ANNUAL REPORT 2017

FIBI FIRST INTERNATIONAL BANK OF ISRAEL

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STATEMENT BY THE CHAIRPERSON OF THE BOARD

Dear stakeholders,

The First International Bank Group continued its growth momentum in 2017, while maintaining a proportionate risk appetite, which typified the Group for many years.

Net profit increased in 2017 by 30.1% amounting to NIS 678million. The return on equity reached 9.1%. Maintaining the financial stability of the Group is reflected, inter alia, in the continuing growth in equity relating to the shareholders of the Bank by 5.9%, while the Tier I equity capital ratio reached 10.38% and the comprehensive capital ratio reached 13.94%.

At the same time, the Bank maintains a policy of consistent dividend distribution over a number of years, within the framework of which, a dividend of NIS 310 million was distributed in 2017. The dividend return amounted to 4.9%.

In the course of 2017, the First International Bank continued to realize its strategic plan, the updating of which was approved by the Board of Directors towards the end of 2016. The Bank is continuing to focus on private customers, on investment consulting and on maintaining its leadership in the capital market with all its layers, alongside the continuing development of banking business lines, which include small, middle market and corporate businesses. The successful integration of PAGI and UBank since their merger into the First International Bank two years ago, while maintaining their brand names, enables the Bank to continue focusing on unique populations and grant them service that has added value for them.

The subsidiaries of the Bank, Otzar Hachayal Bank and Massad Bank, also successfully focus on their unique segments of customers - the defense system personnel and the educational segment personnel, respectively. The progress of sale of assets of FIBI Switzerland is also continuing in accordance with the outlined plan, and the conclusion thereof would enable the Group to focus on activity in the domestic market.

The implementation of efficiency measures continued in 2017, in accordance with the strategic outline. The gradual decrease in the manpower position of the Bank continues, on background of improvements and greater efficiency in work procedures at the branches and at Head Office, and the reduction in floor area. A correct and logical use of the digital and online banking channels contributed to more efficient processes in dealing with customers as well as to more efficient internal processes within the Bank.

In 2017, the banking sector continued to face a challenging economic environment, typified by a low interest environment, alongside the continuing enhanced regulation and competition on the part of off-banking entities and new players in the financial arena.

Digital innovation has a considerable impact upon the banking sector, presenting it with opportunities for innovation and higher efficiency, but requiring also significant investment of resources. The banks have entered the digital banking arena adopting different approaches for the implementation of the digital innovation.

In 2017, the Bank formed its digital strategy, which enables it to provide response adapted to the customer needs and the accessibility of customer adapted value offers through the digital channels, while maintaining a humane channel. For the purpose of promoting the implementation of the digital strategy, an innovation and digital department was established last year, which promotes cooperation and integration of innovative solution together with fintech and technology companies. The digital strategy contains also the maintenance of technological and digital leadership in the capital market with all its different layers. Thus, for example, the First International Bank introduced "Advise.me" - an investment consulting system, innovative of its kind, which provides customer adapted advisory services by means of the cellular application. This service comprises also an example for successful cooperation with the fintech world, which produces for banks opportunities for the use of new and breakthrough technologies in the financial field. For several years the Bank has also been conducting an active cyber incubator that produces successes in this field.

In our activity in aid of the community, we continued to focus on support of youth in risk situations, together with employees of the Bank who volunteer and contribute from their time, experience and professionalism in favor of young persons, while encouraging and developing financial awareness and business entrepreneurship with the aid of development of capabilities and skills.

We at the First international Bank Group will continue to emphasize the maintenance of a proportionate risk appetite for the Group, while conducting logical risk management and presenting consistent goals. I have no doubt that that in the coming years, we shall continue to successfully confront the significant challenges within and outside the Bank, while maintaining a consistent growth outline and robust financial stability.

I take this opportunity to thank our loyal customer population and to express my great appreciation to the Bank's Management and of course to the qualitative managers and employees of the Group for their contribution to the success of the Group.

Irit Izakson
Chairperson of the Board of Directors

Tel-Aviv, 5 March, 2018

Report of the Board of Directors and Management

GENERAL OVERVIEW, OBJECTIVES AND STRATEGY

REPORT OF THE BOARD OF DIRECTORS AND MANAGEMENT FOR THE YEAR 2017

The meeting of the Board of Directors held on 5 March, 2018, resolved to approve and publish the audited consolidated financial statements of the First International Bank of Israel Ltd. (hereinafter - "the Bank") and its consolidated subsidiaries (hereinafter - "the Bank Group"), at December 31, 2017.

GENERAL OVERVIEW, OBJECTIVES AND STRATEGY

Description of operation of the Bank Group

The Bank Group is one of the five large banking groups in Israel.

The business operations of the Bank Group focus on several principal areas:

- Financial brokerage between depositors and borrowers, which is the basis for commercial banking. Income from such operation is reflected in net interest income comprising the main source of profit of the Group.
- Financial and banking services producing commission income in a variety of operations in the foreign currency, international trade, securities, information services, credit cards, derivative financial instruments, etc.
- Investment and pension consulting.
- The "nostro" investments of the Bank and market and liquidity risk management.
- Operational banking services for the capital market.
- Trusteeship services for private and institutional customers through the Bank's trust company.

The Bank Group operates through three principal business divisions:

- The corporate division, which conducts all operations relating to corporate and middle-market customers, as well as business and institutional customers active on the capital market. Operating within this division is the business region, covering the operation of all business branches of the Bank.
- The banking division, which through the branches provides banking and mortgages services to all customers segments- households, private banking and small businesses. In this framework operate Ubank branches specializing in private banking and capital market operations, which in addition the PAGI sub-division branches specialize in the religious and orthodox segment, Otzar Hachayal Bank branches and Massad Bank branches.
- The customer asset division centralizing the whole operation in the capital market, money market and foreign currency operation with private customers, business customers, institutional customers and capital market professionals. Within the division operating dealing rooms of securities, foreign currency and deposits as well as investment and pension advisement settings, investment center and the trust company and portfolio management company.

In addition to the Bank, the Group includes two commercial banks in Israel, specializing in uniqe customers populations; Otzar Hachayal Bank specializing in providing services to retail and commercial customers with emphasis on the employees and retirees of the defence forces and Massad Bank specializing in providing services to the teachers population in Israel.

FORWARD-LOOKING INFORMATION

Part of the information detailed in this report which does not refer to historical facts is forward-looking information as defined in the Securities Law, 1968. Actual results are likely to be substantially different from those included in the context of forward-looking information due to a large number of factors, including changes in legislation and supervisory directives, macroeconomic developments in Israel and abroad and their effect on the liquidity position and stability in the capital markets at business companies in Israel and abroad, exceptional economic developments such as extreme changes in interest rates, exchange rates and inflation, stock prices, bond prices, competitors' behavior and changes in the terms of competition.

Forward-looking information is notable for such words or expressions as: "forecast," "expected," "in the Bank's estimation" and "the Bank intends," as well as expressions such as "will be able," "might be" and "will be." These forward-looking expressions involve risks and uncertainty because they are based on the Management's assessments regarding future events that may not occur or that may occur in a different manner than expected as the result inter alia of the aforementioned factors or as the result of the materialization of one or more of the risk factors detailed in the table of risk factors presented in this report.
The information in this report is based, among other, on the publication of the Central Bureau of Statistics, the Treasury department and the data from the Bank of Israel, as well as on public information given by different factors operating and connected with the capital and money markets.

Net profit attributed to the Bank's shareholders amounted to NIS 678 million, compared with NIS 521 million in 2016, an increase of 30.1%.

Net return on equity attributed to the Bank's shareholders amounted to 9.1% compared with 7.2% in 2016.

Set out below are the central factors which affected the profit of the Group in 2017, in comparison with 2016:
- Increase in interest income, net, in the amount of NIS 133 million (6.1%).
- Decline in non-interest financing income of NIS 32 million, due mainly to the decrease in gains on realization of bonds and shares amounting to NIS 36 million.
- Increase of NIS 41 million in expenses from credit losses, stemming mostly from an increase in the collective provision for credit losses.
- Decrease in payroll and related benefits expenses in the amount of NIS 29 million (1.8%) explained by reduction in the manpower in the group.
- Decrease of NIS 47 million (4.6%) in other and operating expenses, excluding payroll and related benefits expenses, stemming also from efficiency measures applied by the Group.
- Decrease in the Bank's share in investee company profit in the amount of NIS 18 million, mainly due to its share in the proceeds in the sale of the Visa Europe shares in 2016.
- Decrease in the income tax expenses in the amount of NIS 40 million, stemming from recording income taxes income in respect of previous periods during the reported period and from the recording of deferred taxes during 2016, mostly from the effect of the reduction in companies' income tax rate and from the recording of temporary differences derived from the profits of previous years. The increase in profit before taxes offset part of the said effects.

Basic earnings per NIS 0.05 share amounted to NIS 6.76 compared with NIS 5.19 in 2016.

Net earnings attributed to the bank's shareholders totaled NIS 158 in the forth quarter of the year compared with NIS 112 million in the forth quarter of last year, an increase of 41.1%.

Return of net profit on capital attributed to the shareholders of the Bank amounted in the fourth quarter of the year to 8.4%, as compared to 6.2% in the fourth quarter last year.

The Bank Group's total assets on Decmber 31, 2017 amounted to NIS 135,717 million compared with NIS 127,907 million on December 31, 2016, an increase of 6.1%.

Credit to the public, net on December 31, 2017 amounted to NIS 80,378 million compared with NIS 77,328 million at the end of 2016, an increase of 3.9%.

Deposits from the public on December 31, 2017 amounted to NIS 113,511 million, compared with NIS 105,817 million at the end of 2016, an increase of 7.3%.

Capital attributed to the shareholders of the Bank totaled NIS 7,756 million on December 31, 2017, compared with NIS 7,321 million and at the end of 2016, an increase of 5.9%.

Total dividend distributed amounted to NIS 310 million.

The ratio of total capital to risk components amounted to 13.94%, as compared to 13.79% at the end of 2016.

The ratio of Tier I equity capital to risk components as of December 31, 2017 amounted to 10.38%, as compared to 10.09% at the end of 2016.

CONDENSED PRINCIPAL FINANCIAL INFORMATION AND PRINCIPAL EXECUTION INDICES

Principal financial ratios	2017	2016	2015	2014	2013
					percent
Execution indices					
Return on equity attributed to shareholders of the Bank	**9.1%**	7.2%	6.5%	6.8%	8.4%
Return on assets	**0.5%**	0.4%	0.4%	0.4%	0.5%
Ratio of equity capital tier 1	**10.38%**	10.09%	9.81%	9.69%	9.98%
Leverage ratio(1)	**5.50%**	5.52%	5.43%		
Liquidity coverage ratio(1)	**123%**	123%	104%		
Efficiency ratio	**69.5%**	73.5%	77.6%	77.3%	74.3%
Credit quality indices					
Ratio of provision for credit losses to credit to the public	**1.03%**	1.08%	1.12%	1.25%	1.19%
Ratio of impaired debts or in arrears of 90 days or more to credit to the public	**0.95%**	1.02%	1.36%	1.50%	1.79%
Ratio of provision for credit losses to total impaired credit to the public	**155%**	147%	108%	110%	83%
Ratio of net write-offs to average total credit to the public	**0.18%**	0.09%	0.15%	0.05%	0.14%

Principal data from the statement of income(3)	2017	2016	2015	2014	2013
					NIS million
Net profit attributed to shareholders of the Bank	**678**	521	446	455	538
Interest Income, net	**2,302**	2,169	1,953	2,101	2,187
Expenses from credit losses	**121**	80	18	89	97
Total non-interest income	**1,450**	1,480	1,541	1,667	1,664
Of which: Fees	**1,305**	1,300	1,378	1,375	1,418
Total operating and other expenses	**2,607**	2,683	2,710	2,912	2,860
Of which: Salaries and related expenses	**1,627**	1,656	1,629	1,780	1,746
Primary net profit per share of NIS 0.05 par value (NIS)	**6.76**	5.19	4.45	4.54	5.36

Principal data from the balance sheet(3)	2017	2016	2015	2014	2013
					NIS million
Total assets	**135,717**	127,907	125,476	117,807	111,025
of which: Cash and deposits with banks	**39,186**	29,150	30,727	29,182	26,100
Securities	**10,238**	15,776	16,439	12,554	10,799
Credit to the public, net	**80,378**	77,328	72,555	68,931	68,680
Total liabilities	**127,333**	119,973	117,813	110,764	104,124
of which: Deposits from banks	**1,133**	755	1,565	1,469	1,335
Deposits from the public	**113,511**	105,817	103,262	95,155	89,122
Bonds and subordinated capital notes	**5,249**	5,801	5,862	4,903	5,702
Capital attributed to the shareholders of the Bank	**7,756**	7,321	7,073	6,797	6,673

Additional data	2017	2016	2015	2014	2013
Share price (0.01 NIS)	**7,202**	5,650	4,594	4,990	4,766
Dividend per share (0.01 NIS)	**309**	199	130	284	199
Number of positions(2)	**4,451**	4,623	4,858	5,114	5,214
Ratio of fees to assets	**1.0%**	1.0%	1.1%	1.2%	1.3%

(1) According to instructions of the Bank of Israel the Leverage ratio and the Liquidity coverage ratio were calculated since 2015. Therefor no comparative data is stated.
(2) The number of positions includes conversion of overtime in terms of positions.
(3) For disclosure regarding statement of income - multi period data and consolidated balance-sheet- multi period data, see appendices 1 and 2 in the chapter Corporate Governance, additional information and appendices.

Principal Risks To Which the Bank Is Exposed

The Bank group activity involves exposure to risk, the more significant of which are:

- Credit risk, including credit concentration (borrower and sectorial).
- Market risks, the principal of which is interest rate risk.
- Liquidity risks.
- Operating risks.
- Compliance and Money Laundering risks.
- Strategic risk.
- Reputation risk.
- Legal risk.

All material risks are managed by and the responsibility of appointed members of Management. A regulatory requirement for capital adequecy exists in respect of credit, market and operating risks, according to the instructions of Pillar I of Basel. Within the framework of the Internal Capital Adequacy Assessment Process ("ICAAP"), the Group performs an intensive process for the identification of additional risk centers and the challenging of identified risk centers, in accordance with Pillar I. Where required, a supplementory allocation of capital is made in respect of Pillar I risks, and an additional allocation of capital in respect of other risks and sub-risks.

Developing risks

Following are details regarding the principal developing risks:

1. **Competitive-strategic risk** - The regulatory environment continues intensively to promote moves that raise the level of competition, such as the "Strom Act" (the Promotion of Competition in the Banking Sector Act), implementation of different regulatory directives (emphasizing the credit field and promotion of competition), competitive threats on the part of various market factors (banks, other financial players and startup companies), as well as technological and consumer developments, separation of credit card companies from the banks, etc.
   - Risks relating to social and consumer trends, to regulation and legislation, to a fluctuating macro-economic environment, affect changes in the business model, including the new transition trend to "digital banking", based on the digital. All these affect the operational environment of the Bank, and are expected to lead to a rise in the level of competition, particularly with respect to the retail and small business sector.
   - The Bank conducts current monitoring of macro-economic, regulatory, competitive and technological trends. An analysis of the implications of such trends notes that on the one hand they involve risk, and on the other hand, also opportunities for the Bank. The strategic plan of the Bank is directed to leverage and utilize the opportunities inherent in the changes taking place in the market, with the Bank adapting itself to such changes.
   - Risks stemming from innovation in banking and in communication - the digital revolution continues vigorously with competitive threats existing on the part of technology players, and the need to face such competition requires significant investments in automation. Concurrently with the global trend, Bank of Israel promotes activity in digital banking and allows greater freedom of action in this field, while at the same time requiring the improvement of the existing risk management framework and its adaptation to the dynamic technological environment. A strategic risk is inherent in this matter, being part of the increasing competition in the banking market. The strategic plan of the Group includes reference to these developments while promoting innovation in this field.

     The strategy of the Bank and its risk appetite are proportional, and the Bank has recently established an "innovation and digital" department.
   - Demand for greater efficiency in the banking sector - the operating efficiency of the banking sector in Israel is low when compared with other advanced countries, as reflected in efficiency ratios. The growing competition in the financial markets and the low interest environment, on background of demand for higher efficiency of the banking sector on the part of the Supervisor of Banks, have led to the promotion of efficiency measures, within the framework of which different steps were taken, including changes in the long-term goals of the Bank alongside

efficiency in expenditure, resulting in improved efficiency ratios. In continuation of the efficiency measures adopted by the Bank in recent years, the Bank institutes efficiency measures as part of its strategic plan, which inter alia include, continuing expansion of operations by digital means, reduction in the number of branches and improvement in work procedures at the branches and at Head Office.

2. **Regulatory risk** - the origin of this risk is in the increasing regulatory requirements in Israel and around the world, in the restrictions imposed on the Bank and/or the preparations required from the Bank as a result of changes and developments in legislation, regulation and Court decisions, the following of which, implementation and integration thereof may entail heavy costs. Changes as well as competition in the financial market, resulting from regulation and implementation of reforms, increase uncertainty in the competitive environment. There exist many regulatory obligations that lead to large investments (such as in automation). This risk is being managed mainly as part of the legal risk, compliance risk and strategy risk. The provisions of the law and regulation applying to the banking sector are binding on the Bank and the Group, and the non-compliance therewith expose them to sanctions stemming from the provisions of the law and regulation, including monetary sanctions, restrictions on business activity and loss of income, monetary claims by customers including class action suits, imposition of criminal responsibility on the banking corporation and on its officers, and harm to its public image. The compliance policy of the Bank establishes, inter alia, the compliance values promoted by the Bank, and is being used by the Bank as a guideline for the operation of functions engaged in compliance risk management and in compliance to all regulatory guidelines in particular, outlines the principles and basic rules, and establishes the authority and areas of responsibility of the various functions at the Bank and at the Group for the purpose of forming a proper infrastructure for the implementation of the duties applying to the Bank and the Group in the compliance field, and the regulation thereof in orderly procedures and processes. The regulatory/legal aspects are controlled and managed by the legal group, and proper controls for hedging the risk are in operation in respect thereof. With respect to the strategic aspect - the strategic plan and the work plan relate to the possible implications mentioned above, and have taken into consideration the said legislation amendments.

3. **Cyber and data protection risks (as part of the operational risk)** - in accordance with Proper Conduct of Banking Business Directives Nos. 357, 361 and 367, cyber risk is defined as potential for damage stemming from a cyber event, considering its probability level and the seriousness of its implications. Cyber, leakage of information and data protection risks have a high potential for causing damage upon the happening of a significant event at high recovery costs. Innovation in banking and in communication entail operational risks with an emphasis on cyber and data protection risks. Consequently, for the purpose of the proper management of cyber risk, the existing framework of information technology and data protection risk management at the Bank has been broadened and adapted from the aspects of the dimension of the threat and the required defense capabilities. The Bank adopts many preventative actions designed to reduce the risk, including promoting awareness in cyber and data protection areas and conducting exercises. In addition, a strategy has been established and a cyber and data protection policy has been written, as well as the appointment of a cyber protection manager, responsible for the implementation of the policy. The cyber protection management is conducted also by means of two frameworks, the one headed by the CRO "cyber protection management steering committee", and the other headed by the cyber protection manager "cyber information forum". The Group is preparing for the implementation of Proper Conduct of Banking Business Directive No.367 - "online banking" which took effect on January 1, 2017 and was updated on December 25, 2017, by means of conducting a survey of differences and accordingly forming a work plan, and the formation and approval of an online banking policy. Within the framework of implementing the Directive, the Bank conducts forum meetings for the follow-up of developments in this field, and reports are submitted to the relevant functions in accordance with the policy.
   Furthermore, during December of 2017, the Bank purchased a designated insurance policy which reduces the financial damage which may be caused by a computer system failure stemming from a cyber event.

4. **Cross-border risks (as part of compliance risk)** - the Bank Group conducts business in different banking fields. Among its customers, the Bank Group provides services also to customers who are foreign residents. On background of the increased efforts made by different countries to discover funds of their residents held outside their country of residence as well as the growing trend of international cooperation in the campaign against tax evasion, the Bank's operations with foreign residents may increase exposure of the Bank to compliance risk stemming from cross-border activity as well as to reputation risk.
   The Bank has determined a designated policy regarding this issue, work procedures have been instituted, and decision has been taken regarding a series of operational steps for the management and reduction of risk, accounts identified as being of a high risk with respect to cross-border risks were marked, and the process of obtaining signed declarations from such customers regarding their tax liability and waiver of confidentiality has been and is being conducted. The Bank complied with the guidelines of the Supervisor of Banks.
   In addition, the State of Israel informed the OECD in October 2014, that it would adopt the standard regarding the exchange between countries of information for tax purposes (CRS), this by signing agreements with the relevant authorities in the different countries. The Bank and the Group are preparing to gather information from the relevant customers for the purpose of implementing the legislation that is intended to be enacted in Israel, once it takes effect.

5. **Conduct risk (as part of compliance risk)** - the Bank Group is required to integrate values of fairness and transparency in its operation with customers, and to reinforce these principles in its current conduct. As a general rule, the Bank group is required to verify that the offers made to customers are adapted to their needs. Non-compliance with the proper conduct standard exposes the Group to different risks such as: compliance, legal, reputation and such like risks. At the end of 2016, the Bank approved a policy in the matter of proper business conduct, being part of the compliance policy, and one of the targets of the compliance officer is to integrate the said principles into the different divisions of the Bank.

For additional information, see the Chapter on risk review below and the risk report on the Internet website of the Bank.

Objectives and Strategy

Management of the Bank is guided and directed by the Board of Directors and its committees, with respect to the strategy and business policy of the Bank. In this framework, the Board of Directors approves the quantitative and qualitative targets and objectives as well as the lines of operation of the Bank.

On the basis of the multi-annual strategic plans of the Bank, Management presents to the Board of Directors annual work plans and budgets, giving quantitative and qualitative details of the income, expenses and investment mix, which Management had determined as the long-term objectives and specific targets for the current year of operation.

The Board of Directors and its committees supervise and control the work of Management in everything relating to the implementation of the strategy and business policy, as approved by them. The Board of Directors approves also the comprehensive risk management policy, including the determination of different limitations to exposure regarding credit risk and market and liquidity risks. The various units of the Bank, of the branch layout and of the Head Office, operate within the framework of written procedures and circular letters, guiding them in their current operations. These procedures define, among other things, the authority of the different units of the Bank and the manner of operation which they have to adopt.

The Bank operates according to a multi-annual strategic plan, validated by the Board of Directors at half-yearly intervals. The plan is based upon appropriate conduct in all areas of operation, with aspiration for proper and stable profitability over a period of time.

The Bank has a strategic plan for the years 2016-2018, which was approved by the Board of Directors in September 2015 and is validated by it twice a year. The supreme objectives of the plan are in terms of return on capital in excess of riskless interest rate and efficiency ratio.

Within the framework of the plan, the Bank would continue to focus on private banking, on financial wealth customers, on promoting the retail banking sector and on medium to large businesses, by providing a comprehensive response modified to the needs of the customer including digital and technological area; the Bank is to maintain the leadership of its subsidiaries (Otsar Hahayal and Massad) and the merged banks (UBank and PAGI) in their unique operating niches, mostly in the retail and small business sectors. The Bank is to maintain leadership in the capital market; would conduct actions leading to efficiency in expenses, while improving its manpower position, improving procedures, continue efficiency measures in the branch layout and increase the use of online banking channels, and support performance directed culture and measurement in the Group.

In 2017, the Bank approved the Digital Strategy, the purpose of which is to support the business strategy of the Bank. As part of the Digital strategy and with adequacy to the Bank's strategy of "Investing in you", the Bank developes digital solutions adjusted and focused to the customer's needs. The Bank emphasises on solutions that can be integrated in the interfaces with the customer and by which to improve the customer's experience and giving it added value in the different financial worlds, mainly in the capital market worlds.

In addition, the Bank promotes innovation thruogh implementation of products and technologies from stat-up companies, along side the current operation of in-house development of products and technologies by the IT layout of the Bank. For the realization of this, a dedicated department was established for the holistic treatment in the area of innovation and digital.

On November 17, 2016 the Board of Directors of the Bank approved the update of the strategic plan of the Group in the aspect of efficiency measures for the years 2016- 2020.

As stated, the Bank reviews the plan at half-yearly intervals, in relation to the macro-economic environment, to developments in market competition, to the regulatory environment, to technological developments, as well as to changes occurring in the Bank Group, and if necessary updates the plans and the moves stemming from the strategic plan.

EXPLENATION AND ANALYSIS OF RESULTS AND BUSINESS POSITION

EXPLENATION AND ANALYSIS OF RESULTS AND BUSINESS POSITION

TRENDS, EVENTS, DEVELOPMENTS AND MATERIAL CHANGES

Principal economic developments

Following are the principal economic developments that impacted the economic environment in which the banking sector operated in israel in 2017.

Growth

The published nonfinancial economic activity indicators, continue to be positive indicating that the economy continued to grow also in 2017, with the employment market continuing to demonstrate strength with relatively low unemployment rates and a forecasted trend of increased growth over a period of time. An additional parameter indicating recovery is Bank of Israel's Composite State-of-the-Economy Index, which rose by 3.3% in 2017.

A survey of the Research Division of Bank of Israel dated January 2018, the product growth forecast for 2018 was raised to 3.4% in comparison with 3.3% in the previous forecast. The growth forecast for 2019 is 3.5%

State budget

A deficit of NIS 24.8 billion was measured in 2017 in the budgetary activity of the Government comprising 1.97% of the GDP, in comparison to a deficit of NIS 25.9 billion, comprising 2.15% of the GDP measured in 2016.

During August 2017, the S&P rating company upgraded the credit rating forecast for the State of Israel with respect to the foreign currency debt, from "neutral" to "positive" and ratified it at the level of "A+".

Inflation

The year 2017 was the first year in which a positive rate of inflation was recorded in the economy, though still at a relatively low level, after three years of a negative rate of inflation. The Consumer Price Index (CPI) rose in 2017 by 0.4% (CPI "for the month"). The "known" CPI rose by 0.3%. According to Bank of Israel estimates, the inflation rate in 2018 would reach 1%, which is the lower edge of the price stability range set by the Government (1%-3%), and in 2019 would reach 1.4%. As of January 2018, the inflationary expectations for the coming twelve months, derived from the capital market, indicate a low inflation rate of 0.5%.

Housing market

Moderation in the rise of housing prices was noted in recent months. According to the Central Bureau of Statistics, a decrease of 0.7% in prices of apartments was recorded in the months of November and December 2017, in comparison to the months of October and November 2017. Transaction prices in November-December 2017 rose by 2.0% in comparison to the corresponding months last year.

The number of new apartments sold in 2017 was lower by 18.3% than that of 2016 (data net of seasonality).

Labor market

The rate of unemployment is declining and in December 2017 reached 4.0% in contrast to 4.3% in November.

Exchange rate

The exchange rate of the shekel as against the US dollar dropped in 2017 by a sharp rate of 9.8%. The exchange rate of the shekel as against the Euro rose by 2.7%.

In 2017, Bank of Israel continued the trend of foreign currency purchases, inter alia, in order to moderate the impact of proceeds from the sale of natural gas on the strengthening of the shekel. Bank of Israel informed that it would continue the purchases of foreign currency also in 2018, as part of the plan to offset the impact of the natural gas production.

Bank of Israel interest rate

The interest rate remained stable during 2017, at the rate of 0.1%, on background of the low inflation rate. Bank of Israel estimates that the interest rate is expected to remain at its present level until the third quarter of 2018, expected to rise in the fourth quarter of 2018 to 0.25%, and continue rising to a rate of 0.5% in the third quarter of 2019.

The global environment

The data applying to the global economy continue to indicate improvement. Growth forecasts are repeatedly updated upwards, so that in January 2018, the International Monetary Fund increased its forecasts of global growth for the years 2018 and 2019 to 3.9%, in comparison with a forecast of 3.7% published in October 2017. At the same time, improvement continues in global trade.

Capital market

The domestic capital market recorded during 2017 a positive trend in the principal equities indices: the TA-125 Index rose by 6.4% and the TA-35 Index rose by 2.7%. The General Bond Index rose by 4.7%.

The daily average trade turnover recorded increases in the equities indices (the TA-35 and 125) and decreases in the bond indices.

The S&P-500 Index rose by 19.4% during 2017. In Europe, the Eurostocks-600 Index rose by 7.7% and the developing countries Index (the EM-MSCI Index) rose by 34.3%.

For additional details, see principal developments in Israel and globally, in the Chapter "Corporate governance", additional details.

MATERIAL DEVELOPMENTS IN REVENUES, EXPENSES AND OTHER COMPREHENSIVE INCOME

PROFIT AND PROFITABILLITY

Net profit attributed to the shareholders of the Bank amounted to NIS 678 million, as compared to NIS 521 million in 2016, an increase of 30.1%.

The return of net profit to the capital attributed to the shareholders of the Bank amounted to 9.1%, as compared to 7.2% in 2016.

Condensed statement of income

	Year ended December 31		
	2017	2016	change
		NIS million	in %
Net financing earnings[1]	**2,385**	2,284	4.4
Expenses from credit losses	**121**	80	51.3
Net financing earnings After Expenses from credit losses	**2,264**	2,204	2.7
Fees and other income[1]	**1,367**	1,365	0.1
Operating and other expenses	**2,607**	2,683	(2.8)
Profit before taxes	**1,024**	886	15.6
Provision for taxes on profit	**358**	398	(10.1)
The bank's share in profit of equity-basis investee, after taxes	**54**	72	(25.0)
Net profit:			
Before attribution to noncontrolling interests	**720**	560	28.6
Attributed to noncontrolling interests	**(42)**	(39)	7.7
Attributed to shareholders of the Bank	**678**	521	30.1
Net return of equity attributed to the Bank’s shareholders	**9.1%**	7.2%	1.9

(1) The items of profit and loss above were presented in a different format then the condensed statement of income in a manner enables better analysis of the financial results. The change is expressed by sorting of non-interest income from the item non-interest income (expenses) to the Net financing earnings.

DEVELOPMENT IN INCOME AND EXPENSES

The Net Financing earnings

In order to analyze profit from financing activity, in addition to interest income and expenses, non-interest financing income and expenses must also be included in profit. This income includes financing income in respect of derivative instruments which serve as an integral element of the Bank’s exposure management. Income from derivatives includes, among other things, the effect of the time value in the fair value of derivatives, which is integral part of interest rate risk management and the effect of the rate of raise in the known CPI on derivatives, which is an integral part of the management of the exposure to the CPI risk.

Set out below is the composition of net financing earnings:

	Year ended December 31	
	2017	2016
		NIS million
Interest income	**2,704**	2,526
Interest expenses	**402**	357
Net interest income	**2,302**	2,169
Non-interest financing income	**83**	115
Net financing earnings	**2,385**	2,284

	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
				NIS million				NIS million
Interest income	**696**	**615**	**753**	**640**	627	682	670	547
Interest expenses	**104**	**50**	**170**	**78**	71	129	136	21
Net interest income	**592**	**565**	**583**	**562**	556	553	534	526
Non-interest financing income	**12**	**38**	**21**	**12**	24	24	33	34
Net financing earnings	**604**	**603**	**604**	**574**	580	577	567	560

Set out below is an analysis of net financing earnings:

	Year ended December 31	
	2017	2016
		NIS million
Earnings from current activity	**2,351**	2,202
Reconciliations to fair value of derivative instruments	**4**	16
Income from realization and reconciliations to fair value of bonds	**19**	41
Earnings from investments in shares	**11**	25
Net financing earnings	**2,385**	2,284

	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
				NIS million				NIS million
Earnings from current activity	**606**	**590**	**591**	**564**	571	555	536	540
Reconciliations to fair value of derivative instruments	**1**	**1**	**3**	**(1)**	5	10	3	(2)
Income from realization and reconciliations to fair value of bonds	**1**	**8**	**7**	**3**	4	3	21	13
Earnings (losses) from investments in shares	**(4)**	**4**	**3**	**8**	-	9	7	9
Net financing earnings	**604**	**603**	**604**	**574**	580	577	567	560

The increase in the financing earnings compared with 2016 derived from an increase in the earnings from current activity, explained by an increase in the volume of assets and an increase in the credit spreads, partially offset by recording of interest income from previous years in 2016. These income derived from the cancellation of a liability recorded in the books of a consolidated subsidiary due to a settelment agreement signed in March 2016, between the consolidated subsidiary and a third party.

Set out below is principal data regarding interest income and expenses rates:

	Year ended December 31	
	2017	2016
		in %
Income rate on asset bearing interest	**2.34**	2.25
Expense rate on liabilities bearing interest	**0.57**	0.50
Total interest spread	**1.77**	1.75
Ratio between net interest income and assets bearing interest balance	**1.99**	1.93

The analysis of the changes in interest income and expenses between 2017 and 2016 shows that changes in the price resolved in an increase of NIS 47 million and changes in the volume of the average balances resolved in an increase of NIS 86 million in net financing earnings.

For additional information regarding interest income and expenses rates of the Bank and its consolidated companies and the analysis of the change in interest income and expenses, see appendix 1 to the chapter Corporate Governance, Appendices.

Expenses from credit losses totaled to NIS 121 million in 2017 compared with NIS 80 million in 2016.The increase in the expenses from credit losses derives from an increase in the collective expense for credit losses.

Expenses from credit losses as a ratio of total credit to the public amounted to 0.15% in 2017 compared with a 0.10% in 2016.

Set out below are details of Expense from credit losses in respect of debts and off-balance sheet credit instruments:

	Year ended December 31	
	2017	**2016**
		NIS million
Individual expense from credit losses	**199**	183
Decrease in individual expense in respect of credit losses and collection of debts written off in accounting	**(189)**	(170)
Net individual expense from credit losses	**10**	13
Collective expense from credit losses	**111**	67
Total Expense from credit losses	**121**	80
Of which:		
Expense in respect of commercial credit	**57**	31
Expense in respect of housing credit	**1**	2
Expense in respect of other private credit	**63**	47
Ratio of individual expense from credit losses to average total credit to the public	**0.01%**	0.01%
Ratio of collective expense from credit losses to average total credit to the public	**0.14%**	0.09%
Ratio of total expense from credit losses to average total credit to the public	**0.15%**	0.10%

For additional information regarding expenses for credit loss, see Chapter "Structure and developments of assets and liabilities, capital and capital adequacy" and Chapter "Review of Risks" below.

Fees income totaled NIS 1,305 million in 2017, compared with NIS 1,300 million in 2016, an increase of 0.4%. The effect of the increase in the volume of activity was partially offset from the decline in the exchange rate of foreign currency and the sale of the activity of the consolidated subsidiary FIBI Swiss (as mentioned below in the chapter of main investee companies).

Set out below are details of fees income:

	Year ended December 31	
	2017	**2016**
		NIS million
Account management	**250**	250
Credit cards	**101**	107
Transactions in securities	**428**	422
Credit processing	**15**	15
Conversion differentials	**141**	140
Fees from financing transactions	**92**	91
Other Fees	**278**	275
Total Fees	**1,305**	1,300

Other income totaled NIS 62 million in 2017, compared with NIS 65 million in 2016.

Set out below are the factors which affected other income:

1. On March 30, 2017 the transaction for the sale of the Bank's leasing rights in the areas in an office building in Tel Aviv was consummated, for a proceed of NIS of 84 million. The gain from the sale of these rights amounts to NIS 41 million, before tax effect. In addition, additional gain from the sale of buildings and equipment is included in that item in the amount of NIS 4 million. In the same period last year the gain from realization of buildings and equipment amounted to NIS 24 million.

2. An income in the amount of NIS 12 million derived from the completion of the transaction of the sale of FIBI(Swiss) activity to a third party (see the chapter on main investee companies below).
3. In the corresponding period last year an income in the amount of NIS 32 million was included derived from the Bank's share in the proceeds of the transaction of the sale of Visa Europe shares.

Operating and other expenses totaled NIS 2,607 million in 2017 compared with NIS 2,683 million in 2016, a decrease of 2.8%.

Set out below are details of operating and other expenses:

	Year ended December 31	
	2017	**2016**
		NIS million
Salaries and related expenses	**1,627**	1,656
Maintenance and depreciation of premises and equipment	**380**	409
Amortization of intangible assets	**94**	116
Other expenses	**506**	502
Total operating and other expenses	**2,607**	2,683

Salaries and related expenses totaled NIS 1,627 million in 2017 compared with NIS 1,656 million in 2016, a decrease of 1.8%, explained mainly from decline in payroll expenses due to reduction in the number of employees in the group.

Expenses on depreciation and maintenance of premises and equipment totaled NIS 380 million in 2017, compared to NIS 409 million in 2016, a decrease of 7.1%. The decrease derives from the efficiency measures including closure and consolidation of branches and headoffice space.

Amortizations of intangible assets totaled NIS 94 million in 2017 compared to NIS 116 million in 2016, a decrease stemming from the end of amortization of the excess of cost of the ecquisition of Otsar Hahayal.

Other expenses totaled NIS 506 million in 2017 compared with NIS 502 million in the same period last year. On one hand a decrease was recorded in the volume of the different expenses due to the efficiency measures in the Group but on the other hand an increase in the legal expenses occurred. In addition, this item includes expenses in regard with the sale of activity of FIBI Swiss (see the chapter on main investee companies below).

The provision for taxes on operating earnings amounted to NIS 358 million in 2017 compared with NIS 398 million in 2016. The effective tax rate as a proportion of earnings before taxes amounted to 35%, similar to the statutory tax rate. The effective tax rate was effected from income from taxes in respect of previous years.

For additional details, see Note 8 to the financial statements.

The Bank’s share in the operating earnings of investee company after the tax effect amounted in 2017 to NIS 54 million, compare to NIS 72 million in 2016. A decrease of NIS 18 million, mainly due to the part of ICC in the procceds of the transaction of the sale of VISA Europe shares recorded in 2016.

The total comprehensive profit attributed to the shareholders of the Bank amounted to NIS 735 million. This amount was affected by the net profit attributed to the shareholders of the Bank of NIS 678 million, by other comprehensive income from adjustments in respect of available-for-sale securities in the amount of NIS 55 million.

For details of income and expenses by quarters for the years 2016 and 2017 see apendix 3 of corporate governance section, apendices.

INFORMATION AND COMPUTER SYSTEMS

MATAF - Computing and Financial Operation Ltd. (hereinafter: "MATAF") is a subsidiary of the bank and supplies IT to the bank and to other banks in the Group: Otsar Hahayal and Massad.

MATAF manages, operates and maintains the software and hardware of the central computers, of the central and the dispersed servers, and of the end stations, the communications and all the specialized peripheral equipment connected with IT at the branches of the banks in the Group, with entities receiving from the Bank operation services for portfolios managers.

Investments and expenses in respect of the IT network

Software purchased by the Group is measured by cost, usualy including transaction costs less accrued depreciation and losses from impairement.

Costs relating to the development of software for the purpose of own use were only discounted if: the initial phase in the project is completed; and Management, which has the appropriate athority, approved and has the liability to finance, directly or indirectly, a project of developing software and it is expected that the development will be completed and if future economic benefits are expected from it. Costs that were recognized as intangible assets include direct costs of services and direct labor costs for employees. These costs are measured on the basis of cost minus accrued depreciation and losses from writedown. Overhead costs that cannot be directly attributed to software development and research costs are recognized as an expense as they arise.

Details of expenses and investments in information systems carried out:

Additions to assets in respect of the information technology system not charged as an expense:

				Year 2017				Year 2016
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
				NIS million				NIS million
Costs in respect of wages and related expenses	**36**	**-**	**-**	**36**	38	-	-	38
Outsourcing costs	**8**	**-**	**-**	**8**	6	-	-	6
Costs of acquisitions or usage licenses	**42**	**-**	**-**	**42**	49	-	-	49
Costs of equipment, buildings and land	**-**	**25**	**-**	**25**	-	16	-	16
Total	**86**	**25**	**-**	**111**	93	16	-	109

Balances of assets in respect of the information technology system:

				As of December 31, 2017				As of December 31, 2016
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
				NIS million				NIS million
Total depreciated cost	**222**	**68**	**3**	**293**	219	67	3	289
Of which: in respect of wages and related expenses	**108**	**-**	**-**	**108**	102	-	-	102

Expenses in respect of the information technology system as included in the statment of profit and loss:

				Year 2017				Year 2016
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
				NIS million				NIS million
Expenses in respect of wages and related expenses	**158**	**9**	**-**	**167**	144	6	-	150
Expenses in respect of acquisitions or usage licenses not discounted to assets	**50**	**-**	**-**	**50**	49	-	-	49
Outsourcing expenses	**17**	**15**	**-**	**32**	17	15	-	32
Depreciation expenses	**83**	**23**	**-**	**106**	83	25	-	108
Other expenses	**-**	**2**	**30**	**32**	-	2	28	30
Total	**308**	**49**	**30**	**387**	293	48	28	369

COMPOSITION AND DEVELOPMENT OF ASSETS, LIABILITIES, CAPITAL AND CAPITAL ADEQUACY

The consolidated balance sheet as of December 31, 2017 amounted to NIS 135,717 million compared with NIS 127,907 million as of December 31, 2016, an increase of 6.1%.

A. Set out below are developments in the principal balance sheet items:

	As of December 31		
	2017	2016	Change
		NIS million	%
Credit to the public, net	**80,378**	77,328	3.9
Securities	**10,238**	15,776	(35.1)
Cash and deposits with banks	**39,186**	29,150	34.4
Deposits from the public	**113,511**	105,817	7.3
Bonds and subordinated capital notes	**5,249**	5,801	(9.5)
Capital attributed to the shareholders of the Bank	**7,756**	7,321	5.9

B. Set out below are developments in the principal off-balance sheet financial instruments:

	As of December 31		
	2017	2016	Change
		NIS million	%
Off-balance sheet financial instruments excluding derivatives:			
Documentary credit	**244**	119	105.0
Guarantees and other liabilities	**7,369**	7,960	(7.4)
Unutilized credit lines for derivatives instruments	**2,510**	2,857	(12.1)
Unutilized revolving credit and other on-call credit facilities	**10,432**	10,806	(3.5)
Unutilized credit lines for credit card facilities and Facilities for the lending of securities	**7,327**	6,551	11.8
Irrevocable commitments to grant credit, not yet executed and commitments to issue guarantees	**5,430**	6,636	(18.2)
Total	**33,312**	34,929	(4.6)

Derivative financial instruments:

	December 31, 2017			December 31, 2016		
	Positive fair value	Negative fair value	Face value	Positive fair value	Negative fair value	Face value
						NIS million
Interest contracts	**235**	**231**	**17,003**	261	282	18,464
Currency contracts	**494**	**482**	**64,837**	445	464	67,412
Contracts in respect of shares	**612**	**612**	**70,817**	625	625	62,914
Commodities and other contracts	**1**	**1**	**1,502**	1	1	106
Total	**1,342**	**1,326**	**154,159**	1,332	1,372	148,896

Credit to the public, net as of December 31, 2017 amounted to NIS 80,378 million compared with NIS 77,328 million as of December 31, 2016, an increase of 3.9%.

The following is information on credit to the public by linkage segment:

	As of December 31				Segment's share of credit to the public on December 31	
	2017	2016	Change		2017	2016
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**65,849**	62,356	3,493	5.6	**81.9**	80.6
- CPI-linked	**9,710**	10,142	(432)	(4.3)	**12.1**	13.1
Foreign currency (including f-c linked)	**4,360**	4,381	(21)	(0.5)	**5.4**	5.7
Non-monetary items	**459**	449	10	2.2	**0.6**	0.6
Total	**80,378**	77,328	3,050	3.9	**100.0**	100.0

Gross Credit to the public, before provision for credit losses, by segment of activity

	As of December 31		
	2017	2016	Change
		NIS million	%
Large business segment	**17,473**	18,126	(3.6)
Medium business segment	**4,826**	4,541	6.3
Small and minute business segment	**15,754**	14,899	5.7
Household segment	**42,521**	39,880	6.6
Of which: housing loans	**22,848**	21,741	5.1
Private banking segment	**52**	45	15.6
Institutional entities	**590**	684	(13.7)
Total	**81,216**	78,175	3.9
Of which: consumer credit excluding housing loans and credit cards			
Household segment	**16,491**	15,177	8.7
Private banking segment	**21**	17	23.5
Total	**16,512**	15,194	8.7

Total credit risk to the public is comprised of balance-sheet credit risk, which includes credit to the public, investments in bonds of the public and assets deriving from financial derivative instruments purchased by the public, and from off-balance-sheet credit, which includes transactions in off-balance-sheet financial instruments, unutilized credit lines and liabilities for the granting of credit.

Total credit risk to the public amounted to NIS 115,924 million on December 31, 2017 compared with NIS 113,336 million on December 31, 2016, an increase of 2.3%.

Set out below is information on the distribution of total credit risk to the public by sectors of the economy.

Sector	Total credit risk on December 31		Sector's share in total credit risk	
	2017	2016	2017	2016
		NIS million	%	%
Financial services (including holding companies)	**15,453**	14,585	**13.3**	12.9
Construction and real estate	**14,794**	15,175	**12.8**	13.4
Industry	**10,609**	10,860	**9.2**	9.6
Commerce	**8,089**	9,121	**7.0**	8.0
Private customer, including housing loans	**55,118**	52,019	**47.5**	45.9
Others	**11,861**	11,576	**10.2**	10.2
Total	**115,924**	113,336	**100.0**	100.0

Set out below is the sector-specific distribution of the six largest borrowers at the Group (by size of gross indebtedness before deduction of collateral whose deduction is permissible for the purpose of limiting the indebtedness of a borrower and group of borrowers):

		As of December 31, 2017			
Borrower no.	Sector of the economy	Balance-sheet credit risk(*)	Off-balance-sheet credit risk	Aggregate credit risk	Aggregate credit risk after permitted deductions
					NIS million
1.	Financial services	**1,398**	**231**	**1,629**	**696**
2.	Financial services	**901**	**5**	**906**	**906**
3.	Financial services	**655**	**1**	**656**	**39**
4.	Industry	**166**	**466**	**632**	**632**
5.	Financial services	**500**	**-**	**500**	**500**
6.	Financial services	**62**	**350**	**412**	**110**

		As of December 31, 2016			
Borrower no.	Sector of the economy	Balance-sheet credit risk(*)	Off-balance-sheet credit risk	Aggregate credit risk	Aggregate credit risk after permitted deductions
					NIS million
1.	Financial services	1,625	279	1,904	718
2.	Financial services	800	6	806	806
3.	Electricity and water supply	560	21	581	230
4.	Industry	3	556	559	559
5.	Financial services	503	2	505	88
6.	Commerce	493	2	495	495

* Including credit to the public after net accounting write-offs, investment in bonds and other assets in respect of derivative instruments.

On the basis of the distribution of credit by size of borrower indebtedness on December 31, 2017, as stated in Note 29.c to the financial statements, 49% of the Group's total credit risk was granted to borrowers whose total credit reached an amount of up to NIS 1.2 million per borrower. Credit amounts of between NIS 1.2 million and NIS 20 million accounted for 20% of total credit risk, and credit amounts of over NIS 20 million accounted for 31% of the Group's total credit risk.

Set out below are balances of the total credit risk of the borrowers included in the upper brackets in Note 29.c to the financial statements, exclusive of collateral whose deduction is permissible for the purpose of calculating the restriction on single-borrower indebtedness, in the consolidated and at the Bank:

						Consolidated and The Bank
						December 31, 2017
Credit range for borrowers	Balance-sheet credit risk	Off-balance-sheet credit risk	Total	Permitted deductions	Net indebtedness	No. of borrowers
NIS thousand					NIS million	
From 400,000 to 800,000	**1,383**	**817**	**2,200**	**919**	**1,281**	**4**
From 800,000 to 1,200,000	**901**	**5**	**906**	**-**	**906**	**1**
From 1,600,000 to 1,628,930	**1,398**	**231**	**1,629**	**933**	**696**	**1**
Total	**3,682**	**1,053**	**4,735**	**1,852**	**2,883**	**6**

						Consolidated
						December 31, 2016
Credit range for borrowers	Balance-sheet credit risk	Off-balance-sheet credit risk	Total	Permitted deductions	Net indebtedness	No. of borrowers
NIS thousand					NIS million	
From 400,000 to 800,000	1,960	582	2,542	1,169	1,373	5
From 800,000 to 1,200,000	800	6	806	-	806	1
From 1,600,000 to 1,904,375	1,625	279	1,904	1,186	718	1
Total	4,385	867	5,252	2,355	2,897	7

						The Bank
						December 31, 2016
Credit range for borrowers	Balance-sheet credit risk	Off-balance-sheet credit risk	Total	Permitted deductions	Net indebtedness	No. of borrowers
NIS thousand					NIS million	
From 400,000 to 800,000	1,926	582	2,508	1,169	1,339	5
From 800,000 to 1,200,000	800	6	806	-	806	1
From 1,600,000 to 1,904,375	1,625	279	1,904	1,186	718	1
Total	4,351	867	5,218	2,355	2,863	7

For detailed information regarding credit risk, see chapter of risks review and sub-chapter "additional supervisory disclosures" in "financial information" at the Bank's internet site.

The investment in securities totaled NIS 10,238 million compared with NIS 15,776 million at the end of 2016, a decrease of 35.1%.

Set out below is the composition of the portfolio:

	As of December 31		Share of total securities	
	2017	2016	2017	2016
		NIS million		%
Government bonds	**7,535**	11,619	**73.6**	73.6
Banks' bonds(1)	**631**	2,052	**6.2**	13.0
Other bonds (corporate and asset-backed)	**790**	752	**7.7**	4.8
Other bonds (corporate and asset-backed) guaranteed by governments	**1,086**	1,175	**10.6**	7.5
Shares(2)	**196**	178	**1.9**	1.1
Total	**10,238**	15,776	**100.0**	100.0

(1) The balance includes bonds that were issued by banks' issuing companies.
Of which: Banks' foreign-currency bonds guaranteed and owned by foreign governments in the amount of NIS 462 million (December 31, 2016 - NIS 1,324 million).

(2) Investment in shares includes inter alia investment in private equity funds in the amount of NIS 98 million, investment in foreign currency shares of NIS 77 million and investment in shares traded on the Tel Aviv Stock Exchange amounting to NIS 6 million (31.12.16 - Investment in shares includes inter alia investment in private equity funds in the amount of NIS 111 million, perpetual capital notes amounting to NIS 4 million, investment in foreign currency shares of NIS 47 million and investment in shares traded on the Tel Aviv Stock Exchange amounting to NIS 10 million).

Set out below is the distribution of the securities portfolio by linkage segments:

	As of December 31		Change		Segment's share of total securities	
	2017	2016			2017	2016
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**2,639**	6,966	(4,327)	(62.1)	**25.8**	44.2
- CPI-linked	**1,021**	1,667	(646)	(38.8)	**10.0**	10.6
Foreign currency denominated & linked	**6,382**	6,965	(583)	(8.4)	**62.3**	44.1
Non-monetary items	**196**	178	18	10.1	**1.9**	1.1
Total	**10,238**	15,776	(5,538)	(35.1)	**100.0**	100.0

Set out below are the sources for the price quotations which the Bank used for determining the fair value of securities on December 31, 2017:

	Price quoted in active market	Indicative price*	Counter-party price**	Total
				NIS million
Shares and private investment funds	**77**	**16**	**103**	**196**
Local currency government bonds	**3,070**	**-**	**-**	**3,070**
Local currency corporate bonds	**350**	**240**	**-**	**590**
Non-asset backed foreign-currency and f-c linked bonds	**89**	**5,993**	**-**	**6,082**
MBS bonds	**-**	**300**	**-**	**300**
Total	**3,586**	**6,549**	**103**	**10,238**
% of portfolio	**35.0**	**64.0**	**1.0**	**100.0**

* Indicative price-An indication determined by the Bank and which is based mainly on price quotations obtained from an external entity or entities specializing in the matter, and the remainder is based on internal models determined by the Bank.

** Counter-party price-Price quotation obtained from the entity with which the transaction is conducted. With respect to private equity funds, the need for a provision for write-down is examined on the basis of their financial statements.

Below are additional details of bonds denominated in and linked to foreign currency, which are not asset-backed, by country/continent:

	As of December 31	
	2017	2016
		NIS million
Israel (incl. Israel Government - 31.12.17 - NIS 2,533 million, 31.12.16 - NIS 1,961 million)	**2,737**	2,140
USA (incl. US Government - 31.12.17 - NIS 1,801 million, 31.12.16 - NIS 2,001 million)	**1,944**	2,325
France	**157**	314
UK	**211**	228
Europe - others * (31.12.17 - 3 countries; 31.12.16 - 6 countries)	**154**	474
Canada	**253**	129
Germany (incl. guaranteed by German Government - 31.12.17 - NIS 478 million, 31.12.16 - NIS 527 million)	**478**	582
Australia	**7**	88
Far East, New Zealand* and others (31.12.17 - 5 countries; 31.12.16 - 5 countries)	**141**	199
Netherlands	**-**	66
Total	**6,082**	6,545

It should be noted that there is no issuer (except the Israel and US Government) whose bond balance exceeds 3% of the shareholders' equity of the Bank.

* For details of total exposure to foreign countries, including Spain and Ireland, see Chapter "Credit risk" below.

Set out below are additional details on local currency corporate bonds by sector:

	As of December 31	
	2017	2016
		NIS million
Financial services	**35**	69
Banks	**92**	262
Industry	**47**	34
Electricity and water	**150**	*515
Construction and real estate	**128**	108
Communications and computer services	**12**	19
Commerce	**42**	20
Public and community services	**5**	20
Transportation	**64**	74
Hotels, hospitality and food services	**15**	15
Total	**590**	1,136

* 31.12.16 - Including NIS 351 million guaranteed by the Israel Government.

Set out below is the composition of the foreign-currency bond portfolio at the Bank Group:

- **Non asset-backed bonds denominated in or linked to foreign currency** - amounting to NIS 6,082 million (Dollar 1,754 million) (includes foreign corporations amounting to NIS 1,413 million, foreign currency denominated bonds of Israeli corporations, mostly traded abroad, amounting to NIS 205 million, foreign currency denominated Israel Government bonds amounting to NIS 2,532 million and foreign government bonds amounting to NIS 1,932 million). All of the foreign bonds are investment grade and 98% of the portfolio is rated A or higher; 1% of the exposure is to leading banking and financial institutions in OECD countries. This portfolio is diversified, in a manner whereby exposure to any single issuer that is not Government or banks and financial institutions owned by more than one government does not exceed 1% of the total foreign currency bond portfolio. The duration (average term-to-maturity) of the foreign currency bond portfolio is 3 years. The balance of unrealized gross earnings (included in shareholders' equity under reconciliations to fair value in respect of the presentation of securities available for sale) as of the report date in respect of this portfolio amounted to NIS 63 million (Dollar 18 million) compared with NIS 2 million (Dollar 0.5 million) on December 31, 2016.
- **Mortgage Backed Securities (MBS)** - amount to NIS 300 million (Dollar 87 million).
  The bonds were issued by federal agencies in the USA. Of these, NIS 296 million (Dollar 85 million) were issued by Ginnie Mae, which is wholly owned by the US government. The balance of NIS 4 million (Dollar 1 million) was issued by the US federal agencies Fannie Mae and Freddie Mac.
  Set out below is a sensitivity analysis as of December 31, 2017 of the effect of changes in the interest rate on the rate of early repayments and the fair value of the MBS portfolio (including economic hedging of interest rate swaps):

	Change in rate of early repayments	Change in fair value
	Percentage points	Dollar million
Increase of 200 base points	**(4.4)**	**(6.5)**
Increase of 100 base points	**(4.0)**	**(3.1)**
Decrease of 100 base points	**13.2**	**2.1**
Decrease of 200 base points	**28.1**	**3.0**

- **Private equity funds** - investments in private equity funds amounted to NIS 98 million (Dollar 28 million). The balance of Commitments to invest in private equity funds amounted to NIS 51 million as of December 31, 2017.

The balance of gains, net (before the tax effect), included in other cumulative comprehensive profit, in respect of the difference between the fair value of securities included in the available-for-sale portfolio and their amortized cost, as of December 31, 2017, amounted to NIS 69 million, compared with losses of NIS 20 million on December 31, 2016.

Cash and deposits at banks on December 31, 2017 totaled NIS 39,186 million compared with NIS 29,150 million at the end of 2016, an increase of 34.4%

Deposits from the public on December 31, 2017 totaled NIS 113,511 million compared with NIS 105,817 million at the end of 2016, an increase of 7.3%.
The ratio of deposits from the public to credit to the public amounted to 141.2% as of December 31, 2017, compared with 136.8% at the end of 2016.

Set out below is the distribution of deposits from the public by linkage segments:

	As of December 31				Segment's share of total deposits from the public on December 31	
	2017	2016	Change		2017	2016
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**87,253**	77,324	9,929	12.8	**76.9**	73.1
- CPI-linked	**6,037**	6,125	(88)	(1.4)	**5.3**	5.8
Foreign currency denominated & linked	**19,755**	21,906	(2,151)	(9.8)	**17.4**	20.7
Non-monetary items	**466**	462	4	0.9	**0.4**	0.4
Total	**113,511**	105,817	7,694	7.3	**100.0**	100.0

Deposits from the public by segment of activity

	As of December 31		
	2017	2016	Change
		NIS million	%
Large business segment	**11,683**	9,746	19.9
Medium business segment	**5,309**	5,543	(4.2)
Small and minute business segment	**15,439**	16,658	(7.3)
Household segment	**46,371**	46,298	0.2
Private banking segment	**8,028**	7,736	3.8
Institutional entities	**26,681**	19,836	34.5
Total	**113,511**	105,817	7.3

Securities portfolios belonging to customers of the Bank Group

The total of the securities portfolios of customers of the Bank Group as of December 31, 2017, amounted to NIS 328 billion, as compared to NIS 286 billion at the end of 2016.

Bonds and deferred debt notes amounted at the end of the year to NIS 5,249 million, as compared with NIS 5,801 million at December 31, 2016, a decrease of 9.5%.

On February 8, 2017 and on September 27, 2017 the First International Issuance Ltd., a wholly owned subsidiary of the Bank, issued on private and public placement, respectively, subordinated capital notes with loss absorbtion mechanizm, at par value of NIS 50 million and NIS 302 million, respectively in proceeds of NIS 52 million and NIS 302 million, respectively. The proceeds of the issuance of the subordinated notes was deposited at the Bank. The Bank committed to fullfil the conditions of the issued subordinated capital notes (for additional details see Note 24b).

For details regarding assets and liabilities according to quarters in the years 2015 and 2016, see Appendix 5 to the Chapter "Corporate governance", appendices.

CAPITAL AND CAPITAL ADEQUACY

The capital attributed to the shareholders of the Bank amounted on December 31, 2017 to NIS 7,756 million, as compared with NIS 7,321 million on December 31, 2016, an increase of 5.9%.
For detailes regarding the development of the other comprehensive profit, see the Chapter "Material developments in income, expenditure and in other comprehensive profit".

CAPITAL ADEQUACY

Minimum capital ratios

Bank of Israel issued on May 30, 2013 an amendment to Proper Conduct of Banking Business Directives Nos. 201-205, 208, 211 and 299, in the matter of "Measurement and capital adequacy", which adopt the Basel instructions. The initial implementation was set to January 1, 2014, and the implementation will be gradual in accordance to the transitional instructions in Proper Conduct of Banking Business Directive No. 299 "Measurement and capital adequacy- supervisory capital - transitional instructions". These instructions include a demand that, the minimum ratio of Tier I equity capital to weighted average risk assets should be no less than 9% and the minimum ratio of comprehensive capital to average risk assets should be no less than 12.5%, these for a banking corporation, the total consolidated stated assets of which is less than 20% of total stated assets of the banking sector as a whole(including the Bank).
An additional capital requirement was added to the minimum capital ratios at a rate reflecting 1% of the outstanding balance of housing loans at the reporting date. This requirement was applied gradually over eight quarters until January 1, 2017.

The internal capital objectives that were determined by the Board of Directors, are as follows:

- In a regular business situation - the ratio of Tier I equity capital shall not be less than 9.30%, and the ratio of the comprehensive capital 12.8%.
- In stress situations - the ratio of Tier I equity capital shall not be less than 6.50%, and the ratio of comprehensive capital shall not be less than 9.00%.

In accordance with the transitional instructions, the supervisory adjustments and the deduction from capital as well as the minority rights, which are not qualified for inclusion in the supervisory capital, shall be gradually deducted from the capital at the rate of 20% per annum, beginning on January 1, 2014 and until January 1, 2018. Capital instruments, which are no longer qualified as supervisory capital, shall be recognized, up to the maximum of 80%, on January 1, 2014, and in each consecutive year, this maximum would be reduced by 10% until January 1, 2022. As of January 1, 2017, the rate of deductions from the regulatory capital amounts to 80%, and the maximum rate of instruments qualified as supervisory capital amounts to 50%. As of January 1, 2018, the rate of deduction from the regulatory capital amounts to 100%, and the maximum rate of instruments qualified as supervisory capital amounts to 40%.

Operational Efficiency

The Supervisor of banks issued a letter on January 12, 2016, in the matter of "operational efficiency of the banking sector in Israel". In accordance with the letter, the Board of Directors of the Bank has to outline a multi-annual program for the improvement of efficiency.
A banking corporation that complies with the terms of the letter would be entitled to a relief, whereby it may spread, by the "straight line" method, over a period of five years, the effect of the cost of the program for the purpose of calculating the capital adequacy.
The Board of Directors approved on November 17, 2016, a revision of the strategic program of the Bank concerning the efficiency measures aspect.

The cost of the program is estimated at NIS 207 million (before the tax effect). Without the said relief, the implementation of the efficiency measures, as of December 31, 2017 would have reduced the capital adequacy ratio by 0.15%.

Implementation of the instructions

As stated above, the Bank implements the Basel instructionaccording to Bank of Israel instruction.

Pillar I - Credit, market and operating risks - the Bank is implementing the standard approach in accordance with Bank of Israel instructions.

Pillar II - the Bank is required to conduct an internal process for the assessment of capital adequacy (the ICAAP process). This process is designed to ensure the maintenance of an adequate level of capital means supporting the overall risks inherent in the operations of the Bank. The ICAAP document relating to the data as of June 30, 2017, has been dully submitted to bank of Israel. The infrastructure for the capital adequacy, as approved by the Bank, serves as a basis for the internal process conducted at each of the banking subsidiaries in Israel, subject to required adjustments, and on the basis of the specific risk profile of each subsidiry. The subsidiary companies in Israel had conducted the ICAAP process in relation to the December 31, 2016 data and are in the stages of conducting the ICAAP process in relation to the December 31, 2017 data.

