were no changes to members of Bank management and senior officers.

#### Internal Auditor

Details of internal audit within the Group, including the professional standards applied by internal audit, the annual and multi-annual work plan and considerations in its determination, extent of employment of the Internal Auditor and his team and the manner in which reports are submitted with regard to findings of the Internal Auditor have been included in chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" of the 2017 annual report. No material changes occurred in these details during the reported period.

### Transactions with controlling shareholders and related parties

Transactions with affiliated persons were executed in the ordinary course of business, at market terms and under terms similar to those of transactions effected with unrelated entities.

### Controlling shareholders

Below are developments compared to the 2017 financial statements:

#### Ofer Group

On March 18, 2018, the Bank received notice from Ofer Investments Ltd. and from Ofer Bros. Holdings (1989) Ltd. with regard to an agreement in principles of a separation outline, due to provisions of the Competition Enhancement and Concentration Reduction Act, 2013.

The outline principles are designed to separate control of the significant financial entity (the Bank) from control of the significant non-banking entity (Meliseron Ltd. / Ofer Investments Ltd.) among shareholders in Ofer Group ("the outline"). Note that this outline is not a binding agreement and is merely designed to serve as a basis for preparation of a detailed agreement.

For more information about agreed principles for the separation outline at Ofer Group, with due consideration to provisions of the Competition Enhancement and Concentration Reduction Act, 2013, see the Immediate Report by the Bank dated March 18, 2018 (reference: 2018-01-020733).

### Human Resources

#### Developments in labor relations

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

## Legislation and Supervisory Regulation of Bank Group Operations

### Laws and regulations

#### European Union Markets in Financial Instruments Directive (MIFID 2)

European regulation applicable to European countries, became effective on January 3, 2018. The objective of this regulation is to create uniform directives in Europe, so as to increase trading transparency, market efficiency and investor protection in the European market. This regulation is not directly applicable to the Bank in Israel, but given the Bank's global operations and many interfaces with the European market, the Bank has been requested to arrange its contractual relations with European counterparts.

#### Credit Data Act, 2016

On April 12, 2016, the Credit Data Act was published and would become effective on October 12, 2018, unless postponed (but not later than April 12, 2020).

The act reforms the market for credit data service. When this act would become effective, the Credit Data Service Act, 2002 would be rescinded.

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

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

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

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

#### Financial Services Supervision Act (Regulated Financial Services), 2016

The Act became effective on June 1, 2017. The Act is designed to govern the non-banking credit market, to generate fair, transparent competition in this area, which had been gray and exposed in part – and to allow consumers to have confidence in non-banking credit providers.

According to the Act, as from June 1, 2017 it is not permitted to engage in Israel in "extending credit" (which is very widely defined) without a valid license, contingent on minimum capital, verification of good standing and supervision by the Supervisor of Capital Market, Insurance and Savings. As from June 1, 2018, it would not be permitted to engage in Israel in "provision of service in financial assets" without an appropriate license. Financial entities subject to licensing by other legislation are, naturally, exempt. The Bank may refuse account management to anyone required by law to hold a license who would fail to present such license. Currently, Bank clients that provide discounting and lending services are subject to licensing pursuant to the new Act and the Bank has contacted the relevant clients, requiring them to present their license or, alternatively, to certify that they do not extend credit.

On February 1, 2018, Amendment 4 to the Act became effective, stipulating that operation of a "credit brokerage system" constitutes a "financial service". Therefore, as from the effective start date of this Amendment, it would no longer be possible to engage in operation of a credit brokerage system in Israel without an appropriate license. The Amendment stipulates, *inter alia*, that the license holder must manage lender and borrower funds transferred to the license holder in a separate trust account in favor of the lenders, with one of the entities listed in the Act, including with a banking corporation. The Bank is studying the Amendment and is preparing for its implementation.

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

## **Restructuring of the Stock Exchange**

On April 6, 2017, the Securities Law (Amendment No. 63), 2017 was officially published, concerning restructuring of the Stock Exchange.