		December 31,	
		2017	**2016**
1.	**Capital for calculation of capital ratio, after deduction and supervisory adjustments**		
	Tier 1 capital, after deductions and supervisory adjustments	**8,033**	7,684
	Tier 2 capital after deductions	**2,749**	2,819
	Total capital	**10,782**	10,503
2.	**Weighted balances of risk assets**		
	Credit risk	**70,445**	69,262
	Market risk	**725**	748
	Operational risk	**6,201**	6,168
	Total weighted balances of risk assets	**77,371**	76,178
3.	**Ratio of capital to risk assets (in %)**		
	Raito of tier 1 equity capital to risk assets	**10.38%**	10.09%
	Total ratio of capital to risk assets	**13.94%**	13.79%
	Minimal ratio of equity capital tier 1 required by the Supervisor of banks	**9.30%**	9.25%
	Minimal ratio of capital required by the Supervisor of Banks	**12.80%**	12.75%

The Tier I equity capital ratio as of December 31, 2017, amounted to 10.38%, in comparison with 10.09% on December 31, 2016. The ratio of comprehensive capital to risk components as of December 31, 2017, amounted to 13.94%, in comparison with 13.79% on December 31, 2016.

The comprehensive capital as of December 31, 2017 amounted to NIS 10,782 million, in comparison with NIS 10,503 million on December 31, 2016.

The increase in the capital base stemmed mostly from profits for the year in the amount of NIS 678 million. This increase was partialy offset by reduction in the amount of NIS 90 million in instruments issued by the Bank qualified for inclusion in the supervisory capital, and from the distribution of a dividend in the amount of NIS 310 million.

The risk assets as of December 31, 2017 amounted to NIS 77,371 million as compared with NIS 76,178 million on December 31, 2016.

The comprehensive capital ratios and the Tier I equity capital ratios of the significant subsidiaries, in accordance with the "framework for measurement and capital adequacy" of Basel, are:

		December 31,
	2017	**2016**
		In percent
Significant subsidiaries		
Bank Otsar Hahayal Ltd.		
Ratio of Tier 1 capital to risk assets	**11.01%**	10.63%
Ratio of overall capital to risk assets	**13.32%**	13.39%
Bank Massad Ltd.		
Ratio of Tier 1 capital to risk assets	**11.87%**	13.17%
Ratio of overall capital to risk assets	**12.95%**	14.31%

Leverage ratio in accordance with instructions of the Supervisor of Banks - On April 28, 2015, the Supervisor of Banks published Proper Conduct of Banking Business Directive No. 218 in the matter of leverage ratio. The leverage ratio is expressed in percentages and is defined as the ratio between capital measurement and exposure measurement. Capital for the purpose of measuring the leverage ratio is the Tier I equity capital, as defined in Proper Conduct of Banking Business Directive No. 202, taking into consideration the prescribed transitional arrangements. In accordance with the Directive, a banking corporation should attain a leverage ratio of no less than 5% on a consolidated basis. A banking corporation, the total consolidated stated assets of which equals or exceeds 20% of total stated assets of the banking sector as a whole, should attain a leverage ratio of no less than 6%. In accordance with the above, the minimum leverage ratio required from the Bank is 5%. The minimum leverage ratio for a banking corporation applies as from January 1, 2018 and thereafter. The leverage ratio of the Bank at December 31, 2017, amounts to 5.50% in comparison with 5.52%% on December 31, 2016.

DIVIDEND DISTRIBUTION POLICY

According to the dividend distribution policy (as was updated on June 9, 2015), the Bank will distribute annual dividends of up to 50% of its distributable annual net earnings, subject to the Bank's ratio of capital to risk elements being no less than the target specified by the Bank's Board of Directors from time to time. Such distributions will be made subject to legislative provisions and to Proper Conduct of Banking Business Regulations, providing that no adverse changes occur in the Bank's earnings and/or business and/or financial position and/or the overall state of the economy and/or the legal environment.

This resolution is not to be construed as detracting from the Board of Directors' authority to review policy from time to time and to resolve at any time, after taking due account of business considerations and of the legislative provisions applying to the Bank, changes in policy or the rate of dividend to be distributed for a specific period, or to resolve not to distribute any dividend at all.

It is clarified that any dividend distribution shall be subject to specific approval by the Board of Directors and to all the restrictions applying to the Bank regarding dividend distribution, and shall be made public with all required details in accordance with the law.

It should be noted that in addition to the provisions of the Companies Law, dividend distribution by the Bank is subject to additional restrictions that are detailed in Note 24A.b. to the financial statements.

Declaration date	**Payment date**	**Total dividend paid**	Dividend per share
		NIS million	NIS
9 June 2015	30 June 2015	60	0.60
18 November 2015	6 December 2015	70	0.70
17 November 2016	5 December 2016	200	1.99
15 March 2017	2 April 2017	70	0.70
23 May 2017	14 June 2017	70	0.70
14 August 2017	31 August 2017	70	0.70
14 November 2017	3 December 2017	100	1.00

On August 14, 2017 the Board of Directors resolved to update the dividend policy, thus the net annual profit of the Bank, qualified to be distributed will refer to the annual net profit of the current year. The remaining condition were unchanged. It is clarified the the implementation of the updated policy will take into account the dividend distribution starting with and including the dividend paid at June 14, 2017.

Subsequent to balance sheet date, on March 5, 2018, the Board of directors of the Bank resolved to distribute a dividend in cash to shareholders of the Bank in a total amount of NIS 95 million. The determining date for the distribution of the dividend is March 13, 2018, and the date of payment is March 21, 2018. The amount of the dividend is before any taxes, including the tax that the Bank has to withhold in terms of the law.

SUPERVISORY SEGMENTS OF ACTIVITY

The reporting on segments of activity is in accordance with the format and classification set in the Directive of the Reporting to the Public of the Supervisor of Banks. This reporting is materialy defferent from the segments of activity used by the Bank according to Management approach, which are detailed in Note 28A to the financial statements. The supervisory segements of activity are reported in a uniform format that was set by the Supervision of Banks to the entire banking system, and they are based on the cusromers characteristics, such as: the volume of assets protfolio- for private customers, or the business turnover- for business customers.
For the definitions of the supervisory segements of activity and for details regarding main instructions, estimates and principals of reporting, see Note 28 to the financial statements.

The following is a summary of the results of activity by segments:

a. Total income*

	For the year ended December 31,			Segment's share of total income December 31,	
	2017	**2016**	**Change**	**2017**	**2016**
		NIS million	%		%
Large business segment	**430**	426	0.9	**11.5**	11.7
Medium business segment	**210**	205	2.4	**5.6**	5.6
Small and minute business segment	**899**	842	6.8	**24.0**	23.1
Household segment	**1,573**	1,505	4.5	**41.9**	41.3
Private banking segment	**103**	100	3.0	**2.7**	2.7
Institutional entities	**221**	216	2.3	**5.9**	5.9
Financial management segment	**316**	355	(11.0)	**8.4**	9.7
Total	**3,752**	3,649	2.8	**100.0**	100.0

b. Net earnings (loss) attributed to the shareholders of the bank

	For the year ended December 31,	
	2017	**2016**
		NIS million
Large business segment	**160**	139
Medium business segment	**52**	47
Small and minute business segment	**149**	109
Household segment	**47**	1
Private banking segment	**9**	(12)
Institutional entities	**47**	8
Financial management segment	**214**	229
Total	**678**	521

* Including net interest income and non-interest income.

c. Average balance sheet balances*

	Total assets			% of total assets	
	For the year ended December 31,			For the year ended December 31,	
	2017	2016	Change	2017	2016
		NIS million	%	%	%
Large business segment	**17,311**	18,404	(5.9)	**13.3**	14.5
Medium business segment	**4,744**	4,427	7.2	**3.6**	3.5
Small and minute business segment	**15,320**	14,634	4.7	**11.8**	11.5
Household segment	**40,711**	38,186	6.6	**31.2**	30.0
Private banking segment	**161**	398	**(59.5)	**0.1**	0.3
Institutional entities	**578**	683	(15.4)	**0.4**	0.5
Financial management segment	**51,663**	50,580	2.1	**39.6**	39.7
Total	**130,488**	127,312	2.5	**100.0**	100.0

	Total liabilities			% of total liabilities	
	For the year ended December 31,			For the year ended December 31,	
	2016	2017	Change	2016	2017
		NIS million	%	%	%
Large business segment	**9,126**	9,508	(4.0)	**7.5**	8.0
Medium business segment	**5,227**	5,062	3.3	**4.3**	4.2
Small and minute business segment	**16,175**	16,558	(2.3)	**13.2**	13.9
Household segment	**46,273**	44,380	4.3	**37.8**	37.2
Private banking segment	**7,652**	7,799	(1.9)	**6.3**	6.5
Institutional entities	**23,058**	21,953	5.0	**18.8**	18.4
Financial management segment	**14,759**	14,162	4.2	**12.1**	11.8
Total	**122,270**	119,422	2.4	**100.0**	100.0

* The average balance of assets and liabilities in each of the customer segments expresses the average balance of credit to the public and deposits from the public respectively.

** The decline results from the sale of the activity of FIBI (Swiss), see the chapter of Investee Companies below.

BUSINESS SEGMENTS - SMALL AND MINUTE BUSINESS SEGMENT, MEDIUM BUSINESS SEGMENT AND LARGE BUSINESS SEGMENT

Following are main data concerning Business segments - Small and minute, medium and large business - activity in Israel

	For the year ended December 31, 2017				For the year ended December 31, 2016			
	Small and minute business segment	Medium business segment	Large business segment	Total	Small and minute business segment	Medium business segment	Large business segment	Total
								NIS million
Net interest income	**575**	**145**	**296**	**1,016**	532	136	298	966
Non-interest income	**324**	**65**	**134**	**523**	310	69	128	507
Total income	**899**	**210**	**430**	**1,539**	842	205	426	1,473
Expenses (income) from credit losses	**45**	**27**	**(3)**	**69**	24	18	(19)	23
Operating and other expenses	**615**	**98**	**186**	**899**	609	99	189	897
Net profit attributed to the shareholders of the Bank	**149**	**52**	**160**	**361**	109	47	139	295
Average balance of assets	**15,320**	**4,744**	**17,311**	**37,375**	14,634	4,427	18,404	37,465
Balance of credit to the public at the end of the reported period	**15,754**	**4,826**	**17,473**	**38,053**	14,899	4,541	18,126	37,566
Average balance of liabilities	**16,175**	**5,227**	**9,126**	**30,528**	16,558	5,062	9,508	31,128
Balance of deposits from the public at the end of the reported period	**15,439**	**5,309**	**11,683**	**32,431**	16,658	5,543	9,746	31,947

Main changes in the result of activity in 2017 compared with the same period last year

Total net interest income amounted to NIS 1,016 million, compared with NIS 966 million in 2016, an increase of 5.2% explained mainly by the change in the credit to the public mix in these segments.

Non-interest income amounted to NIS 523 million, compared with NIS 507 million in 2016, an increase of 3.2%, expalined mainly by an increase in the volume of activity in the capital market.

The net profit attributed to the shareholders of the Bank in respect of the small and minute, medium sized and large businesses, amounted to NIS 361 million, in comparison with NIS 295 million in 2016. The increase in profit is explained by the increase in total income as explained above. This increase was partialy offset by an increase in expense for credit losses.

Credit to the public as of December 31, 2017 amounted to NIS 38,053 million, in comparison with NIS 37,566 million on December 31, 2016, an increase of 1.3%.

Deposits from the public as of December 31, 2017 amounted to NIS 32,431 million, in comparison with NIS 31,947 million on December 31, 2016, an increase of 1.5%.

PRIVATE INDIVIDUALS SEGMENTS - HOUSEHOLD AND PRIVATE BANKING

Following are main data concerning Private individuals segments - household and private banking - activity in Israel

	For the year ended December 31, 2017			For the year ended December 31, 2016		
	household segment	private banking segment	Total	household segment	private banking segment	Total
						NIS million
Net interest income	**1,011**	**25**	**1,036**	936	19	955
Non-interest income	**562**	**57**	**619**	569	51	620
Total income	**1,573**	**82**	**1,655**	1,505	70	1,575
Expenses from credit losses	**64**	**-**	**64**	49	-	49
Operating and other expenses	**1,410**	**55**	**1,465**	1,428	53	1,481
Net profit attributed to the shareholders of the Bank	**47**	**17**	**64**	1	9	10
Average balance of assets	**40,711**	**50**	**40,761**	38,186	48	38,234
Balance of credit to the public at the end of the reported period	**42,521**	**52**	**42,573**	39,880	45	39,925
Average balance of liabilities	**46,273**	**7,652**	**53,925**	44,380	7,031	51,411
Balance of deposits from the public at the end of the reported period	**46,371**	**8,028**	**54,399**	46,298	7,736	54,034

Main changes in the result of activity in 2017 compared with 2016

Total net interest income amounted to NIS 1,036 million, as compared with NIS 955 million in 2016, an increase of 8.5%. This increase is explained by the growth in credit granted which was partly offset by interest income recognized in respect of prior years, included in the income of 2016.

Operating and other expenses amounted to NIS 1,465 million, as compared to NIS 1, 481 million in 2016. The decrease in expenses stemming mainly from the efficiency measures.

The net profit attributed to the shareholders of the Bank in respect of the private individuals segment, which includes household and private banking, amounted to NIS 64 million, compared with NIS 10 million in 2016. The growth in profits stems mainly from an increase in credit activity and from a decrease in other and operating expenses and was partialy offset by an increase in the expenses for credit losses.

Credit to the public as of December 31, 2017 amounted to NIS 42,573 million, in comparison with NIS 39,925 million on December 31, 2016, an increase of 6.6%.

Deposits from the public as of December 31, 2017 amounted to NIS 54,399 million, in comparison with NIS 54,034 million on December 31, 2016, an increase of 0.7%.

FINANCIAL MANAGEMENT SEGMENT

Total income attributed to this segment amounted to NIS 316 million compared with NIS 355 million in 2016.

The net profit of the Financial Management Segment amounted to NIS 214 million compared with NIS 229 million in 2016.

Following are the main factors affecting the frofit in this segment:

- An increase in capital gain from the sale of buildings and equipment amounting NIS 45 million, gross before tax effect, compared to NIS 24 million in 2016.
- A decrease of NIS 18 million in the Bank's share in the profit of investee company stemming from the proceeds of the transaction of the sale of Visa Europe in 2016.

PRINCIPAL INVESTEE COMPANIES

INVESTEE COMPANIES IN ISRAEL

The Bank's investments in investee companies in Israel totaled NIS 2,458 million on December 31, 2017, compared with NIS 2,330 million on December 31, 2016, a decrease of 5.5%.
The Bank's share in the net earnings of investee companies in Israel amounted to NIS 160 million compared with NIS 151 million in 2016.

Bank Otsar Hahayal (hereinafter - "Otsar Hahayal") - in which the Bank held, as of December 31, 2017, 78.0% of the share capital and voting rights, is a commercial bank that operates via 46 branches and sub-branches.

The Bank's investment in Otsar Hahayal amounted to NIS 1,291 million on December 31, 2017. Total assets of Otsar Hahayal on December 31, 2017 amounted to NIS 21,274 million compared with NIS 20,774 million on December 31, 2016, an increase of 2.4%. Shareholders' equity of Otsar Hahayal on December 31, 2017 amounted to NIS 1,291 million compared with NIS 1,209 million on December 31, 2016, an increase of 6.8%.
Net earnings of Otsar Hahayal amounted to NIS 70.9 million compared with NIS 83.8 million in 2016, a decrease of 15.4%.
The change in profit is mainly explained:
A. Decrease in interest income derived from interest in respect of previous years recorded in the same period last year, partially offset by an increase in the volume of activity.
B. Increase in the expenses from credit losses.
The Bank's share in the results of activity of Otsar Hahayal amounted to NIS 55.2 million compared to NIS 42.8 million in 2016, an increase of 29.0% (in the same period last year, the Bank's share in the results of activity of Otsar Hahayal was reported after the amortization of excess cost of acquisition ended August 17, 2016).
Net return on equity amounted to 5.7% compared with 7.0% in 2016.
The ratio of capital to risk assets amounted to 13.32% compared with 13.39% at the end of 2016. The Tier 1 equity capital ratio amounted to 11.01% compared with 10.63% at the end of 2016.

On May 2017, The Board of Directors of Otsar Hahayal resolved after discussion of the ICAAP document regarding the evaluation of the capital adequacy, that during 2017 the overall capital ratio of Otsar Hahayal will not be less than 12.52%, and that the Tier 1 equity capital ratio will not be less than 9.3%.

As part of the arrangements reached in 2006 between the Bank and "Hever" Servicemen and Veterans Ltd. (hereinafter - "Hever"), which until recently was an additional shareholder of Otsar Hahayal, the Bank had certain obligations towards Hever, among which is a PUT option, due to expire on February 17, 2018, whereby Hever was entitled to obligate the Bank to purchase its holdings in Otsar Hahayal, in whole or in part.
On January 14, 2018, the Bank offered all shareholders of Otsar Hahayal to purchase their shares in Otsar Hahayal, of whatever class, within the framework of proceedings in accordance with Section 341 of the Companies Act, 1999 (hereinafter - "the Companies Act"). The total consideration offered in respect of the purchase of the shares is NIS 340 million, a price equal to the exercise price stated in the terms of the option granted to Hever, and which reflects a price equal to 121% of the equity capital of Otsar Hahayal, in accordance with its financial statements as of September 30, 2017.
The acquisition by the Bank of the holdings of Hever in Otsar Hahayal was completed on January 16, 2018, following which, the Bank holds 100% of the voting rights in Otsar Hahayal and of the right to appoint directors, and 99.99% of equity rights. With the transfer of the holding of Hever to the Bank, the PUT option described above also expired.
The Bank is acting now to complete the purchase of the shares in Otsar Hahayal held by the remaining shareholders, in accordance with Sections 341 and 342 of the Companies Act, subject to the terms and dates stated therein.

Bank Massad Ltd. (hereinafter - "Massad") - in which the Bank owns 51.0% of share capital, is a commercial bank which operates a network of 21 branches and sub-branches.

The Bank's investment in Massad amounted to NIS 304 million on December 31, 2017. Total assets of Massad on December 31, 2017 amounted to NIS 7,733 million compared with NIS 7,115 million on December 31, 2016, an increase of 8.7%. Shareholders' equity of Massad on December 31, 2017, totaled NIS 592 million compared with NIS 577 million on December 31, 2016, an increase of 2.6%.

Net earnings of Massad totaled NIS 52.8 million in 2016 compared with NIS 42.1 million in 2016, an increase of 25.4%. The main increase in earnings is explained by increase in interest income due to an increase in the volume of credit to the public.

The Bank's share in Massad's operating results, net of amortization of excess of cost of the acquisition, amounted to NIS 18.3 million compared with NIS 12.9 million in 2016.

In 2017, Bank Massad distributed dividends in the amount of NIS 40 million. The Bank's share in the dividend amounted to NIS 20 million.

The unamortized balance of the excess of cost of the acquisition of Massad amounted to NIS 2 million on December 31, 2017.

Net return on equity in 2017 amounted to 9.1% compared with 7.6% in 2016. The ratio of capital to risk assets amounted to 12.95%, compared with 14.31% at the end of 2016. The Tier 1 capital ratio amounted to 11.87% compared with 13.17% at the end of 2016.

Within the framework of the ICAAP procedure for the data of December 31, 2016 the minimal capital targets were set as follows: the Tier 1 equity capital ratio was set at no less than 10.5% until December 31, 2019 and the overall capital ratio was set at no less than 12.85% until December 31, 2019.

Israel Credit Cards Ltd. ("ICC") - The Bank holds 28.2% of equity and 21.0% of voting rights in ICC.

ICC markets and issues credit cards and settles credit card transactions of the international Visa brand, markets and operates Diners credit cards on an exclusive basis in Israel, and also markets to an only limited extent MasterCard credit cards.

The Bank's investment in ICC amounted to NIS 565 million on December 31, 2017.

The ratio of capital to risk assets on December 31, 2017 amounted to 15.6%, compared with 15.8% at the end of 2016.

The Bank's share in the net earnings of ICC before the tax effect amounted to NIS 60.6 million compared with NIS 81.5 million in 2016, a decrease of 25.6%. The main change in the profit of ICC is explained by ICC's share in the proceeds of the transaction of the sale of Visa Europe shares which was recorded in the corresponding period last year (see Note 15.g to the financial statements).

In 2017, ICC distributed as dividend an amount of NIS 30 million. The Bank's share amounted to NIS 8 million.

See note 25 to the financial statements concerning request to approve class action suits against ICC, and a request to approve derivative lawsuit against office holders in ICC in the relevant period in ICC and additional matters.

FIBI (Switzerland) - On December 19, 2016, FIBI (Switzerland) signed an agreement for the sale of its operations to a third party (hereinafter - "the agreement"). The transaction was consummated on June 2, 2017, following the transfer to the purchaser of most of the assets of customers of the extension. On this date, the extension received a payment on account of the total amount of the consideration stated in the agreement. This amount is subject to adjustment according to the agreement. In respect of the said payment an income was recorded within other income in the amount of NIS 12 million.

The balance of the consideration for the sale is subject to the value of the assets of customers of the extension remaining with the purchaser at the end of one year following the date of consummation of the transaction.

The extension terminated its banking activity and on February 28, 2018 returned its banking license to the Swiss Supervisory Authorities.

REVIEW OF RISKS

REVIEW OF RISKS

Additional information about the risks can be found on the report on risks and additional supervisory reporting in the Bank's internet website.

General

a. The Group's activity is accompanied by exposure to risks, the most significant of which are: credit risk (including concentration of economy segments and borrowers), market risk, for which the main risk is the interest risk (cross system risk), liquidity risk, operational risk, compliance risk and AML risk, strategy risk, legal risk and reputation risk. Members of the Board of Management are responsible for management of these risks. With respect to credit risk, market risk and operational risk, a regulatory requirement for capital adequacy in accordance with the Pillar 1 Basel directives exists. Within the ICAAP process, the Group performs an in-depth process of identifying additional risks focal and challenging the risks focal identified in the first pillar. If needed the Group makes an additional capital allocation in respect of Pillar 1 risks and other risks.
b. The Group's risk management policy is directed at achieving the strategic and business objectives defined by the Group and at increasing its earnings expectancy by developing areas of specialization at the Group, exploiting economies of diversity and scale, keeping to the levels of risk which have been approved, and by operating suitable management, control and reporting mechanisms.
c. The overall risk perceptive of the Group is in line with the regulatory framework set by the Supervisor of Banks and in line with the Sound Practices of the Basel Committee, based on the principal that every banking activity involving risk, the following will be defined and characterized: risk policy and appetite, limitations for bordering and defining the volume of exposure, control and auditing circles, reporting arrangement and earnings estimation mechanism, its measurement and reporting according to acceptable standard.
d. Risk management and control at the Group are implemented by means of a suitable infrastructure of control, supervision, review and auditing mechanisms, and are applied via three lines of defense: The first line of defense consists of those responsible for the creation and management of risk. The second line is maintained by units of the Risk Management Division and Chief Accountant by means of independent control. The third line consists of the internal and external auditing functions.
e. Chief Risk Manager and member of Management in charge of the risk management division and across the organization risk management infrastructure- Mr. Bentzi Adiri CPA.
f. Those responsible for risk management at the Group are:
   Mr. Ilan Batzri CPA, Head of the Business Division-serves as Credit Risk Manager;
   Mr. Avi Sterenshous, head of the financial sub-division- serves as financial risk manager;
   Mr. Yaacov Konortov, compliance manager, including, among other things AML, internal enforcement and cross border risks; Also appointed as Responsible officer in charge of application of the FATCA directives and QI agreement.
   Yossi Levi- head of resources division- Strategic risk manager;
   Mr. Ron Grisariu- serves as the CEO of MATAF and IT risk manager.
   Mr. Yehoshua Peleg, manager of cyber defense and information security- cyber risks manager;
   Adv. Haviva Dahan, Chief Legal Counsel-Legal Risk Manager;
   Nachman Nitzan, CPA, head of the chief accounting division- reputation risk manager;
   Bentzi Adiri CPA, operational risk manager, supervisor of the internal enforcement and manager of business continuity. In addition, the cyber risks manager is subordinated to him.
g. Additional risks to which the Bank is exposed- regulatory and legislative risks - are managed and supervised as part of overall business management members of the Board of Management and department heads in the areas for which they are responsible.

h. Risk management is carried out at each banking subsidiary in the Group separately, in accordance with the policy determined by the subsidiary’s board of directors on the basis of Group policy, and on the basis of Group risk management methodology with an emphasis on the special nature of each subsidiary’s activity. In accordance with the Supervisor of Banks' directive on "the Chief Risk Manager and the risk management function," a Chief Risk Manager was appointed at each banking subsidiary, subordinate to the subsidiary's CEO and guided professionally by the Bank's Chief Risk Manager.
i. Every quarter, the Risk Management Division, which is independent of the risk-taking units, compiles a risks document which is presented to the Management of the Bank, the Risk Management Committee and the Board of Directors of the Bank.
j. The risks document contains an examination of all the risks to which the Bank Group is exposed in the course of its activity, with details of the findings at the specific risk level as well as the results of stress scenarios that were conducted.
   Presented in the document is the Chief Risk Manager's review of the risk management situation at the group and of the effectiveness and the quality of the risk management. Also reviewed in the document are developments in the business environment and in the financial markets, and the measures taken by the division with respect to the main process involved with the different types of risks and special action which the division took during the relevant quarter.
k. The Bank applies stress scenarios for reviewing capital adequacy. In this respect, the Bank examines the effect of the materialization of risk on the capital base and the ratio of capital to risk assets. The scenarios which the Bank operates are forward looking and are used as an additional tool for risk management and for indication for the capital required for loss absorbent in case of major crisis. The importance of the stress scenarios come into effect in the planning of capital.

For discussion of the risk appetite and risk management principles, see reference in the description of principal risks, presented below.

For detailed information regarding risk, provided in accordance with the disclosure requirements of Pillar III of Basel, and addtional information regarding risks - see addtional supervisory disclosure and report on risks on the Internet website of the Bank.

CREDIT RISK

General

Credit risk is the risk borrowers' inability or counterparty's inability to fulfill their obligations to the Bank.
As required under Proper Conduct of Banking Business Regulation 311, the credit risk is managed by applying an overall credit risk management policy.

Risk policy and risk appetite

General

The risk management division leads the process of the formulation of the credit risk policy, with the participation of the employees in charge of the credit extension in the Bank. The credit policy is discussed and approved at least once a year by the Management, loan and risk management committee and the Board of Directors of the Bank and is revised according to changes in the financial markets in Israel and globally, changes in regulation, etc., as detailed below. The Bank's procedures in the area of credit and credit risk management support and express this policy in practice.
The Board of Directors of the Bank has outlined a strategy for reducing undesirable exposure to credit risk by defining risk apetite. In this respect were defined areas of activities which are not in the marketing focus of the Bank, in cases were the risk level imbedded in them are high or if the level of management and control over them is not high enough, even though the potential yield from them is expected to be high.

Risk appetite

The Group's credit risk appetite reflects proportional willingness of taking credit risks, corresponding with coutious banking activity, corresponding with the supervisory requirements and corresponding with the volume of the Bank's activity and its character. Accordingly, the Bank's policy includes an extensive and detailed discussion of objectives and the manner of business credit development in different sectors and areas of activity, while defining detailed principles for each sector and area, including individual restrictions at the sub-sector level and the activities areas that are notable for a high level of risk.

Credit risk measurement, estimation and management systems

The Bank employs internal models for rating the credit risk inherent in the customer’s activity. The models are based mostly on objective criteria relating to the borrower’s position (the customer’s characteristics, the composition of his collateral, the financial resilience apparent in the customer’s financial reports, sector-specific data and other financial data).

Collaterals management policy

The Bank has a clearly defined policy regarding the acceptance of assets as collateral for credit, the manner in which collateral is pledged and the rates of reliance on each type of collateral.
Collateral reliance policy is conservative and based on the updated fair value of the collaterals, their liquidity and the speed at which they can be realized if necessary.

Problem loan policy and the provision for credit losses

- The Bank has lucid and orderly working procedures for facilitating the early detection of problem borrowers. The Bank determined procedures for identification of problematic debts and classification of problematic debts. In addition, the Bank determined a policy for the measurement of the provision for credit losses in order to maintain provision in an appropriate level to cover anticipated credit losses.
- Operating within the Bank are specialist units that process problem loans.

- As stated in the section on accounting policy and accounting estimates in critical matters, under a new directive from the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit risk and the allowance for credit losses, since January 1, 2011, and as adopted in the directives for reporting to the public, the Bank has applied US accounting standards in the matter (ASC 310) and the positions adopted by the banking supervision authorities, and the US Securities and Exchange Commission (SEC).

Supervision and control of the management of credit risk exposure

The Bank maintains suitable mechanisms for the control, management, supervision and audit of the credit risk management process. The Bank's managerial and control concept is to identify, quantify and estimate the exposure to credit risks on a current basis, and to control the adherence to the prescribed restrictions.

Credit risk exposure management is examined and reviewed constantly, within the review of all risks, by specialist committees and forums at the level of the Board of Directors, Management and the middle-management grades, as detailed in the risk report in the internet.

The Bank has a system for documenting the legal documents creating the liens on the assets pledged as colateral in the customers files and a system that controls the value of the assets, enabaling current daily supervision.

Environmental risk management

The Bank operates in accordance to the management of environmental risks policy as was defined within the credit policy of the Bank.

Reporting on exposure to credit risks

Management and the Board of Directors of the Bank receive a range of reports on exposure to credit risks, and in various cross-sections by management, supervision and control entities.

In addition, actual credit risk exposure as compared to the permitted frameworks and restrictions determined by the Board of Directors and the authorities for their management are reported in the quarterly Risks Document as required in Proper Conduct of Banking Business Regulations 310 and 311.

Significant exposures to borrower groups

As of December 31, 2017 there is no borrower group which its indebtness on consolidated basis, after deductions of permissible deduction according to section 5 of directive 313, exceeds 15% of the bank's capital, calculated according to to directive of Proper Conduct of Banking Business regulation concerning measurement and capital adequacy.

Credit quality and problematic credit risk

Problematic credit risk, including off-balance-sheet components, totaled NIS 1,642 million compared with NIS 2,069 million at the end of 2016, a decrease of 20.6%

The ratio of problematic credit risk to total credit risk at the group amounted to 1.4% at the end of 2017, compared with 1.8% at the end of 2016. 19.4% of problematic credit risk at the group are attributed to the manufacturing sector, 11.4% to the real estate sector, 23.0% to the commerce sector and 32.3% to the private customers sector including housing loans. The ratio of problematic credit risk to total credit to the public amounted to 1.8%, compared with 2.3% at the end of 2016.

For additional information regarding credit quality see note 29.b.(1) to the financial statements.

1. Problematic credit risk

	December 31, 2017			December 31, 2016		
	Balance-sheet	**Off-balance-sheet**	**Total**	**Balance-sheet**	**Off-balance-sheet**	**Total**
						NIS million
Impaired credit risk	**547**	**118**	**665**	582	174	756
Inferior credit risk	**157**	**5**	**162**	475	21	496
Credit under special supervision risk	**745**	**70**	**815**	740	77	817
Total problematic credit risk	**1,449**	**193**	**1,642**	1,797	272	2,069
Of which: Non-impaired debts in arrears of 90 days or more	**230**	**-**	**230**	221	-	221

	Balance on December 31, 2017	Balance on December 31, 2016
	NIS million	NIS million
2. Non-performing assets		
Impaired credit to the public not accruing interest income:	**493**	541
3. Performing impaired assets		
Impaired debts undergoing problematic debts restructuring and accruing interest income	**49**	36
Impaired bonds accruing interest income	**5**	5
Total performing impaired assets	**54**	41

	For the year ended December 31, 2017	2016
		NIS million
4. Changes in impaired debts		
Balance of impaired debts at beginning of year	**577**	764
Classified as impaired	***551**	243
Removed from impaired classification	**(41)**	(61)
Collection of debts	***(406)**	(258)
Accounting write-offs	**(139)**	(111)
Balance of impaired debts at end of year	**542**	577

* Of which: one debt that was classified as impaired in restructuring in the reported period and was collected later.

	2017	2016
5. Risk Indices		
Ratio of impaired credit to the public to total credit to the public	**0.95%**	1.02%
Of which:		
Ratio of impaired credit to the public to total credit to the public	**0.67%**	0.74%
Ratio of non-impaired credit to the public in arrears of 90 days+ to total credit to the public	**0.28%**	0.28%
Ratio of problematic credit risk in respect of the public to overall credit risk in respect of the public	**1.42%**	1.83%
Ratio of expenses for credit losses to average total credit to the public	**0.15%**	0.10%
Ratio of net write-offs in respect of credit to the public to average total credit to the public	**0.18%**	0.09%
Ratio of provision for credit losses in respect of credit to the public to credit to the public	**1.03%**	1.08%
Ratio of provision for credit losses in respect of credit to the public to total impaired credit to the public	**154.6%**	146.8%
Ratio of provision for credit losses in respect of credit to the public to impaired credit to the public plus credit to the public in arrears of 90 days or more	**108.5%**	104.3%
Ratio of net write-offs in respect of credit to the public to provision for credit losses in respect of credit to the public	**16.7%**	7.9%

The Decline in the ratio of impaired credit to the public to total credit to the public, and the decline in the ratio of problematic credit risk in respect of the public to overall credit risk in respect of the public, derive from a decrease in the balance of impaired credit, mainly due to repayments of debts and due to accounting write-offs. Concurrently, during the year a decrease in the inferior debts balance ocured, due to collection of debt. The increase in the ratio of expenses for credit losses to average total credit to the public, derives mainly from an increase in the expense for collective provision for credit losses. In 2017 the expense for collective provision for credit losses amounted to NIS 111 million, compared with NIS 67 million in 2016.

Total credit risk according to economic sectors

(NIS million)

	as at December 31, 2017									
	Total credit risk[1]			Debts[2] and off-balance credit risk (excluding derivatives)[3]						
								Credit losses[4]		
	Total	Credit execution rating[5]	Problematic[6]	Total	Of which: Debts[2]	Problematic[6]	Impaired	Expenses (income) for credit losses	Net accounting write-offs	Provision for Credit losses
In respect of borrowers in Israel										
Public-Commercial:										
Agriculture	591	541	11	585	467	11	6	(5)	(1)	5
Mining and quarrying	153	153	-	74	54	-	-	-	-	-
Industry	10,040	9,357	319	9,794	7,192	319	153	10	16	140
Construction and Real estate - construction[7]	9,409	9,041	90	9,349	3,935	89	66	(24)	(8)	75
Construction and Real estate - real estate activities	5,379	5,127	97	5,281	4,818	97	90	(6)	(6)	23
Electricity and water supply	1,130	1,067	5	919	713	5	4	2	1	6
Commerce	8,089	7,260	377	7,982	6,604	377	170	85	86	181
Hotels, hospitality and food services	979	883	24	963	815	24	9	5	12	12
Transport and storage	1,104	1,005	36	1,004	811	31	10	4	4	14
Information and communications	2,239	2,052	38	2,132	1,197	38	17	(7)	(5)	12
Financial services	14,446	14,271	18	10,592	8,020	18	1	(5)	-	25
Other business services	2,614	2,409	33	2,582	1,704	33	11	3	1	14
Public and community services	2,549	2,410	56	2,529	1,869	56	19	-	1	10
Total commercial[8]	58,722	55,576	1,104	53,786	38,199	1,098	556	62	101	517
Private individuals - housing loans	24,046	23,524	172	24,046	22,848	172	7	1	1	115
Private individuals - others	31,072	29,474	358	31,047	19,432	358	89	63	43	265
Total public - activity in Israel	113,840	108,574	1,634	108,879	80,479	1,628	652	126	145	897
Banks in Israel	1,585	1,585	-	1,305	1,305	-	-	-	-	-
Israeli government	7,093	7,093	-	677	675	-	-	-	-	-
Total activity in Israel	122,518	117,252	1,634	110,861	82,459	1,628	652	126	145	897
In respect of borrowers abroad										
Total public - activity abroad	2,084	2,075	8	753	737	8	8	(5)	(5)	2
Banks abroad	2,319	2,319	-	1,320	1,320	-	-	-	-	-
Foreign governments	1,932	1,932	-	-	-	-	-	-	-	-
Total activity abroad	6,335	6,326	8	2,073	2,057	8	8	(5)	(5)	2
Total public	115,924	110,649	1,642	109,632	81,216	1,636	660	121	140	899
Total banks	3,904	3,904	-	2,625	2,625	-	-	-	-	-
Total governments	9,025	9,025	-	677	675	-	-	-	-	-
Total	128,853	123,578	1,642	112,934	84,516	1,636	660	121	140	899

See notes on page 51.

Total credit risk according to economic sectors (Cont'd)
(NIS million)

	as at December 31, 2016									
	Total credit risk(1)			Debts(2) and off-balance credit risk (excluding derivatives)(3)						
								Credit losses(4)		
	Total	Credit execution rating(5)	Problematic (6)	Total	Of which: Debts(2)	Problematic (6)	Impaired	Expenses (income) for credit losses	Net accounting write-offs	Provision for Credit losses
In respect of borrowers in Israel										
Public-Commercial:										
Agriculture	543	493	25	542	437	25	7	8	2	10
Mining and quarrying	151	148	-	67	55	-	-	-	-	-
Industry	10,601	9,960	344	10,348	7,378	344	182	(32)	26	150
Construction and Real estate - construction(7)	9,673	9,207	167	9,627	3,439	166	119	(13)	(22)	90
Construction and Real estate - real estate activities	5,450	5,261	91	5,363	4,817	91	78	(3)	(4)	23
Electricity and water supply	1,512	1,447	3	944	686	3	2	1	-	5
Commerce	9,118	8,257	485	9,030	7,875	485	194	58	33	182
Hotels, hospitality and food services	914	785	30	897	743	30	15	3	3	18
Transport and storage	1,060	962	33	951	764	28	6	3	-	13
Information and communications	2,491	2,402	50	2,398	1,378	50	19	-	(2)	13
Financial services	13,311	12,961	242	9,764	7,221	242	2	6	2	31
Other business services	2,431	2,256	27	2,388	1,521	27	6	2	-	12
Public and community services	2,351	2,191	48	2,314	1,706	48	21	2	1	10
Total commercial(8)	59,606	56,330	1,545	54,633	38,020	1,539	651	35	39	557
Private individuals - housing loans	22,893	22,292	174	22,893	21,741	174	8	2	6	115
Private individuals - others	29,120	27,112	342	29,094	17,937	342	84	47	24	245
Total public - activity in Israel	111,619	105,734	2,061	106,620	77,698	2,055	743	84	69	917
Banks in Israel	946	946	-	481	481	-	-	-	-	-
Israeli government	10,535	10,535	-	659	654	-	-	-	-	-
Total activity in Israel	123,100	117,215	2,061	107,760	78,833	2,055	743	84	69	917
In respect of borrowers abroad										
Total public - activity abroad	1,717	1,709	8	492	477	8	8	(4)	(2)	1
Banks abroad	3,797	3,797	-	1,443	1,443	-	-	-	-	-
Foreign governments	2,160	2,160	-	-	-	-	-	-	-	-
Total activity abroad	7,674	7,666	8	1,935	1,920	8	8	(4)	(2)	1
Total public	113,336	107,443	2,069	107,112	78,175	2,063	751	80	67	918
Total banks	4,743	4,743	-	1,924	1,924	-	-	-	-	-
Total governments	12,695	12,695	-	659	654	-	-	-	-	-
Total	130,774	124,881	2,069	109,695	80,753	2,063	751	80	67	918

NOTES:
(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts, bonds, securities borrowed, assets in respect of derivative instruments and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 84,516, 10,042, 813, 1,342 and 32,140 million respectively (31.12.16 - NIS 80,753, 15,598, 414, 1,332 and 32,677 million respectively).
(2) Credit to the public, credit to governments, deposits with banks and other debts excluding bonds and securities borrowed.
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, excluding in respect of derivative instruments.
(4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").
(5) Credit risk wherein the credit rating at the date of the report, congruent with the credit rating for the execution of new credit, according to the policy of the Bank.
(6) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an provision based on the extent of arrears exists, and housing loans for which an provision based on the extent of arrears does not exist, which are in arrears of 90 days or more.
(7) Including balance sheet credit risk amounting to NIS 293 million, and non-utilized credit facilities amounting to NIS 225 million, in respect of loans extended to certain purchasing groups currently in the process of construction (31.12.16 - balance sheet credit risk amounting to NIS 247 million, and non-utilized credit facilities amounting to NIS 700 million).
(8) The balance of commercial debts includes housing loans in the amount of NIS 2,500 million, combined in the transaction and collateral position of commercial borrowers or those extended to certain purchasing groups currently in the process of constructions (31.12.16 - NIS 2,058 million).

Counter-party credit risk management

a. General

Counter-party credit risk is the risk that the counter-party to a transaction will become insolvent before the final settlement date for the payments in respect of the transaction. An economic loss will be caused if transactions with the counter-party have a positive economic value at the time when the counter-party becomes insolvent.

In contrast to credit exposure, in which the exposure is unilateral and the Bank alone bears the risk of a loss, counter-party risk creates a bilateral risk of a loss, dependent on the existence of a positive or negative transaction value for each of the parties to the transaction. Exposure to counter-party risk is also apparent in the transactions' market value. The market value of the transactions may change over the lifetime of the transaction.

b. Policy

The Bank has risk policy and risk appetite at the Group level for activity with financial institutions, both at the overall risk appetite level and at the level of exposure to the single counter-party in a particular type of exposure and single transaction, taking due account of the Bank's equity capital and proportion of positions in it and based on parameters derived from the financial resilience of the counter-party.

The Group manages positions in respect of counter-parties by means of netting agreements which significantly reduce the risks to the Group's capital in situations of counter-party repayment default.

As part of its current counter-party risk management, the Bank monitors daily the adherence to the credit line restrictions allocated for activity with banks and financial institutions.

c. Present credit exposure to counter-parties that are foreign financial institutions

Most of the Bank Group's credit exposure to foreign financial institutions is to banks, mainly the banking systems in Western Europe and North America. The exposure to other financial institutions is negligible.

Present credit exposure to foreign financial institutions,(1) consolidated

External credit rating	As of December, 2017			As of December 31, 2016		
	Balance-sheet credit risk(2)	Current Off-balance-sheet credit risk(3)	Aggregate credit risk	Balance-sheet credit risk(2)	Current Off-balance-sheet credit risk(3)	Aggregate credit risk
			NIS million			NIS million
AAA to AA-	**742**	**3**	**745**	945	100	1,045
A+ to A-	**1,122**	**36**	**1,158**	1,161	14	1,175
BBB+ to BBB-	**26**	**10**	**36**	205	14	219
BB+ to B-	**111**	**-**	**111**	64	-	64
Unrated	**-**	**3**	**3**	55	8	63
Total credit exposure to foreign financial institutions	**2,001**	**52**	**2,053**	2,430	136	2,566
Of which: Balance of problem loans (4)	**-**	**-**	**-**	-	-	-

* Restated.

NOTES:

(1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional investors and entities under their control.
(2) Deposits at banks, credit to the public, investments in bonds, securities that have been lent and other assets in respect of derivative instruments.
(3) Mainly guarantees and liabilities for the granting of credit, including guarantees for securing third-party indebtedness.
(4) Credit risk that is impaired, inferior or under special supervision.
(5) For the purpose of rating the financial institutions, the Bank used the ratings that were determined for the purpose of applying the Basel standardized approach. The Bank uses the rating of S&P for rating the foreign financial institutions to which credit exposure exists. When no S&P rating is available, the Bank uses the ratings of other rating agencies.

GENERAL NOTES:

a. Credit positions and problematic loans balances are presented after deduction of the provision for credit losses.
b. The credit positions do not include exposures to financial institutions that have an explicit and full government guarantee, and do not include investments in asset-backed securities.
c. For further information regarding the composition of credit positions in respect of derivative instruments against banks and (local and foreign) dealers/brokers, see Note 27.B to the financial statements. Off-balance-sheet credit risk in respect of transactions in derivative financial instruments which were conducted with foreign financial institutions as calculated for the purpose of borrower indebtedness restrictions totaled NIS 280 million on December 31, 2017 (December 31, 2016 - NIS 322 million).

The conservative risk appetite defined by the Board of Directors of the Bank is reflected by the distribution of the exposure of credit to financial institutions that are almost entirely graded at high ratings.
Most of the Group's present credit exposure (93%) is attributed to leading financial institutions in OECD countries, which are graded AAA to A-, and 36% of the total exposure is rated in the range between AAA to AA-.
The Group's balance-sheet credit exposure to foreign financial institutions includes an NIS 76 million investment in foreign currency bonds. All these bonds are investment grade bonds, which are rated A- or higher. The average duration of the portfolio is 2.6 years.
In addition, balance-sheet credit risk includes NIS 1.6 billion of deposits placed with foreign banks, mainly for a short period of a day to a week.

As of December 31, 2017 there is no country for which the Group has credit exposure to sovereigns exceeding 15% of the Bank's equity capital, which amounted to NIS 1,617 million (as defined in Proper Conduct of Banking Business Regulation No. 202 concerning capital components):

d. Reporting of exposure to counter-party credit risks

Management and the Board of Directors of the Bank and its committees receive a range of reports on the exposure to counter-party credit risks in various cross-sections by management, supervision and control entities.

Exposure to foreign countries

Balance-sheet exposure to foreign countries consists of deposits, bonds, credit to the public and the fair value of financial instruments.

Off-balance-sheet exposure consists of guarantees, off-balance-sheet credit risk with respect to financial derivatives and unutilized facilities.

A. Information regarding total exposures to foreign countries and exposures to countries where total exposure to each country is greater than 1% of total assets or greater than 20% of capital, whichever is lower (5) (NIS millions)

	As at December 31, 2017					
	Balance sheet exposure(2)					
	Cross-border balance sheet exposure			Balance sheet exposure of the Bank's foreign subsidiaries to local residents		
	to Governments (4)	To Banks	To Others	Before deduction for local liabilities	Deduction for local liabilities	Net of local liabilities
United States	**2,097**	**1,047**	**618**	**-**	**-**	**-**
Spain	**-**	**1**	**3**	**-**	**-**	**-**
Italy	**-**	**1**	**11**	**-**	**-**	**-**
Ireland	**-**	**-**	**1**	**-**	**-**	**-**
Portugal	**-**	**-**	**2**	**-**	**-**	**-**
Other	**131**	**1,061**	**2,479**	**210**	**2**	**208**
Total exposure to foreign countries	**2,228**	**2,110**	**3,114**	**210**	**2**	**208**
Total exposure to LDC countries	**-**	**1**	**170**	**-**	**-**	**-**

	As at December 31, 2016					
	Balance sheet exposure(2)					
	Cross-border balance sheet exposure			Balance sheet exposure of the Bank's foreign subsidiaries to local residents		
	to Governments (4)	To Banks	To Others	Before deduction for local liabilities	Deduction for local liabilities	Net of local liabilities
United States	2,405	972	405	-	-	-
Spain	-	4	3	-	-	-
Italy	78	1	20	-	-	-
Ireland	-	-	14	-	-	-
Greece	-	-	-	-	-	-
Portugal	-	-	2	-	-	-
Other	79	2,462	1,491	245	32	213
Total exposure to foreign countries	2,562	3,439	1,935	245	32	213
Total exposure to LDC countries	-	80	204	-	-	-

(1) On the basis of final risk, after effect of guarantees, liquid collateral and credit derivatives.
(2) Balance sheet and off-balance sheet credit risk, problematic credit risk and impaired loans are presented before the effect of provision for credit losses and before the effect of deductible collateral for the purpose of indebtedness of borrower and group of borrowers.
(3) Off-balance sheet credit risk as calculated for the purpose of the limits on indebtedness of borrower.
(4) Governments, Official authorities and Central Banks.
(5) Information regarding exposures to the countries: Portugal, Ireland, Italy, Spain and Greece is given.

			Off-Balance sheet exposure(2)(3)		Cross-border balance sheet exposure(2)	
Total balance sheet exposure	Problematic balance sheet credit risk	Impaired debt	Total off-balance sheet exposure	Of which: off-balance sheet problematic credit risk	Maturity up to one year	Maturity over one year
3,762	**-**	**-**	**84**	**-**	**3,289**	**473**
4	**-**	**-**	**19**	**-**	**3**	**1**
12	**-**	**-**	**2**	**-**	**10**	**2**
1	**-**	**-**	**1**	**-**	**1**	**-**
2	**-**	**-**	**-**	**-**	**2**	**-**
3,879	**13**	**-**	**502**	**-**	**2,749**	**922**
7,660	**13**	**-**	**608**	**-**	**6,054**	**1,398**
171	**1**	**-**	**81**	**-**	**155**	**16**

			Off-Balance sheet exposure(2)(3)		Cross-border balance sheet exposure(2)	
Total balance sheet exposure	Problematic balance sheet credit risk	Impaired debt	Total off-balance sheet exposure	Of which: off-balance sheet problematic credit risk	Maturity up to one year	Maturity over one year
3,782	5	1	89	-	2,711	1,071
7	-	-	31	-	6	1
99	-	-	3	-	95	4
14	-	-	1	-	14	-
-	-	-	1	-	-	-
2	1	-	-	-	2	-
4,245	18	5	650	-	2,952	1,080
8,149	24	6	775	-	5,780	2,156
284	1	-	109	-	266	18

B. Information regarding countries where total exposure to each country is between 0.75% and 1% of total consolidated assets, or between 15% and 20% of capital, whichever is lower

Balance-sheet exposures:

Balance-sheet balances	Balance-sheet balances
December,31	December,31
2017	2016
-	United Kingdom 880

C. Information regarding balance-sheet exposure to foreign countries with liquidity problems (NIS million)

	Year ended December 31, 2017		
	Portugal	Puerto Rico	Venezuela
Total exposure at beginning of the reported year	**2**	**2**	**2**
Short-term changes in total exposure, net	**-**	**-**	**-**
Additional exposures	**-**	**2**	**-**
Total exposure at end of the reported year	**2**	**4**	**2**

	Year ended December 31, 2016				
	Ireland	Cyprus	Portugal	Puerto Rico	Venezuela
Total exposure at beginning of the reported year	19	-	1	3	2
Short-term changes in total exposure, net	(5)	(6)	1	(1)	-
Additional exposures	-	6	-	-	-
Total exposure at end of the reported year	14	-	2	2	2

Risks in the Housing loans portfolio

Mortgage activity at the Bank Group

Exclusive of refinancing transactions, the Bank extended mortgages to the public at an overall amount of NIS 3,769 million in 2017 compared with NIS 4,340 million in 2016, a decrease of 13.2%. These data include housing loans from the Bank's own sources (excluding credit from Treasury funds) in the amount of NIS 3,756 million compared with NIS 4,337 million in 2016. Rollovers deriving from early repayments in 2017, totaled NIS 217 million compared with NIS 336 million in 2016, a decrease of 35.4%.

The Group's credit policy in the area of mortgage activity

In view of the risk to which the Israeli banking system is exposed in its mortgage activity, developments in the housing loan market and the Supervisor of Banks' directives, the Bank adopts a conservative credit policy that is approved by the Board of Directors of the Bank and that is examined yearly. This conservative approach is reflected by an examination of LTV, the repayments as a percentage of the borrower's debt-to-income ratio and the ability to maintain current repayments in interest rate adjustment scenarios. In addition, restrictions are applied on the ratio of the floating interest in the loan mix and on loan size per single borrower. The Bank adopts a particularly cautious approach to properties notable for a complex registration situation, taking due account of the quality of the customer and the LTV.

When granting credit to purchase groups, the Bank focuses on groups that are building in demand areas, and in groups that the orgenizer has an approved experience. Apart from conducting current examinations, the Bank holds a quarterly discussion on all purchase groups' portfolios, examines the projects in question, and ascertains whether an allowance for credit losses is necessary with respect to the purchase groups, over and above the individual risk of each member of the groups.

The Bank ensures that each transaction is priced in accordance with the risk involved and the capital retention required by means of advanced yield calculation tools.

The Bank performs monthly control on the development of risks charechteristics, among them: LTV, income-debt ratio, loan purpose etc.

Loan to value

One of the main parameters used by the Bank in examining the risk in the housing loan portfolio is the loan to value ratio (LTV). The LTV is calculated in accordance with the Banking Supervision Division's Directive No. 876- "Report on housing loans," and is the ratio between the amount of credit and the value of the assets serving as collateral on the date at the time the loan is approved. It should be noted that in itself, a rise in the value of the property does not constitute an event for the purpose of re-calculating the LTV. However, when additional credit secured by the same property is granted, the LTV can be calculated on the basis of a revised value appraisal.

The portfolio of housing loans extended from the Bank's sources on December 31, 2017 amounted to NIS 22,744 million, including 71% of credit granted at an LTV of up to 60%, similar to December 31, 2016. 95% of total loans were granted at an LTV of up to 75%, similar to December 31, 2016.

Housing loan extensions from the Bank's sources in 2017 totaled NIS 3,756 million, including 76% of credit granted at an LTV of up to 60%, compared with 73% in 2016. All loan extensions were granted at an LTV of up to 75%, similar to 2016.

Debt-income ratio

Another key parameter used by the Bank in examining the risk in the housing loan portfolio is the debt-income ratio. This ratio enables the Bank to assess a borrower's ability to maintain current loan repayments in an orderly manner from the borrower's regular income at the date of the extension of the loan.

The portfolio of housing loans extended from the Bank's sources as of December 31, 2017 included 79% of credit granted at a debt-income ratio of up to 35% similar to December 31, 2016. 90% of the credit was extended to borrowers on the basis of a debt-income ratio of up to 50%, similar to December 31, 2016.

Housing loan extensions from the Bank's sources in 2017 included 83% of credit granted at a debt-income ratio of up to 35% compared with 84% in 2016. 88% of the credit was extended to borrowers on the basis of a debt-income ratio of up to 50% compared with 92% in 2016. This information includes loans secured by residential apartments.

Floating-rate loans

The portfolio of housing loans from the Bank's sources as of December 31, 2017 includes 62% of credit that was granted at floating-rate interest and amounts to NIS 14,178 million.

Housing loan extensions from the Bank's sources in 2017 include NIS 1,252 million of credit granted at floating-rate interest of up to five years constituting 33% of extentions. An amount of NIS 811 million (22% of the extensions) is floating-rate credit five years and above.

Long-term loans

The portfolio of housing loans from the Bank's sources as of December 31, 2017 includes 61% of credit whose redemption period as of the report date is up to 20 years and amounts to NIS 13,954 million.

Housing loan extensions from the Bank's sources in 2017 include 50% of credit whose redemption period as of the report date is up to 20 years and amounts to NIS 1,892 million.

Set out below are data on the development of the housing loan portfolio at the Bank alone by linkage segments (excluding credit from Treasury funds and after deduction of the allowance for credit losses)

	For residential purposes											Secured by a residential apartment	Total
	Unlinked segment				CPI-linked segment				Foreign-currency linked segment		Total		
	Fixed-rate		Floating rate		Fixed-rate		Floating rate		Floating rate				
	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Balance	Balance
	NIS million	%	NIS million	%	NIS million	%	NIS million	%	NIS million	%	NIS million	NIS million	NIS million
31.12.17	**5,304**	**24.4**	**9,563**	**44.1**	**3,010**	**13.9**	**3,779**	**17.4**	**48**	**0.2**	**21,704**	**1,040**	**22,744**
31.12.16	4,660	22.8	8,866	43.3	3,019	14.8	3,825	18.7	75	0.4	20,445	1,179	21,624

Set out below are data on the development of housing loan extensions at the Bank alone (excluding credit from Treasury funds)

	2017	2016	2015	2014	2013
Total housing loan extensions (NIS million)	**3,756**	4,337	4,796	3,707	3,550
Rate of change in housing loan extensions compared with previous year	**(13%)**	(10%)	29%	4%	(5%)
Rate of expense (income) on credit losses relative to mortgages at the Bank's risk	**(0.01%)**	0.01%	0.01%	0.01%	0.20%
Cumulative rate of allowance for credit losses relative to mortgages at the Bank's risk	**0.51%**	0.55%	0.60%	0.74%	0.86%

Private individuals credit risk (excluding housing loans)

General

The private consumption is in growth trend during the last years, and as a result also the volume of credit to private individuals.

The banks in the Group grant consumer credit to a variety of households, made up mainly of individuals in employee positions, part of whom in the education system and part in the defense system.The bank provides also services to other private customers on the basis of personal agreements and on the basis of collective agreements.

The credit policy for private individuals reflects the risk apetite of the Bank and its intensions as to the risk spreads it wants to take as well as the wanted profile for the private individuals credit portfolio and its volume in respect to the overall credit portfolio.

The granting of credit is based on statistical models for the rating of credit risk, which take into account the personal parameters of each customer, including: his income and and stability of income, financial wealth, his repayment ability and past experience of the Bank with the customer.

This perception is well reflected in the credit policy of the Bank through quantitative and qualitative restrictions for the granting of credit in the level of the single customer and in the level of the Bank, as well as in control procedures and structured work procedures, in the different control lines.

Models of credit rating used by the banks both for the direct granting of credit via the Internet, the cellular application and via "International Bank Call", and in the underwriting process of credit at the branches. The credit recommendations derived from the statistical models together with procedures of the Bank based on the credit policy of the Bank and the qualitative and quantitative limitations included therein - shape the proportional risk appetite of the Group as regards the consumer credit field.

The Bank focuses on retail credit, typified by a high level of distribution and a low level of risk, taking into account the fact that the Bank has subsidiaries engaged in the credit field, the Bank operates from a Group viewpoint and acts for the implementation of an orderly work format of the Group, which defines, inter alia, a business focused format for each subsidiary in the Group. The targeted population is mostly a population having stable sources of income, which requires finance in the consumer field and has credit repayment ability, inter alia, salaried persons and those having a fixed income, designated populations having a joint connection on a country-wide level (such as: teaching personel, Ministry of Defense personnel, etc.) having repayment ability or realizable collateral.

Teaching personnel loan tender are loans repaid by the direct withholding from salary. Loans to Ministry of Defense personnel are granted within the framework of different tender, reflect the capitalization of rights for interim periods and are characterized by large amounts and long periods. Moreover, within the framework of the terms of the tender, the responsibility of the Ministry of Defense for the repayment of the credit in default cases is determined, thus reducing to a minimum the risk of credit granted to Ministry of Defense personnel within this framework.

These loan repayments and additional loans to the defense personnel population as well as loans granted in the framework of collective agreements, deducted directly from salaries.

73% of the balance of the credit risk to private individuals is in respect of customers with fixed income credited to the account in an amount exceeding NIS 10 thousands.

Set out below is the distribution of Private individuals credit risk (excluding housing loans) in Israel:

	As of December 31		
	2017	**2016**	**change**
		NIS million	%
Current account and utilized balances of credit cards	**5,024**	4,598	9.3%
Other loans	**14,408**	13,339	8.0%
Total balance credit risk	**19,432**	17,937	8.3%
Unutilized current account credit lines	**3,985**	3,805	4.7%
Unutilized credit lines in credit cards	**6,216**	5,561	11.8%
Other off-balance credit risks	**1,414**	1,791	(21.0%)
Total off-balance credit risk	**11,615**	11,157	4.1%
Total credit risk	**31,047**	29,094	6.7%
Average volume of credit, including overdrafts, credit cards and loans	**18,421**	17,355	6.1%

Set out below is the distribution of Private individuals credit risk of total debts (excluding housing loans) in Israel:

	As of December 31		
	2017	**2016**	**change**
		NIS million	%
Impaired credit risks	**89**	84	**6.0%**
Unimpaired problematic credit risk	**269**	258	4.3%
Non-problematic credit risk	**30,689**	28,752	6.7%
Total credit risk	**31,047**	29,094	6.7%
Of which: unimpaired debts in arrears of 90 days or more	**40**	41	(2.4%)
Balance of restructured debts out of the problematic credit	**74**	71	4.2%
Expense rate of credit losses out of total credit to the public	**0.33%**	0.27%	

Following is the distribution of credit risk relating to private individuals in Israel by fixed income credited to the account

	December 31, 2017			
Fixed income credited to the account*	**Total financial assets** lower than NIS 50 K**	**Total financial assets** higher than NIS 50 K**	**Balance sheet Credit risk**	**Off-balance sheet credit risk**
NIS thousands				NIS million
No fixed income	**540**	**59**	**599**	**290**
Up to 10	**3,993**	**569**	**4,562**	**2,808**
From 10 to 20	**4,613**	**1,215**	**5,828**	**3,252**
Over 20	**5,039**	**3,404**	**8,443**	**5,265**
Total	**14,185**	**5,247**	**19,432**	**11,615**

* Fixed income credited to the account as defined in the reporting instruction to the Supervisor of Banks No.836 (which includes actual salary, total annuities, cash deposits and check deposits).

** The financial assets portfolio related to the account, such as: monetary deposits (including current account balances), securities portfolios and other financial assets.

Distribution by average period to redemption (according to the last repayment date of the loan)

	December 31, 2017	
Period	**Balance sheet credit risk**	**Average period to redemption**
	NIS million	years
Up to one year	**5,665**	**0.15**
From one to three years	**2,834**	**2.11**
From three to five years	**4,138**	**4.17**
From five to seven years	**2,344**	**5.98**
Over seven years	**4,451**	**10.91**
Total	**19,432**	**4.46**

Distribution by size of credit to the borrower*

	December 31, 2017		
Credit range to the borrower	**Balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk****
NIS thousands			NIS million
Up to 10	**252**	**650**	**902**
From 10 to 20	**391**	**801**	**1,192**
From 20 to 40	**1,097**	**1,761**	**2,858**
From 40 to 80	**2,898**	**2,873**	**5,771**
From 80 to 150	**5,312**	**2,816**	**8,128**
From 150 to 300	**6,002**	**2,059**	**8,061**
Over 300	**3,480**	**655**	**4,135**
Total	**19,432**	**11,615**	**31,047**

* Definition of borrower - in accordance with the definition included in Proper Conduct of Banking Business Directive No. 313.

** Total credit risk - excluding indebtedness in respect of derivatives and excluding residential loans.

Distribution by type and extent of exposure to a significant growth in payments

	December 31, 2017
	Balance sheet credit risk
Type of credit	NIS million
Current account	**1,811**
Credit card	**3,213**
Credit carrying variable interest	**13,768**
Credit carrying fixed interest	**636**
Other*	**4**
Total	**19,432**

* Other comprehensive credit, inter alia, lending by customers and debtors in respect of legal expenses regarding troubled customers.

Collateral

		December 31, 2017	
	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk**
			NIS million
Total credit secured by collateral*	**3,571**	**1,017**	**4,588**
*Of which: Non-liquid collateral	**2,785**	**762**	**3,547**
Liquid collateral	**786**	**255**	**1,041**

Description of operations

A. The underwriting of credit to private individuals

The underwriting of consumer credit is conducted taking into consideration of personal parameters of the customer and reflects readiness for proportional acceptance of credit risk. This concept is well reflected in quantitative and qualitative limitations, as well as by means of a wide array of structured work procedures and lose control processes in the different control lines.

The banks in the Group offer credit to their customers in an initiated fashion on the basis of monitoring the risk characteristics of the borrower and identifying his needs. As part of the underwriting process, several criteria that form a decision supporting tool are examined, inter alia, general information regarding the customer (his identity, financial stability, conduct of his account and any additional information which might assist in the underwriting process), the object of the credit, the volume of activity of the customer with the Bank in relation to the pricing of the transaction, repayment ability, the total credit mix in the account and the modification thereof to the customer's needs. This process is based upon values of fairness and transparency, when in each initiated approach by the Bank (or following exposure of the customer to marketing information on the Internet website or on the cellular application) full disclosure is provided to the customer as regards the assets and liabilities in his account and the returns thereon, to the extent computable. Such information is intended to enable the customer to make an intelligent decision regarding the advisability of taking the loan prior to taking action.

The Bank is preparing for the expansion of the volume of operations in the retail credit segment, inter alia, by means of performing the segmentation of customers in a manner that allows careful and professional relationship and proficiency, while maintaining an adequate control environment, as well as by intensifying digital operations encouraging the online taking of loans, maintaining a proportional risk appetite.

B. The manner of supervising and monitoring risk characteristics

The banks in the Group have a high level of skill and expertise in the field of retail credit due to many years of experience in household credit.

The Group trains its employees at a high level of professional skill in the credit field, having decision supporting computer systems and control and monitoring systems for the early discovery of borrowers in default or of negative symptoms.

The Group hedges acceptance of credit risks, inter alia, by means of the distribution of risk among customers.

Risk management and the control thereof are conducted at the Bank by means of an appropriate infrastructure of restraint, supervision, control and audit mechanisms. Control in the matter of consumer credit is conducted by means of three defense lines.

Controls conducted within the framework of the first line of defense include: the monitoring of deviation from current account and revolving debit account credit facilities, examination of troubled credit in arrears and follow-up of developments in the troubled consumer credit at the branches.

The second line of defense includes different controls, the essence of which are intended to test the financial management of accounts and to identify signs for deterioration in the debt situation. Deterioration signs may stem from a decline in the volume of operations, deviation from approved credit facilities, etc. In addition, the Bank uses supporting computer systems, such as a system for the identification and treatment of debts showing trouble symptoms and a statistical system forecasting credit default.

The third line of defense is the internal audit group, which is responsible for performing independent audits of risk management, work framework and controls over consumer credit risks, including the work of the first and second lines of defense in respect of this risk.

Construction and real estate sector risks

On background of the risk under which the Israeli banking sector is operating in the construction and real estate credit field, as well as on background of changes and developments in the housing credit market, directives of the Supervisor of Banks and Government regulations, the Bank adopts a proportional and careful credit policy, approved by the Board of Directors of the Bank, which is examined every year and is revised in accordance with changes in conditions in the country, changes in regulation, etc. The said proportionality and care are reflected in the examination of the financing ratio, the careful examination of failures in the financing of construction projects and examination of the ratio of the borrower's equity and early sales, this in order to reduce the risk to the extent possible.

Moreover, The Bank has adopted a specific policy in respect of the different lines of operation in the real estate and construction field, includign the financing of housing construction, financing of income producing property construction, as well as financing of construction of income producing offices, commercial and industrial properties. The Bank grants credit to "acquisition groups" and focuses on groups having projects in demand areas and on groups the organizer thereof has proven experience in this field.

Over and above examination performed on a current basis, the Bank conducts monthly discussions with respect of all credit portfolios and examines the condition of the projects as well as the level of risk inherent in each, and reduces exposure accordingly.

The pricing of each transaction is strictly calculated in accordance with the risk involved and the required capital allocation, using tools for the calculation of returns.

The parameters used by the Bank for the examination of risk relating to the real estate credit portfolio are mostly "loan to value", the ratio of the credit amount to the value of assets used as collateral at date of approval of the loan, based on an updated value assessment and the existence of stable sources for the repayment of the credit.

Examination of the risk relating to the construction credit portfolio is performed on a monthly basis, based on construction progress reports by the supervisor of the project, where the examined risks are both at the level of market risk and at the level of execution risk.

Following are data of credit to the public risk in the construction and real estate field:

	December 31	
	2017	2016
		NIS million
Overall credit risk(1)		
Projects not yet completed		
Of which: Open land	**1,282**	978
Property under construction	**4,764**	5,301
Completed building projects	**3,994**	3,966
Other(2)	**4,748**	4,878
Total	**14,788**	15,123

(1) Of which: credit secured by housing property in the amount of NIS 4,782 million, Credit secured by industrial property in the amount of NIS 394 million and credit secured by commercial property in the amount of 4,864 million (31.12.16 - NIS 5,215 million, NIS 392 million and NIS 4,638 million, respectively).

(2) Includes credit to borrowers in the construction and real estate field in Israel, the collateral provided by them does not include real estate, or borrowers where the value of their property for prompt realization purposes secures less than 50% of the credit risk of the borrower.

Leveraged Finance

Leveraged finance is defined as credit granted for financing capital transaction in corporation (as defined in the Bank of Israel directive 323) that meats certain criteria, and credit granted to debtors characterized with high finance leverage.

The Bank considers leveraged finance as credit granted for certain purposes as detailed in the risk report in the internet website of the Bank.

As of December 31, 2017 total aggregate balances (balance sheet credit and off-balance sheet credit net of provisions for credit losses and deductible collateral) considered as leveraged finance, ampounted to NIS 1,272 million, as compared to NIS 1,172 million at the end of 2016.

MARKET RISK

General

1. Market risk (financial risk) is the actual or future existence of a risk to the Group's income and capital and risk of erosion in the Group's fair value as the result of changes in prices, rates and margins in the financial markets in which it operates or is likely to operate, and which affect the value of the Group's assets or liabilities: interest rates, exchange rates, inflation, securities prices, volatility in these parameters and changes in other economic indexes.
2. The Bank has a detailed policy for the management of exposure to financial risks. The policy document outlines and details, inter alia, overall financial risk appetite and risk appetite across a single cross-section of risk and principles for activity.

Supervision and control of market risk exposure management

The Bank employs a suitable network of control, management, supervision, independent control and audit mechanisms with respect to the market risk management process. The managerial and review concept employed by the Bank is to detect, quantify and estimate exposure to market risks and to control the adherence to the restrictions prescribed.
Market risk management is examined and controlled on a current basis by special committees and forums at the Board of Directors, Management and middle-management grades (as detailed in the risk report in the internet website of the Bank).

Reporting of market risk exposures

The Management, the Risk Management Committee and the Board of Directors of the Bank receive a variety of reports on exposure to market risks and in various cross-sections and among other things, development in the risk and in the financial environment and adherence to restrictions. These reports are submitted by management, supervisory and control entities.

Risk appetite

The Group's risk appetite reflects proportional willingness of taking financial risks, corresponding with coutious banking activity, conservative, corresponding with the supervisory requirements and corresponding with the volume of the Bank's activity and its character. In general, the Bank aspires to minimize the financial risks it is taking, and endeavors to create proper profitability while taking low financial risks.
Accordingly, the Bank's policy includes an extensive variety of risk/loss quantity restrictions, proportional to the Bank's capital, and tight control processes and structured working processes in the various control lines of defense.

Methodology for the estimation of exposure to market risk

The Bank manages and controls exposure to market risks by means of a number of generally accepted models and tools which include VaR calculations and the operation of stress tests, interest exposure management and control tools, such as: duration, fair value, analyses of sensitivity to changes in the interest-rate curve.

Interest exposure

General

Interest risk is the actual or future existence of a risk to the Group's income as the result of a difference between the redemption dates or interest adjustment dates of assets and liabilities in each of the segments of activity. The main shapes of the interest risk to which the Bank is exposued to are: risk of repricing, yield curve risk, basis risk and option risk. Interest risks in respect of the entire portfolio are the dominant risks to which the Bank is exposed in all matters relating to their effect on the fair value of assets and liabilities and its effect on earnings. The Bank manages the interest risks in accordance with the Bank of Israel directive 333, a specific directive in the area of interest risk management with emphasis on the banking portfolio. The Bank implemented policy for the management of interest risk, in accordance with the regulations.

Exposure management

Interest risk exposure is managed by means of adjusting the duration of sources and uses and reducing exposure to erosion in fair value as the result of unexpected changes in interest rates, subject to the limits determined by the Board of Directors. In each segment the exposure for unpredicted change in the interest rate for all periods and different interest senarios is measured, and its potential erosion on the economic value and the accounting profit for 12 months forward, in each of the segments seperately, and all segments together, is measured. The Bank's principal exposure to interest risks is attributed to financing activity in the non-linked shekel segment and in the CPI linked segment, and results from the characteristics of the investment in those segments, which derive from the range of uses and sources in these segments.
The Bank uses derivative financial instruments part of its assets and liabilities management, including for hedging, in order to minimize the interest risk in specific activities in the nostro portfolios.

Risk appetite

- The interest risk appetite is conservative, as reflects in the restrictions, and the utilization of the exposure limits is conducted according to the Bank's estimates regarding expected interest rates and the structure of the interest curve in different time horizons and subject to the restrictions defined in the financial risks policy.
- The Bank has series of restrictions on changes in the interest curve and specific restrictions on the extent of interest exposure at the level of the dealing rooms and the interest-risk generating units and restrictions on the maximum erosion in fair value in crisis scenario.

Actual exposure on the report date

Interest risk is measured on the basis of assumptions regarding the redemption periods of assets and liabilities. The effect of the early repayment of housing loans is also taken into account in risk management.
Non-interest bearing current accounts have credit balances at a stable amount over time. The Bank bases on specific model and determined that the redemption period of the stable current accounts will be for several years.

Set out below is a description of the sensitivity of the Group's capital to parallel changes in the interest rate curve - the theoretical change in economic value resulting from a parallel increase of 1% in the interest curve:

	% actual exposure	
	December 31, 2017	**December 31, 2016**
Non-linked local currency*	**0.92**	(0.90)
CPI-linked local currency	**(0.95)**	(1.57)
Foreign currency and foreign-currency linked	**(0.53)**	(0.60)

* The main change in the exposure data compared with December 31, 2016 derives from implementation of early repayment of mortgages and from the reduce in the interest exposure.

Analysis of sensitivity to the effect of exposure to interest rate adjustments based on the fair value of financial instruments

Set out below is information on assets and liabilities that are exposed to changes in interest rates on the basis of their fair value, including a sensitivity analysis of the effect of theoretical changes in the interest rate on the fair value of financial instruments, excluding non monetary items, according to accounting rules:

Set out below are details of the effect of changes in the interest rate on the fair value of the asset surplus in the segment:

1. The fair value of the financial instruments of the Bank and its consolidated companies, with the exception of non-monetary items (before the effect of theoretical changes in interest rates):

As of December 31, 2017	Local currency		Foreign currency (2)			
	Non-linked	CPI-linked	Dollar	Euro	Other	Total
						NIS million
Financial assets(1)(7)	**106,710**	**11,675**	**9,265**	**2,783**	**642**	**131,075**
Amounts receivable in respect of derivative financial and off-balance-sheet instruments(3)	**23,646**	**462**	**25,674**	**7,284**	**2,091**	**59,157**
Financial liabilities (1)(5)	**94,194**	**11,411**	**16,014**	**2,972**	**1,114**	**125,705**
Amounts payable in respect of derivative financial and off-balance-sheet instruments	**30,879**	**713**	**18,857**	**7,111**	**1,581**	**59,141**
Net fair value of financial instruments	**5,283**	**13**	**68**	**(16)**	**38**	**5,386**

As of December 31, 2016	Local currency		Foreign currency (2)			
	Non-linked	CPI-linked	Dollar	Euro	Other	Total
						NIS million
Financial assets (1)	96,462	12,801	10,518	2,207	869	122,857
Amounts receivable in respect of derivative financial and off-balance-sheet instruments(3)	21,706	375	28,987	8,018	4,083	63,169
Financial liabilities(1)(5)	83,492	11,802	17,066	4,724	1,314	118,398
Amounts payable in respect of derivative financial and off-balance-sheet instruments	31,135	603	22,299	5,569	3,603	63,209
Net fair value of financial instruments	3,541	771	140	(68)	35	4,419

2. Effect of theoretical changes in interest rates on the net fair value of financial instruments of the Bank and its consolidated companies, with the exception of non-monetary items:

The redemption time of non-interest bearing current accounts which is used for calculating the said exposure is on demand and up to a month. Calculation of the exposure does not include the effect of early repayments of housing loans.

As of December 31, 2017	Net fair value of financial instruments, after effect of changes in interest rates (4)								
	Local currency		Foreign currency (2)			Offsetting effects	Total	Total change in fair value(6)(7)	
	Non-linked	Linked	Dollar	Euro	Other				
		NIS million			NIS million		NIS million	NIS million	In percent
Changes in interest rates									
Immediate parallel increase of one percent	**5,089**	**(20)**	**36**	**(27)**	**35**	**-**	**5,113**	**(273)**	**(5.07)**
Immediate parallel increase of 0.1 percent	**5,266**	**9**	**65**	**(17)**	**38**	**-**	**5,361**	**(25)**	**(0.46)**
Immediate parallel decrease of one percent	**5,572**	**43**	**96**	**(28)**	**42**	**-**	**5,725**	**339**	**6.29**

As of December 31, 2016	Net fair value of financial instruments, after effect of changes in interest rates (4)								
	Local currency		Foreign currency (2)			Offsetting effects	Total	Total change in fair value(6)	
	Non-linked	Linked	Dollar	Euro	Other				
		NIS million			NIS million		NIS million	NIS million	In percent
Changes in interest rates									
Immediate parallel increase of one percent	3,202	705	97	(73)	35	-	3,966	(453)	(10.25)
Immediate parallel increase of 0.1 percent	3,504	764	136	(68)	35	-	4,371	(48)	(1.09)
Immediate parallel decrease of one percent	3,920	847	180	(65)	35	-	4,917	498	11.27

(1) Including complex financial instruments. Not including balance-sheet balances of off-balance-sheet financial instruments.

(2) Including foreign-currency linked local currency.

(3) Amounts receivable (payable) in respect of derivative financial instruments and off-balance-sheet financial instruments, discounted by the interest rates used for calculating the fair value in all currencies which are not USD and other principal currencies for which separate disclosure is given.

(4) The net fair value of financial instruments which is presented in each of the linkage segments is the net fair value in that segment on the assumption that a change has occurred which is noted in all the interest rates in the linkage segment. The total net fair value of financial instruments is the net fair value of all the financial instruments (with the exception of non-monetary items), on the assumption that a change has occurred which is noted in all the interest rates in all the linkage segments.

(5) Including the fair value of actuarial liability to employees in the amount of NIS 1,166 million (31.12.2016- NIS 1,166 million) and not including the value of the assets of the program.

(6) Measurement includes the sensitivity effect of the actuarial liability to employees, that was estimated in decline in fair value in the amount of NIS 75 million in a scenario of 1% interest increase (31.12.2016- NIS 74 million) and does not include the sensitivity effect of the program assets to changes in interest, that was estimated in decrease in the value of the assets in the amount of NIS 19 million (NIS 16 million) in a scenario of increase in interest of 1%.

(7) At December 31, 2017, cash flows in respect of mortgages were assessed according to the premature repayment forecast, which is based on a statistical model. Capitalization of the said cash flow, according to the anticipated repayment dates instead of the contractual repayment dates, increased the fair value of the mortgages by an amount of NIS 46 million. In a scenario of a 1% rise in the interest rate, the change in fair value was increased by NIS 99 million, while in a scenario of a 1% decrease in the interest rate, the change in fair value declined by NIS 112 million. The comparative data as of December 31, 2016, has not been reclassified.

EXPOSURE OF THE BANK AND CONSOLIDATED SUBSIDIARIES TO FLUCTUATIONS IN INTEREST RATES

	On demand and up to one month	One to three months	Three months to one year	One to three years	Three to five years	Five to ten years
	NIS million					
Israeli currency - unlinked						
Financial assets, amounts receivable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial assets						
Financial assets(1)	90,152	2,106	3,451	4,328	2,688	2,799
Derivative financial instruments (except options)	6,531	8,513	3,408	1,830	1,244	793
Options (in terms of the underlying asset)	281	521	505	20	-	-
Total fair value	96,964	11,140	7,364	6,178	3,932	3,592
Financial liabilities and amounts payable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial liabilities						
Financial liabilities(1)	77,636	2,819	4,443	6,588	1,425	106
Derivative financial instruments (except options)	14,090	7,675	3,685	1,470	1,741	912
Options (in terms of the underlying asset)	210	570	523	3	-	-
Total fair value	91,936	11,064	8,651	8,061	3,166	1,018
Financial instruments, net						
Exposure to fluctuations in interest rates in the segment	5,028	76	(1,287)	(1,883)	766	2,574
Cumulative exposure in the segment	5,028	5,104	3,817	1,934	2,700	5,274
Israeli currency - Linked to the CPI						
Financial assets and amounts receivable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial assets						
Financial assets(1)	996	439	2,274	3,979	2,364	1,133
Derivative financial instruments (except options)	3	7	22	280	131	19
Total fair value	999	446	2,296	4,259	2,495	1,152
Financial liabilities and amounts payable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial liabilities						
Financial liabilities(1)	1,174	211	1,286	4,360	3,183	948
Derivative financial instruments (except options)	151	-	259	268	16	19
Total fair value	1,325	211	1,545	4,628	3,199	967
Financial instruments, net						
Exposure to fluctuations in interest rates in the segment	(326)	235	751	(369)	(704)	185
Cumulative exposure in the segment	(326)	(91)	660	291	(413)	(228)

See notes in page 72.

Ten to twenty years	Over twenty years	With no repayment period	Total fair value	Internal rate of return	Effective duration	Total fair value	Internal rate of return	Effective duration
				December 31, 2017			December 31, 2016	
			NIS million	%	years	NIS million	%	years
849	40	297	106,710	3.18	0.47	96,462	3.26	0.71
-	-	-	22,319		0.80	20,643		0.79
-	-	-	1,327		0.28	1,063		0.36
849	40	297	130,356		(2)0.52	118,168		(2)0.72
10	1	-	93,028	0.57	0.23	82,326	1.12	0.22
-	-	-	29,573		0.68	30,342		0.76
-	-	-	1,306		0.30	793		0.40
10	1	-	123,907		(2)0.34	113,461		(2)0.36
839	39							
6,113	6,152							
463	27	-	11,675	2.95	2.55	12,801	3.15	3.18
-	-	-	462		2.99	375		2.38
463	27	-	12,137		(2)2.56	13,176		(2)3.15
243	6	-	11,411	0.45	2.45	11,802	1.11	2.82
-	-	-	713		1.63	603		1.56
243	6	-	12,124		(2)2.40	12,405		(2)2.76
220	21							
(8)	13							

EXPOSURE OF THE BANK AND CONSOLIDATED SUBSIDIARIES TO FLUCTUATIONS IN INTEREST RATES (CONTD)

	On demand and up to one month	One to three months	Three months to one year	One to three years	Three to five years	Five to ten years
	NIS million					
Foreign Currency[4]						
Financial assets and amounts receivable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial assets						
Financial assets[1]	**4,852**	**2,271**	**1,723**	**952**	**778**	**2,102**
Derivative financial instruments (except options)	**22,105**	**7,847**	**3,047**	**222**	**219**	**231**
Options (in terms of the underlying asset)	**200**	**583**	**592**	**3**	**-**	**-**
Total fair value	**27,157**	**10,701**	**5,362**	**1,177**	**997**	**2,333**
Financial liabilities and amounts payable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial liabilities						
Financial liabilities[1]	**17,116**	**1,513**	**1,340**	**90**	**14**	**27**
Derivative financial instruments (except options)	**13,115**	**6,845**	**3,009**	**407**	**637**	**2,146**
Options (in terms of the underlying asset)	**269**	**534**	**567**	**20**	**-**	**-**
Total fair value	**30,500**	**8,892**	**4,916**	**517**	**651**	**2,173**
Financial instruments, net						
Exposure to fluctuations in interest rates in the segment	**(3,343)**	**1,809**	**446**	**660**	**346**	**160**
Cumulative exposure in the segment	**(3,343)**	**(1,534)**	**(1,088)**	**(428)**	**(82)**	**78**

See notes in page 72.

	Ten to twenty years	Over twenty years	With no repayment period	Total fair value	Internal rate of return	Effective duration	Total fair value	Internal rate of return	Effective duration
						December 31, 2017			December 31, 2016
				NIS million	%	years	NIS million	%	years
	12	**-**	**-**	**12,690**	**1.77**	**1.55**	13,594	2.15	1.31
	-	**-**	**-**	**33,671**		**0.19**	40,155		0.24
	-	**-**	**-**	**1,378**		**0.31**	933		0.37
	12	**-**	**-**	**47,739**		(2)**0.56**	54,682		(2)0.51
	-	**-**	**-**	**20,100**	**1.71**	**0.07**	23,104	1.33	0.09
	-	**-**	**-**	**26,159**		**0.79**	30,277		0.68
	-	**-**	**-**	**1,390**		**0.29**	1,194		0.32
	-	**-**	**-**	**47,649**		(2)**0.47**	54,575		(2)0.42
	12	**-**							
	90	**90**							

EXPOSURE OF THE BANK AND CONSOLIDATED SUBSIDIARIES TO FLUCTUATIONS IN INTEREST RATES (CONTD)

	On demand and up to one month	One to three months	Three months to one year	One to three years	Three to five years	Five to ten years
	NIS million					
Total exposure to changes in interest rates						
Financial assets and amounts receivable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial assets						
Financial assets(1)(3)	**96,000**	**4,816**	**7,448**	**9,259**	**5,830**	**6,034**
Derivative financial instruments (except options)	**28,639**	**16,367**	**6,477**	**2,332**	**1,594**	**1,043**
Options (in terms of the underlying asset)	**481**	**1,104**	**1,097**	**23**	**-**	**-**
Total fair value	**125,120**	**22,287**	**15,022**	**11,614**	**7,424**	**7,077**
Financial liabilities and amounts payable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial liabilities						
Financial liabilities(1)	**95,926**	**4,543**	**7,069**	**11,038**	**4,622**	**1,081**
Derivative financial instruments (except options)	**27,356**	**14,520**	**6,953**	**2,145**	**2,394**	**3,077**
Options (in terms of the underlying asset)	**479**	**1,104**	**1,090**	**23**	**-**	**-**
Total fair value	**123,761**	**20,167**	**15,112**	**13,206**	**7,016**	**4,158**
Financial instruments, net						
Exposure to fluctuations in interest rates in the segment	**1,359**	**2,120**	**(90)**	**(1,592)**	**408**	**2,919**
Cumulative exposure in the segment	**1,359**	**3,479**	**3,389**	**1,797**	**2,205**	**5,124**
In addition, exposure to interest rates in respect of liabilities for employee rights, gross - pension and severance pay	**16**	**25**	**137**	**277**	**104**	**227**

Notes:

- Further details regarding the exposure to changes in interest rates in each segment of the financial assets and financial liabilities, according to the different balance-sheet items, will be provided upon request.
- In this table, data by period reflect the present value of future cash flows of each financial instrument, discounted by the interest rate used for deduction to the fair value, in consistency with the assumptions used to calculate the fair value of the financial instrument. For further details regarding the assumptions used in the calculation of the fair value of the financial instruments, see Note 32.A. to the Financial Statements.
- The internal return rate is the interest rate for the deduction of the expected cash flows from the financial instrument to the fair value included in respect thereof.
- The effective average duration of a group of financial instruments constitutes an approximation of the change, in percent, in the fair value of the group of financial instruments which would be caused by a small change (an increase of 0.1%) in the internal return rate of each of the financial instruments.
- Cash flows in respect of mortgages have been assessed according to the premature repayment forecast, which is based on a statistical model. Capitalization of the said cash flow, according to the anticipated repayment dates instead of the contractual repayment dates, increased the fair value of the mortgages by an amount of NIS 46 million. In accordance with the original cash flow, which does not take into account premature repayments, the average period to redemption of assets in the non-linked shekel segment at December 31, 2017, was 0.54 years, and the internal rate of return reached 3.44%. In the CPI linked shekel segment the average period to redemption was 3.22 years and the internal rate of return reached 3.19%. The overall exposure reached an average period to redemption of 0.87 years and an internal rate of return of 3.07%. The comparative data as of December 31, 2016, has not been reclassified.

(1) Excluding balance-sheet balances of derivative instruments, fair value of off-balance sheet financial instruments and hybrid financial instruments.
(2) Average weighted by fair value of effective average duration.
(3) Including shares stated in the column "with no repayment period".
(4) Including Israeli currency linked to foreign currency.

			December 31, 2017			December 31, 2016		
Ten to twenty years	Over twenty years	With no repayment period	Total fair value	Internal rate of return	Effective duration	Total fair value	Internal rate of return	Effective duration
			NIS million	%	years	NIS million	%	years
1,324	**67**	**1,372**	**132,150**	**2.83**	**0.76**	123,717	3.07	1.04
-	**-**	**47**	**56,499**		**0.46**	61,235		0.44
-	**-**	**566**	**3,271**		**0.29**	2,560		0.36
1,324	**67**	**1,985**	**191,920**		(2)**0.66**	187,512		(2)0.83
253	**7**	**878**	**125,417**	**0.53**	**0.41**	117,911	1.12	0.46
-	**-**	**47**	**56,492**		**0.74**	61,284		0.73
-	**-**	**566**	**3,262**		**0.29**	2,551		0.35
253	**7**	**1,491**	**185,171**		(2)**0.51**	181,746		(2)0.55
1,071	**60**							
6,195	**6,255**							
309	**71**		**1,166**	**1.10**	**14.37**	1,166	1.70	14.95

Basis exposure

General

Basis exposure is created as a result of unmatching in timing, in the basis of measurement and the investment amount with or without hedging activities.

Since capital is defined as a non-linked shekel source under accounting principles, the investment of capital in a segment other than the non-linked shekel segment (the CPI segment and the foreign currency denominated and linked segment) is defined as basis risk exposure.

Exposure management

- Management of the basis risks and the investment in active capital (defined as shareholders' equity plus minority interest and less non-monetary items, net) in the different linkage segments is based on current assessments and forecasts by various management entities at the Finance Division regarding developments in the money and capital markets.
- The composition of the investment of active capital in the different linkage segments is managed on a current basis subject to the restrictions presented below, and on the basis of forecasts regarding the relevant market variables when exploiting price differences between the cost of sources and the yield on uses in the different linkage segments and the feasibility of long or short positions in each and every segment of activity.
- In its linkage base management, the Bank uses derivative financial instruments as a means of neutralizing the exposure to linkage basis and interest risks.

Risk appetite

- The Board of Directors of the Bank has determined restrictions on the permitted positions (surplus or deficit) in assets and liabilities and the exposure of active capital
- Apart from determining restrictions on overall risk appetite to basis risks at the active capital exposure level, Management of the Bank has prescribed individual restrictions on the extent of basis risk exposure at the level of the dealing rooms and the units that generate basis risks.

Actual basis exposure

Set out below is a description of the exposure of active capital, at the Group level (NIS millions):

	Exposure of Active Capital		**% of active capital**	
	As of December 31,		**As of December 31,**	
	2017	**2016**	**2017**	**2016**
Non-linked local currency	**6,124**	4,943	**97**	85
CPI-linked local currency	**106**	814	**2**	14
Foreign currency and f-C linked	**82**	78	**1**	1

* The Bank adopts an economic approach in the management of basis risk and reconciliations are made taking into account the economic nature. In its current management, the Bank takes into account the lack of reconciliation that sometimes arises between the accounting exposure and the economic exposure in order to hedge the reported accounting profit.

Sensitivity of capital to changes in the exchange rate

The Bank operates in the currency markets by means of spot transactions, forward transactions and options on its own behalf and on behalf of its customers. The Bank operates using global negotiable currencies, and the total net currency exposure for the Group is low.

Most of the activity in derivative financial instruments is carried in the currency derivatives Shekel/Dollar for the Bank's customers. The Bank is not exposued in its derivative activity to material currency risks.

Set out below is the sensitivity of the Bank's capital to theoretical changes in the exchange rates of the principal currencies as of December 31, 2017 (NIS millions).

The measurement refers to the effect of changes on capital and includes activity in balance-sheet and off-balance-sheet instruments:

	Dollar	Euro
5% decrease	**(3)**	**2**
10% decrease	**(9)**	**6**
5% increase	**5**	**-**
10% increase	**15**	**-**

NOTES:

(1) This effect is calculated in accordance with the expected change in the economic positions managed in different currencies, given the scenarios that were determined by the Supervisor of Banks.

(2) An increase implies a strengthening of the currency in question against the shekel.

(3) The data express the effects of changes in exchange rates on fair value after the tax effect.

(4) Changes in the exchange rates of other currencies have a negligible effect on the Bank's earnings.

Sensitivity of capital to changes in the CPI

The Bank operates in the CPI market by extending uses such as loans, mortgages and the purchase of bonds and by raising CPI linked funds. In addition, the Bank performs CPI forward transactions on behalf of its customers and itself.

The Bank is not exposed in its forward activity to material CPI risks.

Set out below is the sensitivity of the Bank's capital to theoretical changes in the CPI as of December 31, 2017 (NIS millions).

The measurement refers to the effect of changes on capital and includes activity in balance-sheet and off-balance-sheet instruments:

Percentage change in CPI	
3% decrease	**(40)**
3% increase	**12**

Option risk

General

Option risk is the risk of a loss deriving from changes in the parameters that affect the value of options, including implied volatility.

Risk appetite

- The Bank's foreign currency dealing room trades in a variety of financial products, including options. Apart from the restrictions set on the amount of basis and interest-rate exposure, and in view of the sensitivity of options' economic value to changes in linkage bases, interest rates and especially to changes in the volatility of the underlying assets, the Board of Directors has determined additional restrictions for the dealing room's activity in options.
- The Board of Directors of the Bank has determined restrictions with respect to activity permitted in options in terms of maximum loss under defined scenarios. The scenarios refer to simultaneous changes in the exchange rate and in the volatility of the underlying assets. The Board of Directors has also determined restrictions on the maximum changes in the value of the options portfolio in terms of sensitivity indexes (Greeks), and the maximum erosion in the fair value at crisis scenario.

Exposure management

Tools for the management of exposure to options risks include a Vol-Spot sensitivity matrix, which presents the exposure deriving from a combination of scenarios on the exchange rate and volatility. Also used is an RHO interest-rate curve risk exposure scenario, which examines the change in the value of the position in the event of 1% fluctuations in the interest curve. In addition, the Bank uses a Weighted Vega model for the management of exposure to volatility risk.

Management of risks in derivative financial instruments

General

The Bank operates in a variety of derivative financial instruments as part of risk management policy (base, currency and interest exposures), and as a service to its customers. These instruments include options (including option tracks), which is the area of activity with the higher element of market risk. In this respect, the Bank is mainly active in options on the exchange rates of a number of foreign currencies against the shekel.

Rist appetite

The Bank has a policy for the management of risks in derivative instruments, including activity volumes of option tracks containing "implied" options, and the level of the maximum loss under certain scenarios in respect of the options in which the Bank acts as a market maker.
Investment in various derivative instrument is carried out after the measurement of each instrument and its adjustments to the financial needs of the Bank and its ability to operate in an optimal manner, as well as its ability to monitor the risk attached to it, both in the market risk and in the credit risk for transactions were the Bank acts on behafe of its customers.

Dealing rooms

The Bank's dealing rooms are intended for diverse capital market and foreign currency activities. The foreign currency dealing room trades in a wide variety of financial instruments, and is one of the most active dealing rooms in the banking system in derivative instruments as well, including market making in currencies and government bonds. The Bank engages inter alia in MAOF activity on the stock exchange.

The exposure created in the base and in the interest rate as a result of this activity is included within the restrictions approved by the Board of Directors for base and interest exposures.

Set out below is the volume of activity in derivative financial instruments (nominal value NIS millions):

	As of December 31, 2017	As of December 31, 2016
Hedging transactions:		
Interest rate contracts	**2,509**	2,943
Foreign currency contracts	**-**	241
ALM and other transactions:		
Interest rate contracts	**14,494**	15,521
Foreign currency contracts (including spot)	**64,837**	67,171
Contracts on shares, share indices, commodities and other contracts	**72,319**	63,020
Total derivative financial instruments	**154,159**	148,896

Supervision and control of management of derivative instrument risk

The Bank's activity in derivative financial instruments on its own behalf is controlled and supervised by the lines of defense and the exposures are reported in the risk report document.

Share price risk

Risk review and the way of managing it

The investment in shares and instruments reflecting share risk, is designated to improve the risks diversification and to vary the sources of income for the mediate-long run in investing the free capital. The investment is carried out as a rule in Israeli shares traded in the TA 125 and leading share indices abroad, while performing due diligence on the worthwhileness of the investment prior to the requisition.

Risk apetite

In addition to the regulatory restrictions regarding the volume of investment permitted to banking corporation in non-financial entities, the Board of Directors defined risk apetite for activity in shares. The Board of Directors established restrictions on the amount of investment, the mix of the investment- including restriction on the currency exposure and economic segments restrictions.

LIQUIDITY RISK

General

Liquidity risk is the actual or future risk that the Bank will have difficulty in supplying liquidity requirements in exceptional demand and supply situations, including unexpected liabilities, unexpected withdrawals of deposits from the public, unexpected demand for credit, uncertainty regarding the availability of sources, including sharp decline in the value of assets available to the Bank. Materialization of the risk might cause the Bank shortage in liquid means, that will force the Bank to realize assets in prices lower than the market prices and/or raise funds in a price higher than market prices and in crisis situations might endanger the stability of the Bank.

Risk management policy

The Bank applies a comprehensive policy for the management of liquidity risk in accordance with the requirements of Proper Conduct of Banking Business Directives Nos. 342 and 221.

The policy includes, inter alia, restrictions of the liquidity coverage ratios, minimal liquidity ratios in ordinary scenarios and in stress scenarios including the survival range on the cash flows, and reference to measurement tools, the supervision and control and the reporting mechanisms that have to be maintained as part of the current liquidity risk management. Furthermore, the Bank has established a methodology assisting the identification of a liquidity crisis at the Bank, this in order to ensure the ability of the Bank to withstand the challenges arising from current business management, and those which might arise in case of pressure situations in the financial markets.

Risk appetite

The Bank and the Group endeavors to sustain appropriate inventory of liquid assets, concurrect with the management of uses that will produce income to the Bank.

The Bank attributes great importance to the conservative though active liquidity management of the Bank. The Bank's and the Group's risk appetite in this aspect is conservative and is expressed in the structure of assets and liabilities, in the maintenance of management, control and supervision tools allotted to this matter, and in the management and control layouts incharge of management of this risk.

Liquidity coverage ratio in accordance with Proper Conduct of Banking Business Directive No. 221

The Bank calculates the LCR (Liquidity Coverage Ratio) in accordance with Proper Conduct of Banking Business Directive No. 221, from September 2014, in the matter of liquidity coverage ratio, which adopts the Basel Committee recommendations as regards liquidity coverage ratio by the banking sector in Israel.

The liquidity coverage ratio is a Standard intended to improve the short term resilience of the liquidity risk profile of the banking corporations, ensuring it by way of a requirement that banking corporations should maintain an adequate and non-pledged amount of high quality liquid assets (HQLA), which may be converted into cash in a fast and easy manner on private markets, so as to provide response to liquidity requirements in stress situations, which combines a specific shock to the bank and to the banking sector as a whole, and which continues for thirty calendar days.

The Standard states a specific framework for the computation of the liquidity coverage ratio with the aim of creating uniformity on an international level.

The liquidity coverage ratio contains two components:

(a) The value of high quality liquid assets (HQLA) under stress tests.

(b) Total net cash outflows during the next thirty calendar days, computed according to the parameters of the stress test.

The ratio is computed as a proportion of the high quality liquid assets to the total net cash outflow during the next thirty calendar days.

The Bank calculates on a daily basis the LCR for the Bank, for the subsidiaries and consolidated. As part of the policy of management of financial risks, the Board of Directors adopted an internal restriction, which is stringent than the regulatory restriction for LCR, both for the banking entity solo and consolidated.

The Bank adhere in all the regulatory risk restrictions for 2017.

Set out below is the liquidity coverage ratio consolidated and the Bank:

	For the three months ended December 31	
	2017	**2016**
		precent
Liquidity coverage ratio consolidated data*	**123%**	123%
Liquidity coverage ratio Bank data**	**122%**	120%
Minimal liquidity coverage ratio as per the Supervisor of Bank***	**100%**	80%

* Until January 1, 2017in terms of simple averages of monthly observations during the reported quarter. As from January 1, 2017 the LCR on consolidated basis is computed in terms of simple averages of daily observations.

** In terms of simple averages of daily observations.

*** The minimal LCR as per the Supervisor of Banks rose gradually from 60% on April 1, 2015, to 80% on January 1, 2016 to 100% on January 1, 2017.

Supervision and control of Liquidity risk exposure management

The control concept applied by the Bank is that of identification, quantification and assessment of risk and control of adherence to restrictions currently prescribed by the procedures, both by exposure managers and by independent control and audit functions, with a view of ensuring the ability to face also exceptional demand and supply situations in the financial markets.

Liquidity risk exposure management is being tested and controlled on a current basis by designated committees and forums at the levels of the Board of Directors and Management in the first, second and third lines of defense.

Reporting on exposure to liquidity risks

- A daily liquidity report in shekels and in foreign currency is produced.
- Reporting on shekel and foreign currency liquidity risk positions in comparison with the activity frameworks and restrictions determined by the Board of Directors and authorities for their management are reported three times a week at the Current Matters Committee, which is headed by the CEO or by the head of the Finance Division.
- Reporting on positions is collated in the quarterly "risks document," and current brief on the exposure to liquidity risks as necessary.

Management of liquidity risk on a Group basis

The banking group of the First International Bank consists of a number of banks having different operating nature and different liquidity requirements. According to the Bank of Israel regulations, each subsidiary is responsible to maintain independence policy of short term liquidity risk management (up to 12 months) and long term, while fulfilling the directives of the regulatory authority.

In order to face this situation, the Group conducts a followup of the liquidity situation both at the Group level and at the individual bank level - each bank according to its needs and in accordance with the structure of its assets and liabilities and nature of its operations.

Each of the subsidiaries adhere to a liquidity coverage ratio of it own. There are no material restriction or limitations on transfering funds within the group over the general restrictions applying to performing transactions of any kind.

Liquidity position and the composition of assets and liabilities

The liquidity assets at the group, which includes cash, deposits at the Bank of Israel, deposits at banks and liquid securities, amounted to NIS 48.4 billion on December 31, 2017, compared with NIS 44.0 billion at the end of 2016. Of this amount, the balance of cash, deposits with the Bank of Israel and deposits with banks accounted for NIS 39.2 billion, and NIS 9.2 billion were invested in securities, principally Israel government bonds.

The ratio of deposits from the public to credit to the public, net on December 31, 2017 amounted to 141.2% compared with 136.8% on December 31, 2016.

At the end of December 2017, deposits from the public, bonds and subordinated notes totaled NIS 118.8 billion compared with NIS 111.6 billion at the end of 2016.

The composition of the assets and liabilities of the Bank shows high liquidity. This, as a result of the policy to raise deversified and stable funds, while emphsizing on raising sources for medium and long periods from deversified customers sectors and in different currencies.

In the non linked Shekel segment and in the foreign currency segment, the Bank has sources in a contractual duration for a short- medium terms, which the Bank anticipate that they will be stable for a long period of time. The uses in these segments are both for short term and medium- long term.

In general, the currency exposures of the Bank in the foreign currency segement are low (see the chapter on market risk).

In the CPI linked segment, both sources and uses are for medium-long terms. A slight change in the CPI does not have a material effect on the exposures of the Bank.

The CPI exposure of the Group as of December 31, 2017 amounted to NIS 106 million.

For information regarding details of assets and liabilities according to currency and maturity date- see note 31 to the financial statements.

Balance of deposits from the public of the three largest depositors in the Group:

	As of December 31	As of December 31
	2017	**2016**
		NIS million
1	**3,000**	3,308
2	**2,949**	1,856
3	**2,554**	1,423

FINANCING RISK

General

Financing risk derives from the unexpected rise of financing cost, when financing sources are refinanced or paid and exchanged by new financing sources which are more expensive, or when the Bank has to realize uses as a result of lack in available sources.

The financing risk at the Bank is managed as part of the liquidity risk management. The Bank has diversified financing sources mainly deposit from the public.

This risk is monitored by short/long model that restricts the volume of long sources in Israeli currency and foreign currency and also limits the loss anticipated to the Bank in respect of cost increase in the fund raising in the period of one year.

OPERATIONAL RISK

General

According to the definition of Proper Banking Management directive 350, operational risk is the risk of loss resulting from the impropriety or failure of internal processes, persons or systems or resulting from external events. The definition includes legal risk, fraud and embezzlement risks, information security and cyber risks and business continuity, but does not include strategic risk or reputation risk. (The various aspects of legal risk exposure and management are discussed extensively in a separate section).

Policy

The Board of Directors of the Bank has prescribed an overall and comprehensive policy for the management of operational risks, in accordance with Proper Conduct of Banking Business Regulations 310 and 350, setting the risk appetite and outlining the control environment, the corporate frameworks and the managerial functions that will be operated for the purpose of managing and minimizing exposure to operational risks at the Bank and the Group. The policy also prescribes risk identification, assessment, control and monitoring mechanisms, and the reporting systems.

Exposure management

1. Detection, mapping, minimization and monitoring of risk

Operational risks are unseperable part of all types of business activities of the Bank, the processes of the organizational units and crosswise processes and supporting systems. A basic component in the risk management plan of the Bank is effective and pro-active management of the operational risks, including frauds, embezzelements and unethical behaviour.

The operational risk mapping and identification review is one of the main methods for controlling and supervising these risks. The review includes the mapping and documentation of the business processes, identification of the operational risks and controls in these processes.

In 2016, the Bank updated the methodology in order to perform the forth update of the three year survey. The survey was approved at the Board of Directors and Management of the Bank, in 2017.

Also, the Bank performs on a current basis risk management in order to detect risk centers in new products, processes and services in the Bank.

As an outcome of the risk surveys performed, the findings of the internal audit and the drawing of conclusion in respect of failure events, mechanized and other controls are combined in the defferent activities in the Bank, as well as work processes and control were upgraded and improved.

In addition, and as part of the monitoring and control infrastructure key risk indicators (KRI) have been defined at the Bank for the early detection of changes in the risk map.

2. Failure event collation

The Bank collates and documents loss events (events that caused or nearly caused a loss/profit, provision for lawsuit) for the purpose of data base for quarterly and annual analysis of trends and risk centers, for presentation to Management and the Board of Directors for estimating the operational risks in business processes and at the organizational units, and for keeping a history of shortcomings, learning lessons and improving processes.

The Bank also conducts a lesson learning process for significant external events reported in the media.

3. System for measurement, estimation and management of operational risks

The Bank manages the risks map by means of software, supporting the methodology of management of the operational risks. The centeral data base of the software, includes the information of the organizational structure and the mapping and documentation of the processes in the Bank.

Business continuity planning

Bank of Israel directives require the banks to take action in order to assure business continuity in an emergency. In accordance with the directives of Proper Conduct of Banking Business Regulation 355 on the subject, the Bank has made the appropriate preparations for disaster recovery and business continuity in the event of emergencies. The Bank makes preparations that are comprised of several layers: formulation of a comprehensive policy document on business continuity, a working framework document detailing suitable technological infrastructures, compilation and assimilation of comprehensive plans of action and a supporting system of procedures, and exercises simulating emergency situations. The Bank has a group emergency situation room and a group emergency assessment forum under the authority of the Head of the Risk Management Division, who collates this activity at the entire Group. The forum is responsible for applying policy and procedures, and for monitoring the Group's preparations for emergencies, and convenes at least once a quarter. Management and the Board of Directors hold quarterly discussions on business continuity and preparations for emergencies. The Bank upgrades its business continuity planning on an ongoing basis. In this respect, revisions are made of all critical activities and resources required in an emergency, and the emergency scenarios and policy document are updated accordingly.

Information security

Management and Board of Directors of the Bank have prescribed a detailed policy on the matter of information security policy. The Bank conducts all the required surveys and outlines for compliance with Proper Conduct of Banking Business Regulation 357. The Bank has made all the preparations required in Bank of Israel directives concerning the social media. The Bank has appointed an information security manager who is responsible for the management of information security risks.

Implications of information security risks and cybernetic incidents

Cybernetic attacks are carried out with the aim of causing large-scale damage by harming strategic services. The damage expected from such attacks could adversely affect the credibility, propriety and confidentiality of the Bank's information and the operative readiness of its systems. This damage could harm the business activity of the Bank and have a direct impact on the activity of its customers.

In order to cope with cybernetic attacks, in addition to overall information security activity, the Bank maintains a specialized, comprehensive network for protecting against such attacks. This defense network includes technical devices and processes for reducing the vulnerability of the Bank's infrastructures, on the basis of special attack scenarios defined by the Cyber defence Manager.

During 2017 attack atempts were performed but the Group did not experience cybernetic attacks with a material effect on the functioning of the Group.

In accordance with Proper Conduct of Banking Business regulation 361 concerning management of cyber defense, Management and Board of Directors of each banking entity in the Group defined the strategy of defending cybernetic attacks and the policy of the defence from cybernetic attack for the banks in the gorup.

Supervision and control of operational risk management

The Bank maintains a suitable system of mechanisms for the control, management, supervision and audit of the operational risk management process. Operational risk management is examined and reviewed by the Board of Directors, Management and the middle-management grades, as detailed in the risks report at the internet website of the Bank.

LEGAL RISK

General

Legal risk is included in operational risk as defined in the Proper Conduct of Banking Business Regulations 350 ("Operational risk management") and includes, but is not limited to, "exposure to fines and punitive damages as the result of supervisory activity as well as private settlements." The Bank adopts an expanding approach to this definition and includes under legal risk the risk deriving from failure to observe legal directives, including regulatory directives, the risk of a loss resulting from the inability to legally enforce an agreement, risks deriving from activity without legal backing/legal advice vis-à-vis the customer, suppliers and/or other parties, risks involved in legal proceedings, and other risks that could expose the Bank to lawsuits, as well as fines and sanctions.

Risk appetite

The Bank adopts a conservative policy of a low risk appetite with respect to the conclusion of legal agreements and commitments, and carries out its business activity with suitable legal assistance and support, with strict insistence on compliance to all legislative and regulatory directives and the restrictions and obligations derived from them. Without detracting from the aforesaid, the Bank adopts a policy of zero tolerance in all matters concerning risk resulting from the violations of the provisions of law which constitute a criminal offense or an administrative offense.

Policy and exposure management

The Bank operates in accordance with a legal risk management policy, detailed in this respect are legal risk and ways of identifying, mapping and minimizing it.

The Bank’s Legal Department monitors developments in legislation, regulation, standardization and in court rulings which could affect the current activity of the Bank, and provides consultation, back-up and legal support to the Bank and its different units. The Bank endeavors to minimize risks on the basis of these developments and their implications.

The legal department also acts to identify legal risks in advance, including by means of examination of any new product or activity, compiling all of the documents associated with that product/service or activity in order to minimize the legal risk involved as far as possible.

The periodic review of operational risks includes an examination of the activities of the Legal Department. Risks identified are assessed, measures for mitigating them are stipulated and lessons are learned to prevent any recurrences.

Reporting on legal risk exposure

- Exposures to legal risks are collated and reported in the quarterly Risks Document
- On the occurrence of a material event of a legal nature, such as a lawsuit or the materialization of legal risk, an immediate report on the event, the extent of its impact and the manner of its impact on the Bank is submitted to the Legal Risks Manager. Any such material events are reported immediately to the Bank's CEO and Board of Directors.

Group management of legal risk

The Legal Department operates as a head office unit of the Group for the management of legal risks, and is responsible for defining group legal risk management policy.

Material legal risks at the Group are reported to the Manager of the Legal Department, in both immediate and periodic reports. A Group Legal Risk Management Committee convenes regularly to discuss material legal issues and exposures.

OTHER RISKS

RISK MANAGEMENT IN THE NIS AND FOREIGN-CURRENCY SECURITIES PORTFOLIO-
MARKET AND INDEBTEDNESS RISKS

a. The Board of Directors of the Bank have determined in the financial risk policy document detailed policy and risk appetite with respect to the Bank's activity in the foreign-currency and Shekel securities portfolio, and have also determined investment restrictions and guidelines from the credit aspects and from the aspect of exposure to counter-party risks and to market risks, interest and liquidity. This policy is examined by the Board of Directors and its committees at least once a year, and in a more dynamic manner on the basis of developments in the financial markets that may affect the Bank's exposures.
b. The Bank invests only in the bonds of companies that have been rated investment grade minimal as of the purchase date, as set in the policy of management of financial risks after examining the quality of the issuer's credit, the market risks inherent in the investment and the bonds' liquidity.
c. Once an investment is made and as part of the management of the risks in the foreign currency and Shekel securities portfolio, the Bank monitors the macroeconomic and sector-specific developments relevant to its investments.
d. As part of the risk management supervision and control mechanisms, the Bank has devised a format for reporting on the nature and the extent of the positions in the securities portfolio managed. Reports are sent to the decision-making entities and to the control entities. The main elements of the Bank’s reporting format are:
   - Immediate reporting on discovery of a deviation from restrictions and procedures.
   - An immediate report on the opening of margins, a change in rating and any other exceptional event in the portfolio, and as necessary.
   - A twice-weekly investment meeting, chaired by the Head of the Finance sub-Division.
   - A weekly report to the Current Matters Committee chaired by the CEO on new purchases, sales and exceptional events.
   - At least one in two months discussion headed by the CEO, on the composition of the portfolio, developments in exposure and trends in the financial markets.
   - A report six times a year to the Board of Directors’ Risk Management Committee.
   - A quarterly report within the framework of the overall risks document.
   - A report every second month to the ALCO Committee, which is chaired by the CEO and with the participation of the Chief Risk Officer.

   See the section on the composition and development of the Bank Group's assets, liabilities, capital and capital adequacy for details of the securities portfolio.

COMPLIANCE RISK

General

- Proper Conduct of Banking Business Directive 308, published by the Supervisor of Banks, requires the banks to observe the consumer regulations applying to the banks' relationships with their customers. On June 3, 2015, Bank of Israel published an amendment to Proper Conduct of Banking Business Directive 308 - "Compliance and the compliance function in a banking corporation", which took effect on January 1, 2016.

  The principal changes are based on the guidelines of the Basel Committee of April 2005 in the matter of compliance and the compliance function at banks, on modifications to requirements of foreign authorities and on modifications to local regulations. Moreover, the Directive extends the duty of compliance to all legislation and to all conduct rules applying to the different banking operations of a bank.
- Compliance risk is the risk of imposition of legal or regulatory sanctions, of a material financial loss or damage to image which a bank may sustain as a result of violation of compliance rules.
- The compliance rules, as defined in the amendment to Directive 308 mentioned above, comprise a set of laws, regulations, regulatory instructions (for this matter also positions taken by the Supervisor of Banks in dealing with public complaints), binding legal precedence, internal procedures and the ethical code applying to the banking activity of a bank.
- The duties applying to the Bank are cross-organization duties relating to a large variety of operations, procedures and products, conducted by the Bank on a daily basis.
- The Bank has adopted an internal enforcement program for the securities laws which is based on a comprehensive mapping of the relevant law orders and the Bank's procedures and processes, and prescribes procedures and guidelines for the continuing application of the program. This is in accordance with the criteria which the Securities Authority issued on the subject. The Bank performed Gap Analysis reviews and completed the material gap closes.
- The Compliance Department (hereinafter - "compliance function" or "the function"), is subordinate to the Chief Compliance Officer, and is an independent function, responsible for the management of the compliance risk at the Bank.

Policy

The Board of Directors prescribed and approved a Group compliance policy. The Bank has revised the compliance policy in accordance with the new Directive, whithin the framework of which, it determined, inter alia, the structure of the compliance function, the various factors involved in the implementation of the policy, allocation of responsibilities for the control in the second line of defense of the various compliance requirements, in accordance with the rules prescribed in the Directive, etc.

Risk appetite

The Bank and the Group have adopted a policy of scrupulous insistence on matters relating to compliance risk. With respect to infringement of the provisions of the law and the Bank's procedures relating to the provisions of the law, the Group will monitor the compliance directives applying to it and will ensure that all of the Group's employees act in accordance with them. All of the Group's transactions will be conducted in accordance with the Bank's procedures, the ethical code and all laws and regulations. The Group endeavors to assimilate an organizational culture of honesty and ethical standards as an essential basis for the existence of a compliance culture at all levels of the organization.

Exposure management

- The function is responsible for collating control at the Bank over adherence to the compliance rules under its responsibility, in accordance with the compliance policy and the annual work program, and for reporting on deficiencies and gaps to all echelons of authority at the Bank.
- An infrastructures review was conducted in which consumer directives were mapped, and controls for preventing the risk of their violation were defined. The review's findings show that the Bank has an extensive infrastructure that includes a considerable amount of forms, procedures, and control and instruction systems and mechanisms that are aimed at assisting the Bank in adhering to the compliance requirements applying to it. During 2016 a comprehensive infrastructure review has been started, concerning the various compliance matters and includes beyond the directives in regulation 308, also the regulations from the cross borders risks, FATCA, anti-money laundering and internal enforcement in securities regulations. The review ended in 2017.
- Working alongside the Chief Compliance Office are:
  - Compliance supervisors at each of the Bank's branches and the head-office.
  - A compliance enforcement coordination committee that includes representatives of the Bank's different units.
  - A forum for monitoring the application of statutory directives, that monitors the implementation of the new compliance directives as well as discusses proposed drafts of directives, Bills, Bill Memorandums, etc.

Exposure reporting

- Once in every quarter, the Compliance Officer reports to the Management of the Bank, on his activity during the past quarter. The detailed reporting includes a summary of the function's activity, recommendations, details on violations of compliance directives which were identified in the course of the period reported, recommendations regarding the measures that need to be taken with respect to violations and preventing their recurrence, and the Bank’s preparations for applying a new compliance directive, as well as an annual detailed report summarizing his activity in the previous year.
- In addition, immediate reports are defined in the compliance policy prescribed by the Board of Directors.

Management of compliance risk on a group basis

The Chief Compliance Officer acts as the Head Office unit of the Group in the matter of management of compliance risks, and it is his responsibility to verify the implementation of the policy of the Group in the matter of compliance by the banking subsidiaries in Israel, providing guidance and assistance to the subsidiary companies in developing systems, the writing of procedures, training of staff and integration of the instructions. Each banking subsidiary has its own compliance officer.

Conduct risk management

The Group is requested to implement the values of fairness and transparency in its activity with its customers and to strengthen this values in its daily operations. In general, the group is requested to ensure that the proposal that are given to customers are costumed to their needs. Failing to meet the conduct risk expose the group to different risks, among others, compliance risks, legal risk, reputation risk etc. The Bank implemented a policy regarding proper business conduct (conduct risk).

MONEY LAUNDERING AND TERROR FINANCING PROHIBITION RISK

General

- Money laundering and terrorism financing prohibition risk (hereinafter: “money laundering/AML“) is the risk of significant financial sanctions being imposed on the Bank due to failure to adhere to the provisions of the law in the matter of money laundering prevention and prohibition of the financing of terrorism, and the risk of the corporation and its employees being subject to criminal liability. In addition, the commitment of an offence under the provisions of the law in the area of money laundering and terrorism financing prohibition could result in the materialization of reputation risk.
- The banking sector is subject to directives concerning the prevention of money laundering and the financing of terrorism which include inter alia the Money Laundering Prohibition Law, the Financing of Terrorism Prohibition Law, the Money Laundering Prohibition Order, the Financing of Terrorism Prohibition Regulations, Proper Conduct of Banking Business Regulation 411 and various circulars.

Policy

The Board of Directors of the Bank approves once a year the Group’s money-laundering and terrorism financing prohibition policy document.

Risk apetite

- The Bank operates "zero tolerence" policy concerning money laundering risks including cross border tax offences, which in its framework all the Bank's mangers and employees, without any exception, including all the subsidiaries in the Group, must comply to the Law's directives and regulations applicable to the Bank and to all the Bank's procedures derived from these directives.
- The Bank group applies stringent policy to assure precise application of the law and suitable knowledge of the customers with which the Bank conduct its business, including understanding its business conducted with the Bank or by the Bank, imparative for money laundering prevention and terror finance by the Bank and for the proper management of the Bank.
- The policy in the area of money laundering prevention includes clear definision of prohibitions in relation to activity with entities and countries against which there are restrictions.

Exposure management

A unit for prevention of money laubdering and finance of terrorizm operates within the Bank, and is responsible for the application of the law directives in this subject and their implementation.

The unit is subordinated to the chief compliance officer, which is also in charge of the implementation of the Anti Money Laundering Law and Anti Finance of Terror and as the manager of cross border risks. Also the chief compliance officer was appointed as the RO in charge of the implementation of the legal guides and directives in the FATCA, which its purpose is to enforce reporting mechanizms regarding accounts of American customers outside the United States, the QI (Qualified Intermediary) agreement, which expands the reporting requirement and tax deductions from certain payments beyond accounts of American customers to other accounts that have income from American resources.

The roles of the person in charge of AML and finance of terror include, inter alia:

- Policy and procedures compilation and updates in accordance with changes in legislation and the provisions of the law, development and conduct of controls to ensure that the Bank is implementing the law and reports the necessary reports, sending reports on unusual transactions to the Money Laundering Prohibition Authority, and examining the application of the Bank's policy at all the auxiliary corporations in the Group and conducting and/or reviewing the existence of instructional sessions to money laundering prohibition officers and all employees, which increase the awareness to the subject.

- In order to apply the law and assiduously assimilate its provisions, the Bank has appointed compliance supervisors who also serve as money laundering prohibition supervisors at the branches responsible for current money laundering prohibition and terrorism financing prohibition activity in accordance with policy and procedures. These supervisors are selected from among the Bank's authorized signatories, and in the area of money-laundering prohibition are professionally subordinate to the Money Laundering Prohibition Officer.
- The Bank inspects data quality by means of control reports that are circulated to the branches together with appropriate guidelines. The Bank also invests considerable resources in developing and upgrading computerized control systems, and allocates personnel to the unit in order to increase the efficiency of the controls for the detection of unusual transactions.
- As was mentioned in the compliance risk chapter, an updated infrastructure review was completed in 2017.
- The Legal Department monitors legislative changes and ensures that they are sent to the Money Laundering Prohibition Officer, and provides legal support as requested by this official for the purpose of carrying out his duties with respect to the activity of the unit and the Bank as a whole.
- An advisory committee was established for the purpose of assisting the Money Laundering Prohibition Officer in his function, the main elements of which include: discussion of unusual transactions when doubts exist as to whether their details should to be sent to the Money Laundering Prohibition Authority.

Exposure reporting

- Once a quarter, in the quarterly risk document, the Money Laundering Prohibition Officer reports to the Management of the Bank on his activity during the past quarter. The detailed report includes reference to the risk centers which he has identified and methods for dealing with them.
- At least once a year, the Money Laundering Prohibition Officer submits a detailed report to the Board of Directors of the Bank.
- In addition, the policy prescribed by the Board of Directors defines immediate reports to the Board of Directors and to the Bank of Israel.

Group management of money laundering and terrorism financing risk

- The Money Laundering Prohibition Officer, the official responsible for fulfilling the requirements imposed on the Bank by the Money Laundering Prohibition Law, operates as the head office unit of the Group in connection with money laundering and terrorism financing prohibition risks. The Money Laundering Prohibition Officer is responsible for ensuring that Group policy is applied in the area of money laundering and terrorism financing prohibition at the subsidiaries in Israel and abroad, as required in Proper Conduct of Banking Business Regulation 411, by guiding and assisting the subsidiaries in the construction of systems, the compilation of procedures, instructional activities and in assimilating regulations.

Cross-border risk management

The Bank Group operates in different banking fields. Among the customers served by the Bank Group, are also foreign resident customers. On background of increased efforts made by foreign countries to discover funds held by their residents outside their country of residence, and the trend for international cooperation in the combat against tax evasion, The Bank's transactions with such foreign residents, as stated, may increase exposure to compliance risk stemming from cross-border activities as well as to reputation risk.

Risk and Restrictions due to connection with Iran or enemy

On november 27, 2011 the Securities authority published disclosure instructions concerning risk and restrictions due to connections with Iran or enemy. According to these instructions, a reporting entity should include disclosure of the risks and restrictions that the entity exposed to due to its direct or indirect connections with Iran or with an enemy, including law provisions, and have or might have a material effect on the entity.

Following these instructions, the Bank of Israel published on December 23, 2012, and update to the Public reporting regulations.

In the framework of this update, the banking corporations have to include in the financial statements for 2012 and onwords a disclosure regarding the risk and restrictions due to connection with Iran or with an enemy, all in accordance with the Securities authority instructions.

The Bank's policy does not allow exsistance of connection or activity, either direct or indirect with Iran or with any entity that was defined as "enemy" by the law enforcement.

The Bank's systems were adjusted to comply with this policy according to the lists published in Proper conduct of banking no. 411 dated December 26, 2011.