The Law puts in place the legal infrastructure for separation of ownership of the Tel Aviv Stock Exchange and the rights of Stock Exchange members to use its services, while removing the existing requirement for the Stock Exchange to distribute its earnings. It also stipulates restrictions on holding of shares of the Stock Exchange, requiring Stock Exchange members and banking corporations other than Stock Exchange members to sell any means of control they hold in excess of 5%. The Law further stipulates arrangements for allocation of share capital of the Stock Exchange among members thereof and sale of holdings in excess of 5%. In conformity with the Act, on June 29, 2017 the Stock Exchange filed a request to convene a General Meeting of Stock Exchange members, in order to approve an arrangement on changes to the Stock Exchange structure in conformity with Section 350 of the Companies Law (hereinafter: "the Arrangement"). In the proposed Arrangement, bylaws of the clearinghouses were amended so that clearinghouse members would not take part in its management and objections were made to the proposed text. The Court approved the motion to convene a General Meeting and ordered that should agreement be reached on the change to wording of a proposed resolution on amendment of the clearinghouse Bylaws, no further Court hearing would be required. Consequently, provisions with regard to amendment of clearinghouse Bylaws were revised to include claim and audit proceedings and have been approved by the Stock Exchange Audit Committee and Board of Directives (hereinafter: "the Amendment"). On August 10, the Arrangement was approved, as amended, by the General Meeting of Stock Exchange members; on August 16, a motion was filed with the Tel Aviv District Court for approval of the Agreement pursuant to Section 350 of the Corporate Act. On September 7, 2017, the Court approved the arrangement for changing the stock exchange structure.

On September 18, 2017, the Bank received a letter from the Tel Aviv Stock Exchange, containing a notice of share allotment to the Bank and registration of the Bank in the Stock Exchange's register of shareholders.

On December 28, 2017, the Tel Aviv Stock Exchange Ltd. ("Stock Exchange Company") contacted the Bank, which holds 6,640,416 shares or 6.640417% of the Stock Exchange Company's share capital, as shareholder of the Stock Exchange, seeking proposals to acquire the shares held by the Bank. This solicitation was addressed to Stock Exchange members, whereby shareholders wishing to sell their shares in the Stock Exchange Company ("Offering Shareholder") are requested to issue an offer to the Stock Exchange Company for sale and transfer of Stock Exchange Company shares held thereby, at such terms and conditions as stated in the solicitation. According to the solicitation, the price for shares offered for sale was set at NIS five hundred (500) million divided by the total number of allotted shares of the Stock Exchange Company, multiplied by the number of shares offered for sale by the Offering Shareholder. On January 18, 2018, the Bank accepted the Stock Exchange's offer to sell part (1.7%) of the Stock Exchange shares held by the Bank, such that after the sale, the Bank would hold 4,900,000 shares, or 4.9% of the share capital of the Stock Exchange Company. The expected consideration for these shares amounts to NIS 8.7 million. On April 16, 2018, the Bank was informed by the stock exchange member that the Bank's aforementioned proposed sale of shares has been accepted. According to this notice, the shares would be sold and transferred to one or to multiple buyers ("the Buyer"). The consideration payable to the Bank would be higher than indicated in the offer but, in conformity with provisions of the Securities Act on this matter, the difference between the consideration paid and the price indicated in the offer would be transferred to the stock exchange member. Closing of the transaction is contingent on obtaining regulatory approvals and closing is scheduled for June 19, 2018 ("the Effective Date"). Should the approvals not be obtained or the closing not take place by the Effective Date, the transaction would be terminated unless otherwise agreed by the Buyer, the Stock Exchange and the Bank.

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

On August 6, 2017, the Law, known as the "Fair Credit Law", was published.

The law applies to credit extended to individuals from banking corporations, settlement providers, insurers and management companies.

The Law provides a uniform maximum interest rate for all lending entities and applies to:

- Loans in NIS: The Bank of Israel interest rate plus 15%.
- Loans in foreign currency: One-year LIBOR interest rate plus 15%.
- Arrears interest: Maximum interest rate multiplied by 1.2.

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

The following were excluded from the scope of the uniform maximum interest rate:

- Short-term loans (up to 3 months) – capped at a maximum of 5% over the maximum interest rate.
- Transactions involving discounting a note for business (non-personal) use.
- Loans subject to an interest rate decree, pursuant to the Interest Law (such as arrears interest for housing loans or CPI-linked loans).

The provisions of the Law would apply only to new loans. The effective start date of the Law is November 6, 2018.

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

### **Reduction of Cash Usage Act, 2018**

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

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

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

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

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

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

The Bank is preparing to implement the Act.

### **Insolvency and Financial Rehabilitation Act, 2018**

The Insolvency and Financial Rehabilitation Act, 2018 (hereinafter: "the Act") was officially published on March 15, 2018. The Act shall be effective 18 months after publication.