According to the described above measures taken by the Bank, the Bank estimates that its exposure to these risk factors, if exsist, is minimal.

REPUTATION RISK

General

Reputation risk is the risk stemming from a negative perception on the part of customers, counterparties, shareholders, investors, bondholders, analysts, and relevant regulatory or other factors, which may adversely affect the ability of a banking corporation to maintain existing business relations, or establish new relations, or to enjoy continuous access to financial resources.

Risk appetite

The group has low tolerance to reputation risk, that might have an impact on its stability, including threats deriving from the perception of the Bank. Further more, the Bank sees a positive perception as a major asset, therefore it will act to prevent the materialization of the reputation risk that might reach a crisis scenario and will try to minimize the materialization of reputation risks, as much as possible.

Policy and exposure management

The Bank has a policy for the management of the risk that includes: identifying and monitoring after the risk factors and compilation of prevention activity, early identification of potential reputation events, continuous monitoring of the risk and its management.

Exposure reporting

The Bank has a detailed layout of reporting requirement concerning the reputation risk including immediate reports. The reporting layout defines, inter alia, who is responsible to report, its frequency and its recipients.

STRATEGY RISK

General

Strategy risk is the risk of present or future implications on earnings, capital and reputation or position resulting from erroneous business decisions, from the improper implementation of decisions or from the failure to respond to sector-specific, economic or technological developments. The risk is a function of correlation between the Bank's strategic objectives, the business strategies that were developed for achieving these objectives, the resources that were allocated to these objectives and the quality of their implementation.

Policy and exposure management

The Board of Directors of the Bank outlines the strategy of the Bank and the Group. The Bank has a policy for the management of strategic risk.

Risk appetite

The group has low tolerance to strategic risk, due to the critical impact it might have on the Bank's stability and business acheivements. The Group embrace business strategy characterized by high level of cousious and conservativity.

Exposure reporting

The Bank has a detailed layout of reporting requirement concerning the strategy risk along the different lines of defense.

DISCUSSION OF RISK FACTORS

The degree of impact of the risk factors was determined in line with the Bank's methodology in the ICAAP process and in the quarterly risk document. The methodology takes into account the risk level and any development in the Bank's risk profile vis-à-vis the specified risk appetite and the risk management quality.

Each risk factor appearing in the table was examined, alone, and on the assumption of non-dependence between one risk factor and other risk factors appearing in the table.

	Risk	Effect	Risk level
1.	**Market risks**	Market risk (financial risk) is the actual or future existence of a risk to the Group's income and capital as the result of changes in prices, rates and margins in the financial markets in which it operates, and which affect the value of the Group's assets or liabilities: interest rates, exchange rates, inflation, securities prices, commodities prices, volatility in these parameters and changes in other economic indexes. In order to minimize the exposure to market risks, the Bank has a detailed policy for the management of exposure to market risks which specifies inter alia: overall market risk appetite and risk appetite across a single cross-section of risk and principles for activity.	Low-Medium
1.1	**Interest risk**	Interest risk is the risk to earnings or to capital stemming from fluctuations in interest rates. Changes in interest rates, affect the earnings of the Bank by changes in net income, and the value of the assets of the Bank, its liabilities and off-balance sheet instruments, due to changes in the present value of future cash flows (or even the cash flows themselves) following changes in interest rates. Interest rate risk to which the Bank is exposed to include: the risk of repricing, yield curve risk, base (spread) risk and option risk. The interest risk to the entire portfolio, is one of the dominant risks the Bank is exposed to in respect to the effect on the present value of assets and liabilities and profit. The Bank manages interest risks in accordance to the Bank of Israel Directive in the matter of Management of Interest Risk (directive 333). Management and Board of Directors of the Bank determined policy in the matter of Interest Risk Management in accordance with the directives.	Low-Medium
1.2	**Inflation risk**	Inflation risk is the actual or future risk to the Group's income and capital that could materialize as the result of unexpected changes in the consumer price index.	Low
1.3	**Exchange rate risk**	Exchange rate risk is the actual or future risk to the Group's income and capital that could materialize as the result of unexpected changes in exchange rates.	Low
1.4	**Share/Option risk**	Share price risk is a risk to a loss as a result of changes in the shares' price or shares' index. Option risk is the actual or future risk to the Group's income and capital that could materialize as the result of a loss deriving from changes in the parameters affecting the value of options, including standard deviation.	Low
2.	**Credit risk**	Credit risk is the risk of borrowers or counterparty will not fulfil their obligations to the Bank. In order to minimize the exposure to credit risk, a risk management policy and exposure restrictions with respect to borrowers/sectors in the different segments of activity have been defined at the Group.	Low-Medium
2.1	**Quality of borrowers and collateral**	The actual or future risk of erosion in the value of Group assets, income and equity that could materialize as the result of a decrease in the quality of borrowers against the background of a deterioration in their repayment ability, and/or in the value and quality of the collateral which they provided as security for credit, in such cases as: - The borrower's financial robustness - resilience, liquidity, profitability, repayment ability, level of leverage, and/or harm to them as the result of developments in economic parameters (such as exchange rates and interest rates), and/or the business environment and developments in the sector in which the borrower operates. - Value, quality or composition of the collateral provided by the borrower for securing the credit in his accounts.	Low-Medium

	Risk	Effect	Risk level
2.2	**Sector concentration**	Actual or future risk of impact to the value of Group assets, income and equity resulting from a high volume of credit granted to borrowers in a certain sector and/or investment in instruments sensitive to the sector. Deterioration in the business activity of such a sector, due to changes in supply or demand, changes in raw material prices, geopolitical developments and regulatory developments may impact the repayment ability and/or value of collateral provided by part of the borrowers in that sector, and may therefore adversely affect the value of the Group's assets and profitability. In order to minimize risk exposure, the Bank's Board of Directors has set restrictions on exposure to the different sectors of the economy, part of which are more stringent than those set by the Bank of Israel. Control is maintained over adherence to these restrictions, concurrent with reporting to Management and to the Board of Directors.	Low
2.3	**Borrower and borrower group concentration**	Actual or future risk of impact to the value of the Group's assets, income and capital due to deterioration in the position of a large borrower/large group of borrowers relative to the credit portfolio, which could adversely affect the chance of collecting the credit, and therefore also the value of the Group's assets and profitability. The effect of the risk is a function inter alia of the borrower groups' internal composition, the extent to which the companies comprising them are connected from the business or sector-specific aspect, their diversification, and the extent to which problems at one of them will affect the others. In order to minimize risk exposure, the Bank's Board of Directors has set restrictions on exposure to a borrower/group of borrowers, part of which are more stringent than those set by the Bank of Israel. Control is maintained over adherence to these restrictions, concurrent with reporting to Management and to the Board of Directors. The risk assessment declined from "low-medium" to "low" as a result of the on-going decline in the concentration of borrowers and group of borrowers.	Low
3.	**Operational risk**	Operational risk is the actual or future risk to the value of the Group's assets, income and capital, due to the impropriety or failure of internal processes, persons and systems, including implemental systems and technological infrastructure, or due to external events, including cyber risk. The definition includes fraud and embezzlement risks, information security risks, cyber and business continuity and legal risks, but does not include strategic risk or reputation risk. In order to minimize the exposure to operational risk, the Bank applies an overall operational risk management policy that outlines the control environment, the organizational frameworks and the managerial functions that will be used for the management and minimization of exposure to operational risks. The policy also prescribes measurement, control and monitoring mechanisms and reporting systems. The Bank is constantly improving the control environment and the corporate operational risk management framework, in accordance with the requirements of proper conduct of banking business directives of Bank of Israel relating to operational risk and to the Basel Committee's Sound Practices as adopted by the Supervisor of Banks. The risk assessment rose from "Low-Medium" to "Medium" in light of the intensification of the cyber risks as a whole alongside of the expansion of the Group in the digital activity.	Medium
4.	**Liquidity risk**	Liquidity risk is the actual or future risk that the Bank will have difficulty in supplying liquidity requirements in exceptional demand and supply situations, including unexpected liabilities, including a steep decline in value of assets available to the Bank, unexpected withdrawals, unexpected demand for credit and uncertainty regarding the availability of sources. In order to minimize the exposure to liquidity risk, the Bank applies an overall policy for the management of liquidity risk in local and foreign currency and foreign-currency linked activity as required in accordance with Proper Banking Management Regulations No. 221 and 342 of the Supervisor of Banks. The policy includes restrictions on the coverage ratio (according to Proper Banking Management Regulations No. 221). Restrictions on the liquidity margin and ratio under normal and stress scenarios (according to Proper Banking Management Regulations No. 342), and reference to measurement and control tools and to reporting mechanisms that need to be applied in current liquidity risk management.	Low

	Risk	Effect	Risk level
5.	**Legal risk**	Legal risk is included under operational risk as this is defined in Proper Conduct of Banking Business Regulation 350 ("Operational risk management") and includes, but not only, "exposure to fines, penalties or punitive damages as the result of supervisory activity as well as private settlements". In order to minimize the exposure to legal risk, the Bank applies a legal risk management policy that is submitted for the approval of the Management and the Board of Directors. The policy document describes legal risk, and the methods employed for identifying, mapping and minimizing the risk. For this purpose, the Bank acts to identify in advance all legal risks, including a review of any new product/service or activity, and compilation of all the documents associated with that product/service or activity in order to minimize the legal risk involved as far as possible.	Low
6.	**Reputation risk**	Reputation risk is the risk stemming from a negative perception on the part of customers, counterparties, shareholders, investors, bondholders, analysts, and relevant regulatory or other factors, which may adversely affect the ability of a banking corporation to maintain existing business relations, or establish new relations, or to enjoy continuous access to financial resources. Reputation risk is materially impacted by the materialization of adjacent risks such as operational risk, credit risk, compliance risk, and money laundering and terrorism financing risk, the publication of which could lead to the materialization of reputation risk (for example, theft or embezzlement events, money laundering events and large monetary loss).	Low
7.	**Legislative and regulatory risk**	Legislative and regulatory risk is the actual or future existence of a risk to the Group's income and capital that could arise from changes in regulation or legislation which could affect the Group's business activity. The Bank, as a banking corporation, and the companies held by it are subject to numerous regulatory provisions that are reflected in legislation, secondary legislation and the policy of supervisory and enforcement authorities, such as the Supervisor of Banks at the Bank of Israel, the Capital Market and Savings Division at the Ministry of Finance, the Securities Authority, the Antitrust Commission, and statutory bodies in the area of consumer protection. The computerization field is also sensitive to changes in legislation and regulation, in view of the frequent upgrades and modifications that are required in respect of computer systems. Frequent changes and/or innovations in legislation and the authorities' policy occur in these areas. Such changes in legislation and in the policy of the supervisory and enforcement authorities could affect the Group's business activity, and usually require investments and the expenditure of resources in order to adapt activity to these changes. The investments need to be made in systems and in the training of personnel.	Medium
8.	**Compliance, money laundering and terrorism financing prohibition risks**	Compliance risk is the risk for a legal or regulatory sanction, a material financial loss or damage to the Bank's image, as a result of failing to comply with the compliance provisions. Compliance risk includes the risk of failure to meet the consumer provisions specified in the Proper Banking Business Conduct Directive 308, the risk of failure to meet the provisions of the Money Laundering and Terrorist Financing Prohibition Law, the risk of failure to comply with the provisions of the Internal Enforcement Plan in securities laws, in accordance with the Efficiency of Enforcement Procedures in the Securities Authority Act and the risks arising from activity vis-à-vis foreign residents. This risk also includes conduct risk, which is a cross organization risk that draws its normative outline from a long list of legislation and regulation directives and based on basic values such as fairness and transparency in the manner the Bank operates with different interest holders. Stricter regulations and enforcement by the tax authorities in different countries, designed to locate offshore accounts of residents could impact clients' behaviour patterns and expose the Bank to compliance risk, reputation risk and cross-border compliance risks. The degree of impact of compliance, money laundering and terror funding risks affects all areas of operation of the Bank, including administrative enforcement and international regulation in tax matters, including FATCA. In order to minimize the risk, policy and procedures were set for the management of the various risks, in each a risk appetite was defined, and an outline of procedures, controls and supporting IT systems and an outline of requested reports are existing.	Medium

	Risk	Effect	Risk level
9.	**Competition and strategy risk**	Competition risk is due to the Group's exposure to competition in Israel in all areas of its business activity. The Group, in the normal course of business, faces competitors, including other banking corporations and other financial institutions that provide alternative financial products to those offered by the Group, such as: insurance companies and investment houses. Competition risk reflects the risk of erosion in profitability and capital as the result of competitive pressure to reduce fees and margins. Strategy risk is the risk of present or future implications on earnings, capital and reputation or position resulting from erroneous business decisions, from the improper implementation of decisions or from the failure to respond to sector-specific, economic or technological developments. The risk is a function of correlation between the Bank's strategic objectives, the business strategies that were developed for achieving these objectives, the resources that were allocated to these objectives and the quality of their implementation. The risk assessment rose from "Low" to "Low-Medium", in light of the intensification of the anticipated regulatory moves, including their potential effect on the Bank, alongside continuance development of the competition environment of the banks in Israel (including new competitors) and the intensification of the uncertainty in the Bank's operating environment.	Low-Medium

Apart from the above-mentioned risks, the Bank's financial results and its performance are directly affected by the state of the Israeli economy. Deterioration in the conditions in the Israeli economy and/or deterioration in geopolitical conditions could adversely affect the Group's income. Most of the activity of the Bank and of a large part of its held companies is carried out in the State of Israel. Accordingly, a recession in the economy, a significant withdrawal of foreign investments that were placed in the economy during recent years, a substantial economic downturn and a decrease in the standard of living in Israel could seriously impair the Bank's results. An economic recession is likely to increase the volume of problematic debts, reduce activity turnover in the capital market, adversely affect the demand for current banking services consumed by households, and lead to a decrease in the volume of credit card activity.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES, CONTROLS AND PROCEDURES

CRITICAL ACCOUNTING POLICIES AND ESTIMATES, CONTROLS AND PROCEDURES

GENERAL

The financial statements of the Bank are prepared in accordance with accounting principles and accounting regulations, the main elements of which are detailed in Note 1 to the financial statements.

The financial statements include the results of calculations, assumptions and estimates relating to activities, events and developments that affect the profitability of the Bank. The Bank's Management bases its estimates on subjective assumptions and estimates compiled by employees and external professional entities with proficiency and expertise in the areas in which the estimates are required.

The external professionals and the employees engaged in the supervision, control and preparation of the estimates and assumptions regarding matters that are defined as having a critical effect on the financial results of the Bank do not, to the extent possible, have any involvement and current business relations with the entity or the matter that is the subject of the estimate.

The Management and the Board of Directors of the Bank believe that the estimates and assessments regarding critical accounting policy matters were made in accordance with the best knowledge and judgment of the professional entities engaged in their preparation, and that they were applied in an appropriate manner in the financial statements of the Bank.

The following is a condensed review of the areas in which the Management of the Bank is required to make accounting assessments and estimates regarding matters whose impact on earnings and loss is likely to be critical and material. Changes in assessments and estimates regarding the matters described below, including actual results of an event that may differ from the estimate made in respect of it, could have a material effect on the financial results of the Bank and on the structure of its assets and liabilities (including contingent liabilities).

a. Provision for credit losses

Since January 1, 2011, the Bank has applied the directives for reporting to the public concerning "measurement and disclosure of impaired debts, credit risk and provision for credit losses," which adopt American accounting standards in the matter (ASC 310) and the positions taken by the banking supervision authorities and of the SEC in the USA.

The Bank determined procedures for identifying problematic credit and classifying debts as problematic. According to these procedures, the Bank classify all problematic debts and the off balance sheet items as: under special supervision, infered or impaired. In addition the Bank set up a policy for measurement of the provision for credit losses in order to maintain provision at a suitable level to cover expected credit losses in regard to the credit portfolio.

The provision to cover credit losses regarding the credit portfolio is estimated by one of two options: specific provision or collective provision.

The individual (case-specific) provision, which is relevant for problem debts under the classification of "impaired," is made on the basis of the Management's assessments regarding the losses inherent in the balance-sheet and off-balance-sheet credit portfolio. This provision is estimated by means of the difference between the recorded balance of the debt and the present value of the receipts expected on repayment of the debt, or the fair value of the collateral.

Estimation of the receipts expected on repayment of the debt from the diverse relevant sources of repayment, including the borrower's business activity, the value of the collateral provided by the borrower, private sources for repayment and the realization value of the guarantees provided by the borrower or by third parties, requires the use of discretion and estimates which the Management of the Bank regard as reasonable when assessed, although there is naturally no certainty that the amounts actually received will be the same as the estimates that were determined.

In addition, the Bank examines the debts and writes off from the accounting aspect, debts that conform to the terms of accounting write-off.

The group provision is relevant to all debts not classified as impaired, calculated to reflect impairment in respect of individual unidentified credit losses inherent in large groups of small debts with similar risk characteristics, as well as for debts which were examined specificly and found to be unimpaired.

The provision estimated on a collective basis for balance sheet and off balance sheet credit risk is calculated on the basis of historical loss rates in the different economic segments for the period starting 2011. Accordingly, the determination of provision in 2017 is based on the rate of accounting write-offs in the period of the last seven years, while distinguishing between problematic credit and unproblematic credit. The Bank uses the average historical loss rates in the different economic segments in the range of the said years, and in addition, in order to estimate the appropriate provision rate regarding credit to the public take into account additional data (qualitative adjustments). Regarding the explanation of qualitative adjustments- see Note 1.d.(4) to the financial statements.

b. Lawsuits and contingent liabilities

Risk assessment and accounting procedures reflecting lawsuits and contingent liabilities are carried out at the best judgment of the lawyer dealing with the matter, based on his proficiency in and knowledge of the law and court rulings, his experience in legal work, acquaintance with banking activity and, in cases of clear uncertainty, review of the factual basis. The process of risk assessment is monitored by the Head of the Litigation Section in the Legal Department. When large amounts are involved, the process is also reviewed by a committee chaired by the Manager of the Bank's Legal Department.

In order to achieve this objective, the Legal Department acts in several areas:

1. Knowledge of the general law.
   The Legal Department diligently updates itself on current legislation and court rulings, a matter that is reflected in the internal procedures of the Department. Special attention is paid to matters that may have implications for the diverse activities of the Bank, including the drawing of conclusions and recommendations for action following relevant events that have occurred at other banks.
2. The processing of claims and complaints against the Bank.
   Lawsuits in various matters are pending against the Bank (including requests for approval of several of them as class actions), including: capital market, bank-customer relations, lack of representation, etc.

The Legal Department deals with all of the claims against the Bank, by itself and via external lawyers who are assisted and supervised by the Legal Department as needed. A risk assessment is carried in respect of every lawsuit in an amount exceeding Dollar 10,000, and in respect of every legal action (without a minimum amount). A committee headed by the Bank's Chief Legal Counsel periodically reviews the assessment of the risk in complaints and claims whose overall amount exceeds NIS 5 million. Estimates of the Bank's exposure to claims and contingent liabilities, in respect of which a provision has to be made, or where disclosure is required with respect to the extent of exposure inherent in them, are made in cooperation with the relevant professional entities at the Bank. The CEO receives in the case of material claim an immediate report, a monthly report on updates and material changes that have occurred in the claims and complaints filed against the Bank when these exceed a certain amount, as well as a quarterly report on revisions and changes as stated in all of the claims and complaints filed against the Bank.
Regarding the majority of claims and contingent liabilities, estimates exist on the extent of the Bank's risk, and provisions are made accordingly.
As to the disclosure format of legal claims see Note 1.d.(17) to the financial statements.

c. Employee rights

Employees at some companies in the Group, including the Bank, are entitled to certain benefits in the course of their employment, after leaving their employment and on retirement. These benefits include, among other:

- Post retirement and employment defined benefits schemes - Severance compensation, pension, retiree benefits and other.
- Other benefits (for some companies in the Group) - seniority awards and benefits in respect of unutilized sick leave.

Liabilities in respect of such benefits are computed on an actuarial basis. The actuarial calculations are based on a number of parameters, including the probability that all the conditions for payment will be fulfilled - life expectancy, retirement age, employees rate of resignation from the Bank before formal retirement age, the expected rate of increase in salary, and the discount rate. The discount rate is determined on the basis of the return on Israeli government bonds, with the addition of a margin that equals the difference between the rate of return to redemption on US corporate bonds rated "AA" and above and the rates of return to redemption on US government bonds.

Following efficiency moves, which the Bank implements, including gradual decline in manpower, as detailed in the note for Employees' rights (see note 23 to the financial statements), the parameters were updated as mentioned above.

The following is a sensitivity analysis of the effect of a change in the principal parameters on the calculation of the actuarial provisions:

	December 31, 2017	
	Increase of 1%	Decrease of 1%
		NIS million
Effect of change in Salary on:		
Actuarial liabilities for pension and severance payments	**85**	**(72)**
Other post-employment and retirement benefits	**1**	**(1)**
Benefit in respect of nonutilized sick leave	**4**	**(3)**
Effect of change in discount rate on:		
Actuarial liabilities for pension and severance payments	**(75)**	**89**
Other post-employment and retirement benefits	**(25)**	**34**
Benefit in respect of nonutilized sick leave	**(3)**	**4**
Staff long service awards	**(1)**	**2**
Effect of change in rate of employees leaving on:		
Actuarial liabilities for pension and severance payments	**79**	**(105)**
Benefit in respect of nonutilized sick leave	**(6)**	**8**
Staff long service awards	**(1)**	**1**

The effect of the change in the principal parameters on the post-retirement and employment defined benefits schemes - severance compensation, pension, benefits to retirees and other, are recognized in other comprehensive profit.

The effect of the change in the principal parameters on benefits - seniority awards and benefits in respect of unutilized sick leave, are recognized in other comprehensive profit and loss.

The Opinion of the actuary is available for review on the MAGNA website of the Securities Authority, and on the MAYA website of the Tel Aviv Stock Exchange.

d. Assessment of the fair value of derivative financial instruments

The Bank conducts large-scale activity in derivative financial instruments, which are presented in the financial statements on the basis of fair value as distinct from value on the basis of the accrual principle.

Since 2012, the Bank has applied FAS 157 principles for the measurement of the fair value of derivative financial instruments.

FAS 157 defines fair value as the price that would have been obtained from the sale of an asset or that would have been paid in order to discharge a liability in a transaction between a voluntary seller and a voluntary buyer at the date of measurement. For the purpose of fair value assessment, the accounting standard requires the maximum possible use of observed data and the minimum possible use of unobserved data. Observed data represent market information data that are obtained from independent sources, while unobserved data reflect the banking corporation's assumptions.

The use of these data types create the following scale of fair value:

- Level 1 data - prices quoted from an active market.
- Level 2 data - prices derived from estimation models in which the significant data are observed in the market or are supported by observed market data.
- Level 3 data - prices derived from estimation models in which one or more of the data are unobserved.

Derivative financial instruments that have a main market were assessed on the basis of market value as set in the main market and in the absence of a main market, on the basis of the market price quoted in the most effective market. Derivative financial instruments that are not traded were estimated on the basis of models which the Bank uses in its current activity and which take into account the risks inherent in the derivative financial instrument (such as market risk and credit risk). Calculations of the fair value of derivative financial instruments in respect of their foreign-currency component are based on data prevailing in the international money markets and in the local market, and in respect of the local currency component, on unlinked interest rates and CPI-linked interest rates, taking into account the market prices, liquidity and tradability in the local market for the type of instrument in question and the period of the transaction. Interest rates under FAS 157 are uniform, whether the value of the instruments constitutes an asset at the Bank or if it constitutes a liability. (There is no spread between the buy/sell interest rates.) The credit risk implied in derivative financial instruments is expressed by the fair value by the inclusion of a risk premium in the calculation of the value.

A risk premium is included in the calculation of all transactions. In transactions whose fair value constitutes an asset, the credit risk premium of the counter-party to the transaction is included; and in transactions whose fair value constitutes a liability, the Bank's risk premium is included.

The credit risk premium of the local banks and foreign banks was accepted from external entities which rely on debt instruments and credit derivatives that are traded on an active market.

As for the rest of the customers, the risk premium was determined on the basis of an internal model for grading the quality of the customers and their credit risk.

The fair value of options is for the most part based on a Black and Scholes model, and is affected by the volatility implied in exchange rates, the interest rate and the indexes relevant to the option which the Bank purchased or wrote. Foreign currency-shekel exchange rate volatility data and foreign currency-foreign currency exchange rate volatility data are determined by an external company that specializes in the revaluation of options on the basis of data derived from the money markets in Israel and abroad. With respect to complex derivative financial instruments that do not have a tradable market, fair value quotations are usually obtained from entities abroad, and their reasonability is examined by the Bank's dealing rooms.

For additional details regarding fair value of derivative financial instruments, see Notes 27(a), 27(b) and 32(b).

e. Fair value of securities

The Bank’s activity in securities in the portfolio available for sale and in the portfolio for trading is measured in the balance sheet on the basis of their fair value.

See Note 1.d.(7) and Note 1.d.(8) to the financial statements regarding the determination of fair value of securities and other than temporary impairment.

Determination of the fair value of the foreign-currency bond nostro portfolio

The fair value is determined in the middle office of the Financial division of the Bank. In its pricing of Eurobonds and MBS bonds, the Bank relies on a quotation from an independent external source that provides quotations to numerous large financial institutions worldwide.

The Eurobonds portfolio

The external quotation supplier provides the Bank with daily data on credit margins with respect to all the securities existing in the portfolio. The middle office carries out a reasonability test of the credit margins, by such means as examining the reasonability of a quotation from the Bloomberg system with respect to transactions that were conducted in an amount of securities approximating to the Bank's total investment in a security, examining the correlation with the margins inherent in relevant credit default swaps (CDS), and examining the reasonability with respect to the same issuer's bonds with redemption dates approximating to the redemption date of the held bond. In cases where no such indications exist, a quotation is requested from an external broker.

The Mortgage-Backed Bond (MBS) portfolio

The external quotation supplier provides the Bank with data on the prices of all the securities existing in the portfolio. Once a month, a reasonability test is run on the external quotation supplier's prices by means of prices taken from other financial systems.

Sensitivity analysis

According to the Bank's calculations, an increase (decrease) of 0.05% in the interest margin deriving from the bond issuers' credit risk, with respect to the Bank's foreign-currency portfolio, which is based on quotations obtained from an external price supplier, will have the effect of reducing (increasing) the bonds' revaluation by NIS 8.2 million.

As regards securities whose fair value is determined on the basis of stock exchange prices, these do not necessarily reflect the price obtained from the sale of securities at large amounts.

For additional details regarding fair value of securities, See Nores 12 and 32(b).

f. Capitalization of software development costs

See Note 1.d.(13) and Note 1.d.(14) to the financial statements regarding intangible assets and impairment of software developments costs.

ASSESSMENT OF CONTROLS AND PROCEDURES CONCERNING DISCLOSURE IN THE FINANCIAL REPORT

In accordance with the Supervisor of Banks' directives for reporting to the public and the guidelines of Proper Conduct of Banking Business Regulation 309 that was issued in September 2008, the Bank has for a number of years maintained controls and procedures regarding disclosure, and has deployed an internal control network for financial reporting which was first applied in the financial report for the year ending December 31, 2008.

The directives, which concern Management's responsibility on the internal control of financial reporting and the external auditor's statement of opinion regarding the audit of the internal control of financial reporting, were compiled in accordance with the provisions of Sections 302 and 404 of the law known as the Sarbanes-Oxley Act of 2002 that was enacted in the USA, and directives and guidelines that were determined in the USA, including those determined by the PCAOB.

Enclosed with the financial statements are declarations by the CEO of the Bank and the Chief Accountant, each one separately, concerning the assessment of controls and procedures in the matter of disclosure.

The Management of the Bank, in cooperation with the CEO of the Bank and the Chief Accountant, assessed for December 31, 2017 the effectiveness of the controls and procedures in the matter of disclosure by the Bank. On the basis of this assessment, the CEO of the Bank and the Chief Accountant concluded that as at the end of this report period, the controls and procedures in the matter of disclosure by the Bank were effective for the purpose of recording, processing, summarizing and reporting the information which the Bank is required to disclose in the report in accordance with the Supervisor of Banks' directives for reporting to the public, and at the time determined in those directives.

During the fourth quarter ending on December 31, 2017, no change occurred in the Bank's internal control over financial reporting which exerted a material effect, or which can reasonably be expected to exert a material effect on the Bank's internal control over financial reporting.

Tel Aviv, 5 March, 2018

Irit Izakson
Chairperson of the Board of Directors

Smadar Barber-Zadik
CEO

CERTIFICATION

I, Smadar Barber-Tsadik, declare that:

1. I have reviewed the annual report of the First International Bank of Israel Ltd. (hereinafter: “the Bank”) for the year 2017 (hereinafter: “the Report”).
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included on the Report correctly reflect the financial condition, results of operations, changes in shareholders' equity, and cash flows of the Bank, in all material aspects, for the dates and periods covered in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure(1) and internal control of financial reporting(1). furthermore:
   A. We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report.
   B. We have established such internal controls of financial reporting or caused such internal control of financial reporting to be established under our supervision, intended to provide a reasonable degree of confidence with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks.
   C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure, as at the end of the period covered in the Report, based on our assessment; and
   D. We have disclosed in the Report any change in the internal control of financial reporting at the Bank that occurred during the fourth quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditor, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control of financial reporting;
   A. Any significant deficiencies or material weaknesses in the establishment or application of internal control of financial reporting that can reasonably be expected to impair the Bank's ability to record, process, summarize, or report financial information; and
   B. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have significant role in the internal control of financial reporting at the Bank.

The aforesaid shall not detract from my responsibility, or from the responsibility of any other person, under any law.

(1) As defined in the public reporting directives concerning the "board of Directors' report".

Tel-Aviv, 5 March, 2018

Smadar Barber-Tsadik
Chief Executive Officer

CERTIFICATION

I, Nachman Nitzan, declare that:

1. I have reviewed the annual report of the First International Bank of Israel Ltd. (hereinafter: “the Bank”) for the year 2017 (hereinafter: “the Report”).
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included on the Report correctly reflect the financial condition, results of operations, changes in shareholders' equity, and cash flows of the Bank, in all material aspects, for the dates and periods covered in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure(1) and internal control of financial reporting(1). furthermore:
   A. We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report.
   B. We have established such internal controls of financial reporting or caused such internal control of financial reporting to be established under our supervision, intended to provide a reasonable degree of confidence with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks.
   C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure, as at the end of the period covered in the Report, based on our assessment; and
   D. We have disclosed in the Report any change in the internal control of financial reporting at the Bank that occurred during the fourth quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditor, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control of financial reporting;
   A. Any significant deficiencies or material weaknesses in the establishment or application of internal control of financial reporting that can reasonably be expected to impair the Bank's ability to record, process, summarize, or report financial information; and
   B. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have significant role in the internal control of financial reporting at the Bank.

The aforesaid shall not detract from my responsibility, or from the responsibility of any other person, under any law.

(1) As defined in the public reporting directives concerning the "board of Directors' report".

Tel-Aviv, 5 March, 2018

Nachman Nitzan
Executive Vice President,
Chief Accountant

REPORT OF THE BOARD OF DIRECTORS AND MANAGEMENT ON THE INTERNAL CONTROL OF FINANCIAL REPORTING

The Board of Directors and Management of the First International Bank of Israel Ltd. (hereinafter: the "Bank") are responsible for the establishment and application of adequate internal control of financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"). The system of internal control at the Bank was designed to provide a reasonable degree of confidence to the Board of Directors and Management with regard to the adequate preparation and presentation of the financial reports, which are published in accordance with generally acceptance accounting principles and the directives and guidelines of the Supervisor of Banks. Regardless of the quality of planning of the internal control systems, any such system has inherent limitations. Thus, even if we determine that these systems are effective, such systems can provide only a reasonable degree of confidence with regard to the preparation and presentation of the financial reports.

The Management, under the supervision of the Board of Directors, maintains a comprehensive system of controls aimed at ensuring that transactions are executed in accordance with the Management's authorizations, that assets are protected, and that accounting records are reliable. In addition, the Management, under the supervision of the Board of Directors, applies measures to ensure that information and communication channels are effective and monitor performance, including the performance of internal control procedures.

The Management of the Bank, under the supervision of the Board of Directors, assessed the effectiveness of the Bank's internal control of financial reporting as at December 31, 2017, based on the criteria established in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO 1992). Based on the assessment, the Management believes that as at December 31, 2017, the Bank's internal control of financial reporting is effective.

The effectiveness of the Bank's internal control of financial reporting as at December 31, 2017 was audited by the Bank's external auditors, Somekh Chaikin Certified Public Accountants (Isr.), as noted in their report .The auditors' report includes an unqualified opinion with regard to the effectiveness of the Bank's internal control of financial reporting as at December 31, 2017.

Irit Izakson
Chairperson of the Board of Directors

Smadar Barber-Tsadik
Chief Executive Officer

Nachman Nitzan
Executive Vice President,
Chief Accountant

Tel-Aviv, 5 March, 2018

AUDITED ANNUAL FINANCIAL STATMENTS

Somekh Chaikin
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AUDITORS' REPORT TO THE SHAREHOLDERS' OF THE FIRST INTERNATIONAL BANK OF ISRAEL LTD.

We have audited the accompanying balance sheets of The First International Bank of Israel Ltd. (hereinafter - "the Bank") as of December 31, 2017 and 2016, and the consolidated balance sheets of the Bank and its subsidiaries as at such dates, and the related statements of income, the statements of comprehensive income, changes in equity, and cash flows - the Bank and consolidated - for each of the three years the last of which ended December 31, 2017.

These financial statements are the responsibility of the Bank's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of consolidated subsidiary whose assets constitute0.2% and 0.6% of the total consolidated assets as at December 31, 2017 and 2016 respectively, and whose interest income, net constitute 0.1%, 0.4% and 0.5% of the consolidated interest income, net for the years ended December 31, 2017, 2016 and 2015, respectively. The financial statements of the consolidated subsidiary were audited by other auditors whose reports thereon were furnished to us. Our opinion, insofar as it relates to amounts included in respect of such company is based solely on the said reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Manner of Auditor's Performance) - 1973 and certain auditing standards applied in the audit of banking corporations guidelines of the Supervisor of Banks. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by the Management of the Bank, and evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a fair basis for our opinion.

In our opinion, based on our audit and on the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank and consolidated at December 31, 2016 and 2017 and the results of their operations, the changes in the equity and the cash flows - for the Bank and consolidated - for each of the three years which ended December 31, 2017 in conformity with Generally Accepted Accounting principles in Israel. Furthermore, in our opinion, the financial statements referred to above have been prepared in accordance with the directives of the Supervisor of Banks.

As explained in Note 1.A.1, the accompanying financial statements represent a translation into English from the original financial statements in Hebrew.

Somekh Chaikin
Certified Public Accountants (Isr.)

5 March, 2018

STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31

(NIS million)

		Consolidated			The Bank		
	Note	2017	2016	2015	2017	2016	*2015
Interest Income	2	**2,704**	2,526	2,260	**2,060**	1,873	1,521
Interest Expenses	2	**402**	357	307	**397**	342	283
Interest Income, net	2	**2,302**	2,169	1,953	**1,663**	1,531	1,238
Expenses from credit losses	13,29	**121**	80	18	**47**	45	11
Net Interest Income after expenses from credit losses		**2,181**	2,089	1,935	**1,616**	1,486	1,227
Non Interest Income							
Non Interest Financing income	3	**83**	115	149	**94**	99	95
Fees	4	**1,305**	1,300	1,378	**973**	954	839
Other income	5	**62**	65	14	**176**	188	193
Total non Interest income		**1,450**	1,480	1,541	**1,243**	1,241	1,127
Operating and other expenses							
Salaries and related expenses	6	**1,627**	1,656	1,629	**1,215**	1,227	1,054
Maintenance and depreciation of premises and equipment		**380**	409	428	**278**	299	269
Amortizations and impairment of intangible assets	17	**94**	116	131	**83**	82	86
Other expenses	7	**506**	502	522	**450**	427	416
Total operating and other expenses		**2,607**	2,683	2,710	**2,026**	2,035	1,825
Profit before taxes		**1,024**	886	766	**833**	692	529
Provision for taxes on profit	8	**358**	398	326	**284**	301	213
Profit after taxes		**666**	488	440	**549**	391	316
The bank's share in profit of equity-basis investee, after taxes	15	**54**	72	38	**129**	130	130
Net profit:							
Before attribution to noncontrolling interests		**720**	560	478	**678**	521	446
Attributed to noncontrolling interests		**(42)**	(39)	(32)	**-**	-	-
Attributed to shareholders of the Bank		**678**	521	446	**678**	521	446

Consolidated and The Bank	Note	2017	2016	2015
Primary profit per share attributed to the shareholders of the Bank	9			NIS
Net profit per share of NIS 0.05 par value		**6.76**	5.19	4.45

* The data for 2015 does not include the data for PAGI and UBank, which were merged in 2015 with and into the Bank, and were included in that year in the consolidated data.

The notes to the financial statements are an integral part thereof.

Irit Izakson
Chairperson of the Board of Directors

Smadar Barber-Tsadik
Chief Executive Officer

Nachman Nitzan
Executive Vice President,
Chief Accountant

Tel-Aviv, 5 March, 2018

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31[(1)]

(NIS million)

			Consolidated
	2017	**2016**	**2015**
Net profit before attribution to noncontrolling interests	**720**	560	478
Net profit attributed to noncontrolling interests	**(42)**	(39)	(32)
Net profit attributed to the shareholders of the Bank	**678**	521	446
Other comprehensive income (loss) before taxes:			
Adjustments of available for sale securities to fair value, net	**90**	14	(75)
Adjustments from translation of financial statements[(2)] net after the effect of hedges[(3)]	**4**	(2)	-
Adjustments of liabilities in respect of employee benefits[(4)]	**1**	(131)	11
Other comprehensive income (loss) before taxes	**95**	(119)	(64)
Related tax effect	**(35)**	37	24
Other comprehensive income (loss) before attribution to noncontrolling interests, after taxes	**60**	(82)	(40)
Less other comprehensive income (loss) attributed to noncontrolling interests	**3**	(10)	(2)
Other comprehensive income (loss) attributed to the shareholders of the Bank, after taxes	**57**	(72)	(38)
Comprehensive income before attribution to noncontrolling interests	**780**	478	438
Comprehensive income attributed to noncontrolling interests	**(45)**	(29)	(30)
Comprehensive income attributed to the shareholders of the Bank	**735**	449	408

(1) See Note 10.
(2) Adjustments from translation of financial statements of foreign operations which their currency of operations is different from the currency of operation of the Bank.
(3) Hedges-gains (losses) regarding the hedging of investment in foreign currency.
(4) Mostly reflects adjustments in respect of actuarial assessments as of the end of the period regarding defined benefits pension plans, of amounts recorded in the past in other comprehensive profit.

The notes to the financial statements are an integral part thereof.

BALANCE SHEET AS AT DECEMBER 31

(NIS million)

		Consolidated		The Bank	
	Note	2017	2016	2017	2016
Assets					
Cash and deposits with banks	11	**39,186**	29,150	**33,551**	23,332
Securities	12, 26	**10,238**	15,776	**8,685**	13,523
Securities which were borrowed		**813**	414	**813**	414
Credit to the public	13, 29	**81,216**	78,175	**63,523**	61,746
Provision for Credit losses		**(838)**	(847)	**(607)**	(653)
Credit to the public, net		**80,378**	77,328	**62,916**	61,093
Credit to the government	14	**675**	654	**-**	7
Investments in investee companies	15	**565**	514	**2,657**	2,541
Premises and equipment	16	**1,095**	1,133	**991**	1,019
Intangible assets	17	**235**	243	**222**	219
Assets in respect of derivative instruments	27A, 27B	**1,342**	1,332	**1,363**	1,342
Other assets(2)	18	**1,186**	1,020	**1,030**	784
Assets held for sale	18A	**4**	343	**2**	45
Total assets		**135,717**	127,907	**112,230**	104,319
Liabilities, temporary equity and Shareholders' Equity					
Deposits from the public	19	**113,511**	105,817	**91,035**	84,403
Deposits from banks	20	**1,133**	755	**4,168**	3,576
Deposits from the Government		**960**	570	**817**	296
Bonds and subordinated capital notes	21	**5,249**	5,801	**3,637**	4,019
Liabilities in respect of derivative instruments	27A, 27B	**1,318**	1,356	**1,322**	1,356
Other liabilities(1)(3)	22	**5,162**	4,929	**3,157**	3,018
Liabilities held for sale	18A	**-**	745	**-**	-
Total liabilities		**127,333**	119,973	**104,136**	96,668
Temporary equity - noncontrolling interests		**338**	330	**338**	330
Capital attributed to the shareholders of the Bank		**7,756**	7,321	**7,756**	7,321
Noncontrolling interests		**290**	283	**-**	-
Total equity		**8,046**	7,604	**7,756**	7,321
Total liabilities, temporary equity and shareholders' equity		**135,717**	127,907	**112,230**	104,319

(1) Of which: provisions for credit losses in respect of off-balance sheet credit instruments in the amount of NIS 61 million and NIS 71 million (consolidated) and NIS 54 million and NIS 62 million (the Bank) as of December 31, 2017 and 2016, respectively.
(2) Of which: other assets measured at fair value in the amount of NIS 423 million consolidated and the Bank (31.12.16 - NIS 238 million consolidated and the Bank).
(3) Of which: other liabilities measured at fair value in the amount of NIS 521 million consolidated and the Bank (31.12.16 - NIS 491 million consolidated and the Bank).

The notes to the financial statements are an integral part thereof.

STATEMENT OF CHANGES IN EQUITY

(NIS million)

	Share capital and premium (1)	Accumulated other comprehensive loss	Retained earnings (2)	Total share-holders' equity	Non-controlling interests	Total equity
Balance as at January 1, 2015	927	(67)	5,937	6,797	246	7,043
Changes during 2015						
Net profit for the year	-	-	446	446	18	464
Dividend	-	-	(130)	(130)	-	(130)
Other comprehensive loss, after tax effect	-	(38)	-	(38)	-	(38)
Temporary equity - noncontrolling interest	-	-	(2)	(2)	-	(2)
Balance as at December 31, 2015	927	(105)	6,251	7,073	264	7,337
Changes during 2016						
Net profit for the year	-	-	521	521	21	542
Dividend	-	-	(200)	(200)	-	(200)
Other comprehensive loss, after tax effect	-	(72)	-	(72)	(2)	(74)
Temporary equity - noncontrolling interest	-	-	(1)	(1)	-	(1)
Balance as at December 31, 2016	927	(177)	6,571	7,321	283	7,604
Changes during 2017						
Net profit for the year	**-**	**-**	**678**	**678**	**26**	**704**
Dividend	**-**	**-**	**(310)**	**(310)**	**(20)**	**(330)**
Other comprehensive income, after tax effect	**-**	**57**	**-**	**57**	**1**	**58**
Temporary equity - noncontrolling interest	**-**	**-**	**10**	**10**	**-**	**10**
Balance as at December 31, 2017	**927**	**(120)**	**6,949**	**7,756**	**290**	**8,046**

(1) Including share premium of NIS 313 million (as from 1992 onwards).
(2) Including an amount of NIS 2,391 million which cannot be distributed as dividend - see note 24A.B.

The notes to the financial statements are an integral part thereof.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31

(NIS million)

	Consolidated			The Bank		
	2017	**2016**	**2015**	**2017**	**2016**	**2015**
Cash flows from (for) operating activity:						
Net profit for the year	**720**	560	478	**678**	521	446
Adjustments necessary to present cash flows from operating activity:						
The Bank's share in retained profit of investee companies, net	**(54)**	(72)	(38)	**(94)**	(97)	(94)
Revaluation of subordinate debt notes issued by subsidiaries	**-**	-	-	**-**	-	3
Depreciation of premises and equipment	**78**	93	89	**63**	74	67
Amortization of intangible assets	**94**	116	131	**83**	82	86
Gain on sale of buildings and equipment	**(45)**	(24)	(6)	**(44)**	(21)	-
Expenses for credit losses	**121**	80	18	**47**	45	11
Gain from sale of available for sale securities	**(28)**	*(50)	*(63)	**(21)**	*(45)	*(24)
Realized and non-realized loss (gains) from adjustment to fair value of trading securities	**10**	3	3	**12**	2	(3)
Deferred taxes, net	**(2)**	118	64	**9**	111	66
Severance and pension plans for defined benefit	**70**	96	63	**48**	68	34
Accumulation differences included in investing and financing activities	**531**	*190	*207	**484**	*128	*94
Effect on cash balances of changes in exchange rates	**249**	91	218	**233**	87	216
Net change in current assets:						
Deposits in banks	**1,353**	(1,060)	98	**(31)**	197	(42)
Securities held for trading	**434**	9	272	**424**	2	197
Securities which were borrowed from Treasury	**(399)**	(61)	124	**(399)**	(61)	(34)
Credit to the public	**(2,475)**	(4,155)	(3,529)	**(1,174)**	(3,190)	(2,502)
Credit to the public held for sale	**298**	-	-	**-**	-	-
Credit to government	**(21)**	15	(11)	**7**	(7)	-
Other assets	**(198)**	53	(159)	**(282)**	32	(334)
Assets in respect of derivative instruments	**(8)**	334	1,391	**(19)**	343	1,491
Net change in current liabilities:						
Deposits from the public	**7,021**	2,931	8,634	**5,959**	449	5,252
Deposits from banks	**378**	(810)	96	**592**	995	5,125
Deposits from the government	**(345)**	246	(656)	**(215)**	203	(595)
Other liabilities	**168**	(244)	(184)	**94**	(144)	(77)
Liabilities in respect of derivative instruments	**(26)**	(297)	(1,503)	**(22)**	(298)	(1,573)
Other liabilities held for sale	**(745)**	-	-	**-**	-	-
Net cash from (for) operating activity	**7,179**	(1,838)	5,737	**6,432**	(524)	7,810

* Reclassified.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31 (CONT'D)

(NIS million)

	Consolidated			The Bank		
	2017	**2016**	**2015**	**2017**	**2016**	**2015**
Cash flows from (for) investment activity						
Purchase of held to maturity and available for sale securities	**(4,655)**	(13,132)	(28,784)	**(4,164)**	(11,899)	(22,541)
Proceeds from redemption of bonds held to maturity	**177**	80	153	**94**	50	36
Proceeds from sale of available for sale securities	**4,103**	8,203	12,166	**3,078**	7,078	9,470
Redemption of available for sale securities	**5,780**	4,551	11,937	**5,718**	4,051	9,565
Acquisition of premises and equipment	**(55)**	(55)	(114)	**(46)**	(46)	(99)
Proceeds of sale of premises, equipment and other assets	**93**	38	18	**89**	31	8
Investment in intangible assets	**(86)**	(94)	(76)	**(86)**	(94)	(75)
Proceeds from the sale of investment in a subsidiary no longer consolidated	**-**	-	-	**-**	-	1
Merging a subsidiary	**-**	-	-	**-**	69	3,169
Dividend received from investee company	**8**	-	-	**-**	-	-
Net cash from (for) investment activity	**5,365**	(409)	(4,700)	**4,683**	(760)	(466)
Cash flows generated by (for) financing activity						
Issue of bonds and subordinate debt notes	**352**	834	1,352	**352**	834	-
Redemption of bonds and subordinate debt notes	**(916)**	(907)	(398)	**(736)**	(650)	(195)
Dividend paid to shareholders	**(310)**	(200)	(130)	**(310)**	(200)	(130)
Dividend paid to noncontrolling shareholders in consolidated companies	**(20)**	-	-	**-**	-	-
Net cash generated by (for) financing activity	**(894)**	(273)	824	**(694)**	(16)	(325)
Increase (decrease) in cash	**11,650**	(2,520)	1,861	**10,421**	(1,300)	7,019
Cash balances at beginning of year	**27,638**	30,265	28,615	**22,694**	24,081	17,278
Effect of changes in exchange rates on cash balances	**(265)**	(107)	(211)	**(233)**	(87)	(216)
Cash balances at end of year	**39,023**	27,638	30,265	**32,882**	22,694	24,081
Interest and taxes paid and/or received:						
Interest received	**3,007**	2,970	3,071	**2,075**	2,194	2,031
Interest paid	**684**	736	734	**471**	491	430
Dividends received	**21**	19	39	**21**	19	39
Income tax paid	**498**	313	346	**402**	197	178
Income tax received	**131**	172	48	**94**	106	28

The notes to the financial statements are an integral part thereof.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - PRINCIPAL ACCOUNTING POLICIES

A. General

(1) The first International bank of Israel Ltd. (hereinafter - "the Bank") is an Israeli corporation. The consolidated financial statements as of December 31, 2017 include those of the Bank and of its subsidiary companies and of an equity basis investee (hereinafter - "the Group"). The financial statements have been prepared in accordance with accounting principles generally accepted in Israel ("Israeli GAAP") and in accordance with directives and guidelines of the Supervisor of Banks.

The notes to the financial statements relate to the financial statements of the Bank and to the consolidated financial statements of the Bank and its consolidated subsidiaries, unless the note specifically states that it relates to the Bank alone or to the consolidated statements alone.

The Bank is a direct subsidiary of FIBI Holdings Ltd. (hereinafter - "Fibi Holdings"), which is controlled by Binohon Ltd. Dolphin Energies Ltd. (controlled by Messrs. Barry Lieberman, Casy Lieberman-Harris, Lee Lieberman and Joshua Lieberman from Australia) and Instanz No. 2 Ltd. (controlled by Messrs. Michael and Helen Abeles from Australia). All the above controlling shareholders are party to a voting and cooperation agreement.

The financial statements were approved for publication by the Board of Directors on 5 March 2018.

The accompanying financial statements represent a translation into English from the original financial statements in Hebrew.

(2) **Definitions**

In these financial statements:

International financial reporting standards ("IFRS") - standards and interpretations adopted by the International Financial Accounting Standards Board ("IASB"), which include international financial reporting standards ("IFRS") and international accounting standards ("IAS") as well as interpretations of these standards proclaimed by the Interpretation of International Financial Reporting Standards Committee ("IFRIC"), or interpretations proclaimed by the Permanent Interpretation Committee ("SIC"), respectively.

Accepted accounting principles by US banks - Accounting principles, which US banks traded in the US are required to apply. These principles are being determined by the supervisory authorities in the US, by the US Securities and Exchange Commission, by the US Financial Accounting Standards Board ("FASB") and other US entities, and are applied according to the hierarchy determined by US Accounting Standard FAS 168 (ASC 105-10), the codification of accounting standards by the US FASB and the hierarchy of accepted accounting principles. Furthermore, in accordance with a decision of the Supervisor of Banks, despite the hierarchy determined in FAS 168, it has been clarified that any position made public by the bank supervisory authorities in the US or by teams of the bank supervisory authorities in the US regarding the mode of application of generally accepted accounting principles in the US, is considered an accepted accounting principle by banks in the US.

Consolidated subsidiaries - Companies the financial statements of which have been, directly or indirectly, consolidated with those of the Bank.

Equity basis investees - Companies, excluding consolidated subsidiaries and including partnerships or joint ventures, the investment of the Bank in which is accounted for in the financial statements, directly or indirectly, on equity basis.

Investee companies - Consolidated companies or equity based investees.

Foreign extensions - Subsidiaries of the Bank outside Israel.

Functional currency - The currency prevailing in the principal economic environment in which the Bank operates; generally the currency of the environment in which the Bank generates and expends most of its cash.

Stated currency - The currency in which the financial statements are stated.

Related parties - In terms of Section 80 of the public reporting instructions.

Interested parties - In terms of Section 80 of the public reporting instructions.

CPI or Index - the Consumer Price Index in Israel published by the Central Bureau of Statistics.

Adjusted amount - An amount in nominal historical terms as adjusted on the basis of the CPI for December 2003, in accordance with guidelines prescribed in Opinions 23 and 36 of the Institute of Certified Public Accountants in Israel.

Financial reporting in adjusted terms - Financial reporting in adjusted values on the basis of changes in the general purchasing power of the Israeli currency, in accordance with guidelines prescribed by Opinions of the Institute of Certified Public Accountants in Israel.

Reported amount - An adjusted amount on the transition date (December 31, 2003), together with amounts in nominal historical terms added to it subsequently to the transition date, and less amounts deducted subsequently to that date.

Cost - Cost in reported amount.

B. Basis of preparation of the financial statements

(1) Reporting principles

The financial statements of the Bank are prepared in accordance with Israeli accepted accounting principles (Israeli GAAP) and in accordance with the public reporting instructions and guidelines of the Supervisor of Banks.

In most matters, these directives are based on US generally accepted accounting principles. In other matters, which are less material, the directives are based on international financial reporting standards (IFRS) and on accepted accounting principles in Israel (Israeli GAAP). Where the international financial reporting standards (IFRS) allow several alternatives, or do not include specific reference to certain situations, these instructions set specific implementation guidelines, based mainly on accounting principles accepted by US banks.

(2) Functional currency and stated currency

The New Israeli Shekel (NIS) is the currency representing the principal economic environment in which the Bank operates. The consolidated financial statements are presented in NIS, rounded off to the nearest million, unless otherwise stated. For information regarding the functional currency of a banking extension operating abroad, see Note 1.D.(1).

(3) Basis of measurement

The financial statements are prepared on the basis of historical cost, except for the following assets and liabilities:

- Derivative and other financial instruments that are measured according to fair value through profit and loss (such as: investment in securities included in the trading portfolio);
- Financial instruments classified as available-for-sale;
- Non-current assets held for sale and a group of assets held for sale;
- Deferred tax assets and liabilities;
- Provisions;
- Assets and liabilities relating to employee benefits;
- Investments in investee companies stated by the equity method of accounting.

The value of non-monetary assets and of capital items measured on the basis of historical cost has been adjusted to changes in the CPI until December 31, 2003, due to the fact that until that date the economy of Israel had been considered a hyper-inflationary economy. As from January 1, 2004, the Bank presents its financial statements in reported amounts.

(4) Use of estimates

Preparation of financial statements in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and the directives and guidelines of the Supervisor of Banks requires Management to use judgment, make estimates and assumptions which affect the implementation of the accounting policy and the reported amounts of assets and liabilities and the amounts of income and expenses. It should be noted that actual results may differ from these estimates.

Upon the formation of accounting estimates used in the preparation of the financial statements of the Bank, Management is required to make assumptions as to circumstances and events which involve significant uncertainty. When using judgment in determining the assessments, Management of the Bank relies upon past experience, various facts, outside factors and upon reasonable assumptions in accordance with the circumstances applying to each assessment.

The assessments as well as the assumptions supporting them are being reviewed on a current basis. Changes in accounting assessments are recognized in the period in which these changes occur as well as in all future periods affected by them.

C. Initial implementation of accounting standards, updates of accounting standards and instructions of the Supervisor of Banks

Starting with the periods beginning on January 1, 2017, the Bank implements new accounting standards and instructions regarding the matters detailed below:

1. Reporting by banking corporations and credit card companies in Israel in accordance with US accepted accounting principles in the matter of taxes on income.
2. Reporting in accordance with US accepted accounting principles in the matters of: foreign currency issues, accounting policy, changes in accounting assessments and errors, and events subsequent to balance sheet date.
3. A new update of a standard in the matter of the effect of a derivative contract novation on existing accounting hedge relations.
4. A new legislation update in the matter of contingent options regarding debt instruments.

Following is a description of the substance of the changes made to the accounting policy applied in these consolidated financial statements, and a description of the manner and effect of the initial implementation, if at all:

1. Reporting by banking corporations and credit card companies in Israel in accordance with US accepted accounting principles in the matter of taxes on income.

A circular letter was published on October 22, 2015 regarding the reporting by banking corporations and credit card companies in Israel in accordance with US accepted accounting principles in the matter of taxes on income. According to the letter, it is required to apply the US accounting principles accepted by US banks in the matter of taxes on income, and inter alia, the presentation, measurement and disclosure rules in accordance with Item 740 of the Codification regarding "Taxes on income" and Item 830-740 of the Codification regarding "Foreign currency issues - taxes on income".

The letter requires the application of the new rules as from January 1, 2017. Upon the initial application it is required to act in accordance with the transitional instructions stated in the US standard, including retroactive restatement of the comparative data, where required. A banking corporation is not required to provide in the financial statements for 2017, disclosure regarding tax benefits not recognized under Items 740-10-50-15D and 740-10-50-15A of the Codification.

On October 13, 2016, a letter was published in the matter of reporting by banking corporations and credit card companies in Israel in accordance with US accepted accounting principles. The letter includes, inter alia, certain clarifications in the matter of reporting taxes on income in accordance with US rules.

The principal amendments to the public reporting instructions are as follows:

- The transitional instructions have been amended so that temporary differences in respect of prior periods would continue to be treated in accordance with the instructions in effect until December 31, 2016;
- It is clarified that interest income and expenses relating to taxes on income shall be classified to the item "Taxes on income";
- It is clarified that penalties payable to the Tax Authorities shall be classified to the item "Taxes on income";
- It is clarified that an Act is considered "enacted" only upon its formal publication;
- The disclosure requirements in the public reporting instructions as well as the disclosure format regarding "Provision for taxes on income", have been adjusted to the new requirements in the instructions;
- The requirement for presentation of a Note providing information for tax purposes on the basis of nominal historical data, in accordance with Addendums C(1) and C(2), as required by the public reporting instructions, has been abolished, as such Note does not add information to users of the financial statements.

The new rules were applied as from January 1, 2017 and thereafter. The comparative data has been restated in accordance with the new rules. The initial application of the letter had no material effect upon the financial statements.

2. Reporting by banking corporations and credit card companies in Israel in accordance with US accepted accounting principles in the matters of: foreign currency issues, accounting policy changes in accounting assessments and errors, events subsequent to balance sheet date.

A circular letter was published on March 21, 2016 regarding the reporting by banking corporations and credit card companies in Israel in accordance with US accepted accounting principles. The letter amends the public reporting instructions and adopts the US accepted accounting standards regarding the following matters:

- Accounting principles accepted by US banks in the matter of Item 830 of the Codification regarding "foreign currency issues".
- Accounting principles accepted by US banks regarding accounting policy, changes in accounting assessments and errors, including Item 250 of the Codification in the matter of "changes in accounting policy and rectification of errors".
- Accounting principles accepted by US banks in the matter of events subsequent to balance sheet date in accordance with Item 855-10 of the Codification regarding "events subsequent to balance sheet date".

The letter requires the application of the new rules as from January 1, 2017 and thereafter. Upon the initial application it is required to act in accordance with the transitional instructions stated in respect of these matters in the US standard mutatis mutandis, including retroactive restatement of the comparative data, where required by the US accounting standards regarding these matters.

It is emphasized that in implementing the guidelines of Item 830 of the Codification regarding "Foreign currency" in reported periods until January 1, 2019, banks shall not include exchange differences in respect of available-for-sale bonds as part of the adjustments to fair value of these bonds, but shall continue to treat them as required by the public reporting instructions applying prior to the adoption of the new rules.

Furthermore, International Accounting Standard 29 regarding "Financial reporting in hyper-inflationary economies", as adopted by the public reporting instructions, is not being applied as from date of application of the letter. It is clarified that no change has taken place in the date on which the adjustment of financial statements to inflation had ceased, and that financial statements are to be prepared on basis of reported amounts, unless otherwise stated in the public reporting instructions.

The application of the instructions has no material effect upon the financial statements.

3. A new amendment of the standard regarding the effect of a derivative contract novation on existing accounting hedge relations.

In March 2016, the US Financial Accounting Standards Board ("FASB") published ASU 2016-05 (hereinafter - "the amendment") regarding the effect of derivative contract novations on existing hedge relations, comprising an amendment to Item 815 of the Codification regarding derivative instruments and hedge.

In accordance with the amendment, there may be different reasons for the exchange of counterparty to a derivative intended as hedge instrument, such as: existence of intercompany transactions, regulatory requirements (e.g.: Dodd Frank), facing internal credit restriction, etc.

Therefore, exchange of the counterparty to a derivative intended as hedge instrument, in accordance with the provisions of Item 815 does not impair the intention itself, on condition that all other criteria for hedge accounting continue to exist, including Items 815-20-35-14 to 815-20-35-18 of the Codification.

The said rules apply to public entities in the US starting with the annual and interim financial statements for periods beginning after December 15, 2016.

It is noted that corporations may elect to apply the new instructions by the "from now onwards" method, or alternatively apply the instructions with a retroactive restatement.

The Bank has elected to apply the instructions by the "from now onwards" method. Implementation of the instructions had no material effect on the financial statements.

4. A new amendment of the standard in the matter of options continget upon debt instruments

In March 2016, the US Financial Accounting Standards Board ("FASB") published ASU 2016-06 (hereinafter - "the amendment") regarding PUT and CALL options contingent upon debt instruments, comprising an amendment to Item 815 of the Codification regarding derivative instruments and hedge.

The amendment is intended to solve the lack of uniformity in practice, with respect to the examination of the need to separate an imbedded derivative in respect of contingent PUT and CALL options embedded in debt instruments.

The amendment clarifies that it is not required to examine whether the event triggering the exercise of the option is related to the economic characteristics of the host contract.

In accordance with the amendment, upon examination of the imbedded derivative, where an option contingent upon a debt instrument exists, which may accelerate payment of the principal amount of the instrument, it is required to examine whether the derivative is closely connected to the host contract by a model containing four stages. Under this model, it is required to examine whether:

- The settlement amount is based upon changes in a certain index;
- The index does not comprise interest rates or credit risk;
- The debt involves a material premium or discount; and also
- The option is contingently exercisable

The said rules apply to public entities in the US starting with the annual and interim financial statements for periods beginning after December 15, 2016. It is required to apply the instructions retrospectively restating debt instruments existing as from the beginning of the fiscal year in which the instruction took effect.

Implementation of the instructions had no material effect on the financial statements.

D. Accounting policy applied in the preparation of the financial statements

(1) Foreign Currency and Linkage

The Bank applies the instructions of Item 830 of the Codification regarding foreign currency issues, as from January 1, 2017.

Transactions in foreign currency

On date of initial recognition of a transaction in foreign currency, any asset, liability, income, expense, profit or loss produced by the transaction are translated into the functional currency of the Bank in accordance with the exchange rate prevailing on date of the transaction.

At any reporting date, monetary assets and liabilities denominated in foreign currency at date of the report are translated into the functional currency according to the exchange rate in effect on that date.

Non-monetary assets and liabilities denominated in foreign currency and measured according to fair value are translated into the functional currency according to the exchange rate in effect on the date on which fair value was determined.

Non-monetary items denominated in foreign currency and measured according to historical cost, are translated at the exchange rate in effect at date of the transaction.

Gains or losses on translation of transactions in foreign currency stemming from fluctuation in currency between the date of transactions and date of settlement/balance sheet date, are recognized in the statement of profit and loss as gains or losses on translation differences (non-interest financing income), excluding:

- The effective part of the gains or losses in respect of a hedge instrument hedging a net foreign operation investment or hedging cash flows;
- Exchange differences in respect of items comprising a part of a net investment;
- Exchange differences in respect of available-for-sale (AFS) debt instruments, stemming from the change in fair value and which are included as part of other cumulative comprehensive income (OCCI).

Foreign operations

The functional currency of an entity is the currency of the principal economic environment in which the entity operates. Generally speaking, it is the currency of the environment in which the entity produces cash.

Assets and liabilities relating to foreign operations, including goodwill and adjustments to fair value created upon acquisition, are translated to NIS at the exchange rate prevailing at the reporting date. Any income, expenses, profit or loss of foreign operations are translated into NIS at the exchange rates prevailing upon the dates of the transactions.

Exchange differences arising on translation are recognized in other comprehensive income and are presented in capital under "Cumulative adjustments on translation of financial statements".

Upon realization of a foreign operation, the cumulative amount of exchange differences relating to such operation that had been recognized in other comprehensive income, are reclassified to the statement of profit and loss in the period in which the gain or loss on realization of the foreign operation has been recognized.

Hedge of net investment in foreign operations

The Group implements hedge accounting in respect of exchange differences between the functional currency of the foreign operation and the functional currency of the Bank (NIS).

Exchange differences stemming from a financial liability that hedges the net investment in a foreign operation, are taken to other comprehensive income, in respect of the effective part of the hedge, and are presented in capital under "Adjustments on translation of financial statements". The non-effective part is taken to profit and loss. Upon realization of the hedged investment, the appropriate amount accumulated under "Adjustments on translation of financial statements" is transferred to profit and loss, as part of the gain or loss on realization of the investment.

CPI-linked assets and liabilities not measured according to fair value

CPI-linked assets and liabilities are stated according to the linkage terms determined for each item.

Following are details of representative exchange rates and of the consumer price index including the rates of change therein:

	December 31			Rate of change during		
	2017	2016	2015	2017	2016	2015
					%	%
Rate of exchange of the U.S. dollar (in NIS)	**3.467**	3.845	3.902	**(9.8)**	(1.5)	0.3
Rate of exchange of the Euro (in NIS)	**4.153**	4.044	4.247	**2.7**	(4.8)	(10.1)
Rate of exchange of the SFR (in NIS)	**3.555**	3.767	3.925	**(5.6)**	(4.0)	(0.1)
Consumer Price Index -						
November (in points)	**100.3**	100.0	100.3	**0.3**	(0.3)	(0.9)
December (in points)	**100.4**	100.0	100.2	**0.4**	(0.2)	(1.0)

(2) Basis of consolidation

Subsidiary companies

Subsidiary companies are entities controlled by the Group. The financial statements of subsidiary companies are included in the consolidated financial statements since the date on which control of these entities was acquired and until the date on which control ceased to exist.

Non-controlling interest

Non-controlling interest comprises the capital of a subsidiary, which may not be, directly or indirectly, attributed to the parent company.

Measurement of non-controlling interests at date of a business combination - non-controlling interests are measured at fair value at date of the business combination.

Allocation of the comprehensive income among the shareholders - Profit or loss and any other component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interest. The total profit, loss and other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests, even if this results in a negative balance of the non-controlling interests.

Transactions with non-controlling interests while maintaining control - transactions with non-controlling interests while maintaining control are treated as capital transactions. Any difference between the consideration paid or received and the change in the non-controlling interest is taken directly to the share in equity of the owners of the Bank.

Furthermore, upon changes in the rate of holdings in a subsidiary while maintaining control, the Bank reallocates the cumulative amounts recognized in other comprehensive profit between the owners of the Bank and the non-controlling interest.

A PUT option granted to the non-controlling interest with respect to shares of a consolidated subsidiary is not treated as a separate instrument, but the Bank treats the shares of the consolidated subsidiary held by the non-controlling interests, and with respect to which the non-controlling interests have a PUT option, as redeemable non-controlling rights, and accordingly reflects them as temporary equity excluded from equity capital. The non-controlling rights, which, as stated, are excluded from equity capital, are measured periodically at the higher of the amount of the minority's share in profit or the redemption value of the shares. At each period, the Bank attributes profits to the non-controlling rights in accordance with their share in the earnings of the subsidiary company, to the extent that adjustments are required in order to state the non-controlling rights at the higher of the amount of the minority's share in profits or the redemption value of the shares, as above. These adjustments are reflected in the retained earnings item.

Loss of control in a subsidiary

Upon loss of control, the Bank deletes the assets and liabilities of the subsidiary as well as any non-controlling interest and other capital components attributed to the subsidiary, including amounts recognized in the past in other cumulative comprehensive income, including in respect of a foreign subsidiary. If the Bank remains with any investment in the former subsidiary, then the balance of the investment is measured at fair value at date of loss of control.

The difference between the amount of consideration received and the fair value of the remaining balance in the former subsidiary and the amount of the deleted balances is recognized in profit and loss. As from that date, the remaining investment is treated by the equity value method or as a financial asset, in accordance with the extent of influence over the relevant company remaining with the banking corporation. The amounts relating to the former subsidiary that previously had been recognized in equity by way of other comprehensive income, are reclassified to profit and loss.

Investments in equity based investees

Equity basis investees are entities in which the Group has a material influence over their financial and operating policies, but no actual control. The assumption is that an interest of between 20% and 50% in the investee confers a significant influence.

Investment in equity basis investees is treated by the equity method of accounting, and initially is recognized at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share in the income and expenses, in the profit and loss and in the other comprehensive profit of entities treated by the equity method of accounting, from the date on which the significant influence first existed and until the date on which it ceased to exist.

Transactions eliminated upon consolidation

Intercompany balances within the Group and non-realized income and expenses derived from intercompany transactions are eliminated in the preparation of the consolidated financial statements. Non-realized profits stemming from transactions with equity basis investees are eliminated against the investment therein according to the ratio of interest that the Group has in such investments. Non-realized losses are eliminated in the same manner in which non-realized profits have been eliminated, so long as no evidence of impairment exists.

(3) Basis of Recognition of Income and Expenses

(a) Interest income and expenses are recognized on an accrual basis, except for:

- interest accrued on problematic debts classified as non-performing loans, which is recognized on a cash basis where no doubt exists as to the collection of the remaining stated balance of the impaired debt. In such cases, an amount collected on account of interest to be recognized as interest income is limited to the amount that would have accrued during the reported period on the remaining stated balance of the debt according to the contractual interest rate. Cash basis interest income is classified in profit and loss as interest income in the relevant item. Where doubt exists as to the collection of the remaining stated balance of the debt, all amounts collected are used to reduce the principal amount of the loan. Furthermore, interest on housing loans in arrear is recognized in profit and loss upon actual collection.
- Premature redemption commissions charged in respect of premature repayments made prior to January 1, 2014, and not yet amortized, are recognized over a period of three years or over the remaining period of the loan, the shorter of the two. Commissions charged on premature repayments made after January 1, 2014, are immediately recognized as interest income.

(b) Commission income in respect of services provided (such as: securities and derivative instruments operations, credit cards, ledger fees, the granting of credit, currency conversion and foreign trade activity) are recognized in profit and loss upon accrual of the right thereto. Certain commission income, such as commission in respect of guarantees, and certain commissions regarding the finance of building projects, is recognized proportionally over the period of the transaction.

(c) Securities - see Section D.(5) below.

(d) Derivative financial instruments - see Section D.(6) below.

(e) Other income and expenses - recognized on an accrual basis.

(4) Impaired debts, credit risk and provision for credit losses

In accordance with the Directive of the Supervisor of Banks in the matter of the "measurement and disclosure of impaired debts, credit risk and the provision for credit losses", the Bank implements as from January 1, 2011, the US accounting standards in this matter (ASC 310) and the statements of position of the US bank supervisory bodies and the US Securities and Exchange Commission, as adopted in the public reporting directives and in positions and guidelines of the Supervisor of Banks. In addition, as from that date, the Bank implements the guidelines of the Supervisor of Banks in the matter of the treatment of impaired debts. Moreover, Starting on January 1, 2012, the Bank implements the instructions of the Supervisor of Banks in the matter of the update of disclosure of credit quality of debts and the provision for credit losses.

Furthermore, from time to time, the Supervisor of Banks revises the public reporting instructions and the guiding FAQ file regarding the manner of application of the instructions in the matter of impaired debts and the provision for credit losses, this with the view of integrating therein the rules applying to US banks, including guidelines of the Regulatory authorities in the United States. As from 2016, the guidelines relating to the treatment of the restructure of a troubled debt, the guidelines relating to the manner of classification of debts based on the primary repayment source and certain guidelines regarding the manner of examination of the debts have, inter alia, been revised.

Credit to the public and other debt balances

The guideline is implemented with respect to all debt balances, such as: deposits with banks, bonds, securities on loan or acquired within the framework of "buy-back" agreements, credit to the public, credit to government, etc. Credit to the public and other debt balances, in respect of which the public reporting directives do not contain specific principles regarding the measurement of the provision for credit losses (such as: credit to government, deposits with banks, etc.) are reported in the books of the Bank at the stated balance of the debt. The stated balance of the debt is defined as the outstanding balance of the debt, net of accounting write-offs, but before provision for credit loss in respect of such debt. The stated balance of the debt does not include non-recognized accrued interest, or interest which had been recognized in the past but cancelled later. As regards other debt balances, in respect of which specific principles exist regarding measurement and the recognition of provisions for impairment (such as: bonds) the Bank continues to apply the same measurement principles, see Section 1D(8) below.

Identification and classification of impaired debts

The Bank has determined procedures for the identification of troubled credit and for the classification of debts as impaired. According to these procedures, the Bank classifies all its problematic debts as well as the off-balance sheet credit items under the following classifications: "special supervision", "inferior" or "impaired".

A debt is classified as impaired when, based on information and current events, it is anticipated that the Bank would not be able to collect all the amounts due to it under the contractual terms of the loan agreement. The decision regarding the classification of the debt is based, among other things, on the default situation of the debt, evaluation of the financial position and repayment ability of the borrower, evaluation of the primary repayment source of the debt, the existence and condition of collateral, the financial position of guarantors, where these exist, and their obligation to support the debt, as well as the ability of the borrower to obtain third party finance.

In any event, a debt is classified as an impaired debt if the principal amount or the interest thereon is in arrear for ninety days or more. For this purpose, the Bank monitors the period of arrears in relation to the contractual repayment terms of the debt. Debts (including bonds and other assets) are considered in arrear when payments on account of principal or interest have not been made on their due dates. In addition, revolving debit accounts or current accounts are reported as debts in arrear for thirty days or more, when these accounts deviate continuously from the approved credit facility for over thirty days or more, or where within the framework of the credit facility, no amounts have been credited to such account covering the amount of the debt within a period of 180 days. Starting with the date of classification of a debt as impaired, it is treated as a debt not accruing interest income ("nonperforming debt").

Moreover, any debt the terms of which have been changed as part of a restructuring of a problematic debt, shall be classified as an impaired debt, unless prior to the restructuring and thereafter, a minimum provision has been recorded in respect of which in accordance with the extent of default, in accordance with the Appendix to Proper Management of Banking Business Directive 314 in the matter of "proper assessment of credit losses and proper measurement of debts".

Definition of a primary repayment source upon classification of a troubled debt

As from July 1, 2017, the Bank applies the update of the FAQ file of the Supervisor of Banks in the matter of "application of the public reporting instructions regarding impaired debts, credit risk and provision for credit losses".

The update principally refers to the classification of a debt, the definition of an impaired debt and the measurement of a specific provision for credit loss. Determination of the proper classification of a debt until it becomes totally non-performing or until such an event becomes highly probable, is based upon the repayment ability of the debtor, namely, the expected financial stability of the primary repayment source, notwithstanding the support of secondary and thirdly repayment sources (such as: collateral, guarantor support, refinancing by a third party).

Among other things, the FAQ file included a question relating to the definition of the primary repayment source.

Primary repayment source - a sustainable source of cash over a period, which must be under the control of the debtor and must be explicitly or in substance set apart for the repayment of the debt. The FAQ file clarifies that as a general rule, in order for the source to be considered as a primary repayment source, the Bank must demonstrate that high probability exists that the debtor is expected to produce, within a reasonable period of time, an appropriate cash flow from continuing business operations, which would serve in full all required repayments and on their due dates as stated in the loan agreement.

The Bank updated the policy of identification and classification of problematic debts and added the examination of existence of primary repayment source as additional tool for identification of problematic debts. From an examination that the Bank performed, the implementation of the updated to the FAQ file resulted in increase in the volume of problematic debts in an amount of NIS 48 million and an increase in the collective provision for credit losses in an amount of NIS 12 million.

Reinstatement of an impaired debt as non-impaired

An impaired debt reverts to the classification of a non-impaired debt if one of the following two situations exists:

(a) No principal or interest components of the debt, which are due for payment, remain unpaid, and the Bank expects the payment in full of the remaining principal sum and interest in accordance with the terms of the loan agreement (including amounts written off accounting wise or provided for).

(b) When the debt becomes well collateralized and collection proceeding are in effect.

The said rules for the reversal of an impaired debt classification shall not apply to debts classified as impaired following the restructuring of a troubled debt.

Reinstatement of an impaired debt as impaired and accruing

A debt, which has formally been restructured, so that following the restructuring thereof reasonable assurance exists that the debt would be repaid and would perform in accordance with its new terms, is reinstated as a debt that accrues interest income, on condition that the restructuring and any accounting write off made in respect of the debt are supported by an updated and well documented credit evaluation of the financial position of the borrower and of the repayment forecast according to the new terms. The evaluation is based on the consistent historical repayments of the borrower in cash and cash equivalents during a reasonable period of at least six months, and only after the receipt of payments that significantly reduced the stated balance of the debt, as determined after the restructuring.

Debt arrangement policy and the treatment of a restructured troubled debt

With a view of improving the management of credit and its collection, as well as with a view of preventing failure situations and the seizure of pledged assets, the Bank has adopted and is implementing a policy for arriving at arrangements in respect of troubled debts and for making changes in the terms of debts not identified as troubled. Methods for the changing of terms of debts may include, among other, the deferment of repayment dates, reducing the rate of interest payable or the amount of the periodic repayments, changing the terms of the debt in order to match them to the financing structure of the borrower, consolidation of the borrower's debts, transfer of the debts to other borrowers belonging to a borrower group under joint control, review of the financial covenants applying to the borrower, and more.

The Bank's policy is based upon criteria that enable the Management of the Bank to apply judgment as to whether the repayment of the debt is expected, and which is applied only if the borrower shows proven ability and intention to repay the debt and is expected to comply with the terms of the new arrangement.

A debt that has formally been restructured as a troubled debt, is defined as a debt in respect of which, due to economic or legal grounds related to the financial difficulties of the borrower, the Bank granted a waiver by way of a change in the terms of the debt with a view of alleviating the burden of cash payments by the borrower in the near future (a reduction or deferral of cash payments demanded from the borrower) or by way of accepting other assets in settlement of the debt (in whole or in part).

In order to establish whether a debt arrangement made by the Bank constitutes a restructuring of a problematic debt, the Bank conducts a qualitative examination of all terms of the arrangement and the circumstances in the framework of which it had been made, this with a view of determining whether: (1) the borrower has financial difficulties and (2) as part of the arrangement the Bank has granted a waiver to the borrower.

In order to establish that the borrower has financial difficulties, the Bank looks for signs indicating financial difficulties of the borrower at date of the arrangement, or a reasonable probability that the borrower will encounter financial difficulties if not for the arrangement. Among other things, the Bank examines the existence of one or more of the following circumstances:

- the borrower is at present in default regarding the repayment of any of his debts. Moreover the banking corporation has to assess whether it is expected that the borrower will be in default in the foreseeable future regarding the repayment of any of his debts, unless a change is made. Namely, the banking corporation may reach the conclusion that the debtor is in financial difficulties even though he is not in default at the present time.
- the borrower informed that he is a bankrupt or is under another type of receivership, or that he is under bankruptcy proceedings or under other receivership proceedings.
- material doubt exists as to the ability of the borrower to continue as a going concern.
- securities issued by the borrower had been delisted, are under delisting proceedings, or are under threat of being delisted from trade on the Stock exchange.
- according to assessments and forecasts that include only the present financial capabilities of the borrower, the banking corporation expects that the cash flows specific to the entity of the borrower in the foreseeable future, would not be sufficient to serve any debt of the borrower's debts (principal and interest) in accordance with the contractual terms of the existing agreement.
- were it not for the existing change, the borrower would not be able to obtain finance from sources other than the existing lenders at an effective rate of interest equal to the market interest rate applying to a similar debt of a non-troubled borrower.

The Bank concludes that within the framework of the arrangement the borrower had been granted a waiver, even if the arrangement specified a rise in the contractual interest rate, if one or more of the following situations exist:

- as a result of the restructuring, the Bank does not anticipate to collect all amounts of the debt (including accrued interest according to the contractual terms);
- the updated fair value of the collateral in the case of a secured debt does not cover the contractual balance of the debt and indicates the inability to collect the full amount of the debt;
- the borrower does not have the possibility of raising funds at accepted market rates in respect of a debt having terms and characteristics such as those of the debt subject to the arrangement.
- where the Bank does not perform an additional underwriting procedure, as stated, upon the renewal of an inferior debt, or where there is no change in the pricing of the debt or that the pricing had not been modified so as to match the risk prior to the renewal, or where the borrower does not provide additional means in order to compensate the increase in the risk stemming from the financial difficulties of the borrower, it is strongly considered that the renewal constitutes a restructure of problematic debt.

The Bank does not classify a debt as a restructured problematic debt, if within the framework of the arrangement, the borrower had been granted a payment deferral that is not material in relation to the frequency of the payments, in the contractual repayment period and during the anticipated average maturity of the original debt. In this respect, where several arrangements had been made involving changes in the terms of the debt, the Bank takes into account the cumulative effect of prior arrangements in order to establish whether the payments deferral is not material.

Treatment of restructured debts and following restructuring

Restructured debts, the terms of which had been changed in the restructuring of an impaired debt, including debts, which prior to their restructuring were assessed on a collective basis, are classified as impaired debts, which will be assessed on a specific basis for the purpose of the provision for credit losses. As a general rule, a restructured problematic debt shall continue to be measured and classified as an impaired debt until fully repaid. Nevertheless, under certain circumstances, when a debt had been restructured as a problematic debt and at a later date, the banking corporation and the borrower entered into an additional agreement for the restructure of the debt, the banking corporation is no longer required to treat the debt as a restructured problematic debt, if the following two conditions exist:

(a) The borrower no longer has financial difficulties at date of the following restructure;

(b) In accordance with the terms of the following restructure, the banking corporation had not granted the borrower a waiver (including a waiver regarding the principal amount on a cumulative basis since the original date of the loan).

A debt as above, which had undergone a following restructure and the classification thereof as an impaired debt has been removed, is assessed on a collective basis for the purpose of quantifying of the provision for credit losses and the stated balance of the debt will not change upon the following restructure (except if cash has been received or paid).

If in following periods the said debt is specifically examined and found impaired or if it is restructured as a problematic debt, then the bank reclassifies it as an impaired debt and treats it as a restructure of a problematic debt.

Provision for credit losses

The Bank has determined procedures for the classification of credit and for the measuring of the provision for credit losses in order to maintain a provision at a proper level to cover anticipated credit losses in relation to the Bank's credit portfolio. In addition, the Bank has determined procedures required for the maintenance of a provision at a proper level to cover anticipated credit losses related to off-balance sheet credit instruments as a separate liability account (such as: commitments to grant credit, non-utilized credit facilities and guarantees).

The provision covering anticipated credit losses in relation to the credit portfolio is assessed according to one of the two ways: "specific provision" and "collective provision". The said assessment of the debts for the purpose of determining the provision and the treatment of the debts is applied consistently to all debts, in accordance with their quantitative minimum and the credit management policy of the Bank, and no changes are made in the assessment classification of the debt as "specific" or "on a collective basis" during the life of the debt, unless a restructure of a problematic debt has been in respect of the debt, as stated above.

Specific provision for credit losses

For the purpose of the specific examination, the Bank elected to identify debts, the total contractual balances of which exceed NIS 1 million. A specific provision for loan losses shall be recognized in respect of any debt examined on a specific basis and classified as impaired. Moreover, any debt the terms of which have been changed as a result of a restructuring of a problematic debt, shall be classified as an impaired debt, unless if prior to the restructuring and thereafter, a minimum provision for loan losses had been created in respect of which by the extent of default period method, in accordance with the Annex to Proper Management of Banking Business Directive 314 regarding proper assessment of credit risk and the proper measurement of debts.

The specific provision for loan losses is assessed based upon the estimated future cash flows discounted by the original effective interest rate of the debt. Where the loan is collateralized or where the Bank expects a foreclosure of an asset, the specific provision is assessed based on the fair value of the collateral pledged as security for that loan, taking into consideration conservative and consistent coefficients, which among other things reflect the volatility in the fair value of the collateral, the period until actual realization of the collateral and the costs involved in its sale.

In this respect, the Bank defines a collateral conditioned debt as a debt the repayment of which is expected to depend exclusively upon the collateral pledged in favor of the Bank, or where the Bank is expected to be repaid from the proceeds of an asset owned by the borrower even if it is not specifically pledged in favor of the Bank, all this when the borrower has no other available and reliable material sources for the repayment of the debt.

Provision for credit losses on a collective basis

Housing loans

The minimum provision in respect of housing loans is computed based on a formula determined by the Supervisor of Banks, taking into consideration the length of the default period, so that the rate of the provision increases in accordance with the length of the period of default. On the date of the initial implementation of the new directive, an amendment of the Appendix to Proper Conduct of Banking business Directive No. 314 "Proper assessment of credit risk and proper measurement of debts" entered into effect. This amendment extends the application of computing the provision based on the extent of the default period to all housing loans, with the exclusion of loans that are not repayable in periodic installments and loans which finance operations of a business nature.

In addition, the Bank implements the provisions of Proper Conduct of Banking Business Directive No. 329 in the mater of "Limitations on the granting of housing loans".

The Bank has formed a policy designed to ensure that it complies with the new requirements and that the balance of the collective provision for credit losses arising on housing loans shall not fall below a rate of 0.35% of the total outstanding balance of these loans at the reporting date.

Other credit

The collective provision for credit losses - this provision is assessed in order to reflect provisions for impairment in respect of credit losses not specifically identified, inherent in large groups of small debts having similar risk characteristics, as well as in respect of debts examined on a specific basis and found to be not impaired. The provision for credit losses in respect of debts assessed on a group basis is computed in accordance with the rules determined in FAS 5 (ASC 450), "accounting for contingencies" and in accordance with instructions of the Supervisor of Banks, based on historical loss rates in various economic sectors, divided between troubled and non-troubled credit within a range of years during the period beginning on January 1, 2011 and ending at the date of the report.

In addition to the computation of the range of the historical loss rates in the various economic sectors, as stated above, for the purpose of determining of the proper rate of provision, the Bank takes into consideration relevant environmental factors, including trends in the volume of credit in each sector and sector conditions, macro-economic data, a general assessment of the quality of credit granted to the sector, changes in volume and trend of balances in arrears and impaired balances, as well as the effect of changes in the concentration of credit.

On February 20, 2017, the Supervisor of Banks issued a letter regarding provisions for credit losses. The letter states that banking corporations are required to continue and include in the "range of years" item the year 2011 and later years in their reports to the public for the years 2016 and 2017, such item being a component in determining the collective provision for credit losses (as defined in Section 29.B(3.2), page 632-18 of the public reporting instructions).

In accordance with instructions of the Supervisor of Banks, the Bank has formed a method for the measurement of the collective provision, which takes into consideration both past loss rates as well as adjustments in respect of the relevant environmental factors. As regards credit to private individuals, the rate of adjustment in respect of environmental factors shall not be lower than 0.75% of the non-troubled balance of credit at each reporting date in relation to the average loss rates within the range of years. Excluded from the above is non-interest-bearing credit stemming from transactions by bank credit card holders. It was further determined in the directives of the Supervision that banks which their annual loss rate is lower than 0.3% in each of the five years ended at the report date may consider using the rate of adjustment in respect of environmental factors which will not be lower than 0.5%. A consolidated company is acting in accordance to the approval received from the Bank of Israel in the framework allowed for banks with the loss rate as above.

The Supervisor of Banks issued a letter on July 10, 2017, amending Proper Conduct of Banking Business Directives Nos. 314 and 315, which, inter alia, were intended to abolish the mechanism of the supplementary provision in respect of limitations on concentration of credit, lack of updated financial information and other characteristics expressed in other Directives. With the cancellation of the supplementary provision, the Bank is required that the method of determining the provision for credit losses should take into consideration risk characteristics regarding the absence of up to date financial statements. Implementation of the instruction is required as from January 1, 2018, though earlier application is permissible. The Bank has adopted the earlier application of the instructions. The initial application of the instruction had no material effect.

Off-balance sheet credit

The required provision in respect of off-balance sheet credit instruments is assessed in accordance with the rules determined in FAS 5 (ASC 450). The provision assessed on a group basis in respect of off-balance sheet credit instruments is based on the rates of the provision determined for the balance sheet credit (as explained above) taking into account the anticipated rate of realization into credit of the off-balance sheet credit risk. The rate of realization into credit is computed by the Bank based on conversion into credit coefficients as detailed in Proper Banking Management Directive No. 203, measurement and capital adequacy - credit risk - the standard approach.

In addition, the Bank examines the overall propriety of the provision for credit losses. The said evaluation is based on the judgment of Management, which takes into consideration the risks inherent in the credit portfolio and the methods of valuation applied by the Bank for assessment of the provision.

Accounting write-off

The Bank writes-off accounting wise any debt or part thereof assessed on specific basis, which is not considered collectible and of a low value so that its remaining as an asset is not justified, or a debt in respect of which the Bank is conducting long-term collection efforts (defined in most cases as a period exceeding two years). Regarding debts the collection of which depends on collateral, the Bank immediately performs an accounting write-off against the balance of the provision for credit losses, of that part of the stated balance of the debt exceeding the fair value of the collateral.

Regarding debts assessed on a collective basis, write-off principles have been determined based on their period of default (in most cases over 150 consecutive default days) and on other problem parameters. In respect of housing loans, where the minimal provision is based on the extent of the default period, the Bank writes-off accounting wise balances of debts remaining after the realization of the collateral where no other sources for the repayment of the debt are available, or in cases of difficulty in the realization of the collateral, or in cases where a collateral covering all or a part of the debt exists but has not been realized during a period of five years for humane reasons.

It should be clarified that accounting write-offs do not involve legal waiver and they reduce the reported debt balance for accounting purposes only, creating a new cost basis for the debt in the books of the Bank.

Notwithstanding the above, concerning debts assessed on a collective basis and classified as impaired due to the restructure of a problematic debt, the need for an immediate write-off is being examined. In any event, such debts are being written-off accounting wise no later than the date on which the debt has become a debt in arrears of sixty days or over, in relation to the terms of the restructure.

Income recognition

At date of classification of the debt as impaired, the Bank defines the debt as nonperforming and ceases to accrue interest income in respect thereof, except as stated below regarding certain restructured debts. Furthermore, at date of classification of the debt as impaired, the Bank cancels all interest income accrued and not yet collected, which had been recognized in profit and loss. The debt continues to be classified as nonperforming so long as its classification as impaired has not been removed. A debt which has formally been restructured as a troubled debt and following such restructuring reasonable assurance exists that the debt will be repaid and will perform according to its new terms, is treated as a performing impaired debt. See section D(3)(a) above for details regarding the recognition of income on a cash basis in respect of debts classified as impaired.

The Bank does not cease to accrue interest income on debts that are assessed and provided for on a collective basis, which are in arrear for ninety days or over. Such debts are subject to assessment methods for the provision for credit losses which ensure that the profit of the Bank is not inclined upwards. Charges in respect of arrears regarding such debts are recognized as income when the right to such charges is established on condition that collection thereof is reasonably assured.

Disclosure requirements

The Bank implements the disclosure requirements regarding credit quality of debts and provision for credit losses as determined in the updated accounting standard ASU 2010-20. These require the Bank to provide a wider disclosure of outstanding debts, movement in the balance of provision for credit losses, indication as to the credit quality, any material purchase or sale of debt portfolios during the reported period.

Furthermore, as from the year 2015, and in accordance with the instructions of the Supervisor of Banks regarding the change in the format of the financial statements, the Bank presents condensed principal information regarding credit risk, credit to the public and the provision for credit losses (see Note 13) and additional information regarding credit risk, as stated (see Note 29).

(5) Securities

- The bank's investments in securities are classified, into three portfolios, as follows:
  - Held to Maturity Bonds - bonds, which the Bank has the intention and ability to hold until their redemption date, excluding bonds which may be prematurely redeemed or settled in another way so that the Bank might not cover substantially all of its recorded investment therein. Held to maturity bonds are stated at cost together with exchange or linkage increments and interest accrued, as well as the unamortized amount of discount or premium and less a loss on impairment considered to be of a nature other than temporary.
  - Trading Securities - securities purchased and held for sale in the near future, excluding shares in respect of which fair value is not readily available. Trading securities are stated at their fair value on the reporting date. Gains or losses on adjustment to fair value are reflected in the statement of income.

- Available-for-Sale Securities - securities not classified as bonds held to maturity or as trading securities. Shares in respect of which fair value is readily available and bonds are stated at their fair value on the reporting date. Shares for which fair value is not readily available are measured in the balance sheet at cost. Unrealized gains or losses from adjustment to fair value are not reflected in profit and loss but are stated net of an appropriate tax provision, in a separate item of shareholders' equity, as part of other cumulative comprehensive profits.

- Dividend income, accrued interest, exchange and linkage increments, amortization of premium or discount (according to the effective interest method) as well as losses on impairment of a nature other than temporary are reflected in profit and loss.
- The bank's investments in private equity funds are stated at cost less losses on impairment of a nature other than temporary. Gain on investments in venture capital funds is recognized in profit and loss upon realization of the investment.
- The cost of realized securities is based on the "first in first out" method.
- See Section D.(7) hereunder regarding the computation of fair value.
- See Section D.(8) hereunder regarding the treatment of impairment of a nature other than temporary.

(6) Derivative Financial Instruments including hedge accounting

Hedge accounting

Hedge of fair value

Where a derivative is used as an instrument for hedging exposure to changes in the fair value of an asset or liability, or an identified part thereof that may be attributable to a certain risk, changes in the fair value are reflected in profit and loss. The hedged item is also stated at fair value, in relation to the hedged risks, and the changes in fair value are reflected in profit and loss.

Where the hedge instrument no longer agrees with the criteria for hedge accounting, or when it expires, sold, cancelled or realized, or when the Bank cancels the designation of fair value hedge, then the treatment according to hedge accounting ceases.

Economic hedge

Hedge accounting is not applied in the case of derivative instruments used as part of the asset and liability management layout of the Bank (ALM). Changes in fair value of such instruments are reflected in profit and loss as they occur.

Hedge of net investment in foreign operations

See Section D(1) above.

Derivatives not used for hedge

Changes in the fair value of derivatives not used for hedge are immediately reflected in profit and loss.

Embedded derivatives that were separated and not used for hedge

Embedded derivatives are separated from the host contract and treated separately, if: (a) there is no clear and close connection between the economic characteristics and the risks of the host contract and of the embedded derivative instrument, including credit risk stemming from certain embedded credit derivatives; (b) a different instrument having the same terms of the embedded derivative instrument would have been defined as derivative; and (c) the hybrid instrument is not measured at fair value through profit and loss. A separated embedded derivative is stated in the balance sheet together with the host contract, any changes in the fair value of such separated embedded derivatives are immediately reflected in profit and loss.

According to US Accounting Standard FAS 155 (ASC 815-15) "Accounting treatment of certain hybrid financial instruments", in certain cases (such as cases where the Bank is unable to separate the embedded derivative from the host contract), the Bank elects not to separate the embedded derivative and to measure the hybrid financial instrument as a whole at fair value, while reporting changes in fair value in profit and loss as they occur. The said election is made upon acquisition of the hybrid instrument or upon a remeasurement event occurring, such as a business combination or material changes taking place in the debt instrument. Election of fair value, as stated, is irrevocable.

(7) Fair value determination of financial instruments

Fair value is defined as the amount/price which would be received from the sale of an asset or paid in settlement of a liability in a regular transaction between willing parties at date of measurement. Among other things, for the purpose of assessing fair value, the Standard requires that, as far as possible, maximum use should be made of observable inputs, while reducing the use of unobservable inputs. Observable inputs reflect information available on the market received from independent sources, while unobservable inputs reflect the assumptions of the banking corporation. FAS 157 details the hierarchy of measurement techniques, based on the question whether inputs used for the determination of fair value are observable or unobservable. These classes of inputs create a fair value grading as detailed below:

- Level 1 inputs: quoted prices (non-adjusted) on active markets for identical assets and liabilities, to which the Bank has access at measurement date.
- Level 2 inputs: observable data, directly or indirectly, for the asset or liability, which are not quoted prices included in Level 1.
- Level 3 inputs: unobservable inputs for the asset or liability.

Securities

The fair value of trading securities and of available-for-sale securities is determined on the basis of quoted market prices on the principal market. Where several markets on which the security is traded exist, the assessment is made according to the quoted price on the most useful market. In such cases, the Bank's fair value of the investment in securities is the multiplication of the number of units by the quoted market price. The quoted price used for the determination of fair value is not adjusted for the size of the holdings by the Bank or for the size of the position relatively to the volume of trading (the blockage factor). Where no quoted market price is available, the assessment of fair value is based on the best available information, while making maximum use of observable inputs, taking into consideration the risk inherent in the financial instrument (market risk, credit risk, non-trading and such like).

Derivative financial instruments

Derivative financial instruments that have an active market are assessed at market value determined on the principal market, and in the absence of a principal market, according to the price quoted on the most useful market. Nonmarketable derivative financial instruments are assessed on the basis of models that take into account the risk inherent in the derivative instrument (market risk, credit risk, etc.). For further details, see below for assessment methodologies of credit risk and non-performance risk.

Additional non-derivative financial instruments

No "market price" is available for most of the financial instruments in this category (such as: credit granted to the public, credit to the government, deposits from the public, deposits with banks, subordinate debt notes and nonmarketable loans) because these are not traded on any active market. Accordingly, fair value is assessed using accepted pricing models, such as the present value of future cash flows discounted at a discount rate reflecting the level of risk inherent in the financial instrument. For this purpose, future cash flows in respect of impaired debts and other debts have been computed after the netting of the effect of accounting write-offs and provisions for credit losses in respect of the debts.

Evaluation of credit risk and of nonperformance risk

FAS 157 (ASC 820) requires a banking corporation to reflect credit risk and nonperformance risk in measuring the fair value of a debt, including derivative instruments that were issued by it and measured according to fair value. Nonperformance risk includes the credit risk of the banking corporation but is not limited to that risk only. For a more extensive discussion as regards the principal methods and assumptions used for assessment of fair value of the financial instruments, see Note 32A "Balances and fair value assessments of financial instruments".

(8) **Impairment of financial instruments**

Securities

As of each reporting date, the Bank examines whether impairment of a nature other than temporary has occurred with respect to the value of available-for-sale securities and of securities held to redemption.

During a reporting period, the Bank recognizes impairment of a nature other than temporary, at least regarding any security to which one or more of the following conditions apply:

- A security that had been sold prior to date of publication of the report for the relevant period;
- A security, which proximate to the date of publication of the report for the relevant period, the Bank intends to sell within a short period of time;
- A bond, the rating in respect of which was significantly lowered from its level at date of purchase by the Bank to its rating level at date of publication of the report for the relevant period. For this purpose, a material downgrade will be considered if the security's grade was lowered below investment grade;
- A bond, which subsequent to its purchase has been classified by the Bank as "troubled";
- A bond, in respect of which a default in payment occurred subsequent to its purchase;
- A security, the fair value of which at the end of the reporting period and at a date proximate to the publication of the financial report was lower at the rate of over 40% than its cost (in case of a bond - its written-down cost), and the period in which the fair value of the security was lower than its cost exceeds three consecutive quarters. This, unless the Bank has objective and solid evidence as well as a careful analysis of all relevant factors, which indicate at a high level of assurance, that the decrease in value is of a temporary nature.

Furthermore, the examination as to whether the impairment is of a nature other than temporary is based on the following considerations:

- Deterioration in the condition of the issuer or in market condition as a whole;
- The intention and ability of the Bank to hold the security for a long enough period allowing the recovery of fair value of the security or until maturity;
- In the case of bonds - the rate of return to maturity;
- In the case of shares - a reduction or cancellation of the distribution of dividends.

When impairment of a nature other than temporary occurs, the cost of the security is written-down to its fair value, which serves as a new cost basis. The cumulative loss pertaining to a security classified as available-for-sale, which in the past was reflected in a separate item of shareholders' equity within the framework of other comprehensive profit, is recorded in profit and loss when in respect of which impairment of a nature other than temporary is recognized. Increases in value in subsequent periods are recognized as a separate item of shareholders' equity within the framework of other cumulative comprehensive profit and are not reflected in profit and loss (new cost basis).

Credit to the public and outstanding debt

See Section D(4) above.

(9) Offsetting of financial assets and liabilities

The Bank implements the rules determined in the letter of the Supervisor of Banks dated December 12, 2012, which updated the public reporting instructions of the Supervisor of Banks in the matter of offsetting assets and liabilities. The amendments detailed in this letter are designed to modify Section 15a of the public reporting instructions to accepted accounting principles in the US. In accordance with the instructions, the Bank sets-off assets and liabilities deriving from the same counterparty, stating their net balance in the balance sheet, if the following cumulative conditions exist:

- In respect of such liabilities, a legally enforceable right of setoff of liabilities against assets exists;
- Intention exists to settle the liabilities and realize the assets either on a net basis or concurrently.
- Both the Bank and the counterparty owe one another determinable amounts.

The Bank offsets assets and liabilities with two different counterparties and states in the balance sheet the net amount if all the above cumulative conditions exist and on condition that an agreement exists between the three parties which clearly establishes the right of the Bank for set-off of the said liabilities.

Furthermore, the Bank offsets deposits, the repayment of which to the depositor is conditional upon the extent of collection of the loans granted out of such deposits, and where the Bank has no risk of loss from such loans.

The Bank does not offset assets in respect of derivative instruments against liabilities in respect of derivative instruments unless all the above cumulative conditions exist. Notwithstanding, the instructions state that in certain cases a bank is entitled to offset fair value amounts recognized in respect of derivative instruments and fair value amounts recognized in respect of the right to demand the refund of a cash collateral (debtors) or the commitment to obtain a cash collateral (creditors) deriving from derivative instruments created with the same counterparty in accordance with a master netting arrangement.

Notwithstanding the above, according to the instructions, a bank may not offset balance sheet amounts unless it had obtained the prior approval of the Supervisor of Banks. In view of the above, the Bank does not offset these balance sheet amounts.

(10) Transfers and service of financial assets and the settlement of liabilities

The Bank applies the measurement and disclosure rules determined in US Accounting Standard FAS 140 (ASC 860-10), "Transfer and service of financial assets and settlement of liabilities" as amended by FAS 166, "Transfer and service of financial assets" (ASC 860-10) regarding the treatment of transfers of financial assets and settlement of liabilities.

According to the said rules, the transfer of a financial asset shall be treated accounting wise as a sale, if and only if all the following conditions exist: (1) the transferred financial asset had been isolated from the transferor, also in the case of bankruptcy or other type of receivership; (2) any transferee of the asset (or if the transferee is an entity, the only purpose of which is to engage in securitization or in asset backed financing activity, and which is prevented from pledging or exchanging the transferred financial asset, any third party holding beneficiary rights) may pledge or exchange the asset (or the beneficiary rights) received by him, and no conditions exist which also restrict the transferee (or a third party who holds the beneficiary rights) from using his right to pledge or exchange the asset and which grants the transferor a larger than just a trivial benefit; (3) the transferor, or subsidiary companies included in its financial statements, or its agents, do not retain effective control over the financial assets or over the beneficiary rights relating to such transferred assets.

Beginning with January 1, 2012, the Bank implements the updates accounting standard ASU 2011-03 in the matter of the reexamination of effective control in repurchase agreements, comprising an update of the rules determined in FAS 166 (ASC 860). According to this update, evaluation of the existence of effective control focuses on the contractual rights and the contractual liabilities of the transferor, and therefore, the following are not taken into account: (1) criterion requiring that the transferor shall have the right to purchase the transferred securities also in the case of default of the transferee; and (2) guidelines regarding the demand for collateral in respect of the said criterion.

In the event that the transaction meets the terms for treatment thereof as a sale transaction, the transferred financial assets are deleted from the balance sheet of the Bank. Where sale conditions do not exist, the transfer is treated as a collateralized debt. A sale of a part of a financial asset, which is not considered a participating right, is treated as a collateralized debt, namely, the transferred asset continues to be stated in the balance sheet of the Bank and the proceeds of sale are recognized as a liability of the Bank.

The Bank applies specific instructions determined in the public reporting instructions for the treatment of securities lending or borrowing transactions, in which the lending is made against the general credit quality and the general collateral of the borrower, where the borrower does not transfer to the lender as collateral liquid instruments that specifically relate to the securities lending transaction, and which the lender is permitted to sell or pledge them.

The lending or borrowing as above, are treated as credit granted or deposit received measured at the fair value of the related securities. Income on an accrual basis in respect of such securities is recognized interest income from credit and changes in fair value (over and above the changes in the accrual basis) are recognized as part of non-interest financing income, when the securities in question are included in the trading portfolio, or as part of other comprehensive profit, when they are considered as available-for-sale securities.

The Bank deletes a liability only if that liability had been settled, namely, one of the following conditions exist: (a) the Bank has paid the lender and is released from his commitment with respect to the liability, or (b) the Bank has been legally released, either by legal proceedings or with the consent of the lender, from being the principal debtor in respect of the liability.

Furthermore, in accordance with an update to Bank of Israel instructions regarding the improved use of financial statements for the years 2017 and 2018, the disclosure requirements regarding syndication transactions were updated. See Note 31 regarding "Additional information regarding credit risk, credit to the public and provision for credit losses".

(11) Fixed assets (buildings and equipment)

Recognition and measurement

Fixed asset items, including investment real estate, are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure directly attributable to the purchase of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, as well as any other costs that may be directly attributable to bringing the asset to the place and condition required for it to operate in the manner planned by Management.

Cost of acquired software, which forms part of the operation of related equipment, is recognized as part of the cost of the said equipment.

Gain or loss on disposal of a fixed asset are determined by comparing the consideration received on disposal to the stated value of the asset and are recognized, net, in the item “Other income” in the statement of profit and loss.

Depreciation

Depreciation is charged to profit and loss by the straight-line method over the estimated useful life of each part of the fixed asset items, as this method reflects in the best manner, the anticipated consumption format of the future economic benefits inherent in the asset. Assets on lease are depreciated over the shorter of the lease period or the useful lives of the assets. Land owned by the Bank is not depreciated.

An asset is being depreciated when it is available for use, namely, when it reached the place and condition required for it to operate in the manner planned by Management.

Assessment of the useful lives of assets for the reported and comparative periods is as follows:

- Buildings, lands and investment real estate - 25-50 years
- Furniture and equipment - 7-17 years
- Motor vehicles - 5 years
- Leasehold improvements - 7-18 years
- Information technology equipment - 3-8 years

The assessments regarding the depreciation method, the useful lives and the residual value of assets are re-examined at least at the end of each financial year, and are modified, where required.

(12) Leasing

All lease transactions are treated as operating leases, the leased assets not being reflected in the balance sheet of the Group.

Lease fees paid in advance to the Israel Lands Administration in respect of leased land classified as operating leases, are stated in the balance sheet as prepaid expensed and are recognized in profit and loss over the lease period. The lease period and the amounts of amortization take into consideration the option for extension of the lease period if at date of entering the lease transaction it was reasonably certain that the option will be exercised.

Payments with respect to operating leases, except for conditional lease payments, are recognized in profit and loss by the "straight-line" method over the period of the lease. Lease incentives received are recognized as an integral part of all lease expenses by the "straight-line" method over the period of the lease.

(13) Intangible assets

Software costs

Software purchased by the Group is measured at cost, which generally includes the cost of the transaction, less accumulated amortization and losses on impairment.

The capitalization of costs related to software development for internal use begins if and only if: the preliminary stage of the project had been completed; and Management having the appropriate authority has approved and has committed to finance, directly or indirectly, the project for the development of software and it is expected that the development would be completed and that the software would produce future economic benefits.

Upon developing or obtaining software for internal use, the following costs are capitalized: direct cost of materials and services consumed, the cost of wages of employees directly connected to the software development operations or to obtaining the software. Other costs in respect to the development operations and costs incurred during the preliminary stage of the project are recognized in profit and loss as incurred.

Subsequent costs

The cost of upgrading and improvement of software for internal use are capitalized only if it is expected that the incurred costs would lead to additional functionality. Other subsequent costs are recognized as an expense as incurred.

Amortization

Amortization is charged to profit and loss by the "straight-line" method over the estimated useful lives of intangible assets, including software assets, beginning with the date on which the assets were available for use.

Intangible assets resulting from software projects are amortized when the software is available for use, namely when the said components have reached the location and situation required for them to be able to operate in the manner intended by Management. In this respect, software is available for use when all material examinations thereof have been completed, irrespectively of the actual positioning of the software for actual use.

Assessment of the useful lives of intangible assets for the reported and comparative periods is as follows:

Customer relations - 10 years

Software cost - 5 years

The assessments regarding the useful lives of intangible assets having a defined lifespan are re-examined at least at the end of each financial year, and are modified, where required.

(14) Impairment of non-financial assets

Timing of testing impairment

The stated value of the nonfinancial assets of the Group, excluding deferred tax assets and including investment treated by the equity method of accounting, is being examined at each reporting date, in order to determine whether indications for impairment exist. Where such indications exist, the Group assesses the recoverable value of the asset.

Once a year, at a fixed date for each cash producing unit that includes goodwill or intangible assets having an undeterminable lifespan, or which are not available for use, the Group conducts an assessment of the recoverable amount, or at more frequent intervals where indication for impairment exists.

Measurement of a recoverable amount

The recoverable value of an asset or of a cash producing unit is the higher of their use value or fair value, after deducting sale expenses. In determining the use value, the Group discounts the forecasted future cash flows at a pre-tax discount rate that reflects the market assessments of the time-value of the money and the specific risks relating to the asset, in respect of which, the cash flows expected to be derived from the asset have not been adjusted.

Recognition of a loss on impairment

Impairment losses are recognized when the stated value of the asset or of a cash producing unit to which the asset belongs exceeds the recoverable amount and are charged to profit and loss.

Allocation of a loss on impairment to the non-controlling interest

A loss on impairment is allocated between the owners of the Bank and the non-controlling interest on the same basis on which profits or losses are allocated.

Impairment of in-house computer software development costs

Impairment of such intangible assets is recognized and measured when events or changes in circumstances indicate that the stated value of the asset may not be recoverable.

Hereunder are examples of events or changes in circumstances indicating impairment:

1. It is not anticipated that the software will provide significant potential services;
2. A significant change has occurred in the manner or scope of use of the software or in its anticipated use;
3. A material change in the software was performed or would be performed in the future;
4. The development costs or the cost of conversion of the software intended for internal use, significantly exceed anticipated costs;
5. It is no longer expected that development of the software would be completed and that the software would be used.

Investments in equity based investees

Investment in an equity based investee is assessed for impairment at each period on the basis of the fair value of the investment. Where the Group is unable to measure fair value, impairment is examined upon a change in circumstances or an event which may have a material negative influence on the fair value of the investment.

(15) Non-current assets and realization groups held for sale or distribution

Non-current assets (or realization groups comprising assets and liabilities), recovery of the value of which is mostly expected by way of sale or distribution rather than by continuing use (excluding assets seized in respect of impaired debts), are classified as assets held for sale, if it is highly expected that the value of which would be recovered by means of a sale transaction and not through continued use. This applies also where the Bank is committed to a sale plan involving the loss of control over a subsidiary, irrespective of whether subsequently to the sale, the Bank remains with non-controlling interest in the former subsidiary.

Immediately prior to their classification as held for sale or distribution, the said assets (or components of the realization group) are measured in accordance with the accounting policy of the Group. Thereafter, the assets (or components of the realization group) are measured at the lower of their stated value or fair value, net of sale costs.

Any loss on impairment of a group of assets intended for disposal, is firstly allocated to goodwill and then, on a pro-rata basis, to the remaining assets and liabilities, except that no loss is allocated to assets to which the measurement rules of the standard apply, such as: financial assets and deferred tax assets, which continue to be measured in accordance with the accounting policy of the Group. A loss on impairment recognized upon the initial classification of an asset as held for sale, as well as following gains or losses arising on remeasurement, are charged to profit and loss. Gains are recognized up to the cumulative amount of the loss on impairment recorded in the past.

In following periods, depreciable assets classified as held for sale are not being depreciated on a periodic basis and investments in equity-based investees classified as held for sale are no longer treated by the equity method of accounting.

(16) Employee rights

Post-retirement benefits - pension, severance compensation and other benefits (hereinafter - "pension") - defined benefits plans

Pension benefits comprise a part of the compensation payable to an employee in return for his services. In a defined benefit pension plan, the Bank is committed to provide, in addition to current wages, severance compensation upon retirement or termination of employment. On a general level, the amount of benefit payable is dependent on certain future events included in the benefit formula of the plan, which often includes the number of years of service of the employee and the compensation earned by him in the years immediately prior to his retirement or termination.

The net cost of pension for a period is the amount recognized in the financial statements of the Bank as the cost of the pension plan for a given period. The component of the net cost of pension for the period are the cost of service, the cost of interest, the actual return on assets of the plan, profit or loss, amortization of cost or credit in respect of prior service, and the amortization of an asset or liability in respect of the transition existing at date of initial implementation, in accordance with the public reporting instructions. The term "net pension cost for the period" is used instead of "net pension expense for the period", due to the fact that a part of the recognized cost for the period might be capitalized together with additional costs as part of an asset, for example: software for internal use.

In this respect, profit or loss is the amount of (1) the difference between the actual return on assets of the plan and the forecasted return on the assets of the plan, and of (2) the deduction of the net profit or loss recognized in other cumulative comprehensive earnings.

Pension benefits are generally attributed to periods of service of an employee, based on the benefit formula of the plan, to the extent that the formula states such attribution or that attribution is inferred there from.

The Bank computes the forecasted long-term return on the assets of the plan using historical rates of return over a long period of time relating to a portfolio having a similar composition of assets. For this purpose, the Bank uses available market data as regards each of the significant categories of assets in the portfolio, and averages them in accordance with the composition of the plan's assets.

The commitment in respect of the forecasted benefit reflects the present actuarial value of all benefits attributed to the service of the employee provided prior to balance sheet date. The measurement of this commitment is based on appropriate actuarial assumptions at date of the balance sheet of the Bank (for example: replacement, mortality, discounting rates etc.) as well as population census data as of that date.

In the event that the commitment in respect of the forecasted benefit exceeds the fair value of the plan's assets, the Bank recognizes in the balance sheet a liability equal to the amount of the unfunded commitment in respect of the forecasted benefit. Where the fair value of the assets of the plan exceed the commitment in respect of the forecasted benefit, the Bank recognizes in the balance sheet an asset in an amount equal to the overfunded amount in respect of the forecasted benefit.

The Bank collects together the positions of all overfunded plans and recognizes this amount as an asset in the balance sheet. Similarly, the Bank collects together the positions of all under-funded plans and recognizes this amount as a liability in the balance sheet.

The Bank reviews its assumptions on a quarterly basis and revises such assumptions accordingly.

A change in the value of a commitment in respect of a forecasted benefit or in the value of assets of a plan, stemming from actual experience , which is different from the forecast, or which stems from a change in the actuarial assumptions, constitutes "profit or loss" (hereinafter - "actuarial profit or loss"). Actuarial profits or losses are not recognized as part of the net cost of pension for the period when incurred, but are recognized in other comprehensive earnings. In following periods, such profits or losses are later recognized in profit and loss as a component of the net cost of pension for the period according to the "straight line" method over the remaining average period of service of the employees expected to enjoy the benefits under the plan.

The Bank recognizes losses in respect of settlements effected under its defined benefit programs, when the expected one-time payments related to the program, on a cumulative basis over the year, would be higher than the total cost of the service and the cost of the annual interest, multiplied by the balance of the actuarial profits and losses accumulated in other comprehensive earnings.

The discounting rate regarding the benefits to employees is computed on the basis of the return on Israeli government bonds with the addition of the average spread on corporate bonds rated AA (international) and above, at reporting date. For practical considerations, the spread is determined according to the difference between the rates of return to maturity, according to maturity periods, on US corporate bonds rated AA and above, and the rates of return to maturity, for the same maturity periods, on US government bonds, everything at date of reporting.

The Bank follows the guidelines of the Supervisor of Banks regarding internal control over the financial reporting process in the matter of employee rights, including the matter of examining a "commitment in substance" to grant its employees benefits in respect of enlarged severance compensation.

Post-retirement benefits - defined deposit plan

A defined deposit plan is a plan that provides post-retirement benefits in consideration for services provided, maintains a personal account for each participant in the plan, and defines the manner of deposits made to the account of the employee instead of determining the amount of benefits to be paid to the employee. In the post-retirement defined deposit plan, the benefits that the participant in the plan would receive are dependent only on the amount deposited into the account of the participant in the plan, on the return accumulated of the assets of such deposits, and on the forfeiture of benefits of other participants that might be allocated to the account of that participant.

Where it is required that the defined deposits of a plan to the account of a person shall be made for periods in which this person provides services, the net cost of pension or the net cost of other post-retirement benefit for the period, shall be the required deposit for that period.

The commitment of the Bank for the payment of severance compensation in accordance with Section 14 of the Severance Compensation Act is treated as a defined deposit plan.

Other post-retirement benefits

The Bank recognizes the non-discounted amount of the current benefit at the date of granting the service. In addition, the Bank accumulates the liability during the relevant period, which is determined in accordance with the rules applying to other post-retirement benefits.

Paid leave of absence

The Bank accumulates a liability in respect of compensation of employees during future periods of leave of absence, if all the following conditions exist: (a) the commitment of the Bank regarding the right of employees to receive compensation in respect of future periods of leave of absence is attributed to services already provided by the employees; (b) the commitment relates to vesting or accumulated rights; (c) payment of the compensation is expected; (d) the amount may be reasonably estimated.

Vacation - the Bank accumulates the liability over the determined relevant period. For the purpose of computing the liability, actuarial assumptions and discounting rates are not taken into account. All components of the cost of the benefit for the period are immediately recognized in profit and loss.

Sick leave - no liability is being accumulated in respect of paid sick leave.

Award payable at termination of employment in respect of unutilized sick leave

The Bank accumulates this liability as leave of absence entitled to compensation over the determined relevant period. For the purpose of computing the liability, actuarial assumptions and discounting rates are taken into account. All components of the cost of the benefit for the period, including actuarial profits or losses, are immediately recognized in profit and loss. In determining the discounting rate of interest and the manner of allocation to periods of cost of the service, the Bank applies the rules applying to defined benefits pension plans, with the required modifications.

Other long-term benefits to active employees - seniority awards

Consolidated companies accumulate the liability over the period entitling to the benefit. For the purpose of computing the liability in respect of such benefit, actuarial assumptions and discounting rates are taken into account. All components of the cost of the benefit for the period, including actuarial profits or losses, are immediately recognized in profit and loss.

(17) Contingent Liabilities

The financial statements include appropriate provisions for claims, in accordance with assessments of Management based on opinions of its legal advisors. The disclosure format is in accordance with directives of the Supervisor of Banks, which classify claims submitted against the Bank into three groups:

1. Probable - prospects of risk materializing are of over 70%. A provision is included in the financial statements in respect of a claim classified under this group.
2. Reasonably possible - prospects of risk materializing are between 20% and 70%. No provision is included in the financial statements in respect of a claim classified under this group, but only disclosure as stated below.
3. Remote - prospects of risk materializing are below 20%. No provision is included in the financial statements in respect of a claim classified under this group, but only disclosure as stated below.

A claim, in respect of which the Supervisor of Banks determined that the Bank is required to refund amounts, is classified as "probable" and a provision therefore is included in the financial statements in the amount required to be refunded.

In rare cases, where Management, based on opinion of its legal advisors, decides that it is not possible to assess the prospects of a risk exposure materializing with respect to an ordinary law suit and to a suit approved as a class action suit, the Bank does not include a provision in this respect.

Note 25 regarding contingent liabilities and special commitments include a quantitative disclosure regarding all exposures, the probability of their materializing is not remote and in respect of which a provision is not included. Furthermore, disclosure is provided in respect of any claim the amount of which exceeds 1% of the equity of the Bank. Disclosure is also provided in respect of claims, the results of which cannot be estimated at this stage, and which amount exceed 0.5% of the equity of the Bank.

(18) Income Tax Expense

The financial statements of the Bank include current and deferred taxes.

The provisions for taxes on the income of the Bank and of its consolidated subsidiaries, which are considered "financial institutions", for value added tax purposes include profit tax levied on income according to the VAT law. Value added tax levied on payroll of financial institutions is included in the item "Salaries and related expenses".

The Bank allocates the tax expense or the tax benefits between continuing operations, discontinued operations, other comprehensive income and other items directly recognized in equity.

Current taxes

Current taxes are the amount of taxes on income paid or payable (or refundable) in respect of the current period, as determined by the tax laws enacted with respect to taxable income. The current tax expense includes also changes in tax payments relating to prior years.

Deferred taxes

Deferred tax liabilities and deferred tax assets represent the future implications on taxes on income stemming from temporary differences and carry forward losses at end of a period.

The Bank recognizes deferred tax liabilities with respect to all taxable temporary differences except for the following temporary difference: retained earnings of a domestic subsidiary, which in substance are for a permanent period of time; the excess amount for financial reporting purposes over the tax base of the investment in a foreign subsidiary, which in substance is for a permanent period of time; differences related to goodwill (or part thereof) in respect of which the amortization of the goodwill is not deductible tax wise; differences stemming from intercompany transactions.

The Bank recognizes deferred tax assets in respect of all tax deductible temporary differences and carry forward losses, and concurrently recognizes a separate valuation allowance in respect of that amount included in the value of an asset, which more likely than not, would not be realized. The Bank reduces the amount of deferred tax assets by the amount of any tax benefits that are not expected to be realized, based on available evidence - both positive evidence supporting recognition of a deferred tax asset and the negative evidence supporting the creation of a valuation allowance in respect of a deferred tax asset, in order to determine whether a net deferred tax asset should be recognized.

Deferred tax liabilities or deferred tax assets are measured using the enacted legal tax rates expected to apply to sufficient taxable income in the periods in which it is expected that the deferred tax liability would be settled or the deferred tax asset would be realized.

The Bank classifies interest income and expenses with respect to taxes on income to the item "taxes on income". Furthermore, the Bank classifies penalties payable to the Tax Authorities to the Item "Taxes on income".

Offsetting deferred tax assets and liabilities

The Bank offsets all deferred tax assets against all deferred tax liabilities as well as all valuation allowances related to a particular taxable component and within the jurisdiction of a particular tax authority.

Uncertain tax positions

The Bank applies the recognition, measurement and disclosure rules stated within the framework of FIN 48. In accordance with these rules, the Bank recognizes the effect of tax positions only if it is more likely than not that the positions would be approved by the tax authorities or the Court. Recognized tax positions are measured according to the maximum amount having realization prospects of over 50%. Changes in recognition or in measurement are reflected in the period in which changes in circumstances have led to changes in judgment.

(19) Earnings per share

The Group presents basic per share data in respect of its ordinary share capital. The amount of basic per share earnings or loss, attributed to the ordinary shareholders of the Bank is computed by dividing the amount of earnings or loss by the weighted average number of ordinary shares outstanding during the reported period.

(20) Segment Reporting

(a) **Regulatory segments of operation**

A regulatory business segment is a component in the banking corporation that engages in certain operations or combines customers in specific classifications, defined by the Supervisor of Banks. The format of reporting on the regulatory segments of operation of the Bank was set in the Public Reporting Directives of the Supervisor of Banks.

A regulatory business segment is generally defined based on the classification of customers. Private customers are classified according to their volume of financial assets to the household segment or to the private banking segment. Customers, other than private individuals, are mostly classified according to the volume of their operations to business segments (differentiating between tiny and small businesses, middle market and corporate businesses), institutional bodies and the financial management segment. In addition, the Bank is required to implement the disclosure requirements regarding business segments according to Management's approach, where the business segments according to this approach differ significantly from the regulatory business segments.

(b) **Segments of operation according to Management's approach**

In addition to the uniform reporting in accordance with regulatory segments of operation, the letter requires disclosure on segments of operation according to Management's approach in accordance with accounting principles accepted by US banks in the matter of business segments (included in ASC 280) (see note 28A to the report).

A business segment defined in accordance with Management's approach is a component of a banking corporation engaged in operations that may produce income and incur expenditure; the results of its operations are being reviewed on a regular basis by Management and the Board of Directors in order to evaluate its performance and make decisions as to the allocation of resources to it; and in respect of which separate financial data is available.

The classification of business segments at the Bank is based on the characterization of customer segments. Such segments include also banking products.

(21) Transactions with controlling parties

The bank implements US accepted accounting principles for the accounting treatment of transactions between a banking corporation and its controlling party and between companies under the control of the banking corporation. In cases where the said principles contain no reference to the manner of treatment, the Bank applies the principles determined in Standard 23 of the Israeli Accounting Standards Institute regarding the accounting treatment of transactions between an entity and its controlling party.

Assets and liabilities, being the subject of a transaction with a controlling party, are measured at fair value at date of the transaction. Due to the fact that the transaction in question is made at a capital level, the Group reflects in equity the difference between the fair value and the proceeds of the transaction.