The Act provides a codification of insolvency laws and comprehensively encompasses all insolvency laws for individuals and corporations, eliminating the old ordinances and arrangements provided for in the Companies Law.

The Act has three major goals:

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

The Act stipulates changes to various matters, such as: Threshold for launch of insolvency proceedings, duration of insolvency proceedings, linkage and interest, floating lien, mutual debt offsetting, the position of a financing provider for operations of a company under stay of proceedings, liability of Board members and managers and negotiations of debt re-structuring.

The Bank believes that the Act would affect the extension of credit and the repayment rate upon default.

The Bank is preparing to implement provisions of the Act.

## Supervisor of Banks

### Circulars and Public Reporting Regulations

#### Debt collection proceedings

On February 1, 2017, the Bank of Israel issued Proper Banking Conduct Directive 450 "Debt collection proceedings", designed to govern the actions to be taken in order to increase fairness and transparency in debt collection from clients who fail to repay their loan on time and when handling debt collection prior to and during any legal proceedings. The effective start date of this directive is one year after its issue date. The Bank applies the directive as from February 1, 2018.

#### Prohibition of money laundering

On January 1, 2018, Proper Banking Conduct Directive 411 "AML and Terror Financing Risk Management" became effective, which integrates supervisory circulars and letters on this matter issued since the most recent extensive revision of this directive. The directive was expanded and compiled as a risks management directive, including identification, assessment and operative mitigation steps. The key amendments to the directive include: Explanation of the risk-based approach, clarification of definitions, expanded description of the roles of corporate governance functions, details of items on which the bank is to rely when preparing the risk assessment and details of the information database to be gathered by the bank from internal and external sources in order to formulate the risk assessment. The Bank is applying this directive.

#### Reduced cross commission in deferred and immediate charge transactions using credit cards

On February 25, 2018, the Bank of Israel issued an outline designed to reduce the cross commission in deferred charge transactions using charge cards by 30%, from 0.7% of transaction amount today, to 0.5% in January 2023. This change will take place in 5 stages: First in January 2019 (0.6%); second in January 2020 (0.575%); third in January 2021 (0.55%); fourth in January 2022 (0.525%); and final in January 2023. The Bank of Israel also decided to reduce the cross commission for immediate charge transactions using credit cards, from 0.3% to 0.25% in January 2023. This change will take place in 2 stages: First in January 2021 (0.275%) and second in January 2023.

Application of the reduced commission is not expected to have any material impact on the Bank's financial statements.

#### Capital measurement and adequacy

On March 15, 2018, the Supervisor of Banks issued a circular revising Proper Banking Conduct Directive 203 "Measurement and capital adequacy – Credit risk" with regard to risk weighting of loans with LTV ratio higher than 60%.

The circular stipulated that loans with LTV ratio higher than 60% would be assigned a 60% risk weighting, compared to 75% prior to this revision.

The revision is designed to provide relief to young couples and second home buyers who purchase apartments with a high LTV ratio.

The revision is effective as from the circular issue date. The Bank is applying this directive.

Application of this directive reduces risk assets due to origination of housing loans with LTV ratio higher than 60%, originated as from the circular issue date.

#### Banking corporation operations with clients who are regulated financial service providers and offering coordinators

On April 15, 2018, the Bank of Israel issued a circular designed to specify guidelines to allow banking corporations to provide service and manage risk associated with their operations with regulated financial entities (entities supervised by the Capital Market Authority, in conformity with the Supervision Act). This is further to the Financial Services Supervision Act (Regulated Financial Services), 2016 which is designed to provide for comprehensive and coherent regulation, in as much as possible, of the entire financial services market and entities operating in this market.

In conformity with the circular, the Bank must specify policy and procedures for opening and management of accounts for regulated financial entities so as to reflect, *inter alia*, a risk-based approach.

The Bank is preparing to implement the circular.

Application of this circular has no effect on the Bank's financial statements.

## Management of cyber risk in the supply chain

In April 2018, the Bank of Israel issued Proper Conduct of Banking Business Directive 363 "Management of cyber risk in the supply chain", designed to clarify the bank's responsibility for maintaining secure work procedures with material external suppliers and the bank's obligations to appropriately manage cyber risk in operations of such suppliers in their premises, in bank premises and in bank – supplier interfaces. Key provisions of the directive shall become effective 6 months after its publication.