Accepting liability or waiver

The Bank deletes the liability from the balance sheet at its fair value at date of settlement. The difference between the stated value of the liability and its fair value at date of settlement is reflected as a profit or loss. Upon accepting a liability, the difference between the fair value of the liability at date of settlement and the determined proceeds is reflected in equity. In case of a waiver, the fair value of the liability waived is reflected in equity.

Indemnification

The amount of the indemnification is reflected in equity.

Loans including deposits

At date of initial recognition, a loan granted to a controlling party or a deposit received from a controlling party, are presented in the financial statement of the Bank according to their fair value as an asset or liability, as the case may be. The difference between the amount of the loan granted or deposit received and their fair value at date of initial recognition is reflected in equity.

In reporting periods subsequent to the initial recognition, the said loan or deposit are stated in the financial statements of the Bank at their written down value, using the effective interest method, except in cases where according to the public reporting instructions they are stated at fair value.

(22) Instruction regarding the format of the statement of profit and loss of a banking corporation and adoption of accounting principles accepted by US banks regarding the measurement of interest income

As from January 1, 2014, the Bank implements the guidelines prescribed in the letter of the Supervisor of Banks regarding the adoption of accounting principles accepted by US banks in the matter of the measurement of interest income (ASC 310-20), which, among other things, determines rules for the treatment of commissions regarding the setting-up of credit, commitment to grant credit, changes in loan terms and premature repayment commission.

Credit setting-up commission

Commission charged on the setting-up of credit are not recognized immediately as income in the statement of profit and loss but are deferred and recognized over the period of the loan as an adjustment of the return. Income from such commissions is recognized by the effective interest method, and is reported as part of interest income.

Credit allocation commission

These commissions are treated in accordance with the probability of the commitment to grant the loan being realized. Where the probability is remote, the commission is recognized by the straight-line method over the life of the commitment. Otherwise, the Bank defers the recognition of income from such commissions until date of realization of the commitment or until its expiry date, whichever is earlier. Where the commitment is realized, commissions are recognized by way of adjustment of the return over the life of the loan, as stated above. Where the commitment has expired without being realized, the commission is recognized at date of expiry and is reported as part of commission income.

Premature repayment commission

Premature repayment commissions charged in respect of premature repayments made prior to January 1, 2014, and not yet amortized, are recognized over a period of three years or over the remaining period of the loan, the shorter of the two.

Commissions charged on premature repayments made after January 1, 2014, are immediately recognized as interest income.

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

(1) Recognition of income from agreements with customers

A circular letter was issued on January 11, 2015, regarding the adoption of the update to accounting principles in the matter of "income from agreements with customers". The letter updates the public reporting instructions in the light of the publication of ASU 2014-09, which adopts a new standard relating to the recognition of income as part of US accepted accounting principles. In accordance with the letter of the Supervisor of Banks in the matter of the transitional instructions for the year 2016, it is required to implement as from January 1, 2018, the amendments to the public reporting instructions in accordance with the circular letter regarding the adoption of the accounting principles in the matter of "income from agreements with customers", this, consistently with the revised US standard ASU 2015-14, which postponed the date for the initial implementation.

The standard contains a single model applying to agreements with customers, which includes five stages in order to determine the timing of income recognition and the amount thereof:

- Identification of the agreement with the customer;
- Identification of separate performance commitments in the agreement;
- Fixing a price for the transaction;
- Allocation of the transaction price to separate performance commitments;
- Recognition of income upon fulfillment of the performance commitment.

Moreover, the standard states that the income should be recognized in an amount expected to be received in consideration for the transfer of goods or the rendering of services to the customer.

Upon the initial application, the Bank has the option of using the method of retroactive application with the restatement of the comparative data, or alternatively, using the "from now onwards" method, recognizing in equity at date of initial application, the cumulative effect of the change in accounting.

The Bank shall adopt the provisions of the new standard starting with the first quarter of 2018, recognizing the cumulative effect thereof in the opening balance of retained earnings at date of initial application. At the same time that the new rules replace most of existing rules regarding the recognition of income, the new Standard does not apply, among other things, to interest income and expenses as well as to financial instruments or to contractual rights and commitments, to which Chapter 310 of the Codification applies, including loans, leases, securities and derivatives. Furthermore, it has been clarified in Bank of Israel instructions, that as a general rule, the provisions of the new standard shall not apply to the accounting treatment of interest income and expenses and to non-interest financing income. In view of this, the new rules will not have an effect on most income items of the Bank.

The Bank estimates that the application of the said rules is not expected to have a material effect on the financial statements.

(2) Reporting by banking corporations and credit card companies in Israel in accordance with US accepted accounting principles

On October 13, 2016, the Supervisor of Banks issued a letter in the matter of reporting by banking corporations and credit card companies in Israel in accordance with US accepted accounting principles. The letter includes, inter alia, certain clarifications regarding the reporting of taxes on income in accordance with US accounting principles. Moreover, the letter revises the public reporting instructions and adopts US accepted accounting standards regarding the following: non-current assets held for sale and discontinued operations, fixed assets and properties for investment, earnings per share, cash flows statement, interim period reporting and additional matters.

The letter revises the public reporting instructions and adopts US accepted accounting standards regarding the following issues:

- Discontinued operations in accordance with item 205-20 of the Codification regarding "discontinued operations";
- Fixed assets in accordance with item 360 of the Codification regarding "fixed assets";
- Per share earnings in accordance with item 260 of the Codification regarding "per share earnings";
- Cash flows statement in accordance with item 230-10 of the Codification regarding "cash flows statement";
- Interim period reporting in accordance with item 270 of the Codification in the matter of "interim period reporting";
- Capitalization of interest costs in accordance with item 835-20 of the Codification regarding "capitalization of interest" (in this respect, it should be clarified that in accordance with the public reporting instructions, a banking corporation may not capitalize interest costs without firstly determining clear policy, procedures and controls regarding the criteria for the recognition of assets as qualified assets and regarding the interest costs to be capitalized);
- Measurement and disclosure of guarantees in accordance with item 460 of the Codification regarding "guarantees".

The instructions determined in accordance with the letter will take effect as from January 1, 2018. Upon their initial application, a banking corporation is required to act in accordance with the transitional instructions determined regarding these matters by the US standards, subject to the required modifications, including a retroactive restatement of the comparative data, where this is required by the rules of the US standards applying to these matters.

The Bank estimates that the application of the said rules is not expected to have a material effect on the financial statements.

(3) A new amendment of the standard regarding other income

In February 2017, the US Financial Accounting Standard Board ("FASB") published Amendment ASU 2017-05 (hereinafter - "the Amendment") with respect to the application of the rules regarding the derecognition of assets and the accounting treatment of the partial sale of nonfinancial assets, comprising amendment of Item 610-20 of the Codification regarding other income - gains and losses on the derecognition of non-financial assets.

The Amendment clarifies that a financial asset, which in substance is a nonfinancial asset, is subject to the application of ASC 610-20. The definition of a financial asset , which in substance is a nonfinancial asset, includes, inter alia, assets contractually promised to a counter party, if in substance most of the fair value of such assets derives from nonfinancial assets (e.g.: the transfer of rights in a subsidiary company where most of its assets are nonfinancial).

In accordance with the Amendment, the transfer of a business of not-for-profit operations, as well as any transfer of an investment treated by the equity method of accounting, are not subject to the rules of ASC 610-20 (the exception whereby certain transfers of investments treated by the equity method of accounting, shall be treated in accordance with ASC 610-20, was abolished).

Furthermore, entities are required to separately identify each distinct asset promised to a counterparty, and to derecognize the asset upon the counterparty obtaining control. Allocation of the consideration to each distinct asset shall be treated in accordance with ASC 606.

In addition, the new rules affect also the accounting treatment of partial sales of a nonfinancial asset. In accordance with the Amendment, an entity that transfers its controlling rights in a nonfinancial asset, but which remains with a noncontrolling interest, shall measure the remaining rights at fair value. As a result thereof, all the gains or loss would be recognized upon the sale of the controlling rights in the nonfinancial asset.

The new rules may be applied by the retroactive application method, or alternatively by the adjusted retroactive application method, where the cumulative effect of the application of the Amendment is recognized in the opening balance of retained earnings at the beginning of the period of the initial application.

The rules apply to US public entities as from the annual and interim financial statements for periods following December 15, 2017. Earlier application is permitted.

The Bank estimates that the application of the said rules is not expected to have a material effect on the financial statements.

(4) Update of the standard with respect to receivables

In March 2017, the US Financial Accounting Standard Board ("FASB") published ASU 2017-05 (hereinafter - "the Amendment") with respect to amortization of the premium on purchased bonds having an early redemption option, comprising an amendment of Item 310-20 of the Codification in the matter of "receivables - nonrefundable fees and other costs".

In accordance with the Amendment, the period of amortization by the issuer of the premium on bonds having an early redemption option, shall be curtailed and computed in accordance with the earliest redemption date.

It is required to apply the new rules by way of the adjusted retroactive application method, where the cumulative effect of the application of the Amendment is recognized in the opening balance of retained earnings at the beginning of the period of the initial application.

The rules apply to US public entities as from the annual and interim financial statements for periods following December 15, 2018. Earlier application is permitted also for interim statements.

(5) Amendment No. 2017-07 of the Codification of FASB in respect of improvement of the presentation of pension expenses and other post-employment benefits

The Supervisor of Banks issued a letter on January 1, 2018, regarding Amendment 2017-07 of the Codification regarding improvement of the presentation of pension expenses and other post-employment benefits.

The Amendment clarifies that the cost components of benefits included in payroll expenses in the statement of profit and loss should be separated, so that only the cost of service shall remain as part of payroll expenses, while the remainder of the costs are to be presented as part of non-operating expenses (other expenses). Furthermore, it is clarified that only the cost of service may be capitalized, where capitalization of payroll cost is permitted, while the capitalization of the remainder of the cost of benefits is not permitted.

It is required to apply the ruled stated in the letter as from January 1, 2018 and thereafter. Upon the initial application of the rules, it is required to act in accordance with the US transitional instructions, mutatis mutandis.

NOTE 2 - INTEREST INCOME AND EXPENSES

(NIS million)

Composition:

		Consolidated			The Bank		
		For the year ended December 31			For the year ended December 31		
		2017	2016	2015	2017	2016	2015
A.	**Interest income (expenses)** (1)						
	From credit to the public	**2,532**	2,367	2,126	**1,909**	1,736	1,415
	From credit to the Government	**-**	-	(3)	**-**	-	-
	From deposits with banks	**14**	10	9	**12**	7	5
	From deposits with Bank of Israel and from cash	**26**	22	28	**21**	17	19
	From securities which were borrowed	**1**	1	1	**1**	1	1
	From bonds(2)	**131**	126	99	**112**	108	72
	From Investees companies	**-**	-	-	**5**	4	9
	Total interest income	**2,704**	2,526	2,260	**2,060**	1,873	1,521
B.	**Interest expenses**						
	On deposits from the public	**222**	182	132	**225**	189	146
	On deposits from the Government	**5**	5	6	**4**	5	6
	On deposits from banks	**5**	3	1	**27**	14	8
	On bonds and subordinated capital notes	**165**	163	168	**136**	131	123
	On other liabilities	**5**	4	-	**5**	3	-
	Total interest expenses	**402**	357	307	**397**	342	283
	Total interest income, net	**2,302**	2,169	1,953	**1,663**	1,531	1,238
C.	**Details on net effect of hedging derivative instruments on interest income and expenses**						
	Interest expenses(3)	**(19)**	(26)	(25)	**(20)**	(28)	(23)
D.	**Details of interest income from bonds on cumulative basis**						
	Held to maturity	**34**	30	20	**29**	25	17
	Available for sale	**92**	91	74	**78**	78	51
	Held for trading	**5**	5	5	**5**	5	4
	Total included in interest income	**131**	126	99	**112**	108	72

(1) Including effective component in hedging relations.

(2) Including Interest income on mortgage-backed securities (MBS) in the amount of NIS 4 million (consolidated and the Bank) (2016 - NIS 4 million, consolidated and the Bank, 2015 - NIS 5 million, consolidated and the Bank).

(3) Details of effect of hedging derivative instruments on subsection (A).

NOTE 3 - NON-INTEREST FINANCING INCOME

(NIS million)

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2017	2016	2015	2017	2016	2015
A. Non-interest financing income (expenses) in respect of non-trading activities						
1. From activity in derivative instruments						
Non-effective part of hedging ratios (see C below)(1)	**3**	(1)	(1)	**3**	(1)	(1)
Net expense in respect of ALM derivative instruments(2)	**(531)**	(203)	(46)	**(460)**	(200)	(70)
Total from activity in derivative instruments	**(528)**	(204)	(47)	**(457)**	(201)	(71)
2. From investments in bonds						
Profits from sale of bonds available for sale(5)	**28**	46	87	**21**	38	48
Losses from sale of bonds available for sale(5)	**-**	(3)(6)	-	**-**	(3)(3)	-
Total from investment in bonds	**28**	40	87	**21**	35	48
3. Net exchange differences	**573**	242	76	**522**	229	91
4. Gains from investment in shares						
Gains from sale of shares available for sale(5)	**2**	14	20	**2**	14	20
Losses from sale of shares available for sale(5)	(4)**(2)**	(4)(4)	(6)(44)	(4)**(2)**	(4)(4)	(6)(44)
Dividend from shares available for sale	**12**	19	46	**12**	19	39
Total from investment in shares	**12**	29	22	**12**	29	15
Total non-interest financing income in respect of non-trading activities	**85**	107	138	**98**	92	83

(1) Excluding the effective component of hedging ratios.
(2) Derivative instruments constituting part of the asset and liability management network of the Bank, which are not designated for hedging ratios.
(3) In 2016 - Including a provision for other-than-temporary impairment in the amount of NIS 4 million and NIS 2 million, consolidated and the Bank.
(4) Including a provision for other-than-temporary impairment in the amount of NIS 2 million, consolidated and the Bank (2016 - NIS 3 million, consolidated and the Bank).
(5) Reclassified from other comprehensive income.
(6) Including loss in the amount of NIS 37 million in respect of verdict received about a lawsuit.

NOTE 3 - NON-INTEREST FINANCING INCOME (CONT'D)

(NIS million)

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2017	2016	2015	2017	2016	2015
B. Net income in respect of non-interest financing activity for trading[(3)]						
Net income in respect of other derivative instruments	**8**	11	14	**8**	9	9
Net realized and unrealized gains (losses) from adjustments to fair value of bonds held for trading[(1)]	**(9)**	1	(3)	**(10)**	2	2
Net realized and unrealized gains (losses) from adjustments to fair value of shares held for trading[(2)]	**(1)**	(4)	-	**(2)**	(4)	1
Total non-interest financing income (expenses) from trading activities[(4)]	**(2)**	8	11	**(4)**	7	12
Total non-interest financing income	**83**	115	149	**94**	99	95
Details on non-interest financing income (expenses) in respect of trading activities, by risk exposure						
Interest rate exposure	**(8)**	3	(1)	**(10)**	2	2
Foreign currency exposure	**1**	1	1	**1**	1	-
Exposure to shares	**5**	4	11	**5**	4	10
Total	**(2)**	8	11	**(4)**	7	12
C. Non-effective part of hedging ratios - foreign operation[(5)]						
Non-effectiveness of hedges	**1**	-	-	**1**	-	-
Loss (income) component in respect of derivative instruments excluded for the evaluation of the effectiveness of the hedge	**2**	(1)	(1)	**2**	(1)	(1)
Total	**3**	(1)	(1)	**3**	(1)	(1)

(1) Of which: 2017 - losses in respect of trading bonds on hand at balance sheet date NIS 1 million, consolidated and the Bank.
(2) No gains/losses in respect of trading shares on hand at balance sheet date.
(3) Including exchange differences arising from trading activity.
(4) See Note 2 for details on income from investment in trading bonds.
(5) See Note 2 for disclosure of the net effect of hedge derivative instruments on interest income and expense.

NOTE 4 - FEES
(NIS million)

Composition:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2017	**2016**	**2015**	**2017**	**2016**	**2015**
Account management	**250**	250	263	**178**	174	136
Credit cards	**101**	107	105	**66**	67	54
Securities and certain derivative instruments activity	**428**	422	459	**349**	342	321
Financial products distribution commissions(1)	**81**	73	81	**55**	47	46
Management, operation and trust to institutional entities(2)	**95**	90	102	**35**	32	32
Credit handling	**15**	15	21	**12**	12	13
Conversion differences	**141**	140	141	**121**	121	93
Foreign-trade activity	**51**	57	56	**45**	47	45
Commissions from financing activities	**92**	91	90	**81**	79	72
Other fees	**51**	55	60	**31**	33	27
Total Fees	**1,305**	1,300	1,378	**973**	954	839

(1) Mutual and provident funds distribution fees.
(2) Operation of Provident and mutual funds and long-term savings managers.

NOTE 5 - OTHER INCOME
(NIS million)

Composition:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2017	**2016**	**2015**	**2017**	**2016**	**2015**
Capital gains from the sale of building and equipment	**45**	24	6	**44**	21	-
Other	**17**	(1)41	8	**132**	(1)167	193
Total other income	**62**	65	14	**176**	188	193

(1) Including income in the amount of NIS 32 million in respect of the sale of Visa Europe shares.

NOTE 6 - SALARIES AND RELATED EXPENSES
(NIS million)

Composition:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2017	**2016**	**2015**	**2017**	**2016**	**2015**
Salaries	**1,074**	1,077	1,096	**810**	812	726
Other related expenses including study funds, vacation and sick days	**104**	113	126	**80**	83	83
Long-term benefits	**4**	(21)	(58)	**(1)**	(27)	(59)
National insurance and VAT on salaries	**294**	304	324	**222**	229	220
Pension expenses including severance pay and allowances (see note 23):						
Defined benefit	**70**	96	63	**48**	68	34
Defined deposit	**69**	76	69	**48**	54	46
Other post-employment benefits and non-pension post-retirement benefits	**12**	11	9	**8**	8	4
Total salaries and related expenses	**1,627**	1,656	1,629	**1,215**	1,227	1,054
Of which salaries and related expenses abroad	**14**	26	22	**-**	-	-
Of which loss from reduction or dismissal and structural changes	**16**	57	27	**12**	41	14

NOTE 7 - OTHER EXPENSES
(NIS million)

Composition:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2017	**2016**	**2015**	**2017**	**2016**	**2015**
Marketing and advertising	**51**	50	51	**29**	29	22
Communications	**79**	*84	*90	**63**	*67	*61
Computer	**109**	109	111	**103**	102	100
Office	**13**	14	15	**10**	10	9
Insurance	**4**	5	6	**2**	2	2
Legal, audit and consultancy	**61**	57	58	**34**	30	32
Directors' fees and fees for participation in meetings	**9**	9	12	**5**	5	5
Professional instruction and training	**4**	5	5	**3**	3	3
Commissions	**106**	*102	*106	**141**	*128	*128
Other	**70**	*67	68	**60**	51	54
Total other expenses	**506**	502	522	**450**	427	416

* Reclassified.

NOTE 8 - PROVISION FOR TAXES ON PROFIT
(NIS million)

A. Composition:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2017	**2016**	**2015**	**2017**	**2016**	**2015**
Current taxes in respect of the current year	**404**	310	279	**316**	216	164
Current taxes in respect of prior years	**(44)**	(21)	(12)	**(41)**	(17)	(12)
Total current taxes	**360**	289	267	**275**	199	152
Addition (deduction):						
Deferred taxes in respect of the current year	**(5)**	103	58	**6**	96	61
Deferred taxes in respect of prior years	**3**	6	1	**3**	6	-
Total deferred taxes**	**(2)**	109	59	**9**	102	61
Total provision for taxes*	**358**	398	326	**284**	301	213
* Including provision for taxes of foreign consolidated subsidiary	**-**	-	1	**-**	-	-
** **Deferred taxes**						
Creation and reversal of temporary differences	**16**	86	56	**24**	83	59
Change in the tax rate	**-**	34	3	**-**	26	2
Deferred taxes reclassified from equity to profit and loss	**(18)**	(11)	-	**(15)**	(7)	-
Total deferred taxes	**(2)**	109	59	**9**	102	61

NOTE 8 - PROVISION FOR TAXES ON PROFIT (CONT'D)
(NIS million)

B. Reconciliation of provision for taxes to the theoretical tax expense

The following is a reconciliation between the theoretical tax which would have been payable had the operating earnings been chargeable to tax at the statutory rate prevailing on banks in Israel and the adjusted tax provision on ordinary operating earnings as reported in the statement of income:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2017	**2016**	**2015**	**2017**	**2016**	**2015**
Prevailing tax rate	**35.0%**	35.9%	37.6%	**35.0%**	35.9%	37.6%
Tax at the prevailing tax rate	**358**	318	288	**292**	248	199
Tax (saving) in respect of:						
Non-deductible expenses	**13**	14	16	**11**	12	11
Amortization of excess of cost	**3**	12	16	**-**	-	-
Recognition of deferred taxes in respect of temporary differences from prior years, in respect of which no deferred taxes had been recognized in the past.	**-**	21	-	**-**	21	-
Elimination of taxes computed in respect of the Bank's share in earnings of investee companies.	**9**	-	-	**5**	(8)	-
Adjustment of statutory tax rate to the tax rate applicable on income of consolidated companies	**-**	(3)	(4)	**-**	(3)	(5)
Additional amounts to be paid in respect of impaired debts	**16**	15	13	**16**	15	13
Adjustment and differences of depreciation and amortization	**(7)**	4	4	**(6)**	4	4
Taxes in respect of prior years	**(41)**	(15)	(11)	**(38)**	(11)	(12)
Changes in deferred tax balances due to changes in tax rates	**-**	34	3	**-**	26	2
Other differences	**7**	(2)	1	**4**	(3)	1
Provision for taxes on profit	**358**	398	326	**284**	301	213

C. Tax assessments and additional matters relating to the provision for taxes

(1) The Bank has final tax assessments for the tax years up to and including the year 2013.

The Bank received final tax assessment for the years 2011- 2013. As a result, the Bank recorded in the year 2017 income from taxes in respect of previous years in the amount of NIS 32 million.

(2) The investee companies have final tax assessments up to and including the tax year 2012.

NOTE 8 - PROVISION FOR TAXES ON PROFIT (CONT'D)

D. Details of deferred tax assets and liabilities - Consolidated

	Balance as at December 31, 2016	Changes allocate to profit and loss	Effect of the change in tax rate allocate to profit and loss	Changes allocated to comprehensive profit	Balance as at December 31, 2017	Average tax rate 2017
Deferred tax asset						
Provision for credit losses	**250**	**7**	**-**	**-**	**257**	**34.2%**
Provision for vacation pay and other benefits to employees	**108**	**(6)**	**-**	**-**	**102**	**34.2%**
Excess liabilities in respect of employee benefits over assets of the scheme	**138**	**8**	**-**	**9**	**155**	**34.2%**
Carry forward loss for tax purposes	**10**	**(7)**	**-**	**-**	**3**	**23.0%**
Other	**4**	**2**	**-**	**-**	**6**	**34.2%**
Balance of deferred tax assets, gross	**510**	**4**	**-**	**9**	**523**	
Provision for deferred tax asset	**(3)**	**-**	**-**	**-**	**(3)**	
Balance of deferred tax assets after deduction of provision for deferred taxes	**507**	**4**	**-**	**9**	**520**	
Balances available for setoff against deferred tax assets					**(73)**	
					447	
Deferred tax liability						
Adjustment of depreciable non-monetary assets	**54**	**3**	**-**	**-**	**57**	**34.2%**
Investments in affiliates	**43**	**17**	**-**	**(4)**	**56**	**11.2%**
Balance of deferred tax liability, gross	**97**	**20**	**-**	**(4)**	**113**	
Balances available for setoff against deferred tax liabilities					**(73)**	
					40	
Balance of deferred tax assets, net	**410**	**(16)**	**-**	**13**	**407**	

	Balance as at December 31, 2015	Changes allocate to profit and loss	Effect of the change in tax rate allocate to profit and loss	Changes allocated to comprehensive profit	Balance as at December 31, 2016	Average tax rate 2016
Deferred tax asset						
Provision for credit losses	258	11	(19)	-	250	34.2%
Provision for vacation pay and other benefits to employees	182	(64)	(12)	2	108	35.0%
Excess liabilities in respect of employee benefits over assets of the scheme	105	7	(6)	32	138	34.2%
Securities	4	(1)	-	(3)	-	-
Carry forward loss for tax purposes	3	7	-	-	10	23.0%
Other	10	(4)	(2)	-	4	34.2%
Balance of deferred tax assets, gross	562	(44)	(39)	31	510	
Provision for deferred tax asset	(3)	-	-	-	(3)	
Balance of deferred tax assets after deduction of provision for deferred taxes	559	(44)	(39)	31	507	
Balances available for setoff against deferred tax assets					(59)	
					448	
Deferred tax liability						
Adjustment of depreciable non-monetary assets	46	11	(3)	-	54	34.2%
Investments in affiliates	14	31	(2)	-	43	11.2%
Balance of deferred tax liability, gross	60	42	(5)	-	97	
Balances available for setoff against deferred tax liabilities					(59)	
					38	
Balance of deferred tax assets, net	499	(86)	(34)	31	410	

NOTE 8 - PROVISION FOR TAXES ON PROFIT (CONT'D)

D. Details of deferred tax assets and liabilities - The bank

	Balance as at December 31, 2016	Changes allocate to profit and loss	Effect of the change in tax rate allocate to profit and loss	Changes allocated to comprehensive profit	Balance as at December 31, 2017	Average tax rate 2017
Deferred tax asset						
Provision for credit losses	**184**	**(2)**	**-**	**-**	**182**	**34.2%**
Provision for vacation pay and other benefits to employees	**80**	**(7)**	**-**	**-**	**73**	**34.2%**
Excess liabilities in respect of employee benefits over assets of the scheme	**108**	**10**	**-**	**7**	**125**	**34.2%**
Carry forward loss for tax purposes	**10**	**(7)**	**-**	**-**	**3**	**23.0%**
Other	**2**	**1**	**-**	**-**	**3**	**34.2%**
Balance of deferred tax assets, gross	**384**	**(5)**	**-**	**7**	**386**	
Provision for deferred tax asset	**(3)**	**-**	**-**	**-**	**(3)**	
Balance of deferred tax assets after deduction of provision for deferred taxes	**381**	**(5)**	**-**	**7**	**383**	
Balances available for setoff against deferred tax assets					**(74)**	
					309	
Deferred tax liability						
Adjustment of depreciable non-monetary assets	**56**	**2**	**-**	**-**	**58**	**34.2%**
Investments in affiliates	**43**	**17**	**-**	**(4)**	**56**	**11.2%**
Balance of deferred tax liability, gross	**99**	**19**	**-**	**(4)**	**114**	
Balances available for setoff against deferred tax liabilities					**(74)**	
					40	
Balance of deferred tax assets, net	**282**	**(24)**	**-**	**11**	**269**	

	Balance as at December 31, 2015	Changes allocate to profit and loss	Effect of the change in tax rate allocate to profit and loss	Changes allocated to comprehensive profit	Merging a subsidiary	Balance as at December 31, 2016	Average tax rate 2016
Deferred tax asset							
Provision for credit losses	179	6	(14)	-	13	184	34.2%
Provision for vacation pay and other benefits to employees	141	(62)	(9)	-	10	80	35.0%
Excess liabilities in respect of employee benefits over assets of the scheme	86	12	(6)	10	6	108	34.2%
Securities	2	(1)	-	(3)	2	-	-
Carry forward loss for tax purposes	3	7	-	-	-	10	23.0%
Other	8	(4)	(2)	-	-	2	34.2%
Balance of deferred tax assets, gross	419	(42)	(31)	7	31	384	
Provision for deferred tax asset	(3)	-	-	-	-	(3)	
Balance of deferred tax assets after deduction of provision for deferred taxes	416	(42)	(31)	7	31	381	
Balances available for setoff against deferred tax assets						(61)	
						320	
Deferred tax liability							
Adjustment of depreciable non-monetary assets	49	10	(3)	-	-	56	34.2%
Investments in affiliates	14	31	(2)	-	-	43	11.2%
Balance of deferred tax liability, gross	63	41	(5)	-	-	99	
Balances available for setoff against deferred tax liabilities						(61)	
						38	
Balance of deferred tax assets, net	353	(83)	(26)	7	31	282	

NOTE 8 - PROVISION FOR TAXES ON PROFIT (CONT'D)

E. See Note 10B regarding taxes on income recognized outside profit and loss.

F. Changes in tax legislation

1. **Corporation tax**

   Following are the relevant corporation tax rates for the years 2015-2017:

   2015 - 26.5%

   2016 - 25%

   2017 - 24%

   On January 4, 2016, the Knesset passed the Income Tax Ordinance Amendment Act (Amendment No. 216), 2016, which among other things, lowered the rate of corporation tax as from the tax year 2016 and thereafter, by 1.5%, so that the tax rate would be 25%.

   In addition, on December 22, 2016, the Knesset passed the Economic Efficiency Law (amendment legislation to achieve the budget targets for 2017-2018), 2016. In this framework the reduction of the corporate tax rate was approved from a level of 25% to 23% in two steps. The first step to 24%, starting with January 1, 2017 and the second step to 23% from January 1, 2018 and onwards.

   As a result of the reducing of the tax rate in two steps to 23%, the balance of the deferred taxes on December 31, 2017 was calculated according to the new tax rate as were set on the Economic Efficiency Law (amendment legislation to achieve the budget targets for 2017-2018), 2016, in accordance with the tax rate that will prevail on time of reversal.

2. **Updating of the Value Added Tax rate and of the profit tax and payroll tax rates**

   On October 12, 2015, the Knesset passed the Value Added Tax Order (The tax rate applying to not-for-profit organizations and to financial institutions) (Amendment), 2015, which reduced the profit tax and payroll tax rates applying to financial institutions from 18% to 17%, with effect as from October 1, 2015. As a result of the said change, the statutory tax rate applying to financial institutions was reduced from 37.71% to 37.58% in 2015. In addition, as a result of reducing the corporate tax rate to 25% in 2016, 24% in 2017 and 23% from January 2018 and onwards, the statutory tax rate declined to 35.9% in 2016, 35% in 2017 and 34.2% in 2018 and onwards.

   The effect of the change in tax rate on the financial statements as of December 31, 2016 was recognized as a reduction of NIS 42 million in the balance of deferred tax assets, as to NIS 34 million in deferred tax expenses and as to NIS 8 million in other comprehensive loss.

NOTE 9 - EARNINGS PER SHARE

The number of par value of shares used to calculate the primary earnings per share:

	Number of shares for the years 2017, 2016 and 2015
Shares of NIS 0.05 par value	**100,330,040**

NOTE 10 - CUMULATIVE OTHER COMPREHENSIVE INCOME (LOSS)

(NIS million)

A. Changes in comulative other comprehensive income (loss), net after tax effect

	Other comprehensive income (loss) before attribution to noncontrolling interests					
	Adjustment in respect of reporting available for sale securities in fair value	**Translation adjustments(1) net after the effect of hedges(2)**	**Adjustments in respect of employee benefits**	**Total**	**Other comprehensive income (loss) attributed to noncontrolling interests**	**Other comprehensive income (loss) attributed to the Bank's shareholders**
Balance as of January 1, 2015	25	(1)	(91)	(67)	-	(67)
Net changes during 2015	(47)	-	7	(40)	(2)	(38)
Balance as of December 31, 2015	(22)	(1)	(84)	(107)	(2)	(105)
Net changes during 2016	9	(1)	(90)	(82)	(10)	(72)
Balance as of December 31, 2016	(13)	(2)	(174)	(189)	(12)	(177)
Net changes during 2017	**58**	**2**	**-**	**60**	**3**	**57**
Balance as of December 31, 2017	**45**	**-**	**(174)**	**(129)**	**(9)**	**(120)**

(1) Adjustments from translation of financial statements of foreign activity for which the operating currency is different from the operating currency of the Bank.
(2) Net gains (losses) in respect of hedging net investment in foreign currency.

NOTE 10 - CUMULATIVE OTHER COMPREHENSIVE INCOME (LOSS) (CONT'D)
(NIS million)

b .Changes in the components of cumulative other comprehensive income (loss) before and after tax effect

	For the year ended December 31, 2017			For the year ended December 31, 2016			For the year ended December 31, 2015		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Changes in the components of cumulative other comprehensive income (loss) before attribution to noncontrolling interests									
Adjustments in respect of available for sale securities presentation according to fair value									
Unrealized net gains (losses) from adjustments to fair value	**114**	**(41)**	**73**	34	(12)	22	(21)	8	(13)
Gains in respect of available for sale securities reclassified to income statement(1)	**(24)**	**9**	**(15)**	(20)	7	(13)	(54)	20	(34)
Net changes during the period	**90**	**(32)**	**58**	14	(5)	9	(75)	28	(47)
Translation adjustments*									
Adjustments from translation of financial statements	**(12)**	**4**	**(8)**	(9)	4	(5)	-	-	-
Hedges**	**12**	**(4)**	**8**	7	(3)	4	-	-	-
Losses in respect of translation adjustments of financial statements reclassified to income statement	**4**	**(2)**	**2**	-	-	-	-	-	-
Net changes during the period	**4**	**(2)**	**2**	(2)	1	(1)	-	-	-
Employee benefits:									
Net actuarial loss for the period	**(28)**	**9**	**(19)**	(163)	53	(110)	-	-	-
Net losses reclassified to the statement of profit and loss(2)	**29**	**(10)**	**19**	32	(12)	20	11	(4)	7
Net change during the period	**1**	**(1)**	**-**	(131)	41	(90)	11	(4)	7
Changes in the components of cumulative other comprehensive income (loss) attributed to noncontrolling interests									
Total changes during the period	**6**	**(3)**	**3**	(15)	5	(10)	(3)	1	(2)
Changes in the components of cumulative other comprehensive income (loss) attributed to the Bank's shareholders									
Total changes during the period	**89**	**(32)**	**57**	(104)	32	(72)	(61)	23	(38)

* Adjustments from translation of financial statements of foreign activity for which the operating currency is different from the operating currency of the Bank.
** Net gains (losses) in respect of hedging net investment in foreign currency.
(1) The amount before tax is reported in the statement of income in the item non-interest financing income. For additional details see note 3.
(2) The amount before tax is reported in the statement of income in the item of expenses in respect of employee benefits, see note 23.

NOTE 11 -CASH AND DEPOSITS WITH BANKS
(NIS million)

Composition:

	Consolidated		The Bank	
	December 31		December 31	
	2017	2016	2017	2016
Cash and deposits with Central banks	**36,561**	27,226	**30,822**	21,491
Deposits with commercial banks	**2,625**	1,924	**2,729**	1,841
Total (1)	**39,186**	29,150	**33,551**	23,332
(1) Includes cash and deposits with banks, the initial period of which does not exceed three months	**39,023**	27,638	**32,882**	22,694

NOTE 12 - SECURITIES
(NIS million)

A. Composition:

	Consolidated				
	December 31, 2017				
A. Debentures held to maturity	**Book value**	**Amortized cost (in shares cost)**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value (1)**
Of Israeli government	**1,018**	**1,018**	**38**	**-**	**1,056**
Of financial institutions in Israel	**32**	**32**	**4**	**-**	**36**
Of others in Israel	**260**	**260**	**36**	**-**	**296**
Total debentures held to maturity	**1,310**	**1,310**	**78**	**-**	**1,388**

B. Securities available for sale	**Book value**	**Amortized cost (in shares cost)**	**Cumulative other comprehensive income - Profits**	**Cumulative other comprehensive income - Losses**	**Fair value (1)**
Bonds -					
Of Israeli government	**4,143**	**4,075**	**70**	**2**	**4,143**
Of foreign governments	**1,932**	**1,934**	**-**	**2**	**1,932**
Of financial institutions in Israel	**106**	**105**	**1**	**-**	**106**
Of foreign financial institutions	(7)**511**	**512**	**-**	**1**	**511**
Mortgage backed (MBS) securities (6)	**300**	**306**	**1**	**7**	**300**
Of others in Israel	**358**	**350**	**8**	**-**	**358**
Of foreign others	**853**	**854**	**1**	**2**	**853**
Total debentures and bonds available for sale	**8,203**	**8,136**	**81**	**14**	**8,203**
Shares -	(4)(5)**194**	**192**	**3**	**1**	**194**
Total securities available for sale	**8,397**	**8,328**	(2)**84**	(2)**15**	**8,397**

C. Securities held for trading	**Book value**	**Amortized cost (in shares cost)**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value (1)**
Bonds -					
Of Israeli government	**442**	**442**	**-**	**-**	**442**
Of foreign financial institutions	**28**	**28**	**-**	**-**	**28**
Of others in Israel	**38**	**38**	**-**	**-**	**38**
Of foreign others	**21**	**21**	**-**	**-**	**21**
Total trading debentures and bonds	**529**	**529**	**-**	**-**	**529**
Shares -	**2**	**2**	**-**	**-**	**2**
Total trading securities	**531**	**531**	(3)**-**	(3)**-**	**531**
Total securities	**10,238**	**10,169**	**162**	**15**	**10,316**

Notes: Details of results of investment activity in bonds and in shares - see note 2 and note 3. Regarding to pledged securities - see note 26.

(1) The fair value of securities is generally based on market price, which does not necessarily reflect the price obtained in the event of sale of securities in large volumes.

(2) Included in equity in the item "Adjustments in respect of presentation of available-for-sale securities at fair value". At December 31, 2016 except for securities amounting to NIS 4 million, which include an embedded derivative measured according to fair value while reflecting changes in fair value in profit and loss.

(3) Recorded in the Statement of Income.

(4) Including investments in private equity funds in the amount of NIS 98 million (December 31, 2016 - investments in private equity funds in the amount of NIS 111 million and perpetual capital notes of NIS 4 million).

(5) Including investments in shares and private equity funds having no available fair value presented at cost of NIS 119 million (December 31, 2016 - NIS 123 million).

(6) Securities issued by GNMA and guaranteed by US government in the amount of NIS 296 million (December 31, 2016 - NIS 401 million) and securities issued by FNMA & FHLMC in amount of NIS 4 million (December 31, 2016 - NIS 8 million).

(7) Including securities owned by more than one government in the amount of NIS 146 million (December 31, 2016 - NIS 901 million) and securities owned and have specified government guarantee in the amount of NIS 316 million (December 31, 2016 - NIS 423 million).

NOTE 12 - SECURITIES (CON'T)

(NIS million)

A. Composition:

Consolidated

December 31, 2016

A. Debentures held to maturity	Book value	Amortized cost (in shares cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1)
Of Israeli government	1,079	1,079	18	3	1,094
Of financial institutions in Israel	61	61	9	-	70
Of foreign financial institutions	52	52	-	-	52
Of others in Israel	267	267	18	-	285
Total debentures held to maturity	1,459	1,459	45	3	1,501

B. Securities available for sale	Book value	Amortized cost (in shares cost)	Cumulative other comprehensive income		Fair value (1)
			Profits	Losses	
Bonds -					
Of Israeli government	7,434	7,437	20	23	7,434
Of foreign governments	*2,160	*2,164	-	*4	*2,160
Of financial institutions in Israel	259	260	-	1	259
Of foreign financial institutions	(7)*1,752	*1,756	-	*4	*1,752
Mortgage backed (MBS) securities (6)	409	415	1	7	409
Of others in Israel	718	719	6	7	718
Of foreign others	*435	*436	-	*1	*435
Total debentures and bonds available for sale	13,167	13,187	27	47	13,167
Shares -	(4)(5)175	175	4	4	175
Total securities available for sale	13,342	13,362	(2)31	(2)51	13,342

C. Securities held for trading	Book value	Amortized cost (in shares cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1)
Bonds -					
Of Israeli government	946	945	1	-	946
Of financial institutions in Israel	4	4	-	-	4
Of foreign financial institutions	4	4	-	-	4
Of others in Israel	7	7	-	-	7
Of foreign others	11	12	-	1	11
Total trading debentures and bonds	972	972	1	1	972
Shares -	3	3	-	-	3
Total trading securities	975	975	(3)1	(3)1	975
Total securities	15,776	15,796	77	55	15,818

* Reclassified.

NOTE 12 - SECURITIES (CON'T)
(NIS million)

A. Composition:

The Bank

December 31, 2017

A. Debentures held to maturity	Book value	Amortized cost (in shares cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1)
Of Israeli government	**934**	**934**	**33**	**-**	**967**
Of financial institutions in Israel	**32**	**32**	**4**	**-**	**36**
Of others in Israel	**219**	**219**	**30**	**-**	**249**
Total debentures held to maturity	**1,185**	**1,185**	**67**	**-**	**1,252**

B. Securities available for sale	Book value	Amortized cost (in shares cost)	Cumulative other comprehensive income - Profits	Cumulative other comprehensive income - Losses	Fair value (1)
Bonds -					
Of Israeli government	**2,816**	**2,766**	**51**	**1**	**2,816**
Of foreign governments	**1,932**	**1,934**	**-**	**2**	**1,932**
Of financial institutions in Israel	**44**	**44**	**-**	**-**	**44**
Of foreign financial institutions	(7)**511**	**512**	**-**	**1**	**511**
Mortgage backed (MBS) securities(6)	**300**	**306**	**1**	**7**	**300**
Of others in Israel	**328**	**321**	**7**	**-**	**328**
Of foreign others	**853**	**854**	**1**	**2**	**853**
Total debentures and bonds available for sale	(4)(5)**6,784**	**6,737**	**60**	**13**	**6,784**
Shares -	**185**	**184**	**2**	**1**	**185**
Total securities available for sale	**6,969**	**6,921**	(2)**62**	(2)**14**	**6,969**

C. Securities held for trading	Book value	Amortized cost (in shares cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1)
Bonds -					
Of Israeli government	**442**	**442**	**-**	**-**	**442**
Of foreign financial institutions	**28**	**28**	**-**	**-**	**28**
Of others in Israel	**38**	**38**	**-**	**-**	**38**
Of foreign others	**21**	**21**	**-**	**-**	**21**
Total trading debentures and bonds	**529**	**529**	**-**	**-**	**529**
Shares -	**2**	**2**	**-**	**-**	**2**
Total trading securities	**531**	**531**	(3)**-**	(3)**-**	**531**
Total securities	**8,685**	**8,637**	**129**	**14**	**8,752**

Notes: Details of results of investment activity in bonds and in shares - see note 2 and note 3. Regarding to pledged securities - see note 26.

(1) The fair value of securities is generally based on market price, which does not necessarily reflect the price obtained in the event of sale of securities in large volumes.

(2) Included in equity in the item "Adjustments in respect of presentation of available-for-sale securities at fair value".

(3) Recorded in the Statement of Income.

(4) Including investments in private equity funds in the amount of NIS 98 million (December 31, 2016 - investments in private equity funds in the amount of NIS 110 million).

(5) Including investments in shares and private equity funds having no available fair value presented at cost of NIS 109 million (December 31, 2016 - NIS 122 million).

(6) Securities issued by GNMA and guaranteed by US government in the amount of NIS 296 million (December 31, 2016 - NIS 401 million) and securities issued by FNMA & FHLMC in amount of NIS 4 million (December 31, 2016 - NIS 8 million).

(7) Including securities owned by more than one government in the amount of NIS 146 million (December 31, 2016 - NIS 901 million) and securities owned and have specified government guarantee in the amount of NIS 316 million (December 31, 2016 - NIS 423 million).

NOTE 12 - SECURITIES (CON'T)

(NIS million)

A. Composition:

	The Bank				
	December 31, 2016				
A. Debentures held to maturity	**Book value**	**Amortized cost (in shares cost)**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value (1)**
Of Israeli government	963	963	11	3	971
Of financial institutions in Israel	61	61	9	-	70
Of others in Israel	226	226	15	-	241
Total debentures held to maturity	1,250	1,250	35	3	1,282

B. Securities available for sale	**Book value**	**Amortized cost (in shares cost)**	**Cumulative other comprehensive income**		**Fair value (1)**
			Profits	**Losses**	
Bonds -					
Of Israeli government	5,592	5,600	10	18	5,592
Of foreign governments	*2,157	*2,160	-	*3	*2,157
Of financial institutions in Israel	104	105	-	1	104
Of foreign financial institutions	(7)*1,752	*1,756	-	*4	*1,752
Mortgage backed (MBS) securities(6)	409	415	1	7	409
Of others in Israel	687	687	5	5	687
Of foreign others	*435	*436	-	*1	*435
Total debentures and bonds available for sale	11,136	11,159	16	39	11,136
Shares -	(4)(5)171	171	4	4	171
Total securities available for sale	11,307	11,330	(2)20	(2)43	11,307

C. Securities held for trading	**Book value**	**Amortized cost (in shares cost)**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value (1)**
Bonds -					
Of Israeli government	946	945	1	-	946
Of financial institutions in Israel	-	-	-	-	-
Of foreign financial institutions	4	4	-	-	4
Of others in Israel	2	2	-	-	2
Of foreign others	11	12	-	1	11
Total trading debentures and bonds	963	963	1	1	963
Shares -	3	3	-	-	3
Total trading securities	966	966	(3)1	(3)1	966
Total securities	13,523	13,546	56	47	13,555

	Consolidated		The Bank	
	As of December 31,		As of December 31,	
D. Data regarding impaired bonds	**2017**	**2016**	**2017**	**2016**
The recorded debt balance of Impaired bonds accruing interest income	**5**	5	**2**	2
Total recorded debt balances	**5**	5	**2**	2

* Reclassified.

NOTE 12 - SECURITIES (CONT'D)

(NIS million)

E. Fair value and unrealized losses, according to period and rate of impairment of bonds held to maturity and of available-for-sale securities being in an unrealized loss position

Consolidated								As of December 31, 2017
	Less than 12 months				12 months and above			
	Fair	Unrealized losses			Fair	Unrealized losses		
	Value	0-20%	20%-40%	Total	Value	0-20%	20%-40%	Total
								(NIS million)
Securities available for sale								
Bonds								
Of Israeli government	**-**	**-**	**-**	**-**	**567**	**2**	**-**	**2**
Of foreign governments	**864**	**1**	**-**	**1**	**972**	**1**	**-**	**1**
Of foreign financial institutions	**376**	**1**	**-**	**1**	**-**	**-**	**-**	**-**
Mortgage backed (MBS) securities	**51**	**1**	**-**	**1**	**244**	**6**	**-**	**6**
Of foreign others	**675**	**2**	**-**	**2**	**-**	**-**	**-**	**-**
Shares	**-**	**-**	**-**	**-**	**24**	**1**	**-**	**1**
Total securities available for sale	**1,966**	**5**	**-**	**5**	**1,807**	**10**	**-**	**10**

Consolidated								As of December 31, 2016
	Less than 12 months				12 months and above			
	Fair	Unrealized losses			Fair	Unrealized losses		
	Value	0-20%	20%-40%	Total	Value	0-20%	20%-40%	Total
								(NIS million)
Held to maturity bonds of Israel government(1)	403	3	-	3	-	-	-	-
Securities available for sale								
Bonds								
Of Israeli government	3,586	19	-	19	1,536	4	-	4
Of foreign governments	*1,793	*3	-	3	78	1	-	1
Of Israeli financial institutions	-	-	-	-	143	1	-	1
Of foreign financial institutions	*1,259	*2	-	2	277	2	-	2
Mortgage backed (MBS) securities	371	7	-	7	-	-	-	-
Of others in Israel	-	-	-	-	429	7	-	7
Of foreign others	*411	*1	-	1	-	-	-	-
Shares	-	-	-	-	30	2	2	4
Total securities available for sale	7,420	32	-	32	2,493	17	2	19

* Reclassified.

(1) 31.12.16 - The balance of the amortized cost of bonds held to maturity amounts to NIS 406 million.

NOTE 12 - SECURITIES (CONT'D)

(NIS million)

F. On September 7, 2017, the Court approved the arrangement plan in accordance with proceedings under Section 350 of the Companies Act, submitted by the Tel Aviv Stock Exchange Ltd. (hereinafter – "the Stock exchange"). In accordance with this arrangement plan, the present members of the Stock Exchange have been allotted shares in the Stock exchange, the share of the Bank Group in this allotment amounting to 20.3%.

On December 29, 2017, the Stock Exchange approached its shareholders with an offer to purchase the shares in the Stock Exchange held by them. In accordance with the terms of the offer, the Stock Exchange or a third party, to whom the Stock Exchange at its discretion would assign its rights (hereinafter – "the Purchaser"), would be granted the right to purchase the holdings of its shareholders, in whole or in part, at the discretion of the Purchaser, at a price reflecting the value of NIS 500 million for all the Stock Exchange shares. An offer by any of the Stock Exchange members to sell his holdings, would be irrevocable until April 18, 2018, and it would expire if until that date an acceptance notice of his offer is not delivered to him. In the event that offers for sale are received from several shareholders of the Stock Exchange, and the number of shares offered for sale exceeds the number of shares that the Purchaser would wish to purchase, the purchase would be made proportionately (on a pro-rata basis) from all the offeror shareholders. Consummation of the purchase in accordance with the acceptance notice issued by the Stock Exchange would be affected not later than sixty days following the date of the acceptance notice.

On January 18, 2018, the Bank Group responded to the approach by the Stock Exchange, offering to sell 15.4% of the number of Stock Exchange shares held by it (hereinafter – "the salable holdings"), in accordance with terms stated in the approach of the Stock Exchange to the Bank. In the case that the Bank shall receive an acceptance notice in respect of all the salable holdings, the consideration in respect of the sale will amount to NIS 77 million. It is noted that the present stated value of the holdings of the Bank in the Stock Exchange, as recorded in the books of the Bank, is a negligible amount.

NOTE 13 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES

(NIS million)

1. Debts, credit to the public and provision for credit losses

Consolidated						December 31, 2017
				Credit to the public		
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Recorded balance:						
Debts examined on an individual basis	**33,954**	**-**	**226**	**34,180**	**3,300**	**37,480**
Debts examined on an collective basis	**4,982**	**22,848**	**19,206**	**47,036**	**-**	**47,036**
Of which: according to the extent of arrears	**293**	**22,848**	**-**	**23,141**	**-**	**23,141**
Total	**38,936**	**22,848**	**19,432**	**81,216**	**3,300**	**84,516**
Of which:						
Debts restructuring	**189**	**-**	**74**	**263**	**-**	**263**
Other impaired debts	**258**	**7**	**14**	**279**	**-**	**279**
Total impaired debts	**447**	**7**	**88**	**542**	**-**	**542**
Debts in arrears of 90 days or more	**34**	**156**	**40**	**230**	**-**	**230**
Other problematic debts	**454**	**9**	**208**	**671**	**-**	**671**
Total problematic debts	**935**	**172**	**336**	**1,443**	**-**	**1,443**
Provision for credit losses:						
In respect of debts examined on an individual basis	**407**	**-**	**33**	**440**	**-**	**440**
In respect of debts examined on an collective basis	**64**	**115**	**219**	**398**	**-**	**398**
Of which: according to the extent of arrears	**1**	**115**	**-**	**116**	**-**	**116**
Total	**471**	**115**	**252**	**838**	**-**	**838**
Of which: in respect of impaired debts	**136**	**-**	**26**	**162**	**-**	**162**

Consolidated						December 31, 2016
				Credit to the public		
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Recorded balance:						
Debts examined on an individual basis	33,911	-	408	34,319	2,578	36,897
Debts examined on an collective basis	4,586	21,741	17,529	43,856	-	43,856
Of which: according to the extent of arrears	247	21,741	-	21,988	-	21,988
Total	38,497	21,741	17,937	78,175	2,578	80,753
Of which:						
Debts restructuring	126	-	71	197	-	197
Other impaired debts	360	8	12	380	-	380
Total impaired debts	486	8	83	577	-	577
Debts in arrears of 90 days or more	30	*150	41	221	-	221
Other problematic debts	782	*16	195	993	-	993
Total problematic debts	1,298	174	319	1,791	-	1,791
Provision for credit losses:						
In respect of debts examined on an individual basis	446	-	28	474	-	474
In respect of debts examined on an collective basis	55	115	203	373	-	373
Of which: according to the extent of arrears	1	115	-	116	-	116
Total	501	115	231	847	-	847
Of which: in respect of impaired debts	178	-	22	200	-	200

* Reclassified.

NOTE 13 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

1. Debts, credit to the public and provision for credit losses

The Bank						December 31, 2017
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Recorded balance:						
Debts examined on an individual basis	**30,611**	**-**	**58**	**30,669**	**2,729**	**33,398**
Debts examined on an collective basis	**3,189**	**22,564**	**7,101**	**32,854**	**-**	**32,854**
Of which: according to the extent of arrears	**293**	**22,564**	**-**	**22,857**	**-**	**22,857**
Total	**33,800**	**22,564**	**7,159**	**63,523**	**2,729**	**66,252**
Of which:						
Debts restructuring	**146**	**-**	**34**	**180**	**-**	**180**
Other impaired debts	**186**	**7**	**5**	**198**	**-**	**198**
Total impaired debts	**332**	**7**	**39**	**378**	**-**	**378**
Debts in arrears of 90 days or more	**18**	**156**	**29**	**203**	**-**	**203**
Other problematic debts	**316**	**7**	**105**	**428**	**-**	**428**
Total problematic debts	**666**	**170**	**173**	**1,009**	**-**	**1,009**
Provision for credit losses:						
In respect of debts examined on an individual basis	**323**	**-**	**17**	**340**	**-**	**340**
In respect of debts examined on an collective basis	**33**	**112**	**122**	**267**	**-**	**267**
Of which: according to the extent of arrears	**1**	**112**	**-**	**113**	**-**	**113**
Total	**356**	**112**	**139**	**607**	**-**	**607**
Of which: in respect of impaired debts	**91**	**-**	**14**	**105**	**-**	**105**

The Bank						December 31, 2016
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Recorded balance:						
Debts examined on an individual basis	30,703	-	261	30,964	1,848	32,812
Debts examined on an collective basis	2,774	21,491	6,517	30,782	-	30,782
Of which: according to the extent of arrears	247	21,491	-	21,738	-	21,738
Total	33,477	21,491	6,778	61,746	1,848	63,594
Of which:						
Debts restructuring	88	-	37	125	-	125
Other impaired debts	310	8	6	324	-	324
Total impaired debts	398	8	43	449	-	449
Debts in arrears of 90 days or more	12	*150	29	191	-	191
Other problematic debts	662	*14	103	779	-	779
Total problematic debts	1,072	172	175	1,419	-	1,419
Provision for credit losses:						
In respect of debts examined on an individual basis	381	-	19	400	-	400
In respect of debts examined on an collective basis	26	113	114	253	-	253
Of which: according to the extent of arrears	1	113	-	114	-	114
Total	407	113	133	653	-	653
Of which: in respect of impaired debts	141	-	14	155	-	155

* Reclassified.

NOTE 13 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

2. Change in provision for credit losses

Consolidated	Credit to the public				Banks and Governments	Total
	Commercial	Housing	Other private	Total		
Change in provision for credit losses - debts						
Provision for credit losses at December 31, 2014	534	132	210	876	-	876
Expenses from credit losses	12	3	38	53	-	53
- Accounting write-offs	(207)	(16)	(122)	(345)	-	(345)
- Collection of debts written off in accounting in previous years	159	-	81	240	-	240
Net accounting write-offs	(48)	(16)	(41)	(105)	-	(105)
Provision for credit losses at December 31, 2015	498	119	207	824	-	824
Expenses from credit losses	44	2	48	94	-	94
- Accounting write-offs	(165)	(6)	(110)	(281)	-	(281)
- Collection of debts written off in accounting in previous years	128	-	86	214	-	214
Net accounting write-offs	(37)	(6)	(24)	(67)	-	(67)
Other - classified to assets held for sale	(4)	-	-	(4)	-	(4)
Provision for credit losses at December 31, 2016	501	115	231	847	-	847
Expenses from credit losses	**66**	**1**	**64**	**131**	**-**	**131**
- Accounting write-offs	**(211)**	**(2)**	**(120)**	**(333)**	**-**	**(333)**
- Collection of debts written off in accounting in previous years	**115**	**1**	**77**	**193**	**-**	**193**
Net accounting write-offs	**(96)**	**(1)**	**(43)**	**(140)**	**-**	**(140)**
Provision for credit losses at December 31, 2017	**471**	**115**	**252**	**838**	**-**	**838**

Consolidated	Credit to the public				Banks and Governments	Total
	Commercial	Housing	Other private	Total		
Changes in provision in respect of off-balance sheet credit instruments						
Provision at December 31, 2014	106	-	14	120	-	120
Increase (decrease) in provision	(36)	-	1	(35)	-	(35)
Provision at December 31, 2015	70	-	15	85	-	85
Decrease in provision	(13)	-	(1)	(14)	-	(14)
Provision at December 31, 2016	57	-	14	71	-	71
Decrease in provision	**(9)**	**-**	**(1)**	**(10)**	**-**	**(10)**
Provision at December 31, 2017	**48**	**-**	**13**	**61**	**-**	**61**

NOTE 13 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)
(NIS million)

2. Change in provision for credit losses

The Bank	Credit to the public				Banks and Governments	Total
	Commercial	Housing	Other private	Total		
Change in provision for credit losses - debts						
Provision for credit losses at December 31, 2014	395	132	92	619	-	619
Expenses (income) in respect of credit losses	(3)	1	34	32	-	32
- Accounting write-offs	(129)	(17)	(52)	(198)	-	(198)
- Collection of debts written off in accounting in previous years	121	-	25	146	-	146
Net accounting write-offs	(8)	(17)	(27)	(52)	-	(52)
Merging a subsidiary	11	1	1	13	-	13
Provision for credit losses at December 31, 2015	395	117	100	612	-	612
Expenses from credit losses	21	1	36	58	-	58
- Accounting write-offs	(108)	(5)	(69)	(182)	-	(182)
- Collection of debts written off in accounting in previous years	79	-	49	128	-	128
Net accounting write-offs	(29)	(5)	(20)	(54)	-	(54)
Merging a subsidiary	20	-	17	37	-	37
Provision for credit losses at December 31, 2016	407	113	133	653	-	653
Expenses from credit losses	**17**	**-**	**38**	**55**	**-**	**55**
- Accounting write-offs	**(151)**	**(2)**	**(69)**	**(222)**	**-**	**(222)**
- Collection of debts written off in accounting in previous years	**83**	**1**	**37**	**121**	**-**	**121**
Net accounting write-offs	**(68)**	**(1)**	**(32)**	**(101)**	**-**	**(101)**
Provision for credit losses at December 31, 2017	**356**	**112**	**139**	**607**	**-**	**607**

The Bank	Credit to the public				Banks and Governments	Total
	Commercial	Housing	Other private	Total		
Changes in provision in respect of off-balance sheet credit instruments						
Provision at December 31, 2014	82	-	8	90	-	90
Increase (decrease) in provision	(22)	-	1	(21)	-	(21)
Merging a subsidiary	2	-	-	2	-	2
Provision at December 31, 2015	62	-	9	71	-	71
Decrease in provision	(12)	-	(1)	(13)	-	(13)
Merging a subsidiary	3	-	1	4	-	4
Provision at December 31, 2016	53	-	9	62	-	62
Decrease in provision	**(7)**	**-**	**(1)**	**(8)**	**-**	**(8)**
Provision at December 31, 2017	**46**	**-**	**8**	**54**	**-**	**54**

NOTE 14 - CREDIT TO THE GOVERNMENT
(NIS million)

Composition:	Consolidated		The Bank	
	December 31,		December 31,	
	2017	2016	2017	2016
Total credit to the Government	**675**	654	**-**	7

NOTE 15 - INVESTEE COMPANIES
(NIS million)

A. Composition:

	Consolidated		The Bank					
	December 31, 2017	December 31, 2016	December 31, 2017			December 31, 2016		
	Equity basis investee	Equity basis investee	Equity basis investee	Consolidated subsidiaries	Total	Equity basis investee	Consolidated subsidiaries	Total
Investments in shares on equity basis	**565**	514	**565**	**1,880**	**2,445**	514	1,816	2,330
Other investments:								
Capital notes and subordinated capital notes	**-**	-	**-**	**212**	**212**	-	211	211
Total investments in investee companies	**565**	514	**565**	**2,092**	**2,657**	514	2,027	2,541
Earnings accumulated since acquisition, net	**319**	273	**319**	**1,110**	**1,429**	273	1,084	1,357
Items accrued in equity capital since purchase date:								
Adjustments in respect of presenting available-for-sale securities	**-**	-	**-**	**6**	**6**	-	(1)	(1)
Employee benefits	**(7)**	(6)	**(7)**	**(34)**	**(41)**	(6)	(36)	(42)
Adjustments from translation of financial	**-**	-	**-**	**-**	**-**	-	(18)	(18)

B. The Bank's share in profits of equity-basis investees:

	Consolidated			The Bank		
	For the year ended December 31			For the year ended December 31		
	2017	2016	2015	2017	2016	2015
						NIS millions
The Bank's share in operating profits of equity-basis investees	**60**	81	43	**146**	159	135
Provision for taxes	**-**	-	-	**-**	-	-
Provision for deferred taxes	**(6)**	(9)	(5)	**(17)**	(29)	(5)
The Bank's share in operating profits of equity-basis investees, after tax	**54**	72	38	**129**	130	130

NOTE 15 - INVESTEE COMPANIES (CONT'D)

C. Details regarding major investee subsidiaries:

Name of investee	Major activity	Bank's share in equity		Bank's voting right		Carrying value of the investment on equity basis(3)	
		December 31		December 31		December 31	
		2017	2016	2017	2016	2017	2016
		%	%	%	%		NIS million
Israeli consolidated subsidiaries:							
Bank Otsar Hahayal Ltd.(6)	Commercial Bank	**78.0**	78.0	**78.0**	78.0	**1,291**	1,209
Bank Massad Ltd.	Commercial Bank	**51.0**	51.0	**51.0**	51.0	**304**	306
UBank trust company Ltd.	Trust services	**100.0**	100.0	**100.0**	100.0	**19**	21
Foreign consolidated subsidiaries:							
F.I.B.I. Switzerland (registered in Switzerland)(5)	Commercial Bank	**100.0**	100.0	**100.0**	100.0	**199**	219
Equity basis investees:							
Israel Credit Cards Ltd.	Credit Cards	**28.2**	28.2	**21.0**	21.0	**565**	514

(1) The above list does not include wholly owned and controlled consolidated companies that are asset companies or that supply services to the Bank, whose assets and operating results are included in the financial statements of the Bank.
(2) The shares of all the companies in the above list are not listed for trading on the stock exchange.
(3) Including balance of excess cost relating to customers relation.
(4) Including amortization of goodwill relating to customers relation: Bank Otsar Hahayal Ltd. - 2016 - NIS 23 million, Bank Massad Ltd. - NIS 9 million (2016 - NIS 9 million), UBank trust company Ltd. - NIS 1 million (2016 - NIS 1 million).
(5) See mentioned in Note 18A hereinafter regarding the agreement for the sale of the operations of FIBI Bank (Switzerland).
(6) See below regarding the purchase of equity in Otsar Hahayal.