The Bank is preparing to implement this directive.

Application of this circular has no effect on the Bank's financial statements.

## Bank's credit rating

On January 21, 2018, S&P GLOBAL RATINGS MAALOT LTD (hereinafter: "Ma'alot") confirmed the Bank's issuer rating of ilAAA with a Stable rating outlook.

The rating of subordinated notes issued by Tefahot Issuance is one rank below the issuer rating, i.e. rated ilAA+. These subordinated notes qualify as Tier II capital under transitional provisions of Basel III.

The Bank's subordinated capital notes, which qualify as Tier II equity in conformity with transitional provisions of Basel III, are rated ilA+.

The contingent subordinated notes with contractual loss-absorption provisions (CoCo), which qualify as Tier II equity in conformity with provisions of Basel III, are rated ilAA- with Stable rating outlook.

On September 10, 2017, Midroog Ltd. (created in partnership with Moody's International, which owns a 51% equity stake) (hereinafter: "Midroog") issued an initial rating of the Bank. Long-term deposits and senior debt of the Bank were rated Aaa.il / Stable outlook. Subordinated notes (Lower Tier II capital) were rated Aa1.il / Stable outlook and subordinated capital notes (Upper Tier II capital) were rated Aa2.il / Stable outlook.

contingent subordinated notes with contractual loss-absorption provisions (CoCo), which qualify as Tier II equity in conformity with provisions of Basel III, are rated ilAa3 with Stable rating outlook.

On June 30, 2015, Moody's rating agency confirmed the Bank's long-term deposit rating at A2 and raised the outlook from Negative to Stable.

## Operating segments

For more information about supervisory operating segments, see chapter "Corporate Governance, Audit, Other Information about the Bank and Management " of the 2017 financial statements.

## Addendums to condensed quarterly financial statements

### Addendum I - Interest Revenue and Expense Rates – of the Bank and its Subsidiaries<sup>(1)</sup>

Reported amounts (NIS in millions)

#### A. Average balances and interest rates – assets

	For the three months ended March 31, 2018 Average balance <sup>(2)</sup>	For the three months ended March 31, 2018 Interest revenues	For the three months ended March 31, 2018 Revenue rate In %	For the three months ended March 31, 2017 Average balance <sup>(2)</sup>	For the three months ended March 31, 2017 Interest revenues	For the three months ended March 31, 2017 Revenue rate In %
<b>Interest-bearing assets</b>						
<b>Loans to the public<sup>(3)</sup></b>						
In Israel	176,984	<sup>(7)</sup> 1,331	3.04	167,894	<sup>(7)</sup> 1,265	3.05
Outside of Israel	3,189	44	5.63	3,079	36	4.76
<b>Total</b>	<b>180,173</b>	<b>1,375</b>	<b>3.09</b>	<b>170,973</b>	<b>1,301</b>	<b>3.08</b>
<b>Loans to the Government</b>						
In Israel	202	1	1.99	186	1	2.17
Outside of Israel	256	3	4.77	133	2	6.15
<b>Total</b>	<b>458</b>	<b>4</b>	<b>3.54</b>	<b>319</b>	<b>3</b>	<b>3.82</b>
<b>Deposits with banks</b>						
In Israel	756	1	0.53	869	2	0.92
Outside of Israel	288	–	–	342	1	1.17
<b>Total</b>	<b>1,044</b>	<b>1</b>	<b>0.38</b>	<b>1,211</b>	<b>3</b>	<b>0.99</b>
<b>Deposits with central banks</b>						
In Israel	38,095	7	0.07	33,842	8	0.09
Outside of Israel	2,869	11	1.54	4,466	9	0.81
<b>Total</b>	<b>40,964</b>	<b>18</b>	<b>0.18</b>	<b>38,308</b>	<b>17</b>	<b>0.18</b>
<b>Securities loaned or purchased in resale agreements</b>						
In Israel	82	–	–	76	–	–
Outside of Israel	–	–	–	–	–	–
<b>Total</b>	<b>82</b>	<b>–</b>	<b>–</b>	<b>76</b>	<b>–</b>	<b>–</b>
<b>Debentures held to maturity and available for sale<sup>(4)</sup></b>						
In Israel	7,924	46	2.34	9,440	27	1.15
Outside of Israel	886	5	2.28	1,080	4	1.49
<b>Total</b>	<b>8,810</b>	<b>51</b>	<b>2.34</b>	<b>10,520</b>	<b>31</b>	<b>1.18</b>
<b>Debentures held for trading<sup>(5)</sup></b>						
In Israel	111	–	–	246	1	1.64
Outside of Israel	–	–	–	–	–	–
<b>Total</b>	<b>111</b>	<b>–</b>	<b>–</b>	<b>246</b>	<b>1</b>	<b>1.64</b>
<b>Total interest-bearing assets</b>	<b>231,642</b>	<b>1,449</b>	<b>2.53</b>	<b>221,653</b>	<b>1,356</b>	<b>2.47</b>
Receivables for credit card operations	3,367			2,997		
Other non-interest bearing assets <sup>(6)</sup>	4,720			4,862		
<b>Total assets</b>	<b>239,729</b>			<b>229,512</b>		
<b>Total interest-bearing assets attributable to operations outside of Israel</b>	<b>7,488</b>	<b>63</b>	<b>3.41</b>	<b>9,100</b>	<b>52</b>	<b>2.31</b>

See remarks below.

**Interest Revenues and Expenses Rates – of the Bank and its Subsidiaries<sup>(1)</sup> – continued**  
Reported amounts (NIS in millions)

**A. Average balances and interest rates – liabilities and equity**

	For the three months ended March 31, 2018 Average balance <sup>(2)</sup>	For the three months ended March 31, 2018 Interest revenues	For the three months ended March 31, 2018 Revenue rate In %	For the three months ended March 31, 2017 Average balance <sup>(2)</sup>	For the three months ended March 31, 2017 Interest revenues	For the three months ended March 31, 2017 Revenue rate In %
<b>Interest-bearing liabilities</b>						
<b>Deposits from the public</b>						
In Israel						
On-call	21,855	3	0.05	19,187	(2)	(0.04)
Term deposits	113,116	269	0.95	113,858	219	0.77
Outside of Israel						
On-call	528	–	–	676	–	–
Term deposits	4,768	16	1.35	4,677	10	0.86
<b>Total</b>	<b>140,267</b>	<b>288</b>	<b>0.82</b>	<b>138,398</b>	<b>227</b>	<b>0.66</b>
<b>Deposits from the Government</b>						
In Israel	51	–	–	49	–	–
Outside of Israel	–	–	–	–	–	–
<b>Total</b>	<b>51</b>	<b>–</b>	<b>–</b>	<b>49</b>	<b>–</b>	<b>–</b>
<b>Deposits from banks</b>						
In Israel	1,290	2	0.62	1,543	3	0.78
Outside of Israel	1	–	–	6	–	–
<b>Total</b>	<b>1,291</b>	<b>2</b>	<b>0.62</b>	<b>1,549</b>	<b>3</b>	<b>0.78</b>
<b>Securities loaned or sold in conjunction with repurchase agreements</b>						
In Israel	–	–	–	–	–	–
Outside of Israel	–	–	–	–	–	–
<b>Total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Debentures and subordinated notes</b>						
In Israel	30,113	78	1.04	26,970	98	1.46
Outside of Israel	–	–	–	–	–	–
<b>Total</b>	<b>30,113</b>	<b>78</b>	<b>1.04</b>	<b>26,970</b>	<b>98</b>	<b>1.46</b>
<b>Other liabilities</b>						
In Israel	98	–	–	121	1	3.35
Outside of Israel	–	–	–	–	–	–
<b>Total</b>	<b>98</b>	<b>–</b>	<b>–</b>	<b>121</b>	<b>1</b>	<b>3.35</b>
<b>Total interest-bearing liabilities</b>	<b>171,820</b>	<b>368</b>	<b>0.86</b>	<b>167,087</b>	<b>329</b>	<b>0.79</b>
Non-interest bearing deposits from the public	44,431			39,876		
Payables for credit card transactions	3,367			2,997		
Other non-interest bearing liabilities <sup>(6)</sup>	5,629			6,046		
<b>Total liabilities</b>	<b>225,247</b>			<b>216,006</b>		
<b>Total equity resources</b>	<b>14,482</b>			<b>13,506</b>		
<b>Total liabilities and equity resources</b>	<b>239,729</b>			<b>229,512</b>		
Interest margin			1.67			1.68
<b>Net return<sup>(9)</sup> on interest-bearing assets</b>						
In Israel	224,154	1,034	1.86	212,553	985	1.87
Outside of Israel	7,488	47	2.53	9,100	42	1.86
<b>Total</b>	<b>231,642</b>	<b>1,081</b>	<b>1.88</b>	<b>221,653</b>	<b>1,027</b>	<b>1.87</b>
Total interest-bearing liabilities attributable to operations outside of Israel	5,297	16	1.21	5,359	10	0.75

See remarks below.