	Other capital investments		Bank's equity earnings		Dividend recorded		Other items accumulated in shareholders' equity	
	December 31							
	2017	2016	2017	2016	2017	2016	2017	2016
		NIS million		NIS million		NIS million		NIS million
	-	-	**55**	[4]42	**-**	-	**9**	(31)
	5	5	[4]**18**	[4]13	**20**	-	**-**	(1)
	-	-	[4]**20**	[4]19	**22**	20	**-**	-
	-	-	**(8)**	(21)	**-**	-	**(12)**	(10)
	-	-	**60**	81	**8**	-	**(1)**	(5)

D. Condenced information regarding equity basis investees, without adjustment to the group's share:

1. Following the condenced financial information

	Bank's share in equity	Total assets	Total liabilities	Capital attributed to the company's shareholders
	%	NIS millions		
Israel Credit Cards Ltd.				
31 December 2017	**28.2**	**14,051**	**12,371**	**1,680**
31 December 2016	28.2	12,416	10,912	1,504

2. Following the condenced operating results information

	Bank's share in equity	Net profit for the year	Profit attributed to the company's shareholders	Profit attributed to noncontrolling interest
	%	NIS millions		
Israel Credit Cards Ltd.				
31 December 2017	**28.2**	**211**	**211**	**-**
31 December 2016	28.2	292	292	-
31 December 2015	28.2	165	149	16

NOTE 15 - INVESTEE COMPANIES (CONT'D)

E. Within the framework of arrangements made in 2006 by the Bank with Chever Regular Servicemen and Pensioners Ltd. (hereinafter - "Chever"), which until recently was an additional shareholder in Otzar Hachayal, the Bank has certain commitments towards Chever, among which is a put option, expiring on February 17, 2018, according to which, at Chever's request, the Bank was obliged to purchase from Chever its holdings in Otzar Hachayal, in whole or in part, at a price derived from the price of the transaction in which the Bank had acquired control over Otzar Hachayal in 2006 (with certain adjustments).

On January 14, 2018, the Bank offered all shareholders of Otzar Hachayal to purchase their shares in Otzar Hachayal of whatever class, within the framework of proceedings under Section 341 of the Companies Act, 1999 (hereinafter – "the Companies Act"). The total consideration for the purchase of the shares amounts to NIS 340 million, a price in agreement with the exercise price of the option granted by the Bank to Chever, and reflecting 121% of the equity value of Otzar Hachayal, according to its financial statements as of September 30, 2017.

The acquisition by the Bank of the holdings of Chever was completed on January 16, 2018, following which, the Bank holds 100% of the voting rights and the rights to appoint directors in Otzar Hachayal and 99.99% of the equity rights. Upon the transfer of the holdings of Chever to the Bank, the put option described above also expired.

The Bank is acting now to complete the purchase of the shares held by the remaining shareholders in Otzar Hachayal, in accordance with Sections 341 and 342 of the Companies Act, and subject to the dates and terms stated therein.

F. On August 29, 2013, an agreement was signed between the Swiss Government and the Justice Department in the USA intended to settle the disputes in the matter of tax evasion by American citizens using banks in Switzerland. Pursuant to the agreement, all the Swiss banks that are not under criminal investigation by the American authorities were supposed to inform the regulator in Switzerland, by December 31, 2013, of their decision to join or not to join the agreement.

FIBI Bank (Switzerland) had engaged Swiss and American legal advisors specializing in this field and after an examination conducted with their help, FIBI Bank (Switzerland) decided up to December 31, 2013, not to join the agreement in any of the alternatives outlined in the agreement. The current business environment is subject to legal and regulatory risks and it is difficult to estimate their impact on the financial position of FIBI (Switzerland). According to the present circumstances, in the opinion of FIBI Bank (Switzerland) and its advisors, there is no need to include a provision in the audited financial statements in respect of the above matter.

G. On November 2, 2015, VISA Inc. (Hereinafter - "VISA Inc.") and VISA Europe Ltd. (hereinafter - "VISA Europe") announced the entry into an agreement, by which VISA Inc. will acquire VISA Europe (hereinafter- "the transaction") from the principal members holdings its shares.

On June 21, 2016, following completing the stage of obtaining the regulatory approvals, the proceeds of the transaction were received, including an immediate cash consideration of Euro 71 million. An additional amount of Euro 6 million is expected to be received in the future, in accordance with the terms set out in the agreement. In addition, ICC received preferred shares blocked for a period of between 4 to 12 years, which are convertible into Visa Inc. shares. The value of these shares at date of the transaction is estimated at Euro 26 million (naive value). It is clarified that the conversion ratio of the preferred shares may decrease in the future, under certain circumstances.

The proceeds of the transaction were shared by ICC (68% of the proceeds), Discount bank and the Bank, all of whom being Principal Members in Visa Europe.

The distribution of the proceeds was made and will be made in the future in accordance with an agreed mechanism formed by the parties. The distribution mechanism has been approved by the competent organs of the parties.

In the second quarter of 2016, ICC recognized income of NIS 263 million with respect to the said transaction.

NOTE 16 - PREMISES AND EQUIPMENT

(NIS million)

A. Composition:

	Consolidated			The Bank		
	Bank premises (1)	Furniture, equipment and vehicles	total	Bank premises (1)	Furniture, equipment and vehicles	total
Cost of assets						
Balance as at December 31, 2015	1,854	708	2,562	1,421	509	1,930
Additions	33	22	55	27	19	46
Disposals	(133)	(11)	(144)	(33)	(11)	(44)
Merging a subsidiary	-	-	-	36	9	45
Classified to assets held for sale	(120)	-	(120)	(120)	-	(120)
At December 31, 2016	1,634	719	2,353	1,331	526	1,857
Additions	**19**	**29**	**48**	**12**	**27**	**39**
Disposals	**(27)**	**(6)**	**(33)**	**(19)**	**(6)**	**(25)**
Classified to assets held for sale	**(16)**	**(6)**	**(22)**	**(4)**	**-**	**(4)**
At December 31, 2017	**1,610**	**736**	**2,346**	**1,320**	**547**	**1,867**
Accumulated depreciation (2)						
Balance as at December 31, 2015	741	592	1,333	444	406	850
Depreciation	60	33	93	45	29	74
Disposals	(120)	(11)	(131)	(24)	(11)	(35)
Merging a subsidiary	-	-	-	19	5	24
Classified to assets held for sale	(75)	-	(75)	(75)	-	(75)
At December 31, 2016	606	614	1,220	409	429	838
Depreciation	**48**	**30**	**78**	**35**	**28**	**63**
Disposals	**(23)**	**(6)**	**(29)**	**(17)**	**(6)**	**(23)**
Classified to assets held for sale	**(12)**	**(6)**	**(18)**	**(2)**	**-**	**(2)**
At December 31, 2017	**619**	**632**	**1,251**	**425**	**451**	**876**
Amortized balance as at December 31, 2017	**991**	**104**	**1,095**	**895**	**96**	**991**
Amortized balance as at December 31, 2016	1,028	105	1,133	922	97	1,019
Amortized balance as at December 31, 2015	1,113	116	1,229	977	103	1,080
Weighted average depreciation rate in % as at 31.12.17	**4.1%**	**15.1%**		**3.6%**	**16.1%**	
Weighted average depreciation rate in % as at 31.12.16	4.5%	15.6%		3.9%	16.4%	

(1) Including fixtures and improvements in the rental.
(2) Depreciation accrued including losses accrued from impairment.

B. The Bank and its subsidiaries own rental or leasehold rights in different properties in a total amount of NIS 425 million (December 31, 2016 - NIS 439 million). Of this amount are rental or leasehold rights for periods not exceeding 49 years from balance sheet date in the amount of NIS 345 million (December 31, 2016 - NIS 366 million). The Bank and its subsidiaries own rights to property by way of capitalized leaseholds in the amount of NIS 355 million (December 31, 2016 - NIS 373 million).

C. Land rights totaling NIS 379 million (31.12.15 - NIS 399 million) have yet to be recorded in the name of the Bank or its investee companies at Land Registry Offices.

D. The balance-sheet balance of premises and equipment not in use by the Bank or the Group and which were classified as real estate for investment amounted to NIS 7 million (31.12.16 - NIS 12 million).

E. The group has in use assets that were fully depreciated. The cost of these assets as of December 31, 2017 amounted to NIS 773 million (31.12.16 - NIS 695 million).

NOTE 17 - INTANGIBLE ASSETS

(NIS million)

	Consolidated			The Bank
	Customers relations	Software	Total	Software
Cost				
At December 31, 2015	533	817	1,350	809
Addition	-	94	94	94
Disposals	-	(15)	(15)	(15)
At December 31, 2016	533	896	1,429	888
Addition	**-**	**86**	**86**	**86**
Disposals	**-**	**(7)**	**(7)**	**-**
At December 31, 2017	**533**	**975**	**1,508**	**974**
Amortization and Losses from impairment				
At December 31, 2015	469	609	1,078	602
Amortization for the year	40	83	123	82
Disposals	-	(15)	(15)	(15)
At December 31, 2016	509	677	1,186	669
Amortization for the year	**11**	**83**	**94**	**83**
Disposals	**-**	**(7)**	**(7)**	**-**
At December 31, 2017	**520**	**753**	**1,273**	**752**
Book value				
At December 31, 2015	64	208	272	207
At December 31, 2016	24	219	243	219
At December 31, 2017	**13**	**222**	**235**	**222**

NOTE 18 - OTHER ASSETS

(NIS million)

Composition:

	Consolidated		The Bank	
	December 31		December 31	
	2017	2016	2017	2016
Deferred taxes, net (see Note 8)	**447**	448	**309**	320
Income tax advances, net of provisions and other institutions	**3**	54	**1**	16
Net clearing relating to securities transactions	**186**	92	**186**	92
Assets relating to MAOF market activity	**423**	238	**423**	238
Other receivables and debit balances	**127**	188	**111**	118
Total other assets	**1,186**	1,020	**1,030**	784

NOTE 18A - ASSETS AND LIABILITIES HELD FOR SALE

(NIS million)

Composition:

	December 31	
	2017	**2016**
		NIS million
Assets classified as held for sale		
Credit to the public, net of provision for credit losses(1)	**-**	(2)298
Premises and equipment(2)	**4**	(1)45
Total	**4**	343

		NIS million
Liabilities classified as held for sale		
Deposits from the public(1)	**-**	(2)745
Total	**-**	745

(1) An agreement was signed on February 15, 2017, for the sale of the leasehold rights of the Bank (by means of its property company) in office space in an office building in Tel Aviv, in consideration for an amount of NIS 84 million. The transaction was consummated on March 30, 2017. The gains on the sale of the leasehold rights in the amount of NIS 41 million, is included in the item "Other income".

(2) On December 19, 2016, FIBI Bank (Switzerland) Ltd., a subsidiary of the Bank (hereinafter - "the Extension"), signed an agreement for the sale of all its operations to a third party (hereinafter - "the Agreement"). In accordance with the agreement, on June 2, 2017, all the operations of the Extension (which included most of the customer assets of the Extension) were transferred to the purchaser, in consideration for a payment made to the Extension on account of the total amount of consideration, as stated in the agreement. The amount of the payment is still subject to adjustments as detailed in the agreement.

Income in the amount of NIS 12 million has been included in the item "Other income" in respect of the said payment. The balance of the consideration for the sale shall be determined on the basis of the value of customer assets of the Extension that would remain with the purchaser at the end of one year following the date of transfer of the operations of the Extension to the purchaser.

Within the framework of the agreement, the Extension is committed to certain indemnifications regarding the purchaser, which are limited in amounts and in different periods of time, though no longer than 24 months from the date of transfer of the customer assets to the purchaser. The Extension had terminated all of its banking operations, and on February 28, 2018, surrendered its bank license to the Swiss supervisory authorities. With the surrender of the license, the Bank accepted responsibility for the liabilities of the Extension in terms of the agreement and has replaced the Extension with respect to its liabilities under the agreement.

NOTE 19 - DEPOSITS FROM THE PUBLIC
(NIS million)

A. Classes of deposits by place of origin and type of depositor

	Consolidated		The Bank	
	December 31		December 31	
	2017	2016	2017	2016
Demand				
- Non-bearing interest	**47,062**	43,051	**33,999**	31,152
- Bearing interest	**6,178**	5,273	**5,979**	5,074
Total demand	**53,240**	48,324	**39,978**	36,226
Fixed-term*	**60,271**	57,493	**51,057**	48,177
Total deposits in Israel**	**113,511**	105,817	**91,035**	84,403
* Of which: non-bearing interest deposits	**2,654**	1,986	**2,654**	1,986
** Of which:				
Deposits of private individuals	**54,399**	54,034	**33,925**	34,565
Deposits of institutional entities	**26,681**	19,448	**26,593**	19,379
Deposits of corporates and others	**32,431**	32,335	**30,517**	30,459

B. Deposits of the public by size (consolidated)

	December 31	
Maximum amount of deposit	2017	2016
Up to 1	**42,116**	40,864
From 1 to 10	**25,557**	26,400
From 10 to 100	**14,319**	15,627
From 100 to 500	**6,027**	5,802
Over 500	**25,492**	17,124
Total	**113,511**	105,817

NOTE 20 - DEPOSITS FROM BANKS

(NIS million)

Composition:

	Consolidated		The Bank	
	December 31		December 31	
	2017	2016	2017	2016
In Israel				
Commercial Banks:				
Demand deposits	**1,073**	502	**1,167**	985
Fixed-term deposits	**9**	153	**2,951**	2,500
Acceptances	**51**	91	**50**	91
Outside Israel				
Commercial Banks:				
Demand deposits	**-**	9	**-**	-
Total deposits from banks	**1,133**	755	**4,168**	3,576

NOTE 21 - BONDS AND SUBORDINATED CAPITAL NOTES

(NIS million)

A. Composition:

	Duration (1)	Internal rate of return (1)	Consolidated		The Bank	
			December 31		December 31	
	Years	%	2017	2016	2017	2016
Bonds and subordinated capital notes in -						
- Non-linked Israeli currency	**2.02**	**2.09**	**714**	716	**-**	-
- Israeli currency linked to the CPI (2)	**3.26**	**2.42**	**4,535**	5,085	**3,637**	4,019
Total bonds and non-convertible subordinated capital notes			**5,249**	5,801	**3,637**	4,019
Including: subordinated capital notes			**3,824**	4,310	**495**	534

(1) Internal rate of return: The rate of interest which discounts the future flow of payments to the outstanding amount in the balance sheet.
Duration: The average period of payments weighted by the flow of payments discounted by the internal rate of return.
The data as to the internal rate of return and the duration to maturity are as at December 31, 2017, and related to the consolidated statements.

(2) Includes non-marketable subordinate capital notes in the amount of NIS 260 million, issued by the Bank by private placement to institutional investors on May 25, 2009. These capital notes have the mechanism of absorbing losses on a current basis, in accordance with directives of the Supervisor of banks. According to this mechanism, interest payments would not be made if at the relevant due date for the payment of interest suspending reasons exist, as defined in the capital notes. The suspended interest payments would, among other things be paid, if the suspending reasons are removed and the Bank has declared the distribution of dividend. It has been determined in this respect, that the Bank shall not pay a dividend so long as the suspended interest payments have not been paid in full.

(3) For additional information regarding the raising of regulatory capital by way of issue of debt notes that include a loss absorption mechanism, see Note 24B(5c).

NOTE 22 - OTHER LIABILITIES

(NIS million)

Composition:

	Consolidated		The Bank	
	December 31		December 31	
	2017	**2016**	**2017**	**2016**
Deferred tax liabilities, net (see Note 8)	**40**	38	**40**	38
Provision for current taxes, net of advance tax payments	**123**	126	**106**	124
Excess of provision for severance pay over amounts funded (see note 23)	**434**	416	**363**	337
Income received in advance	**50**	46	**43**	40
Creditors in respect of credit cards activity	**3,348**	3,150	**1,599**	1,484
Liabilities relating to MAOF market activity	**423**	238	**423**	238
Salaries and related costs (see also Note 23)	**383**	361	**259**	249
Short selling of securities	**98**	253	**98**	253
Other creditors and Credit balances	**263**	301	**226**	255
Total other liabilities	**5,162**	4,929	**3,157**	3,018

NOTE 23 - EMPLOYEES BENEFITS

A. SIGNIFICANT BENEFITS

1. Pension and Severance Pay

A part of the Group's liabilities for severance pay and pensions is covered by current deposits, in the name of the employees, with provident and pension funds or by the purchase of insurance policies. The liability for severance pay and pension included in the balance sheet represents the portion of the liabilities which is not covered by deposits and/or insurance policies, as stated above. This liability is measured on an actuarial basis, using actuarial and other assumptions, including the discounting rate, the rate of increase in wages, increased severance pay, mortality and retirement rates.

2. Staff Long-Service Awards

Employees of consolidated subsidiaries are entitled to a special seniority award ("jubilee award") after having completed a defined period of employment at the Group. This liability is measured on an actuarial basis using actuarial and other assumptions, including the discounting rate, the rate of increase in salaries, mortality and retirements rates.

3. Benefit in respect of nonutilized sick leave

Employees of the Bank are entitled to a benefit in respect of nonutilized accumulated sick leave. Towards the retirement date, this benefit is convertible into vacation days to be actually utilized, based on a determined convertion formula. This liability is measured on an actuarial basis using actuarial and other assumptions, including the discounting rate, the rate of increase in salaries, mortality and retirements rates.

4. Other post-employment benefits

Certain senior officers are entitled upon their retirement for a non-competition award.

5. Other post-retirement benefits

Employees of the group are entitled to certain post-retirement benefits. These benefits include: holiday gifts, newspapaers, vacations, etc. Employees of a consolidated subsidiary are entiltled to an award upon reaching retirement age in respect of unutilized sick leave. These liabilities are measured on an actuarial basis using actuarial and other assumptions, including the discounting rate, mortality and retirement rates.

6. Vacation pay

Employees of the Bank are entitled by law and by labor agreements to paid annual vacation. The provision for vacation pay is calculated on the basis of the most recent salary amounts of employees and the vacation days accumulated in their favor, with the addition of the required related expenses.

B. See note 33.f. regarding employment agreements with the CEO and the Chairman of the Board.

C. Efficiency

The Supervisor of Banks published a letter on January 12, 2016, in the matter of "operational efficiency of the banking sector in Israel". In accordance with the letter, the Board of Directors of the Bank has to outline a multiannual program for the increase in efficiency.

A banking corporation that complies with the provisions of the letter shall be entitled to a relief, whereby, for the purpose of calculating the capital adequacy, the effect of the cost of this program may be spread by the "straight line" method over five years.

Following the efficiency measures adopted by the Bank and its subsidiaries, the Board of Directors of the Bank approved on November 17, 2016, a revision of the strategic plan of the Bank from the aspect of efficiency measures. These efficiency measures include, inter alia, the continuation of expanding operations by digital means; the reduction in the number of branches and improvements in work processes at the branches and at head office. The efficiency measures include a reduction in the floor area used by the Bank as well as a gradual reduction in the workforce position of the Bank's group of an average of approximately 130 employees per year (of which, approximately 45 employees opting for voluntary early retirement, which would continue on the basis of specific offers and the particular circumstances). In total, a reduction of approximately 650 employees until the end of 2020.

The Bank has received from the Supervisor of Banks an approval in principle for the spreading of the cost of these measures over five years by the "straight line" method, for the purpose of computing the capital adequacy.

The cost of benefits to employees within the framework of the efficiency measures implemented in the years 2016 and until 2020, is estimated at NIS 207 million, before the tax effect. The impact of the efficiency measures on the ratio of equity to risk components is recognized, as stated, in installments over five years, and is estimated at December 31, 2017, to be lower by 0.15%.

D. Composition of benefits:

	Consolidated		The Bank	
	December 31,		December 31,	
	2017	**2016**	**2017**	**2016**
		(NIS million)		(NIS million)
Pension and severance pay				
Amount of liability	**1,166**	1,166	**896**	902
Fair value of assets of the scheme	**(732)**	(750)	**(533)**	(565)
Excess liabilities over assets of the scheme	**434**	416	**363**	337
Excess liabilities of the scheme included in the item "other liabilities"	**434**	416	**363**	337
Long-service awards - amount of liability	**21**	***21	**-**	-
Benefit regarding unused sick leave - amount of liability	**30**	32	**30**	32
Other post-employment benefits	**9**	10	**9**	9
Other post-retirement benefits	**153**	141	**98**	91
Vacation pay	**69**	72	**56**	59
Other	**101**	***85	**66**	58
Total				
Excess liabilities regarding employee benefits over assets of the scheme included in the item "other liabilities"	**817**	777	**622**	586

NOTE 23 - EMPLOYEES BENEFITS (CONT'D)

E. Defined benefits severance pay and pension schemes

(1) Liabilities and financing situation

		Consolidated		The Bank	
		For the year ended December 31,		For the year ended December 31,	
		2017	**2016**	**2017**	**2016**
			(NIS million)		(NIS million)
A.	**Change in liability regarding anticipated benefits**				
	Liability regarding anticipated benefit at beginning of period	**1,166**	1,079	**902**	829
	Merging a subsidiary	**-**	-	**-**	40
	Cost of service	**26**	24	**16**	13
	Cost of interest	**42**	38	**32**	31
	Actuarial loss	**33**	**125	**23**	**56
	Benefits paid	**(102)**	(133)	**(78)**	(95)
	Other, including loss from reduction and structural changes	**1**	33	**1**	28
	Liability regarding anticipated benefit at end of period	**1,166**	1,166	**896**	902
	Liability regarding cumulative benefit at end of period	**1,065**	1,055	**800**	798
B.	**Change in fair value of assets of the scheme and the financing situation of the scheme**				
	Fair value of assets of the scheme at beginning of period	**750**	794	**565**	580
	Merging a subsidiary	**-**	-	**-**	24
	Actual return on assets of the scheme	**34**	17	**20**	12
	Deposits in the scheme by the Bank	**11**	17	**3**	9
	Benefits paid	**(63)**	(78)	**(55)**	(60)
	Fair value of assets of the scheme at end of period	**732**	750	**533**	565
	Financing situation - net liability recognized at end of period*	**434**	416	**363**	337

* Included in the item "Other liabilities".

** Of which an actuarial loss of NIS 172 million (the Bank - NIS 104 million) in respect of the efficiency measures for the years from 2016 to 2020, and actuarial gains of NIS 69 million (the Bank and consolidated) in respect of the following years.

*** Restated.

NOTE 23 - EMPLOYEES BENEFITS (CONT'D)

		Consolidated		The Bank	
		December 31,		December 31,	
		2017	2016	2017	2016
			(NIS million)		(NIS million)
C.	**Amounts recognized in the consolidated balance sheet**				
	Amounts recognized in the item "other liabilities"	**434**	416	**363**	337
	Net liability recognized at end of period	**434**	416	**363**	337
D.	**Amounts recognized in other cumulative comprehensive loss, before the tax effect**				
	Actuarial loss, net	**196**	200	**137**	135
	Liability net, in respect of transition*	**26**	28	**26**	28
	Closing balance in other cumulative comprehensive profit	**222**	228	**163**	163
E.	**Schemes in which the liability regarding cumulative benefits exceeds the assets of the scheme**				
	Liability regarding anticipated benefit	**1,166**	1,106	**896**	902
	Liability regarding cumulative benefit	**1,065**	998	**800**	798
	Fair value of assets of the scheme	**732**	693	**533**	565
F.	**Schemes in which the liability regarding anticipated benefit exceeds the assets of the scheme**				
	Liability regarding anticipated benefit	**1,166**	1,166	**896**	902
	Fair value of assets of the scheme	**732**	750	**533**	565

* Actuarial loss deriving from the gap between the discounting rates as of January 1, 2013 deducted actuarial profits deriving from current changes in discounting rates offsetting the said loss.

NOTE 23 - EMPLOYEES BENEFITS (CONT'D)

(2) Expense for the period

	Consolidated			The Bank		
	December 31,			December 31,		
	2017	2016	2015	2017	2016	2015
			(NIS million)			(NIS million)
A. Cost components of net benefit recognized in profit and loss						
Cost of service	**26**	24	25	**16**	13	11
Cost of interest	**42**	38	41	**32**	31	30
Anticipated return on assets of the scheme	**(21)**	(28)	(31)	**(16)**	(21)	(22)
Amortization of non-recognized amounts:						
Net actuarial loss	**11**	8	3	**8**	7	3
Other, including loss from reduction or dismissal and structural changes	**16**	57	27	**12**	41	14
Capitalized cost of software	**(4)**	(3)	(2)	**(4)**	(3)	(2)
Total cost of benefits, net	**70**	96	63	**48**	68	34
B. Changes in assets of the scheme and in liability for benefits recognized in other comprehensive loss (profit), before the tax effect						
Net actuarial loss (profit) for the period	**20**	136	9	**19**	65	7
Amortization of actuarial loss	**(11)**	(8)	(3)	**(8)**	(7)	(3)
Dismissal	**(15)**	(24)	(6)	**(11)**	(13)	(6)
Total recognized in other comprehensive profit	**(6)**	104	-	**-**	45	(2)
Total net cost of benefit	**70**	96	63	**48**	68	34
Total net cost of benefit for the period recognized in other comprehensive profit	**64**	200	63	**48**	113	32

	Consolidated	The Bank
		(NIS million)
C. Assessment of amounts included in other cumulative comprehensive profit expected to be amortized from other cumulative comprehensive profit to the statement of profit and loss as an expense (income) in 2018, before the tax effect		
Net actuarial loss	**29**	**19**
Total amount expected to be amortized from other cumulative comprehensive profit	**29**	**19**

NOTE 23 - EMPLOYEES BENEFITS (CONT'D)

(3) Assumptions

A. Assumptions on the basis of weighted average used to determine the liability in respect of the benefits and for the measurement of the net cost of benefits

	Consolidated		The Bank	
	December 31,		December 31,	
	2017	**2016**	**2017**	**2016**
		percent		percent
1. Principal guidelines used to determine the liability for benefits				
Discounting rate	**1.1**	1.7	**1.1**	1.7
Forecasted rate of rise in the CPI	**2.0**	2.0	**2.0**	2.0
Retirement rate	**2.2**	*2.2	**2.1**	*2.1
Rate of increase in real-term compensation	**1.5**	1.5	**1.7**	1.7

* Restated.

	Consolidated			The Bank		
	For the year ended December 31,			For the year ended December 31,		
	2017	**2016**	**2015**	**2017**	**2016**	**2015**
			percent			percent
2. Principal guidelines used to measure the net cost of benefits for the period						
Discounting rate	**1.4-1.7**	1.5-1.9	1.1-2.1	**1.4-1.7**	1.5-1.9	1.1-2.1
Anticipated long-term return on assets of the scheme*	**3.3-3.4**	3.6-3.9	3.8-4.0	**3.3-3.4**	3.6-3.9	3.8-4.0
Rate of increase in real-term compensation	**1.5**	1.5	1.6	**1.7**	1.7	1.7

B. Effect of a one percentage point change on the liability in respect of the anticipated benefit, before the tax effect

	Consolidated				The Bank			
	One percentage point growth		One percentage point decline		One percentage point growth		One percentage point decline	
	December 31,		December 31,		December 31,		December 31,	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
		(NIS million)		(NIS million)		(NIS million)		(NIS million)
Discounting rate	**(75)**	(74)	**89**	88	**(63)**	(64)	**73**	75
Retirement rate	**79**	*79	**(105)**	*(96)	**67**	*66	**(92)**	*(82)
Rate of increase in compensation	**85**	89	**(72)**	(76)	**70**	74	**(60)**	(65)

* Restated.

NOTE 23 - EMPLOYEES BENEFITS (CONT'D)

(4) Assets of the scheme

A. Composition of the fair value of the assets of the scheme

Consolidated	December 31, 2017				December 31, 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
				(NIS million)				(NIS million)
Cash and deposits with banks	**44**	**9**	**-**	**53**	39	8	-	47
Shares	**228**	**-**	**-**	**228**	231	-	-	231
Bonds:								
Government bonds	**209**	**7**	**-**	**216**	259	3	-	262
Corporate bonds	**171**	**22**	**-**	**193**	146	23	-	169
Total	**380**	**29**	**-**	**409**	405	26	-	431
Other	**8**	**28**	**6**	**42**	10	25	6	41
Total	**660**	**66**	**6**	**732**	685	59	6	750

The Bank	December 31, 2017				December 31, 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
				(NIS million)				(NIS million)
Cash and deposits with banks	**39**	**9**	**-**	**48**	35	8	-	43
Shares	**173**	**-**	**-**	**173**	180	-	-	180
Bonds:								
Government bonds	**150**	**-**	**-**	**150**	200	-	-	200
Corporate bonds	**148**	**14**	**-**	**162**	127	15	-	142
Total	**298**	**14**	**-**	**312**	327	15	-	342
Other	**-**	**-**	**-**	**-**	-	-	-	-
Total	**510**	**23**	**-**	**533**	542	23	-	565

B. Fair value of the assets of the scheme according to classes of assets and allotment target for 2018

	Consolidated			The Bank		
	Allotment target	% of scheme's assets December 31,		Allotment target	% of scheme's assets December 31,	
	2018	2017	2016	2018	2017	2016
			percent			percent
Cash and deposits with banks	**7.2**	**7.2**	6.3	**9.0**	**9.0**	7.6
Shares	**31.2**	**31.2**	30.8	**32.4**	**32.5**	31.9
Bonds:						
Government bonds	**29.4**	**29.4**	34.9	**28.1**	**28.0**	35.4
Corporate bonds	**26.4**	**26.4**	22.5	**30.5**	**30.5**	25.1
Total	**55.8**	**55.8**	57.4	**58.6**	**58.5**	60.5
Other	**5.8**	**5.8**	5.5	**-**	**-**	-
Total	**100.0**	**100.0**	100.0	**100.0**	**100.0**	100.0

NOTE 23 - EMPLOYEES BENEFITS (CONT'D)

C. Cash flows

(1) Deposits

	Consolidated			The Bank		
		Actual deposits			Actual deposits	
	Forecast	For the year ended December 31,		Forecast	For the year ended December 31,	
	*2018	2017	2016	*2018	2017	2016
			(NIS million)			(NIS million)
Deposits	**11**	**11**	17	**3**	**3**	9

* Assessment of amounts which the Bank expects to deposit with a defined benefit pension scheme during 2018.

(2) Benefits expected to be paid by the Bank in the future**

Year	Consolidated	The Bank
		(NIS million)
2018	159	125
2019	135	106
2020	115	88
2021	46	33
2022	52	38
2023-2027	237	181
2028 and thereafter	514	373
Total	1,258	944

** Non-discounted values. Not including future service cost.

NOTE 24A - SHAREHOLDERS' EQUITY (CONT'D)

(NIS million)

A. Share capital - Composition:

	Authorized	Issued and paid up
	December 31	December 31
	2017 and 2016	2017 and 2016
Ordinary shares of NIS 0.05 each	18	5

All the ordinary shares are registered shares.

The ordinary shares of NIS 0.05 are traded on the Tel-Aviv Stock Exchange.

Each share entitles the holder to one vote at the general shareholders meeting. Each share entitles it's holder to participate in the distribution of profits and to participate in the distribution of the Bank's net assets in the event of liquidation, pro-rata to its par value.

B. Dividend distribution policy

On August 30, 2010, the Bank Board of Directors adopted a dividend distribution policy, and on June 9, 2015 it was amended. According to the amended distribution policy the Bank would distribute annual dividends up to 50% of its distributable annual net earnings, subject to the Bank's ratio of capital to risk elements shall be no less than the regulatory targets and targets specified, or to be specified, by the Bank Board of Directors from time to time. Past retained earnings shall be distributed by specific resolution. Such distributions shall be made subject to statutory provisions and to proper conduct of banking business, provided that no adverse changes occur to Bank earnings and/or business condition and/or financial condition and/or overall state of the economy and/or to the statutory environment.

Nothing in this resolution shall detract from the Board of Directors' authority to review the policy from time to time and to resolve, at any time, after taking into account business considerations and to statutory provisions applicable to the Bank, to change the policy or to change the dividend amount to be distributed for any specific period, or to resolve not to distribute any dividend at all. It is hereby clarified that any dividend distribution (including pursuant to the aforementioned resolutions) shall be subject to specific approval by the Board of Directors and to all restrictions applicable to the Bank with regard to dividend distribution, and shall be made public with all required details in accordance with statutory provisions.

In addition, on August 14, 2017 the Board of Directors resolved to update the dividend policy, thus the net annual profit of the Bank, qualified to be distributed will refer to the annual net profit of the current year. The remaining condition were unchanged. It is clarified the the implementation of the updated policy will take into account the dividend distribution starting with and including the dividend paid at June 14, 2017.

It is noted that a dividend distribution by the Bank is subject, in addition to provision of the Companies Act, to the following additional restrictions:

- Proper Conduct of Banking Business Directive No. 331, whereby a banking corporation may not distribute dividends upon any of the following cases (unless the prior consent of the Supervisor of Banks is obtained): (1) if the cumulative retained earnings, net of differences in debit included in other cumulative comprehensive profit, as per the financial statements, is not positive, or such distribution would cause it to not be positive; (2) if one or more of the three most recent calendar years ended with a loss or with a comprehensive loss; (3) if a loss or a comprehensive loss is indicated by the cumulative results of the three quarters ending at the end of the interim period for which the most recent financial statements were published; (4) if the Bank's financial statements show non-monetary assets in excess of shareholders' equity, or should such distribution result in such condition. In any case, the distribution is contingent on compilation of a written forecast for the year following the dividend distribution, provided that such forecast would show that the banking corporation's ratio of capital to risk assets shall not be lower than the required minimum, thereof.

- Proper Conduct of Banking Business Directives which include guidelines regarding the manner of calculation of minimal capital ratio requirements. Proper Conduct of Banking Business Directive No. 201 requires that as from January 1, 2015, the minimal ratio of Tier 1 equity capital to risk assets will be 9% and the ratio of comprehensive capital to risk assets will be 12.5%. Other ratios and dates, which do not apply to the Bank, were determined for banking corporations with stated consolidated assets that equal or exceed 20% of total assets of the banking sector as a whole.
- "Restrictions on extending housing loans"- as a result of the application of the amendment to Proper Conduct of Banking Business Directive No. 329, it is required to raise the target of Tier 1 equity capital and the target of the comprehensive capital by a rate reflecting 1% of the outsatanding balance of housing loans. The increase of the target will be in fixed installment from January 1, 2015 until January 1, 2017.
- A letter addressed to the Bank by the Supervisor of Banks requires the Bank to inform the Supervisor in advance as to the intention to distribute a dividend in an amount exceeding 33% of the annual profit. It should be noted that during 2017 an updated letter from the Supervision of Banks was received by the Bank, according to which, dividend distribution in a rate of up to 50% of the annual profit of the Bank in the current year, no advance notice to the Supervisor is needed.
- The permit by the Governor of Bank of Israel issued in 2003 stipulated that no dividends may be distributed out of earnings accrued by the Bank through March 31, 2003 (which amounted to NIS 2,391 million), and that if any loss would be accrued after said date, no dividends may be distributed until such loss is recouped.
- Terms and conditions of subordinated capital notes issued by the Bank to institutional investors on May 25, 2009 with respect to a deposit amounting to NIS 235 million, which those institutional investors deposited with the Bank. In accordance with Bank of Israel permit, the aforementioned capital notes are considered upper secondary capital of the Bank. Determined in the capital notes is a mechanism for the absorption of losses on a current basis in accordance with the directives of the Supervisor of Banks. Under this mechanism, interest will not be paid if at the relevant date for its payment, suspending circumstances, as defined in the capital notes, exist. It was determined in this respect that the Bank will not pay a dividend for as long as the interest payments, which had been suspended, as stated, if at all, have not been paid in full.

Following are details regarding dividends distributed by the Bank, as from the year 2015:

Declaration date	**Determining date**	**Payment date**	**Total dividend paid**
			NIS million
9 June 2015	18 June 2015	30 June 2015	60
18 November 2015	26 November 2015	6 December 2015	70
17 November 2016	27 November 2016	5 December 2016	200
15 March 2017	23 March 2017	2 April 2017	70
23 May 2017	6 June 2017	14 June 2017	70
14 August 2017	23 August 2017	31 August 2017	70
14 November 2017	23 November 2017	3 December 2017	100

	For the year ended December 31,		
	2017	**2016**	**2015**
Dividend declared and paid by the Bank	**310**	200	130

Subsequent to balance sheet date, on March 5, 2018, the Board of directors of the Bank resolved to distribute a dividend in cash to shareholders of the Bank in a total amount of NIS 95 million. The determining date for the distribution of the dividend is March 13, 2018, and the date of payment is March 21, 2018. The amount of the dividend is before any taxes, including the tax that the Bank has to withhold in terms of the law.

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS

A. Capital Adequacy

Starting January 1, 2014 the bank has implemented Proper Banking Management Directives Nos. 201-211 in the matter of measurement and capital adequacy, as updated, in order to modify them to the Basel guidelines.

It is noted that the Basel instructions determine significant changes in the computation of the regulatory capital requirements, among other things, in everything related to:

- Components of the regulatory capital;
- Deductions from capital and regulatory adjustments;
- Treatment of exposure to financial corporations;
- Treatment of exposure to credit risk in respect of impaired debts;
- Allocation of capital in respect of CVA risk.

The instructions were implemented in a gradual manner, in accordance with the transitional instructions stated in Proper Banking Management Directive No, 299 in the matter of measurement and capital adequacy - regulatory capital - transitional instructions, this in order to allow compliance with the new instructions of the regulatory capital within the framework of the implementation of Basel, and determine a transitional period until their implementation in full. Among other things, the transitional instructions relate to the regulatory adjustments and the deductions from capital, as well as to capital instruments that are not qualified for inclusion in the regulatory capital in accordance with the new criteria determined in the Basel instructions. In particular, according to the transitional instructions, the regulatory adjustments and deductions from capital as well as the non-controlling interest that is not qualified to be included in the regulatory capital, shall be gradually deducted from capital at the rate of 20% in each year starting with January 1, 2014 and until January 1, 2018. The capital instruments no longer qualified as regulatory capital shall be recognized up to a maximum of 80% on January 1, 2014, this maximum level being reduced by an additional 10% until January 1, 2022. As of the year 2017, the rate of deductions from the regulatory capital amounts to 80%, and the maximum rate of instruments qualified as regulatory capital amounts to 50%. As from January 1, 2018, the transitional instructions regarding deductions from the regulatory capital are no longer in effect and the deductions amount to 100%, while the maximum rate of instruments qualified as regulatory capital amounts to 40%.

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(1) Capital adequacy objectives

The Group's policy, as approved by the Board of Directors and Management, is to maintain an adequate level of capital, in accordance with the capital target determined by an internal process, and which would not be less than the minimum capital objectives required by the Supervisor of Banks. The capital target determined by the Board of Directors and Management reflects in the opinion of the Group, the proper capital level required in accordance with the risk profile and risk appetite of the Group.

In accordance with the letter of the Supervisor of Banks regarding the minimum capital ratios, the Bank, the total assets of which on a consolidated basis is up to 20% of total assets of the banking sector in Israel, is required to attain a minimum Tier I equity capital ratio of 9%, and a minimum comprehensive capital ratio of 12.5%, and this as from January 1, 2017. In addition, as from January 1, 2015, a new capital demand was added to the minimum capital ratios, at a rate reflecting 1% of the outstanding balance of residential loans at date of reporting. This requirement was gradually applied over eight quarters until January 1, 2017.

In consequence thereof, the minimum Tier I equity capital ratio and the minimum comprehensive capital ratio required on a consolidated basis by the Supervisor of Banks, based on data as of the reporting date, are 9.3% and 12.8%, respectively.

For the outstanding balance of residential loans, see Note 29B (3).

The internal capital goals, as determined by the Board of Directors, and which are not lower than the regulatory requirements, are as follows:

- In the ordinary course of business – Tier I equity capital ratio of not lower than 9.3% and comprehensive capital ratio of not lower than 12.8%.
- In stress situations - Tier I equity capital ratio of not lower than 6.5% and comprehensive capital ratio of not lower than 9.0%.

The internal capital targets as were detrmined by the Board of Directors:

- In the ordinary course of business - the capital targets would be the higher of the Tier I equity capital ratio of 9.3% and the comprehensive capital ratio of 12.79%, as determined in accordance with the expected regulatory requirement upon approval of the capital target in the IGAAP process, and the regulatory capital ratios required in practice.
- Under stress tests - the Tier I equity capital ratio shall not be lower than 6.50%, and the comprehensive capital ratio shall not be lower than 9.00%.

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(NIS million)

(2) Following are details regarding risk assets, the regulatory capital and capital ratios calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, regarding "measurement and capital adequacy", and in accordance with Directive 299 regarding the "regulatory capital - transitional instructions":

	December 31,	
	2017	**2016**
a. Consolidated		
1. Capital for calculation of capital ratio		
Tier 1 capital, after supervisory adjustments and deductions	**8,033**	7,684
Tier 2 capital after deductions	**2,749**	2,819
Total overall capital	**10,782**	10,503
b. Weighted balances of risk assets		
Credit risk	**(3)70,445**	(3)69,262
Market risk	**725**	748
Operational risk	**6,201**	6,168
Total weighted balances of risk assets	**77,371**	76,178
		percent
c. Ratio of capital to risk assets		
Ratio of tier 1 capital to risk assets	**10.38%**	10.09%
Total ratio of capital to risk assets	**13.94%**	13.79%
Minimal ratio of equity capital tier 1 required by the Supervisor of banks	**(1)9.30%**	(1)9.25%
Minimal ratio of capital required by the Supervisor of Banks	**(1)12.80%**	(1)12.75%

		percent
B. Significant Subsidiaries		
Bank Otsar Hahayal Ltd.		
Ratio of equity capital tier 1 to risk assets	**11.01%**	10.63%
Total ratio of capital to risk assets	**13.32%**	13.39%
Minimal ratio of equity capital tier 1 required by the Supervisor of banks	**(1)9.03%**	(1)9.02%
Minimal ratio of capital required by the Supervisor of Banks	**(1)12.53%**	(1)12.52%
Bank Massad Ltd.		
Ratio of equity capital tier 1 to risk assets	**11.87%**	13.17%
Total ratio of capital to risk assets	**12.95%**	14.31%
Minimal ratio of equity capital tier 1 required by the Supervisor of banks	**9.00%**	9.00%
Minimal ratio of capital required by the Supervisor of Banks	**12.50%**	12.50%

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(NIS million)

(3) Capital components for computation of capital ratio (consolidated)

	December 31, 2017	December 31, 2016
A. Equity capital tier 1		
Capital attributed to shareholders	**7,756**	7,321
Differences between capital attributed to shareholders and equity capital tier 1		
Noncontrolling interests	(2)**446**	(2)458
Application of the transitional instructions in respect of the adoption of accepted accounting principles in the matter of employee rights	**14**	29
Total equity capital tier 1 before regulatory adjustments and deductions	**8,216**	7,808
Regulatory adjustments and deductions:		
Intangible assets	**(103)**	(114)
Commitment to invest in shares	(2)**(176)**	(2)(128)
Regulatory adjustments and other deductions- equity capital tier 1	**(4)**	(5)
Total regulatory adjustments and deductions before adjustments in respect of efficiency measures- equity capital tier 1	**(283)**	(247)
Total adjustments in respect of efficiency measures - equity capital tier 1	**100**	123
Total equity capital tier 1 after regulatory adjustments and deductions	**8,033**	7,684
B. Tier 2 capital		
Tier 2 capital: instruments before deductions	**2,015**	2,105
Tier 2 capital: provisions before deductions	**734**	714
Total tier 2 capital before deductions	**2,749**	2,819
Deductions:		
Total deductions- tier 2 capital	**-**	-
Total tier 2 capital	**2,749**	2,819

(4) Effect of transitional instructions on equity capital tier 1

	December 31, 2017	December 31, 2016
Ratio of capital to risk assets		
Ratio of equity capital tier 1 to risk assets before implementation of transitional instructions in directive 299 and effect of adjustments in respect of efficiency measures	**10.11%**	9.67%
Effect of transitional instructions	**0.12%**	0.23%
Ratio of equity capital tier 1 to risk assets before effect of adjustments in respect of efficiency measures	**10.23%**	9.90%
Effect of adjustments in respect of efficiency measures	**0.15%**	0.19%
Ratio of tier 1 equity capital to risk assets	**10.38%**	10.09%

(1) Minimal capital ratio requested according to the Supervisor of Banks' directives effective from January 1, 2015. To these relations, as of January 1, 2015 will be added capital requirement of 1% of housing loans balance for the reporting date. This requirement is applied gradually until January 1, 2017.

(2) As for the amount of NIS 58 million, with coordination of the Supervisor of Banks, the Bank implemented the transition instructions of Basel regarding the PUT option granted to noncontrolling interests (31.12.16 - NIS 110 million).

(3) An amount of NIS 139 million were deducted from the average balances of risk assets in respect of adjustments regarding the efficiency measures (31.12.16 - NIS 193 million).

* The data in this Note are presented in accordance with Proper Conduct of Banking Business Directives No. 202 regarding "measurement and capital adequacy" and in accordance with the transitional instructions stated in Proper Conduct of Banking Business Directives No. 299. In addition, the said data include adjustments in respect of efficiency measures, as stated in the letter of the Supervisor of Banks dated January 12, 2016, in the matter of "operational efficiency of the banking sector in Israel" (hereinafter - "adjustments in respect of efficiency measures"), which are being reduced gradually until December 31, 2020.

(NIS million)

(5) Factors that might materially affect the capital adequacy of the Bank and of its significant subsidiaries

(5a.) Capital components subject to fluctuations

The Bank manages the capital adequacy ratio with the aim of adhering to the minimal capital requirements of the Supervisor of Banks. The capital of the Bank is subject to changes, inter alia, in respect of the factors detailed below:

- Changes in the volume of risk assets of the Bank and in deductions from capital;
- Actuarial changes due to changes in the interest rate used to compute the liabilities of the Bank or in other actuarial assumptions, such as: mortality rates, retirement etc.

Following is an analysis of the impact of such changes on the Tier I equity capital of the Bank as of December 31, 2017:

	Effect of a change of NIS 100 million in Tier I equity capital	Effect of a change of NIS 1 billion in total risk assets
		percent
The Bank (consolidated data)	**0.13%**	**0.13%**
Otsar Hahayal Bank	**0.84%**	**0.85%**
Massad Bank	**2.03%**	**2.01%**

(5b.) Capital requirements in respect of exposure to central counterparties

Starting January 1, 2014 the Bank has implemented a letter in the matter of "Capital requirements in respect of exposure to central counterparties" (hereinafter - "the letter"). The letter amended Proper Conduct of Banking Business Directives 203 and 204, in order to match them to the Basel Committee recommendations in everything relating to the capital requirements with respect to exposure of banking corporations to central counterparties. The letter details the new guidelines applying to exposure to central counterparties arising from OTC derivatives, marketable derivative transactions and transactions financing securities. The guidelines differentiate between an unqualified central counterparty and a qualified central counterparty; where in respect of the latter, lower capital requirements have been established. The guidelines regularize, inter-alia, the following exposures:

- The exposures of banking corporation which is a member of a clearing house to central counterparty. As a general rule, these exposures should be weighted at risk rate of 2% (in contrast to 0% before the amendment).
- Exposures of a banking corporation to customer who is active in the stock exchange. The comutation of the exposure will be as if it is a bilateral transaction, including capial requirement for CVA risk. The calculation method which was used to that point- according to the Stock Exchange method- will be cancelled.
- Exposure of customer corporation active by a clearing house member.
- Transfers of a banking corporation which is a clearing house member, to the risk fund.
- Collateral deposited by banking corporation with a clearing house member or with a centeral counterparty.
- Exposures to unqualified central counterparty will be weighted according to the relevant risk weight of the counterparty while transfers to the risk fund will be weighted in 1,250%.

On December 28, 2016 a letter from the Bank of Israel was received approving to continue to compute the amount of exposure in respect of the activity of customers in the MAOF exchange according to the scenarios method.

On July 2, 2017, the Supervisor of Banks published a letter in the matter of "Capital requirements in respect of exposure to central counterparties". In the letter the Supervisor of Banks notified that the condition to classify the Stock Exchange clearing house and the Maof clearing house as qualified central counterparties, exist. This, following various amendments in legislation and the declaration of the securities authority in the matter.

(NIS million)

(5c.) Raising of regulatory capital by debt notes including loss absorbing mechanism

On June 26, 2016 and on December 27, 2016, the First International Issuance Ltd. (hereinafter - "International Issuance"), a wholly owned subsidiary of the Bank, issued to the public deferred debt notes (Series 22), having a debt absorption mechanism, in a total amount of NIS 580 million and of NIS 261 million, respectively. On February 8, 2017, the First International Issuing issued by way of a private placement, additional subordinate debt notes having a loss absorption mechanism, in consideration for NIS 52 million. On September 27, 2017, International Issuance issued to the public deferred debt notes (Series 23) in a total amount of NIS 302 million. The proceeds of issue of the said subordinate debt notes were deposited with the Bank. The said deferred debt notes are compatible with the qualification terms of the Basel III Rules and are recognized as Tier II capital.

The deferred debt notes include a loss absorption mechanism in the event that the Tier I equity capital of the Bank falls below a rate of 5%, or upon the occurrence of a constitutive event concerning the existence of the Bank, this in accordance with a decision of the Supervisor of Banks. In such cases, the deferred debt notes may be erased in part or in full.

In the event that the Tier I equity capital ratio of the Bank rises over the minimum capital ratio determined for the Bank by the Supervisor of Banks, the Bank would be entitled, at its own discretion, to announce the partial or full cancellation of the erasure of the principal amount of the debt until June 26, 2031 in respect of Series 22 or October 1, 2032 in respect of Series 23.

After five years since the date of issue, the Bank is entitled to a one-time only premature redemption of the debt. In the event that no such premature redemption is made by the Bank, the annual interest rate would be revised in accordance with the difference between the basic interest rate at that date and the basic interest rate at the original date of issue of the deferred debt notes.

B. Leverage ratio in accordance with instructions of the Supervisor of Banks

As from April 1, 2015, the Bank implements Proper Banking Management Directive No. 218 in the matter of leverage ratio. The Directive states a simple and transparent leverage ratio that is not risk based, which would serve as a supplementary and reliable measurement of the risk based capital requirements, and which is intended to restrict the accumulation of leverage at a banking corporation.

The leverage ratio is expressed in percentages, and is defined as the ratio between the measurement of capital and the measurement of exposure. Capital for the purpose of measuring leverage is the Tier I capital as defined in Proper Banking Management Directive No. 202, taking into consideration the determined transitional arrangements. The total measurement of exposure of the Bank is the total of the balance sheet exposures, exposure to derivatives and to transactions financing the purchase of securities and off-balance sheet items. As a general rule, measurement is consistent with accounting values and risk weights are not taken into consideration. Furthermore, the Bank is not permitted to use physical or financial collateral, guarantees or other credit risk reducing techniques, in order to reduce exposure measurement, unless this is specifically permitted by the Directive. Balance sheet assets, deducted from Tier I capital (in accordance with Directive No. 202) are deducted from exposure measurement. In accordance with the Directive, the Bank computes exposure in respect of derivatives in accordance with the provisions of Appendix "C" of Proper Banking Management Directive No. 203, and exposure in respect of off-balance sheet items by converting the imputed amount of the items by the conversion coefficients for credit, as determined in Proper Banking Management Directive No. 203.

In accordance with the Directive, a banking corporation shall maintain a leverage ratio of not less than 5% on a consolidated basis. A banking corporation, the total stated consolidated assets of which comprises 20% or more of the total stated assets of the banking industry, shall maintain a leverage ratio of not less than 6%. In accordance with the above, the minimum leverage ratio required from the Bank is 5%.

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(NIS million)

	December 31, 2017	December 31, 2016
		NIS million
A. Consolidated		
Tier 1 capital*	**8,033**	7,684
Total exposures	**146,137**	139,207
		percent
Leverage ratio	**5.50%**	5.52%
B. Significant Subsidiaries		
Bank Otsar Hahayal Ltd.		
Leverage ratio	**5.79%**	5.56%
Bank Massad Ltd.		
Leverage ratio	**6.99%**	7.39%
Minimal Leverage ratio required by the Supervisor of banks	**5.00%**	5.00%

* For the effect of transitional instruction and the effect of adjustments in respect of efficiency measures, see paragraph A(4) above.

C. Reporting the liquidity coverage ratio in accordance with instructions of the Supervisor of Banks

As from April 1, 2015 the Bank implements Proper Conduct of Banking Business Directive No. 221 in the matter of "liquidity coverage ratio". The Directive adopts the recommendations of the Basel Committee in the matter of liquidity coverage ratio as regards the banking industry in Israel. The liquidity coverage ratio examines a range of thirty days in a stress test, and is intended to ensure that a banking corporation shall have an inventory of high quality liquid assets serving the liquidity needs of the corporation within that period of time. The Directive specifies the manner of computation of the liquidity coverage ratio, including the definitions of characteristics and operational requirements for the "inventory of high quality liquid assets" (numerator) and security coefficients in its respect, as well as the anticipated cash outflows in the stress test, as defined in the Directive for the thirty calendar days (denominator).

The stress test stated in the Directive includes a stress situation that combines a specific stress to the corporation with a system stress, within the framework of which, standard withdrawal rates have been defined for cash outflows and cash deposit rates for cash inflows, in accordance with the different categories of outstanding balances.

As from January 1, 2017 the minimum required ratio is 100%.

NOTE 24B - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(NIS million)

	For the three months ended December 31	
	2017	2016
		percent
A. Consolidated*		
Liquidity coverage ratio	**123%**	123%
B. The bank**		
Liquidity coverage ratio	**122%**	120%
Significant Subsidiaries**		
Bank Otsar Hahayal Ltd.		
Liquidity coverage ratio	**329%**	352%
Bank Massad Ltd.		
Liquidity coverage ratio	**202%**	270%
Minimal liquidity coverage ratio required by the Supervisor of banks	**100%**	80%

* Until January 1, 2017 in terms of simple averages of monthly observations during the reported quarter. As from January 1, 2017 the consolidated liquidity coverage ratio is computed in terms of simple averages of daily observations during the reported quarter.

** In terms of simple averages of daily observations.

*** The liquidity coverage ratio increased gradually from 60% on April1, 2015, to 80% on January 1, 2016 and 100% on January 1, 2017.

NOTE 25 - COMMITMENTS AND CONTINGENT LIABILITIES

(NIS million)

A. Off-balance sheet commitment in respect of activity based on the collection of loans(1) at the end of the year

	Consolidated and The Bank	
	December 31	
	2017	2016
Balance of loans granted out of deposits repayable to the extent of collection of the loans (2)		
Non-linked Israeli currency	**39**	44
CPI linked Israeli currency	**406**	478
Total	**445**	522

(1) Loans granted out of deposits repayable to the depositor to the extent of collection of the loans, earning a margin or a collection commission (instead of a margin).

(2) Standing loans and Government deposits made in respect thereof, in the amount of NIS 34 million, consolidated and in the Bank (December 31, 2016 - NIS 52 million consolidated and in the Bank), were not included in the above table.

Flows of collection commission and interest margins in respect of activity based on the collection of loans(1)

	Consolidated and The Bank						
	December 31						December 31
	2017						2016
	Up to one year	One to three years	Three to five years	Five to ten years	Ten to twenty years	Total	Total
Contractual future flows	**4**	**7**	**4**	**5**	**1**	**21**	26
Expected future flows, net of management's estimate of premature repayments	**4**	**6**	**4**	**3**	**-**	**17**	20
Discounted future flows, net of management's estimate of premature repayments (2)	**4**	**6**	**4**	**3**	**-**	**17**	20

(1) The balance of deposits repayable according to collection in the non-linked shekel segment does not exceed 10% of all deposits repayable according to collection, therefore the data is given in respect of all operations.

(2) The capitalization is based on a discount rate of 0.2% (2016 - 0.3%).

Information as to the granting of housing loans during the year

	December 31	
	2017	2016
Loans granted out of deposits repayable to the extent of collection of the loans	**10**	1
Standing loans	**3**	1

B. Other contingent liabilities and special commitments

	Consolidated		The Bank	
	December 31		December 31	
	2017	2016	2017	2016
1. Improvements to premises and acquisition of new premises, equipment and software	**17**	11	**16**	10
Commitments to invest in private investment funds	**51**	58	**51**	58

NOTE 25 - COMMITMENTS AND CONTINGENT LIABILITIES (CONT'D)

(NIS million)

2. The Bank and its investees have leased premises and equipment on a long term basis. The rentals payable in the future subject to linkage terms (partly to the CPI and partly to foreign currency), are as follows:

	Consolidated		The Bank	
	December 31		December 31	
	2017	2016	2017	2016
First year	**73**	73	**53**	48
Second year	**67**	63	**47**	42
Third year	**63**	61	**44**	40
Fourth year	**57**	59	**40**	40
Fifth year	**52**	54	**37**	37
Sixth year and thereafter	**290**	325	**209**	228
Total	**602**	635	**430**	435

C. 1. On June 29, 2004, the General Meeting of Shareholders of the Bank (following approval of the Audit Committee and the Board of Directors) approved a resolution to grant exemption from responsibility for the violation of the duty of care towards the Bank, as well as the granting of an advance commitment for indemnification of acting directors and other officers and those who will serve the Bank from time to time (including controlling shareholders in the Bank, hereinafter: “Officers”). The said General Meeting also authorized the Board of Directors of the Bank to grant an exemption and commitment for indemnification also for former Officers of the Bank, to whom the Bank had undertaken that they would be entitled to indemnification arrangements as would be in effect from time to time with respect to Officers of the Bank. The Board of Directors of the Bank also approved the grant of an exemption and commitment for indemnification, as stated, for persons representing the Bank as Directors in other companies. All these commitments have been approved in accordance with the Companies Act, subject to the limitations therein, and subject to the provisions of the letter of commitment and indemnification.

The commitment and indemnification will apply to acts directly or indirectly connected to one or more of the events detailed in the Annex to the letter of commitment and indemnification.

The amount of the commitment and indemnification according to this resolution, to all Officers of the Bank and of its subsidiaries together, in respect of one set of events out of the events detailed in the Annex to the letter of commitment, is not to exceed 25% of the equity capital of the Bank, per the latest financial statements issued immediately prior to the actual granting of the indemnification.

In accordance with the said resolutions, letters of exemption and commitment to indemnify, as stated above, have been issued to Officers of the Bank. Also commitments for indemnifications were given according to the above-mentioned principles to the persons detailed as follows:

- Directors who had served on the board of directors of the provident funds management company controlled by the bank, and to directors who had served in the provident funds that were controlled by the Bank prior to the sale of their activity. On December 2014 the said company was eliminated following voluntary liquidation.
- Directors acting on behalf of the Bank in the FIBI Bank (UK) plc while it was a consolidated subsidiary of the Bank. The holdings in FIBI Bank (UK) were sold to a third party on June 2014.
- Directors acting on behalf of the Bank in the consolidated subsidiary FIBI Bank (Switzerland) Ltd. It is noted that in June 2017 this subsidiary sold its operations and has terminated all of its banking operations during the year.
- Directors who had acted on behalf of the Bank in International Underwriting in the period when this company had been engaged in the underwriting business. It should be noted that on December 2010 the company was classified as non-active underwriter, and was eliminated by voluntary liquidation on December 2015.

The amount of the indemnification is according to the Bank's policy in the matter.

On November 29, 2011, after having obtained the approvals of the Audit Committee and of the Board of Directors of the Bank, the general meeting of shareholders expanded the indebtedness and/or expenses in respect of which the Bank would be entitled to grant indemnification and this in accordance with the Companies Act (Amendment No. 3), 2005, Improving Efficiency of Enforcement by the Securities Authority Act (Legislation amendments), 2010, Increasing Enforcement in the Capital Market Act (Legislation amendments), 2011 and the Companies Act (Amendment No. 16), 2011, as well as in respect of any additional administrative proceedings, which in accordance with the law, indemnification may be paid in respect of payments made or expenses incurred in respect thereof, and to grant amended liability indemnification in accordance therewith to Directors and Officers acting at that time and which will act from time to time at the Bank and at investees of the Bank, including Directors who are controlling shareholders (Mr. Tzadik Bino and Mr. Gil Bino) and including former Officers (in accordance with a resolution of the general meeting of shareholders passed on June 29, 2004) and including other Officers of the Bank who are not Directors.

On October 30, 2014, the General Meeting of Shareholders, following approvals by the Compensation Committee and the Board of Directors, resolved to reapprove the granting of letters of indemnification to Directors having a controlling interest and/or their relatives and/or persons whom the controlling shareholders might have a personal interest in granting them letters of indemnification, in accordance with the same terms and same form of the indemnification letters granted to Directors in 2011, as detailed above, for a period of three additional years. On October 30, 2017, the General Meeting of Shareholders, following the approvals of the Compensation Committee and the Board of Directors, decided to reapprove the granting of indemnification letters to Directors having a controlling interest and/or their relatives and/or persons whom the controlling shareholders might have a personal interest in granting them letters of indemnification, in accordance with the updated letter of indemnification, as approved by the General Meeting of Shareholders, as detailed below, for a period of three years beginning on date of reapproval of the resolution by the General Meeting of Shareholders dated October 30, 2017.

Furthermore, on October 30, 2017, the General Meeting of Shareholders, following approvals by the Compensation Committee and the Board of Directors, resolved to update the commitment for indemnification of Directors and officers of the Bank (including Directors holding a controlling interest in the Bank, as stated above) with changes, the essence of which are: the addition of a clarification relating to the possibility of indemnification in respect of expenses incurred in respect of administrative proceedings under the Antitrust Act, 1988, including reasonable litigation expenses including lawyer's fees. For reasons of care, the Bank has also amended its Articles accordingly; updating of the list of events, which in the opinion of the Bank are expected events in view of its operations.