## Interest Revenues and Expenses Rates – of the Bank and its Subsidiaries<sup>(1)</sup> – 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 March 31, 2018 Average balance <sup>(2)</sup>	For the three months ended March 31, 2018 Interest revenues	For the three months ended March 31, 2018 Revenue rate In %	For the three months ended March 31, 2017 Average balance <sup>(2)</sup>	For the three months ended March 31, 2017 Interest revenues	For the three months ended March 31, 2017 Revenue rate In %
<b>Israeli currency – non-linked</b>						
Total interest-bearing assets	160,097	1,065	2.69	150,790	982	2.63
Total interest-bearing liabilities	114,174	(220)	(0.77)	104,723	(159)	(0.61)
Interest margin			1.92			2.02
<b>Israeli currency – linked to the CPI</b>						
Total interest-bearing assets	51,780	218	1.69	49,792	241	1.95
Total interest-bearing liabilities	36,367	(64)	(0.71)	38,605	(120)	(1.25)
Interest margin			0.98			0.70
<b>Foreign currency (including Israeli currency linked to foreign currency)</b>						
Total interest-bearing assets	12,277	103	3.40	11,971	81	2.73
Total interest-bearing liabilities	15,982	(68)	(1.71)	18,400	(40)	(0.87)
Interest margin			1.69			1.86
<b>Total – operations in Israel</b>						
Total interest-bearing assets	224,154	1,386	2.50	212,553	1,304	2.48
Total interest-bearing liabilities	166,523	(352)	(0.85)	161,728	(319)	(0.79)
Interest margin			1.65			1.69

See remarks below.

**Interest Revenues and Expenses Rates – of the Bank and its Subsidiaries<sup>(1)</sup> – continued**  
Reported amounts (NIS in millions)

**C. Analysis of change in interest revenues and expenses**

For the three months ended March 31, 2018 – compared to the three months ended March 31, 2017

Increase (decrease) due to change<sup>(10)</sup>

	Quantity	Price	Net change
<b>Interest-bearing assets</b>			
<b>Loans to the public</b>			
In Israel	68	(2)	66
Outside of Israel	2	6	8
<b>Total</b>	<b>70</b>	<b>4</b>	<b>74</b>
<b>Other interest-bearing assets</b>			
In Israel	3	13	16
Outside of Israel	(8)	11	3
<b>Total</b>	<b>(5)</b>	<b>24</b>	<b>19</b>
<b>Total interest revenues</b>	<b>65</b>	<b>28</b>	<b>93</b>
<b>Interest-bearing liabilities</b>			
<b>Deposits from the public</b>			
In Israel	4	51	55
Outside of Israel	–	6	6
<b>Total</b>	<b>4</b>	<b>57</b>	<b>61</b>
<b>Other interest-bearing liabilities</b>			
<b>In Israel</b>	<b>7</b>	<b>(29)</b>	<b>(22)</b>
Outside of Israel	–	–	–
<b>Total</b>	<b>7</b>	<b>(29)</b>	<b>(22)</b>
<b>Total interest expenses</b>	<b>11</b>	<b>28</b>	<b>39</b>

(1) Information in these tables is after effect of hedging financial derivatives.

(2) Based on balances at start of the months (in Israeli currency, non-linked segment – based on daily balances).

(3) Before deduction of average balance sheet balance of provisions for credit losses. Includes impaired debt not accruing interest revenues.

(4) From the average balance of debentures available for sale, for the three-month periods ended March 31, 2018 and March 31, 2017, we deducted (added) the average balance of unrealized gains (losses) from adjustment to fair value of debentures available for sale, included in equity under Other Comprehensive Income, under "Adjustments with respect to presentation of securities available for sale at fair value", amounting to NIS (53) million and NIS (39) million, respectively.

(5) From the average balance of debentures held for trading, for the three-month periods ended March 31, 2018 and March 31, 2017, we deducted (added) the average balance of unrealized gains (losses) from adjustment to fair value of debentures held for trading, amounting to NIS (1) million and NIS (1) million.

(6) Includes derivatives, other non-interest bearing assets, net of provision for credit losses.

(7) Commissions amounting to NIS 63 million and NIS 60 million included under interest revenues for the three-month periods ended March 31, 2018 and March 31, 2017, respectively.

(8) Includes derivatives.

(9) Net return – net interest revenues divided into total interest-bearing assets.

(10) The change attributed to change in quantity was calculated by multiplying the new price by the change in quantity. The change attributed to change in price was calculated by multiplying the old quantity by the change in price.

## Glossary and index of terms included on the financial statements

Below is a summary of terms included on the financial statements:

### 1. Terms with regard to risks management at the Bank and to capital adequacy

<b>B</b>	<b>Basel – Basel II / Basel III</b> – Framework for assessment of capital adequacy and risk management, issued by the Basel Committee on Bank Supervision.
<b>C</b>	<b>CVA</b> - 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). <b>Counter-party credit risk</b> – The risk that the other party to a transaction would be in default before final settlement of cash flows in the transaction.
<b>E</b>	<b>EVE – Economic Value of Equity</b> – 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.
<b>I</b>	<b>ICAAP</b> – Internal Capital Adequacy Assessment Process by the Bank. This process includes, <i>inter alia</i> , 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.
<b>L</b>	<b>Loan To Value Ratio (LTV)</b> – The ratio between the approved facility when extended and the asset value.
<b>M</b>	<b>Minimum capital ratio</b> – This ratio reflects the minimum supervisory capital requirements which the Bank is required to maintain in conformity with Proper Banking Conduct Directive 201.
<b>R</b>	<b>Risks document</b> – 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. <b>Risk assets</b> – These consist of credit risk, operating risk and market risk, calculated using the standard approach as stated in Proper Banking Conduct Directives 201-211.
<b>P</b>	<b>Pillar 2</b> – 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.
<b>S</b>	<b>Standard approach</b> – An approach used to calculate the required capital with respect to credit risk, market risk or operating risk. Calculation of capital allocation is based on a formula, which is based on supervisory assessment components which have been specified by the Supervisor of Banks. <b>Supervisory capital (total capital)</b> – Supervisory capital consists of two tiers: Tier I capital, which includes Tier I shareholders' equity and additional Tier I capital. Tier II equity: As defined in Proper Banking Conduct Directive 202 "Measurement and capital adequacy – supervisory capital". <b>Subordinated notes</b> – Notes whose rights are subordinated to claims by other Bank creditors, except for other obligations of the same type. <b>Stress tests</b> – A title for various methods used to assess the financial standing of a banking corporation under a n extreme scenario.
<b>V</b>	<b>VAR</b> – A model used to estimate overall exposure to diverse market risk factors. The VaR (Value at Risk) obtained by the model is a statistical estimate of the maximum expected loss for the Bank due to materialization of market risks factors in a given time period at a pre-determined statistical confidence level.

## 2. Terms with regard to banking and finance

- A** **Average effective duration** – The average term to maturity of debentures. Measured in years, by weighting principal and interest payments for the debenture over its term to final maturity. The average effective duration of a debenture reflects the financial instrument's sensitivity to changes in interest rates. Average effective duration is calculated as the ratio between the weighted average debenture payouts to its price.
- Active market** – A market where transactions involving an asset or liability take place regularly and in sufficient volume, so as to regularly provide information about pricing of assets and liabilities.
- D** **Debentures** – Securities which are obligations by the issuer to pay to the debenture holder the principal issued plus interest, on specified dates or upon realization of a specified condition.
- Debt whose collection is contingent on collateral** – Impaired debt whose repayment is expected through realization of collateral provided to secure such debt.
- Debt under restructuring** – Problematic debt under restructuring is defined as debt for which, for economic or legal reasons related to financial difficulties of the debtor, the Bank has made a concession by way of modification to terms and conditions of the debt, designed to make it easier for the debtor to make cash payments in the near term (reduction or postponement of cash payments due from the debtor), or by way of receiving other assets as debt repayment (in whole or in part).
- Debt under special supervision** – Debt under special supervision is debt with potential weaknesses, which require special attention by Bank management. Should these weaknesses not be addressed, the likelihood of debt repayment may deteriorate.
- Derivatives** – A financial instrument or contract whose value changes in response to changes in the price of the underlying asset (a financial instrument, physical asset, index, credit rating or other underlying asset), requires a small or minimal initial investment, compared to other contract types, and is expected to be settled on a future date.
- F** **Financial instrument** – A contract that creates a financial asset for one entity and a financial liability or capital instrument for another entity.
- I** **Inferior debt** – Inferior debt is debt insufficiently secured by collateral or by debtor repayment capacity, and for which the Bank may incur a loss if faults are not corrected, including debt over NIS 700 thousand which is 60-89 days in arrears.
- Impaired debt** – Debt is classified as impaired when its principal or interest is in arrears over 90 days, unless the debt is well secured and is in collection proceedings. Further, any debt whose terms and conditions have been changed in conjunction with restructuring of problematic debt would be classified as impaired debt, unless prior to and following such restructuring, a provision for credit losses by extent of arrears was made with respect to the debt pursuant to the appendix to Proper Banking Conduct Directive 314 on problematic debt in housing loans.
- Indebtedness** – On- and off-balance sheet credit, as defined in Proper Banking Conduct Directive 313.
- O** **Off-balance sheet credit** – Contracting for providing credit and guarantees (excluding derivatives).
- OTC – Over the Counter** – Transaction involving financial instruments which is conducted over the counter and not on a stock exchange.
- 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 be amortized, net of the debt amount subject to accounting write-off.
- S** **Syndication** – A loan extended jointly by a group of lenders.

### 3. Terms with regard to regulatory directives

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- E** **EMIR - European Market Infrastructure Regulation** – EU regulations adopted in order to increase stability, transparency and efficiency of derivative markets.
- 
- F** **FATCA - Foreign Accounts Tax Compliance Act** – The US Foreign Accounts Tax Compliance Act stipulates mandatory reporting to the US tax authority (IRS) of accounts held by US persons with foreign financial institutions (outside the USA).
- 
- L** **LCR – Liquidity Coverage Ratio** is 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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## Index

Accounting policies,	82
Capital,	3, 4, 6, 7, 10, 20, 26, 27, 29, 42, 43, 44, 47, 77, 80
Commissions,	193
Compliance and regulatory risk,	9, 45, 80
Cost-income ratio,	19
Credit risk,	3, 4, 9, 19, 22, 28, 43, 46, 48, 50, 51, 52, 53, 54, 55, 56, 57, 61, 62, 63, 108, 109, 110, 133, 134 149, 150, 151, 152, 153, 154, 155, 156, 157, 158, 159, 160, 161, 162, 163, 164, 165, 192
Cross-border and AML risk,	9, 45, 80
Deposits from the public,	3, 7, 25, 41, 79, 111
Derivatives,	22, 39, 62, 74, 127, 128, 129, 130, 131, 132, 133, 134, 135, 137, 144, 180, 193
Dividends,	15, 29, 30, 47, 180
Earnings per share,	96, 97
Economic sectors,	32, 54, 55, 56, 57, 62, 136
Fair value,	4, 19, 20, 76, 107, 169, 170, 171, 172, 173, 174, 175, 176, 177, 178, 179, 180
Financing,	19, 29, 47, 52, 65, 79, 98, 101, 186
Financing risk,	79
Housing loans,	32, 50, 66, 136, 154, 164, 193
Interest expenses,	188, 189, 190, 191
Interest revenues,	154
Interest risk,	9, 45, 67
Legal Proceedings,	11, 80, 186
Leverage ratio,	29
Liquidity coverage ratio,	79, 116
Liquidity risk,	9, 45, 79
Loans to the public,	21, 62, 108, 109, 110, 149, 150, 151, 152, 153, 154, 155, 156, 157, 158, 159, 160, 161 162, 163, 164, 165
Market risk,	192
Operating risk,	9, 77, 81, 192
Operating segments,	3, 17, 18, 22, 25, 30, 31, 36, 40, 136, 137, 138, 140, 142, 144, 145, 146, 147, 148, 187
Provision for credit losses,	3, 4, 22, 48, 49, 51, 108, 109, 110, 193
Reputation risk,	9, 45, 81
Return on equity,	6, 10, 16
Risk assets,	3, 28
Securities,	5, 9, 20, 25, 29, 30, 39, 41, 54, 104, 105, 106, 107, 137, 180, 184
Share-based payment,	97
Strategic risk,	45, 81
Subordinated notes,	10, 187