On November 29, 2016 the Board of Directors of the Bank approved, after obtaining the approval of the Audit Committee and the Compensation Committee, to grant letter of exemption and indemnification also to whoever acts from time to time as the CEO of MATAF Computer and Financial Operations Ltd., a wholly owned subsidiary of the Bank. The letter of exemption and indemnification are in accordance to the principals, the scope and the policy approved at the Bank, as mentioned above, to officers at the Bank.

The compensation policy was approved at the General Meeting of Shareholders held on February 23, 2017, in which it was determined that an exemption to office holders shall not apply in respect of an act of commission or omission of the office holder regarding a decision or transaction in which a controlling shareholder or any office holder has a personal interest therein. This restriction is not to be applied to office holders which were initially appointed prior to the approval of this compensation policy by the General Meeting (February 23, 2017) and who are entitled to exemption in accordance with decisions that had been approved in the past by the Bank.

On October 30, 2017, the General Meeting of Shareholders, following approvals by the Compensation Committee and the Board of Directors, resolved to grant exemption from responsibility to officers who were initially appointed after February 23, 2017, and which in their respect includes a qualification according to which the exemption shall not apply in respect to an act of commission or omission by the officer regarding a decision or transaction in which a controlling shareholder or any officer has a personal interest therein, and all in accordance with the compensation policy of the Bank, as stated above. It is noted that the Bank has not tabled for reapproval by the General Meeting of Shareholders the letters of exemption granted in 2004 to Directors holding a controlling interest in the Bank.

2. At the end of 1990 and beginning of 1991, the Bank issued letters of indemnity to certain directors of certain of its investees. According to the letters of indemnity, the Bank has undertaken to indemnify each director in respect of any sum which he may be charged to pay, according to a final verdict of a court in Israel as a result of a claim submitted against him in respect of any acts of commission or omission committed by him in good faith in the exercise of his own duties as director, as well as for expenses incurred by him in the defense against such claim. As from the end of 2011, Directors who had received letters of indemnification of this type, no longer officiate in the Bank's Group.

3. With effect as from December 22, 2004, UBank Ltd. (hereinafter - "UBank") granted exemption to Directors and officers of UBank (as defined in the Companies Act, 1999, including the internal auditor, the chief accounting officer and the secretary of UBank) from responsibility regarding the violation of the duty of care towards UBank, as well as waiver of any claim by UBank against them in respect of the above, subject to restrictions stated in the Companies Act.

   Furthermore, UBank has committed to indemnify the said Directors and officers (as well as Directors appointed by UBank at UBank Finance (2005) Ltd. and who are not officers of UBank) would indemnify the said directors and officers in respect of a liability or expenditure imposed upon them as a result of actions taken by them in terms of their duties as officeholders at UBank, everything in accordance with the terms detailed in the commitment to indemnify officeholders.

   The total amount of the indemnification to be paid by UBank (in addition to and over the amounts to be received under insurance policies, whether payable to UBank or payable to the officer) to all officers of UBank and its subsidiaries on a cumulative basis, in accordance with the said letter of indemnification and/or letters of indemnification that will be issued in accordance therewith, in respect of one of the events details therein, shall not exceed 25% of the shareholders' equity of UBank on a consolidated basis according to the latest financial statements (annual or quarterly) published prior to the actual payment in respect of the indemnification.

   In February 2012, following approvals by the Audit Committee and the Board of Directors of UBank (and following amendment of the Articles of Incorporation of UBank, as required) the General Meeting of Shareholders of UBank approved the granting of indemnification in an amended version, extending the obligations and/or the expenses to which the indemnification applies, this in accordance with the Improving Enforcement by the Securities Authority Act (Legislation amendments), 2010, and the Companies Act (Amendment No. 3), 2005 (hereinafter - the "amended indemnification letter"), in respect of Directors, excluding Directors having a controlling interest, who are holding office at date of approval by the General Meeting and Directors who shall hold office from time to time in UBank and in investee companies of UBank.

   It should be noted, that according to the said approval, all indemnification commitments that had been granted by UBank also to former officers, in accordance with a resolution of the General Meeting of Shareholders of June 29, 2004, have also been amended.

   In addition, and in accordance with the decision of the Board of Directors of UBank (following the approval of the Audit Committee and amendment of the bylaws) an amended indemnification letter was also approved in respect of other Officers of UBank who are not Directors.

   Upon the merger of Ubank with and into the Bank in 2015, all Ubank's commitments and rights detailed in this section were transferred to the Bank.

4. Otsar Hahayal and Massad are committed to indemnify officers as defined in the Company Law, 1999. The amount of the indemnification provided by them in terms of this commitment to all its officers as a group, in respect of one or more of the events covered by this commitment, shall not exceed 33% of the equity of Otsar Hahayal and Massad according to their latest financial statements published shortly prior to the date of the actual indemnification.

5. PAGI approve the granting of exemption to Directors and Officers of PAGI (as defined in the Companies Act, 1999, including the Internal Auditor and Secretary of the bank), from responsibility for violation of the duty of care towards PAGI and waiver of any claim of PAGI against them with respect to the above. Furthermore, PAGI is committed to grant the said Officers indemnity with respect to a liability or expense imposed upon them as a result of actions taken in the course of their duties at PAGI as above, and everything as detailed in the commitment for indemnity of Officers.

   The total amount of indemnity payable by PAGI (in addition to and over and above amounts receivable under the insurance policy, whether payable to PAGI or to the Officer) to all Officers thereof in accordance with the above letter of commitment and/or letters of indemnity to be issued under this decision, in respect of one series of events of the events mentioned therein, shall not exceed 25% of the shareholders' equity of PAGI according to the most recent financial statements (annual or quarterly) published prior to the date of actual payment of the indemnity amount.

   In November 2012, following approvals of the Audit Committee and the Board of Directors of PAGI (and following amendment of the Articles of Incorporation of PAGI, as required) the General Meeting of Shareholders of PAGI approved the granting of indemnification in an amended version, extending the obligations and/or the expenses to which the indemnification applies, this in accordance with the Companies Act (Amendment No. 3), 2005, the Improving Enforcement by the Securities Authority Act (Legislation amendments), 2010, and the Increased Enforcement in the Capital Market Act (Legislation amendments), 2011, (hereinafter - the "amended indemnification letter"), in respect of Directors holding office at date of approval by the General Meeting and Directors who shall hold office from time to time in PAGI.

   It is noted, that according to the said approval, all indemnification commitments granted by PAGI also to former officers, in accordance with a resolution of the General Meeting of Shareholders of April 2010, have also been amended.

   In addition, and in accordance with the decision of the Board of Directors of PAGI (following the approval of the Audit Committee and amendment of the Articles of Incorporation) an amended indemnification letter was also approved in respect of other Officers of PAGI who are not Directors.

   Upon the merger of PAGI with and into the Bank, all PAGI's liabilities and rights detailed in this section were transferred to the Bank.

D. The Clearing House of the Tel-Aviv Stock Exchange (hereinafter - “the Clearing House”) established a risk fund with the purpose of securing the obligations of Clearing House members in respect to the activities of each member. The amount of the Fund is being updated on March 1, in every year, being equal to the total average daily clearing turnover in the calendar year that ended prior to the updating date, and in any event shall not be less than NIS 150 million. The share of the Bank amounted to NIS 111 million (December 31, 2016 - NIS 68 million).

According to a resolution of the Board of the Stock Exchange and the by-laws of the Clearing House the Bank is required to deposit only liquid assets as collateral (bonds of the State of Israel or cash) as required by the by-laws, and in addition to sign a pledge agreement to secure their obligations towards the Stock Exchange Clearing House regarding their operation as members of the clearing house.

In accordance with the said decisions, the Clearing House opened an account in its name with the Clearing House for the Bank, in which the Bank deposited securities as collateral in favor of the Clearing House.

In addition, the Clearing House opened an account in its name with another bank on behalf of the Bank, in which it may deposit funds as collateral, and also the Clearing House will deposit cash payable to the Bank, as income on its securities deposited and pledged as aforesaid.

In order to improve the level of risk management of the clearing house in the framework of the process of approving the clearing house as a qualified central counterparty (QCCP), the clearing house opened a monetary account with the Bank of Israel, in which it is possible to deposit the monetary collateral that the clearing house members place in its favor, whether to secure the operations of the clearing house members or their liabilities to the risk funds. At this stage, the clearing house is entitled to decide in which of the monetary account- the one that is in another bank or the one with the Bank of Israel- the monetary collateral will be deposited.

As collateral for the due performance of the Bank's obligations towards the Clearing House as stated above, with no limitation on their total amount, the Bank registered on April 17, 2005, a first degree fixed pledge and an assignment by way of a pledge, in favor of the Clearing House, with respect to the account of the Clearing House at the Clearing House and the account of the Clearing House with another bank. In addition, in April 2017, the Bank registered a first degree fixed pledge and an assignment by way of a pledge, in favor of the Clearing House, with respect to the account of the Clearing House with the Bank of Israel.

It should be clarified that starting with the year 2010 the Bank provides services as a member of the Clearing House with respect to operations pertaining to assets cleared by the Clearing House, including with respect to collateral required for RTGS system operations also for Massad and Otzar Hachayal, which are Stock Exchange members who are not Clearing House members. Accordingly, the Bank's obligations as a Clearing House member towards the Clearing House, include also obligations in respect of the operations of Massad and Otzar Hachayal and their customers. In respect of such obligations of the Bank towards the Clearing House, the Bank has received from Massad and Otzar Hachayal, as the case may be, guarantees, unlimited in amount, for the payment of any amount stemming from obligations or commitments of the Bank towards the Clearing House in respect of their or their customers' operations. As to the pledge to the Clearing House see Note 26C above.

E. MAOF Clearing House formed a risk fund, the amount of which will be determined from time to time by the Board of Directors of the Clearing House. The initial amount determined for the risk fund is NIS 290 million linked to the consumer price index. Each member's share in the risk fund, including the Bank, is determined by the volume of his activity in the Clearing House on behalf of its clients (and on its own behalf, if applicable).

The demand for collateral from the Bank in respect of the risk fund amounts to NIS 71 million as of December 31, 2017 similarly to December 31, 2016.

Each of the member banks of the MAOF Clearing House is committed towards the Clearing House for the payment of any monetary charge resulting from transactions on behalf of its customers. The amount at the balance sheet date relating to the Banks' and a consolidated subsidiaries' customer transactions in respect of MAOF options is included in the balance sheet in the item "assets in respect of derivative instruments" and in the item "liabilities in respect of derivative instruments" in equal amounts based on the fair value. The balance of the liability of the Bank to the MAOF clearing house, over and above the amount stated in the balance sheet, based on the stock exchange models, is of NIS 277 million (December 31, 2016 - NIS 252 million).

The Bank registered in favor of the MAOF Clearing House a fixed pledge and an assignment by way of a pledge unlimited in amount on the rights in an account of MAOF securities managed in the name of the MAOF Clearing House at the Stock Exchange Clearing House (hereinafter - "the main account") as well as on rights in an account managed in the name of the MAOF Clearing House at another bank (hereinafter - "the monetary account"). In addition, the Bank registered in favor of the MAOF Clearing House a floating pledge and an assignment by way of a pledge unlimited in amount on all securities deposited and/or to be deposited to the credit of the Bank and its consolidated subsidiaries at the Stock Exchange Clearing House, including securities deposited and/or to be deposited to the credit of the main account and to the credit of an additional account managed at the Stock Exchange Clearing House, and on the income and any other right derived there from. A further floating pledge was registered also on all rights attaching to the monetary account. As aforesaid in section D above the MAOF clearing house also opened an account with the Bank of Israel, in which it is also possible to deposit the monetary collateral, which its members are placing in its favor. In April 2017 the Bank registered a first degree fixed pledge and an assignment by way of a pledge in favor of the MAOF clearing house on all its rights in the account of the MAOF clearing house with the Bank of Israel.

It should be clarified that starting with the year 2010 the Bank provides services at the MAOF Clearing House also with respect to operations pertaining to Massad and Otzar Hachayal, which are Stock Exchange members who are not MAOF Clearing House members. Accordingly, the Bank's obligations as a MAOF Clearing House member towards the Clearing House, include also obligations in respect of the operations of Massad and Otzar Hachayal and their customers. In respect of such obligations of the Bank towards the MAOF Clearing House, the Bank has received from Massad and Otzar Hachayal, as the case may be, guarantees, unlimited in amount, for the payment of any amount stemming from obligations or commitments of the Bank towards the MAOF Clearing House in respect of their or their customers' operations.

As to the pledge in favor of the MAOF Clearing House - see Note 26A above.

F. CLS Bank International is an inter-bank clearing house owned by the large banks in the world and is engaged in the transfer of payments resulting from currency exchange transactions, and the manner of its operation avoids the delivery risk inherent in such transactions.

The CLS Clearing House elected the Bank as the third bank to serve as a provider of shekel liquidity, in addition to Bank Leumi and Bank Hapoalim. The maximum amount of liability of the Bank in this respect amounts to NIS 1 billion, this after receiving a commitment by Bank of Israel for a parallel credit facility in this amount secured by a floating pledge on the Bank’s rights to receive amounts and monetary charges in Israeli currency due and /or will be due from the Bank’s customers comprising Israeli corporations.

G. In the ordinary course of business, legal actions have been filed against the Bank and certain of its subsidiaries, including pleas for approval of class actions. In the opinion of the Management of the Bank and the Managements of its subsidiaries, based on legal opinions, as to the prospects of these actions, including the pleas for approval of class actions as detailed in this section, adequate provisions have been included in the financial statements, where required, to cover losses which might be sustained as a result of these actions.

Following are details of actions filed against the Bank, where the amount claimed therein is material, or that by their nature have characteristics similar to those of additional actions the cumulative amount of which is material:

(1) On July 4, 2012, the Bank received a claim in the amount of NIS 74 million. The Appellants allege that the Bank had enticed them to invest in foreign currency options without disclosing the risks involved in such investment. The Appellants further argue that the consulting services provided to them were neglectful and were given by persons unauthorized to provide such services, and who also did not disclose the conflict of interests existing between the Bank and the customer.

(2) In September, 2013, the Bank was served with a claim together with a motion for approval of the claim as a class action suit in an amount of not less than NIS 10.5 billion (hereinafter - "the claim and motion"). The claim and motion were served against the Bank, additional banks as well as against the General Manager of each of these banks, though at a later stage, a motion was filed to cross out the claims against the latter defendants. The amount of the claim relates to all the banks together. The Plaintiffs claim that the said banks do not provide proper disclosure and even mislead their customers with respect to the costs involved in currency conversion services provided by them, upon selling foreign currency to the customer at a rate higher than the buying rate. The difference between the buying rate and the selling rate to the customer (named in the claim as - "mark-up commission") constitutes, as alleged by the Plaintiffs, a "brokerage commission" charged with no disclosure of it in any of the pricelists published by the banks. The Plaintiffs further claim that the Banks act in unison in this respect in order to hide the mark-up commission and that a binding agreement exists among them. In January 2014, the Court approved the motion of the Appellant for withdrawal from the claim against the general managers.

- In March 2014, a motion for the approval of a claim as a class action suit, at approximately NIS 2 billion, was filed against a consolidated subsidiary and against four additional banks, the cause of action being identical to that alleged against the Bank in an action filed in September 2013, as stated above.

(3) On January 7, 2016, The Bank received notice of a lawsuit together with a motion for its approval as a class action suit filed against the Bank. The Plaintiff alleges that the Bank had provided investment consulting services to its customers regarding the purchase and/or sale of ETF notes, without having the qualifications required to provide professional service in the matter, due to the lack of computerized systems supporting such investment decisions, thus allegedly violating fiduciary, fidelity and care duties applying to the Bank. In addition, the Plaintiff claims damages in respect of consultation regarding the purchase/sale of ETF notes not at their fair value. The Plaintiff assesses the damage caused to the class at not less than NIS 30 million, and alternatively, not less than NIS 143 million.

(4) On January 31, 2016, The Bank received notice of a lawsuit together with a motion for its approval as a class action suit, in an amount of NIS 698 million, filed against the Bank, a subsidiary company and against three additional banks hereinafter altogether - "the banks"), of which, NIS 658 million in respect of a nonmonetary damage and NIS 40 million in respect of a monetary damage.

The Plaintiffs claim that the banks do not maintain branches (or do not maintain a sufficient number of branches) in the Arab populated areas and do not provide this population with access to their banking services. Thus, as alleged by the Plaintiffs, the banks violate Section 3(a) of the Non-discrimination regarding Products, services and Entry into Places of Entertainment and Public Places Act, 2000, Section 2 of the Banking Act (Customer service), 1981 and the Human Dignity and Liberty Basic Act. The class which the Plaintiffs propose to represent relates to all citizens of the State of Israel Moslems, Christians and Druze, who suffer from discrimination in accessing banking services provided by the banks, due to the absence of bank branches in the areas in which they reside.

On December 18, 2017, the Court decided to reject the motion for approval of the action as a class action. On February 14, 2018, the Bank received notice of the appeal filed by the Plaintiffs against the said decision of the Court.

(5) On February 18, 2016, The Bank received notice of a lawsuit together with a motion for its approval as a class action suit filed with the Tel Aviv District Court against the Bank and four additional banks (hereinafter altogether -" the Respondents").

According to the Plaintiff, the Respondents discriminate on grounds of age between "young students" and "not-so-young" students, in a way which deprives "not-so-young" students from benefits and/or discounts offered to "young students" only.

The Plaintiff has defined the class as follows: "… all students discriminated against due to age in comparison with younger students, thus depriving them from benefits granted to students during the past seven years and at least as from July 15, 2014…".

The Plaintiff claims that the conduct of the banks caused monetary and nonmonetary damages to the class, and requests the charging of the banks, jointly and severally, with a payment to the class of NIS 219 million.

(6) On June 26, 2016, the Bank received notice of a motion for approval of an action as a class action, that had been filed against the Bank, Otzar Hachayal Bank Ltd., Mizrahi-Tfachot Bank Ltd. and Yahav Bank for State Employees Ltd. (hereinafter together - "the banks"), in a total amount of NIS 167 million. According to the Plaintiffs, it would seem that the share of the Bank and of its consolidated subsidiary in the said amount is NIS 82 million. The Plaintiffs argue that the banks caused the class both monetary and nonmonetary damage due to discriminating against handicapped persons, in that they advertise, offer and grant exemption from commission fees (and other benefits) to employed persons who open accounts and deposit therein a monthly salary of at least a certain amount, but at the same time, these banks do not offer and grant the same benefits to handicapped persons who are able to deposit a monthly allowance of the same amount or even higher.

(7) On December 18, 2016, the Bank received notice of a motion for approval of a class action filed against the Bank and four additional Banks. The subject matter of the action relates to commission fees charged by the Banks in respect of the transfer of foreign currency to or from an account. As argued by the Appellant, the pricelist issued by

Bank of Israel (hereinafter - “the pricelist”) states that with respect to transfers, as above, banks are entitled to quote a minimum fee or a percentage fee, the higher of the two, up to a maximum amount to be determined in advance (hereinafter - “the fee range”), whatever would be the amount of the transfer, while in practice, as alleged by the Appellant, all the defendant banks quote a graded fee range depending of the amount being transferred. In doing so, the Appellant argues, the banks violate a series of statutes, Proper Conduct of Banking Business directives, duties imposed on them, etc. The Appellant further claims that the banks are in unison regarding the manner in which they disregard the instructions of the pricelist, restricting competition among them with respect to the costs involved in the transfer of foreign currency.

The group which the appellant wishes to represent is “individuals or legal entities who made use of bank services for the transfer and/or other handling of foreign currency, as well as the general public in Israel directly or indirectly affected by these violations”.

The amount of the claim against all the defendant banks is estimated by the Appellant at a minimum amount of NIS 500 million.

The additional exposure of the Bank and of the subsidiary companies as of December 31, 2017, to pending claims, which in the opinion of Management of the Bank the probability of their realization, in full or in part, is not remote, and in respect of which no provisions have been included, amounts to NIS 78 million.

H. Moreover, pending against a consolidated subsidiary is a motion for approval of a class action, as described below. In the opinion of Management of the consolidated subsidiary, based on Counsel's opinion, it is not possible at this stage to assess the prospect of this action and no provision has been included in respect thereof:

On December 17, 2017, the consolidated subsidiary received notice of a motion for approval of an action as a class action suit in the amount of NIS 177 million. This motion was filed against four banks, which grant credit secured by State guarantee, in terms of the Fund for the Encouragement of Small Businesses.

The subject matter of the motion in the subjecting of a service to another service.

The Plaintiffs claim that the banks demand a monetary deposit from businesses that receive loans within the framework of the Fund for the Encouragement of Small Businesses secured by State guarantee. The Plaintiffs claim that such a monetary deposit is a "fictitious" deposit, the source of which is the loan monies themselves.

I. 1. Following are details of claims against an affiliated company, Israel Credit Cards Ltd. ("ICC"), the amounts claimed therein is material:

(a) A lawsuit and a motion for its approval and conduct as a class action suit under the Class Actions Act, 2006, were filed on January 30, 2014, with the Tel Aviv Yafo District Court, against ICC and against Israel Discount Bank Ltd. (hereinafter - "the claim and the motion"). The subject of the motion is a credit card named "Active", which grants revolving credit. The Appellant argues that ICC, at its discretion, charged the account of the holder of an "Active" credit card with only a minimal amount out of the amounts accumulated to the debit of the credit card, the remaining balance turned into a loan carrying interest at especially high rates. It is further argued that upon the marketing of this scheme, ICC refrained from emphasizing to the customers that cancellation of the credit requires an explicit request by the customer, and also refrained from providing information as to the cost of the credit granted, and that encumbering the customers with a revolving credit mechanism and charging them with interest, has been done with no valid contractual basis while impairing the autonomy of customer.

The causes of action in this case are violations of the provisions of the Banking Act (Service to customers), 1981 and the Uniform Contracts Act, 1982.

The group which the Appellant wishes to represent has been defined as anyone whom ICC had marketed to a credit card serving as a customer club card of the marketing chains, which had cooperated and are cooperating with ICC in the marketing of the said cards, in which was integrated a revolving credit scheme operated as the default option according to the "Active" plan, or any of their alternatives, including the "CAL Choice" plan.

The Appellant stated the amount of the claim in respect of all class members at NIS 2,225 million.

On June 14, 2016, the Appellant submitted his summing-up brief and ICC submitted its summing-up brief on September 25, 2016.

On December 8, 2016 the Court dismissed the lawsuit. On January 22, 2017 the Plaintiff appealed to the Supreme Court against the verdict. On February 5, 2018, the Supreme Court rejected the appeal charging the Plaintiff with expenses.

(b) On April 28, 2014, ICC received notice of an action and a motion for approval and conduct of the action as a class action under the Class Actions Act, 2006, filed with the District Court, Central District against ICC and other credit card companies (hereinafter - "the claim and motion").

The motion refers to two binding arrangements with respect to immediate debit cards ("debit cards") and to "prepaid" cards, which, as alleged by the Appellants, amount to systematic and continuous deception of customers of credit card companies. The first binding arrangement, as argued by the Appellants, is the arrangement for the charging of a cross commission in respect of transactions made by debit cards and prepaid cards. The second binding arrangement, as argued by the Appellants, is the unlawful withholding of funds due to trading houses for periods of approximately twenty days after the credit card companies had received the money. The class of those directly affected which the Appellants wish to represent was defined as "all trading houses in the State of Israel that accept debit cards". The class of those indirectly affected, which the Appellants seek to represent is defined as "whoever purchased goods or services at trading houses that accept debit cards, including the Appellants".

The Appellants stated the amount of the claim in respect of all class members and regarding all the Defendants, at NIS 1,736 million.

On February 24, 2015, the Appellants, with the consent of the Responders, filed a motion for withdrawal from the claim and from the request for approval of a class action, with no order for expenses.

On April 19, 2015, a motion was filed with the Court, requesting the Court to order the replacement of the Appellants who had filed for withdrawal, as above, and their representatives, by the Appellant and his representative, and to instruct the continuation of the proceedings through the Appellant.

It is alleged in this motion, that the request for withdrawal does not state the reasons meriting the request for withdrawal, and that it relies only on future action to be taken by the Regulator (Bank of Israel) with no compensation in respect of the past.

On July 1, 2015 the Court approved the withdrawal. Concurrently, the Court instructed that a replacement of the Appellant and its representative be found, who would take upon themselves the management of the proceedings in the name of the group.

Following the decision of the Court of July 1, 2015, the representatives for the Appellants presented on July 6, 2015, the text of a newspaper advertisement regarding the withdrawal from the claim which had been approved by the Court.

On June 8, 2016, an amended motion for approval of the class action was filed ("the amended motion"). In this motion for approval, three credit card companies are being sued under the allegation that they had entered into binding arrangements regarding the immediate debit card and prepaid card markets.

The amended motion does not state explicitly the amount of the claim, but makes reference to an economic opinion appended to the amended motion. A review of the economic opinion shows that the amount of the claim is composed of the following main types of damage: an amount of NIS 13.5 million per year for the years 2007-2015 in respect of the damage stemming from the existence of an alleged binding arrangement regarding the amount of the cross commission payable in immediate debit card transactions; an amount of NIS 5.3 million per year, for the years 2007-2015, in respect of the damage stemming from the existence of an alleged binding arrangement regarding the date for the transfer of funds to trading houses in respect of immediate debit card transactions; an amount of between NIS 418 million and NIS 683 million per year for the years 2007-2015, in respect of the damage stemming from underuse of immediate debit cards due to the alleged two binding arrangements, as above.

ICC responded to the amended motion for approval on December 22, 2016. The Appellant submitted his response to the response of ICC on February 22, 2017. On March 12, 2017, a preliminary hearing of the motion was held. In its decision, the Court stated that the matter of the cross-commission in respect of the "debit" and the "pre-paid" cards, is apparently included in a verdict given by the Antitrust Tribunal, and therefore any claim raised against the determination of the cross-commission, should be raised using procedures relating to the said verdict. In view of this, the Court deferred the hearing of the motion for a class action until after the matter is settled by the Antitrust Tribunal.

An action requesting declaratory relief was filed with the Antitrust Tribunal on October 16, 2017. Within the framework of this action, the Tribunal is requested to state that when giving the verdict which approved the cross-commission arrangement, such arrangement did not include immediate debit cards and rechargeable cards. The credit card companies, including ICC, have filed a motion for the *in limine* dismissal of the action together with a request for extension of the date for filing the response to the subject matter of the claim, in the event that the said motion for dismissal is rejected. It is noted that the Bank and other parties joined the motion since they were parties to the former procedure in the Antitrust Tribunal.

(c) A plea was filed on August 10, 2017, with the Supreme Court sitting as a High Court of Justice, the Respondents to which are the Attorney General for the Government, the State Prosecutor Office, ICC, the First International Bank and Israel Discount Bank. In the plea, the Court is requested to instruct the Respondents to provide reason why they should not act in order to indict whoever had been involved in the affair relating to the international clearing operations of ICC, and why they should refrain from reaching an arrangement with those involved in the said affair. The Court is also requested to issue an Interim Order instructing the Respondents to avoid any attempt to reach an arrangement, until decision is given in the plea. An Interim Order has not been given. The Attorney General for the Government and the State Prosecutor Office submitted their response to the plea and to the request for an Interim Order on November 12, 2017. Israel Discount Bank, ICC and the First International Bank submitted their response by November 19, 2017. The hearing of the plea was fixed for June 28, 2018. In this respect, see also the derivative action discussed in item 4 hereunder.

2. The amount of exposure due to claims submitted against ICC, the prospect of materialization of all or part of these claims is reasonably possible, totals NIS 48 million.

3. A request for approval of an action as a class action is pending against Diners, a consolidated company of ICC, as detailed below. ICC states in its financial report that, in the opinion of the Management of ICC, based upon Counsels opinion, it is not possible at this stage to assess the prospects of this action, and therefore no provision has been recorded in respect thereof.

   On October 19, 2017, Diners received notice of an action and motion for approval of the action as a class action suit filed with the Haifa District Court against Diners and against another company (hereinafter - "the action and motion").

   The subject matter of the motion is a claim that Diners and the other Respondent company intentionally mislead in their publications members of the Frequent Flyer Club, who hold credit cards of the Diners Fly Card class (hereinafter - "the card), with regards to the manner of calculation of the flight points, which may be accumulated upon use of the card when making payments to Government agencies.

   The class is defined as "any holder of the Diners Fly Card type who used the card for payment to Government agencies in amounts of over NIS 30,000 per month".

The plaintiffs stated their claim for all members of the class at approximately NIS 66 million and alternatively at NIS 300 million. Diners has to respond to the motion for approval until March 2, 2018.

4. As detailed to ICC by Israel Discount Bank Ltd. (hereinafter - -"Discount"), Discount received notice on May 7, 2015, of an action and a motion for its approval as a multi-party derivative action, filed with the Tel Aviv-Yafo District Court. The Court is being asked to approve a derivative action against sixteen officers and other executives (including former officers in Discount and the Bank) who officiated in the relevant period at ICC and at ICC international Ltd., which on December 31, 2009 was merged into ICC and struck-off the Companies Register. The action alleges damage caused to ICC and ICC International and the damage expected to be caused to these companies, as alleged, in connection with the international clearing activity of ICC and of ICC International in the years 2006-2009.

   The Appellant claims that the responded officers and other executives have, among other things violated their duties and caused the alleged damage, which is assessed by him at NIS 100 million. The Appellant further refers to a potential risk of forfeiture of funds to the tune of NIS billions, within the framework of criminal proceedings, if these are instituted, and to reputation and other damage, not yet assessed, all as alleged by the Appellant.

   In accordance with a procedural arrangement reached by the parties, the Appellant filed on May 9, 2017, an amended motion for approval of a derivative action. The amended motion remained mostly unchanged, though with two central changes: (1) Presentation of the conditional arrangement signed with the State Prosecutor and presentation of the payment under it as an additional damage caused to ICC; and (2) Deletion of the cause of action relating to the violation of the provisions of the Money Laundering Act and the monetary sanction imposed by Bank of Israel stemming there from.

   The Court decided on May 10, 2017, that ICC and all other Respondents shall submit their response to the amended motion by September 24, 2017. It was also decided that a copy of the motion for approval would be delivered to the Attorney General for the Government (including the Supervisor of Banks) who shall inform whether he intends to join the proceedings. On August 20, 2017, the Attorney General for the Government informed that he sees no reason to join the proceedings. Furthermore, on August 29, 2017, the parties informed that the Appellant, ICC and the insurers of the other Respondents are negotiating an arrangement that would obviate the hearing of this case. Accordingly, the parties asked for an extension of the date for submission of the response of the Respondents to the amended motion. Recently, the parties have reached a compromise agreement, which is subject to approval of the competent organs of ICC.

   The Board of Directors of ICC in its meeting of February 2, 2018, discussed the report of the special ad-hoc committee regarding the international clearing operations (hereinafter – "the Committee"), which included a recommendation regarding the mode of operation most beneficial to ICC.

   The Board of Directors decided to adopt the recommendation of the Committee, stating that on background of all the considerations taken into account at the discussions of the Committee, the promotion of a compromise agreement along the suggested outline as well as the exercising of ICC's insurance rights would be to the benefit of ICC. Accordingly, the Board of Directors of ICC instructed the representatives of ICC to promote the compromise outline. The Board of Directors also stated that the amount to be recovered under the proposed compromise outline is most fair and reasonable, and is even on the high side – taking into consideration the risks and prospects of the action in substance and the cause of action, in relation to the ratio of compromise in other proceedings, and with respect to the cross-company considerations regarding the benefit to ICC resulting from an efficient and exhaustive conclusion of the international clearing affair. The Board of Directors of ICC further stated that for reasons detailed in the opinion rendered by the Committee to the Board of Directors of ICC, the institution of legal action against any of the Officers in lieu of the proposed compromise agreement, and alternatively taking no action whatever – shall not be compatible with the benefit of ICC.

On September 28, 2016, the Bank received a letter sent by a shareholder of the Bank, in which the Board of Directors of the Bank is requested to do their utmost to exploit a cause of action against two former senior officers of ICC (the former managing director of ICC and the former general manager of CAL International) prior to the submission to the Court of a motion for approval of a multiple derivative action on the part of the Bank, and a motion for disclosure of documents. To the best understanding of the Bank, the request relates to events in respect of which an action and a motion for approval of a derivative action had been filed against Discount Bank and against ICC, as discussed above. The Board of Directors of the Bank discussed the said request on November 1, 2016, and decided to reject it.

J. Since July 2006, the Accountant General announces the appointment of certain entities, including the Bank, as principal market makers for Government bonds, in accordance with Section 6(a) to the State Loans Law, 1979, this as part of the reform initiated by the Ministry of Finance regarding the process of issuance of Government bonds and the operations in the secondary capital market for bonds, in order to encourage entry of additional players into the market, the increase in liquidity and transparency in trading and for reducing the cost of raising funds by the Government. The Bank began operations as a market maker on September 4, 2006.
As part of the market making activity, the Treasury has granted to the Bank a Government bond borrowing facility up to an amount of NIS 1 billion, this in order to cover short sale of bonds transactions as part of the market making activity. Against borrowings in this framework, the Bank deposits funds with the treasury in the amount of bond borrowings, which serve as a collateral for such borrowings. See also Note 26I.

K. The practice of the Bank is to grant from time to time and under accepted circumstances in banking business, letters of indemnity limited and unlimited in amounts and in period, and all in the ordinary course of business of the Bank. Among other things, letters of indemnity are granted within the framework of the clearing house provisions regarding lost checks, to receivers and liquidators, to various providers of services, or as part of a contractual liability and to credit card companies. Furthermore, the Bank and International Issuances grant from time to time indemnity to trustees for capital notes issued by them, subject to the terms of the relevant trust documents.

L. For details of indemnification that will be granted (when certain condition will prevail) by the Bank, in the framework of an agreement signed by FIBI Bank (Swiss) Ltd., a subsidiary of the Bank, for the sale of its operations, see note 18A.

NOTE 26 - LIENS, RESTRICTIVE CONDITIONS AND COLLATERALS

A. To secure liabilities to the MAOF Clearing House for its customers and for itself as said in Note 25.E, the Bank has pledged securities in favor of the MAOF Clearing House.
Set out below is the balance of the collateral which the Bank provided to the MAOF Clearing House (in NIS million):

	At December 31, 2017		Average balance for 2017		Highest balance for 2017	
	For risk fund	For customer & nostro activity	For risk fund	For customer & nostro activity	For risk fund	For customer & nostro activity
Securities	**53**	**212**	**55**	**197**	**63**	**242**
Cash deposited as collateral	**18**	**-**	**18**	**-**	**21**	**-**

	At December 31, 2016		Average balance for 2016		Highest balance for 2016	
	For risk fund	For customer & nostro activity	For risk fund	For customer & nostro activity	For risk fund	For customer & nostro activity
Securities	53	176	69	193	91	210
Cash deposited as collateral	18	-	23	-	30	-

B. The Bank is a member of the Euroclear settlement system, which is a clearing house for securities that are traded in international markets. For the purpose of activity via this settlement system and as surety for a credit line in the amount of USD 40 million (or in a higher amount agreed/ to be agreed from time to time with the Bank in exceptional cases, not to exceed USD 200 million) which the settlement system operator provided to the Bank, the Bank created a pledge at an unlimited amount of cash and securities for securing the activity framework.

C. To secure the obligation of the Bank to the Stock Exchange Clearing House as said in Note 25D, the Bank has pledged cash and securities in favor of the Stock Exchange Clearing House.
Set out below is the balance of the collateral which the Bank provided to the Stock Exchange Clearing House (in NIS million):

	December 31		Average balance		Highest balance	
	2017	2016	2017	2016	2017	2016
Securities	**83**	51	**69**	56	**83**	63
Cash deposited as collateral	**28**	17	**23**	19	**28**	21

D. (1) As collateral for credit from Bank of Israel, the Bank and consolidated subsidiaries, have created bonds according to which they pledged under a fixed first degree pledge unlimited in amount, all assets and rights deposited and/or recorded in favor of and/or which shall be deposited and/or recorded in favor of the securities accounts managed in the name of Bank of Israel at the Clearing House of the Tel Aviv stock Exchange Ltd. as well as at the Euroclear Clearing House, including all monies and all securities deposited or registered in the said accounts. Securities deposited and/or recorded in favor of and/or which shall be deposited and/or recorded in favor of the securities account held at the Euroclear Clearing House are also pledge under a floating pledge.

(2) Set out below are data on the bonds that were pledged to the Bank of Israel (in NIS million):

	On December 31		Average balance		Highest balance	
	2017	2016	2017	2016	2017	2016
Securities	**206**	120	**192**	120	**206**	120

* The credit facility secured by this pledge was not in use in the years 2017 and 2016.
** See Note 11 regarding cash balances and deposits with Bank of Israel.

(3) See Note 25.F regarding a floating pledge in favor of Bank of Israel on rights to receive monetary sums and charges in Israeli currency due and/or will be due from customers comprising Israeli corporations as part of the Bank's operations as a supplier of CLS Clearing House services.

NOTE 26 - LIENS, RESTRICTIVE CONDITIONS AND COLLATERALS (CONT'D)

E. The Bank form contractual associations with foreign banks and foreign brokers in CSA (Credit Support Annex) annexes to ISDA agreements that are intended to minimize the mutual credit risks arising between banks in derivatives trading. Under the annexes, a periodic measurement is made of the value of the stock of derivatives transactions that were conducted between the parties, and if the net exposure of one of the parties exceeds a pre-defined threshold, then that party receives from the other party monetary deposits to cover a part of the exposure.
As of December 31, 2017, the Bank has transferred deposits in favor of counterparties in the amount of NIS 174 million (December 31, 2016 - NIS 117 million). At December 31, 2017 the Bank has received deposits from counterparties in the amount of NIS 55 million (December 31, 2016 - NIS 114 million).

F. For the purpose of providing services to customers of the Bank and for the "Nostro" operations of the Bank in everything relating to certain operations in foreign securities, including global future contracts, options, lending of securities and short sales, the bank has engagements with foreign banks and/or foreign brokers (hereinafter - "the foreign brokers") for the purpose of obtaining global custody services, clearing and brokerage services, margin activity services and other global services. According to agreements with the foreign brokers, certain securities and cash of the Bank (Nostro) deposited with any of the foreign brokers, serve as collateral (by way of pledge, lien or transfer of ownership) in favor of the foreign broker securing the obligations of the Bank and/or covering the credit exposure of the foreign broker with respect to the operations of customers of the Bank and/or the Bank's Nostro operations. Furthermore, each of the foreign brokers has the right of lien and setoff with respect to cash balances standing to the credit of the Bank with the broker, including cash deposits made with the foreign broker as collateral with respect to the fulfillment of the Bank's obligations and/or the said credit exposure. Various arrangements have been made by the Bank with each of the foreign brokers regarding the value of the collateral and/or the amounts of cash on deposit with the foreign broker. As of December 31, 2017, the value of Nostro securities deposited by the Bank as collateral with all the foreign brokers amounted to US Dollar 46 million (December 31, 2016 - US Dollar 46 million), and the cash balances standing to the credit of the Bank with all the foreign brokers (including cash deposits, as stated) amounted to a total of US Dollar 160 million (December 31, 2016 - US Dollar 193 million).

G. The Bank receives from a foreign bank foreign currency clearing services through the CLS clearing house. In order to secure the credit exposure of the foreign bank to the Bank with respect to the clearing of foreign currency transactions through the CLS, the Bank had deposited with the foreign bank a cash amount of US$ 50 million. The deposit serves as collateral and is subject to lien and offsetting rights of the foreign bank in connection with all the liabilities of the Bank towards the foreign bank and its related entities.

H. Set out below are details of the securities that were pledged to lenders as stated in A, C and F where the lenders are not entitled to sell or pledge them (in NIS million):

	December 31,	
	2017	**2016**
Securities held to maturity	**257**	160
Securities available for sale	**250**	297
Total	**507**	457

I. Set out below are the sources of the securities that were received and which the Bank is entitled to sell (in NIS million):

	December 31,	
	2017	**2016**
Securities received in securities lending transactions in return for cash	**813**	414
Securities received under non-collateralized securities lending transaction	**-**	200
Total	**813**	614

NOTE 27A - DERIVATIVE INSTRUMENTS AND HEDGE OPERATIONS

A. General

1. The bank is exposed to market risks, including linkage base risks and interest risks. The linkage base risk is an existing or future risk to the income or capital of the Group, which might arise as a result of changes in the Consumer Price Index ("CPI") or in currency exchange rates, due to the existing difference between the value of assets and the value of liabilities. The interest risk is a risk to earnings or to the capital stemming from changes in interest rates. The changes in interest rates affect the profit of the Bank through a change in net income, and also affect the value of the Bank's assets, liabilities and off-balance sheet instruments, because the present value of future cash flows (or even the cash flows themselves) changes when a change in interest rates occurs. As part of the overall strategy of the Bank for the management of the level of exposure to linkage base and interest risks, the Bank makes use of derivative instruments such as: foreign currency and CPI forward transactions, foreign currency options and transactions for the swap of fixed interest by variable interest. The Bank has qualified derivative instruments intended for the hedging of fair value and of the net investment in foreign operations.
2. Liquidity risk in derivative financial instruments derives from the uncertainty of the possibility to close the exposure in derivatives quickly in cash or by creating reverse exposure. This risk mainly exist in instrument with low tradability or when the tradability of the underlying assets is low.
3. Where a derivative instrument is not intended for qualified hedge, the instrument is stated at fair value and changes in its fair value are recognized in profit and loss on a current basis.
4. The Bank enters into contracts, which in themselves are not considered derivative instruments but which contain embedded derivatives. In respect of each such contract, the Bank assesses whether the economic nature of the embedded instrument is clearly and closely related to those of the host contract, and determines whether a separate instrument of the same nature and terms as the embedded instrument, would have been considered by definition a derivative instrument. Where it is determined that the embedded instrument is of an economic nature which is not clearly and closely related to the economic nature of the host contract, and also that a separate instrument of the same nature and terms would have been qualified as a derivative instrument, the embedded instrument is separated from the host contract and is being treated as a derivative instrument in itself. A separated embedded derivative is stated in the balance sheet together with the host contract. When the host contract is being measured according to fair value and changes in its fair value are currently recognized in profit and loss, or when the Bank is unable to reliably identify and measure an embedded derivative for separation purposes from the host contract, then the contract as a whole is stated in the balance sheet according to fair value.
5. The Bank documents in writing all hedge relations between the hedging instruments and the hedged items, as well as the aim and strategy of the risk management through the creation of the different hedge relations. Documentation includes the specific identification of the asset designated as a hedged item, noting the manner in which the hedging instrument is expected to hedge against risks applying to the hedged item. The Bank assesses the effectiveness of hedge relations both at the beginning of the hedge transaction at on a continuous basis, in accordance with its risk management policy.

NOTE 27A - DERIVATIVE INSTRUMENTS AND HEDGE OPERATIONS (CONT'D)

6. The Bank discontinues hedge accounting from now onwards when:
   (a) it is determined that the derivative is no longer effective setting-off changes in fair value or in cash flows of the hedged item;
   (b) the derivative expires, sold, cancelled or realized;
   (c) Management withdraws the designation of the derivative instrument as a hedge instrument.

   When hedge accounting is discontinued upon the determination that the derivative is no longer qualified a an effective fair value hedge instrument, the derivative continues to be stated in the balance sheet according to its fair value, but the hedged asset or liability will no longer be adjusted in accordance with changes in the fair value.

Fair value hedge

The Bank designates certain derivatives as fair value hedge. Changes in fair value of derivatives that hedge against exposure to changes in fair value of an asset are recognized in profit and loss on a current basis, as well as the changes in the fair value of the hedged asset, which can be attributed to the risk being hedged against.

For data regarding lack of effectiveness related to fair value hedge, the profit (loss) component in respect of derivative instruments, used for the purpose of assessing the effectiveness of hedge transactions, see Note 3 - "Non-interest financing income" in Section "C" - "the non-effective part of hedge relations".

Hedge of net investment in foreign operations

See Note 1.D(1).

NOTE 27B - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES

(NIS million)

A. Volume of activity on a consolidated basis -

	December 31, 2017					
	Interest Contracts		Foreign currency contracts	Contracts of shares	Commodity and other contracts	Total
	Shekel-CPI	Other				
1. Face value of derivative instruments						
A. Hedging derivatives(1)						
SWAPS	**-**	**2,509**	**-**	**-**	**-**	**2,509**
Total	**-**	**2,509**	**-**	**-**	**-**	**2,509**
Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	**-**	**2,509**	**-**	**-**	**-**	**2,509**
B. ALM derivatives(1)(2)						
Futures contracts	**-**	**32**	**-**	**-**	**-**	**32**
Forward contracts	**731**	**-**	**35,695**	**-**	**-**	**36,426**
Option contracts traded on an exchange:						
- Options written	**-**	**-**	**83**	**-**	**-**	**83**
- Purchased options	**-**	**-**	**84**	**-**	**-**	**84**
Other option contracts:						
- Options written	**-**	**-**	**3,574**	**-**	**-**	**3,574**
- Purchased options	**-**	**-**	**3,487**	**-**	**-**	**3,487**
SWAPS	**75**	**10,568**	**293**	**-**	**-**	**10,936**
Total	**806**	**10,600**	**43,216**	**-**	**-**	**54,622**
Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	**75**	**5,816**	**-**	**-**	**-**	**5,891**
C. Other derivatives(1)						
Futures contracts	**-**	**2,108**	**637**	**9,163**	**1,467**	**13,375**
Forward contracts	**-**	**-**	**-**	**-**	**-**	**-**
Option contracts traded on an exchange:						
- Options written	**-**	**-**	**9,186**	**30,187**	**-**	**39,373**
- Purchased options	**-**	**-**	**9,186**	**30,187**	**-**	**39,373**
Other option contracts:						
- Options written	**-**	**-**	**240**	**743**	**-**	**983**
- Purchased options	**-**	**-**	**231**	**537**	**-**	**768**
SWAPS	**-**	**980**	**114**	**-**	**-**	**1,094**
Total	**-**	**3,088**	**19,594**	**70,817**	**1,467**	**94,966**
Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	**-**	**490**	**-**	**-**	**-**	**490**
D. Credit derivatives and spot swap foreign currency contacts						
Credit derivatives for which the Banking corporation is guarantor	**-**	**-**	**-**	**-**	**35**	**35**
Foreign currency spot swap contracts	**-**	**-**	**2,027**	**-**	**-**	**2,027**

(1) Except for credit derivatives and foreign currency spot swap contracts
(2) Derivatives constituting part of the bank's assets and liabilities management, that have not been designated for hedging relationships.

NOTE 27B - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

A. Volume of activity on a consolidated basis (CONT'D)

	December 31, 2016					
	Interest Contracts		Foreign currency contracts	Contracts of shares	Commodity and other contracts	Total
	Shekel-CPI	Other				
1. Face value of derivative instruments						
A. Hedging derivatives(1)						
Forward contracts	-	-	241	-	-	241
SWAPS	-	2,943	-	-	-	2,943
Total	-	2,943	241	-	-	3,184
Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	-	2,943	-	-	-	2,943
B. ALM derivatives(1)(2)						
Futures contracts	-	21	-	-	-	21
Forward contracts	489	100	41,390	-	-	41,979
Option contracts traded on an exchange:						
- Options written	-	-	136	-	-	136
- Purchased options	-	-	223	-	-	223
Other option contracts:						
- Options written	-	-	2,121	-	-	2,121
- Purchased options	-	-	2,467	-	-	2,467
SWAPS	75	9,885	340	-	-	10,300
Total	564	10,006	46,677	-	-	57,247
Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	75	5,325	-	-	-	5,400
C. Other derivatives(1)						
Futures contracts	-	4,111	6,251	9,146	68	19,576
Forward contracts	-	-	-	-	-	-
Option contracts traded on an exchange:						
- Options written	-	-	6,112	25,843	-	31,955
- Purchased options	-	-	6,112	25,843	-	31,955
Other option contracts:						
- Options written	-	-	343	1,210	-	1,553
- Purchased options	-	-	316	872	-	1,188
SWAPS	-	840	135	-	-	975
Total	-	4,951	19,269	62,914	68	87,202
Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	-	420	-	-	-	420
D. Credit derivatives and spot swap foreign currency contacts						
Credit derivatives for which the Banking corporation is guarantor	-	-	-	-	38	38
Foreign currency spot swap contracts	-	-	1,225	-	-	1,225

(1) Except for credit derivatives and foreign currency spot swap contracts
(2) Derivatives constituting part of the bank's assets and liabilities management, that have not been designated for hedging relationships.

NOTE 27B - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

A. Volume of activity on a consolidated basis (CONT'D)

	December 31, 2017					
	Interest Contracts		Foreign currency contracts	Contracts of shares	Commodity and other contracts	Total
	Shekel-CPI	Other				
2. Gross fair value of derivative instruments						
A. Hedging derivatives (1)						
Gross positive fair value	**-**	**28**	**-**	**-**	**-**	**28**
Gross negative fair value	**-**	**18**	**-**	**-**	**-**	**18**
B. ALM derivatives (1)(2)						
Gross positive fair value	**22**	**173**	**351**	**-**	**-**	**546**
Gross negative fair value	**2**	**199**	**340**	**-**	**-**	**541**
C. Other derivatives (1)						
Gross positive fair value	**-**	**12**	**143**	**612**	**1**	**768**
Gross negative fair value	**-**	**12**	**142**	**612**	**1**	**767**
D. Credit derivatives						
Credit derivatives for which the bank is guarantor:						
Gross positive fair value	**-**	**-**	**-**	**-**	**-**	**-**
E. Total						
Gross positive fair value	**22**	**213**	**494**	**612**	**1**	**1,342**
Fair value amounts that were offset in the balance sheet	**-**	**-**	**-**	**-**	**-**	**-**
Balance sheet balance of assets in respect of derivative instruments*	**22**	**213**	**494**	**612**	**1**	**1,342**
* Of which: balance sheet balance of assets in respect of derivative instruments which are not subject to a netting agreement or similar arrangements	**-**	**-**	**-**	**-**	**-**	**-**
Gross negative fair value(3)	**2**	**229**	**482**	**612**	**1**	**1,326**
Fair value amounts that were offset in the balance sheet	**-**	**-**	**-**	**-**	**-**	**-**
Balance sheet balance of liabilities in respect of derivative instruments*(3)	**2**	**229**	**482**	**612**	**1**	**1,326**
* Of which: balance sheet balance of liabilities in respect of derivative instruments which are not subject to a netting agreement or similar arrangements	**-**	**-**	**-**	**-**	**-**	**-**

(1) Except for credit derivatives.
(2) Derivatives constituting part of the bank's assets and liabilities management, that have not been designated for hedging relationships.
(3) Of which gross negative fair value in respect of embedded derivative instruments of NIS 8 million.

NOTE 27B - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

A. Volume of activity on a consolidated basis (CONT'D)

	December 31, 2016					
	Interest Contracts		Foreign currency contracts	Contracts of shares	Commodity and other contracts	Total
	Shekel-CPI	Other				
2. Gross fair value of derivative instruments						
A. Hedging derivatives (1)						
Gross positive fair value	-	31	6	-	-	37
Gross negative fair value	-	30	-	-	-	30
B. ALM derivatives (1)(2)						
Gross positive fair value	23	188	346	-	-	557
Gross negative fair value	3	230	372	-	-	605
C. Other derivatives (1)						
Gross positive fair value	-	19	93	625	1	738
Gross negative fair value	-	19	92	625	1	737
D. Credit derivatives						
Credit derivatives for which the bank is guarantor:						
Gross positive fair value	-	-	-	-	-	-
E. Total						
Gross positive fair value	23	238	445	625	1	1,332
Fair value amounts that were offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets in respect of derivative instruments*	23	238	445	625	1	1,332
* Of which: balance sheet balance of assets in respect of derivative instruments which are not subject to a netting agreement or similar arrangements	-	-	-	-	-	-
Gross negative fair value(3)	3	279	464	625	1	1,372
Fair value amounts that were offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of liabilities in respect of derivative instruments*(3)	3	279	464	625	1	1,372
* Of which: balance sheet balance of liabilities in respect of derivative instruments which are not subject to a netting agreement or similar arrangements	-	-	-	-	-	-

(1) Except for credit derivatives.
(2) Derivatives constituting part of the bank's assets and liabilities management, that have not been designated for hedging relationships.
(3) Of which gross negative fair value of liabilities in respect of embedded derivative instruments of NIS 16 million.

NOTE 27B - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D):

(NIS million)

B. Credit risk in respect of derivatives instruments, according to transaction counterparty on a consolidated basis

	December 31, 2017					
	Exchanges	Banks	Dealers/ brokers	Government and central banks	Others	Total
Balance sheet balance of assets in respect of derivative instruments	206	321	123	-	692	1,342
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(211)	(24)	-	(29)	(264)
Credit risk mitigation in respect of cash collateral received	-	(26)	(15)	-	-	(41)
Net amount of assets in respect of derivative instruments	206	84	84	-	663	1,037
Off balance sheet credit risk in respect of derivative instruments(2)	-	293	-	-	927	1,220
Off balance sheet credit risk mitigation	-	(139)	-	-	(104)	(243)
Net off balance sheet credit risk in respect of derivative instruments	-	154	-	-	823	977
Total credit risk in respect of derivative instruments	206	238	84	-	1,486	2,014
Balance sheet balance of liabilities in respect of derivative instruments(1)	196	418	225	-	487	1,326
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(211)	(24)	-	(29)	(264)
Cash collateral which was attached by a lien	-	(149)	-	-	-	(149)
Net amount of liabilities in respect of derivative instruments	196	58	201	-	458	913

(1) Of which negative gross value of embedded derivative instruments is NIS 8 million (31.12.16 - NIS 16 million).

(2) The difference, if positive, between total amounts in respect of derivative instruments (including in respect of derivative instruments having a negative fair value) as computed for the purpose of limitations on indebtedness of a single borrower, according to credit risk mitigation, to the total balance of assets in respect of derivative instrument of the borrower.

C. Maturity dates (stated value amounts): year-end balance on consolidated basis

	December 31, 2017				
	Up to 3 months	from 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Interest rate contracts -					
- NIS - CPI	10	283	513	-	806
- Other	2,541	3,241	6,180	4,235	16,197
Foreign currency contracts	52,885	11,613	301	38	64,837
Contracts of shares	67,736	2,347	734	-	70,817
Commodities and other contracts	65	-	1,437	-	1,502
Total	123,237	17,484	9,165	4,273	154,159

						December 31, 2016
	Exchanges	Banks	Dealers/ brokers	Government and central banks	Others	Total
	191	380	115	-	646	1,332
	-	(234)	(18)	-	-	(252)
	-	(61)	(13)	-	-	(74)
	191	85	84	-	646	1,006
	-	355	26	3	555	939
	-	(141)	(6)	-	(1)	(148)
	-	214	20	3	554	791
	191	299	104	3	1,200	1,797
	173	404	206	8	581	1,372
	-	(234)	(18)	-	-	(252)
	-	(46)	-	-	-	(46)
	173	124	188	8	581	1,074

					December 31, 2016
	Up to 3 months	from 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
	183	81	300	-	564
	4,423	1,282	6,976	5,219	17,900
	46,626	20,289	442	55	67,412
	59,659	2,022	1,233	-	62,914
	25	43	38	-	106
	110,916	23,717	8,989	5,274	148,896

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS

A. Definitions

- **Private individuals** - individuals including those conducting a joint account, who at the reporting date have no indebtedness to the bank, or where their indebtedness has been classified to the "Private individuals - housing and other loans" segment.
- **Private banking segment** - private individuals the balance of their financial asset portfolio, on a consolidated basis, held with the bank (including monetary deposits, securities portfolios and other financial assets) exceeds NIS 3 million.
- **Households** - private individuals, excluding customers included in the private banking segment.
- **Business** - a customer not included in the "private individual" definition and who is not an instructional body or a banking corporation.
- **Business turnover** - annual sales turnover or volume of annual income.
- **Minute business** - a business the annual turnover of which is less than NIS 10 million.
- **Small business** - a business the annual turnover of which is higher than or equal to NIS 10 million and is lower than NIS 50 million.
- **Middle-market business** - a business the annual turnover of which is higher than or equal to NIS 50 million and is lower than NIS 250 million.
- **Large business** - a business the annual turnover of which is higher than or equal to NIS 250 million.
- **Institutional entities**- as defined in the Regulation of Engagement in Investment Consulting activity, Investment Marketing and Investment Portfolio Management Act, including provident funds, pension funds, further education funds, mutual trust funds, ETF's, insurance companies and stock exchange members managing customers funds.

Where the income turnover of business customer does not represents its volume of activity, the activity of the business customer was classified according to the said below: where the total indebtness of the business customer is equal to or exceeds NIS 100 million, the customer was classified to large business segment. In addition, in business accounts operating in the capital market the classification to customers segments is in accordance to the value of the assets in the balance sheet or average value of the assets in the Bank and in business account in the real estate area the classification is in accordance to the value of the assets in the balance sheet or the volume of the credit lines.

According to the transition directive set in the FAQ file of the Bank of Israel, it was determined that business customer, which is indebtness to the bank is up to NIS 80 thousands (including credit facilities etc.) and the bank does not have information regarding its activity turnover, will be classified to the relevant supervisory segment of activity according to its total financial assets at the bank (including financial deposits, securities portfolio and other financial assets), after multiplying them by 10.

- **Financial management segment** - includes trading and asset and liability management operations as defined in the Directives of the Supervisor of Banks. The segment includes the Bank's share in the earning of ICC.

Principles for apportioning operating results among the different segments

- Net interest income-includes:
  - The financial margin between borrowing and lending activity, which is calculated as the spread between the interest obtained or paid and the average prices of money for the Bank, which derive from the duration of assets or liabilities in the relevant linkage segments.
  - Interest on the weighted capital attributed to the segment (on the basis of the risk assets attributed to each segment).
  - The customer segments are charged with the excess financing costs (over and above the cost of raising sources) of the capital notes attributed to the segment.

- Expenses on credit losses - Expenses on credit losses which were recorded in respect of its customers are attributed to each segment of activity.
- Non-interest income - Commission income, non-interest financing income and other income deriving from its customers' activity are charged to each segment of activity.
- Operating expenses - Attributed to each segment of activity are the direct expenses at the branches of the Bank and the head office deriving from the provision of services to the segment's customers, according to loading methodology, as follow:
  - Direct costs include:
    - Salary and organization expenses in the branches- are loaded on the basis of the "activity index" standard, which translates activity with customers into labor inputs.
    - Computer expenses at the branches- are loaded in accordance with the number of transactions carried out by the customers.
    - Salary, organization and computer expenses of the business units at head office- are loaded in accordance with loading parameters, corresponding with the nature of activity of the customer (such as: distribution of credit balances, number and volume of transactions).
  - The indirect expenses including the expenses of the head office and computer expenses of the back office divisions and the general computer expenses which are not classified- these expenses are loaded in accordance to the nature of the expense. Most of the indirect expenses are loaded according to the distribution of the direct expenses, and the remaining expenses according to the distribution of income.
- Taxes on income - The provision for taxes on the earnings of each segment is calculated in accordance with the statutory rate of tax, with certain adjustments deriving from such factors as unrecognized expenses.
- Minority interest in net earnings - The charging of minority interest in the different segments of activity is calculated on the basis of the net earnings of subsidiaries with minority interest, as these earnings are attributed to the different segments of activity.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

B. Operational supervision segment information

Consolidated	For the year ended December 31, 2017							
								Activity in Israel
	Households	Private banking	Small and minute businesses	Medium businesses	Large businesses	Institutional entities	Financial Management	Total activity in Israel
								(NIS million)
Interest income from external	1,351	1	648	166	355	14	167	2,702
Interest expense from external	155	27	78	27	60	36	19	402
Net interest income								
- From external	1,196	(26)	570	139	295	(22)	148	2,300
- Inter - segment	(185)	51	5	6	1	60	62	-
Total net interest income	1,011	25	575	145	296	38	210	2,300
Non-interest income	562	57	324	65	134	183	106	1,431
Total income	1,573	82	899	210	430	221	316	3,731
Expenses (income) from credit losses	64	-	45	27	(3)	(9)	-	124
Operating and other expenses	1,410	55	615	98	186	157	54	2,575
Operating profit (loss) before taxes	99	27	239	85	247	73	262	1,032
Provision for taxes on operating profit	33	9	83	29	86	26	92	358
Operating profit after taxes	66	18	156	56	161	47	170	674
Bank's share in operating profit of investee company after tax effect	-	-	-	-	-	-	54	54
Net profit:								
Before attribution to noncontrolling interests	66	18	156	56	161	47	224	728
Attributed to noncontrolling interests	(19)	(1)	(7)	(4)	(1)	-	(10)	(42)
Net profit attributed to shareholders of the Bank	47	17	149	52	160	47	214	686
Average balance of assets(1)	40,711	50	15,320	4,744	17,311	578	51,663	130,377
of which: Investee Company(1)	-	-	-	-	-	-	536	536
of which: Average balance of credit to the public(1)	40,711	50	15,320	4,744	17,311	578	-	78,714
Balance of credit to the public	42,521	52	15,754	4,826	17,473	590	-	81,216
Balance of impaired debts	95	-	203	34	210	-	-	542
Balance in arrears over 90 days	196	-	33	1	-	-	-	230
Average balance of liabilities(1)	46,273	7,652	16,175	5,227	9,126	23,058	14,759	122,270
of which: Average balance of deposits from the public(1)	46,273	7,652	16,175	5,227	9,126	23,058	-	107,511
Balance of deposits from the public	46,371	8,028	15,439	5,309	11,683	26,681	-	113,511
Average balance of risk assets(1)(2)	28,105	170	15,298	5,903	17,533	1,013	8,546	76,568
Balance of risk assets(2)	29,095	170	15,631	5,806	17,095	941	8,625	77,363
Average balance of assets under management(1)(3)	35,241	15,097	12,644	3,749	16,304	210,228	-	293,263
Segmentation of net interest income:								
- Earnings from credit - granting activity	912	1	549	139	303	11	-	1,915
- Earnings from deposits - taking activity	124	24	43	13	15	28	-	247
- Other	(25)	-	(17)	(7)	(22)	(1)	210	138
Total net interest income	1,011	25	575	145	296	38	210	2,300

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)
(NIS million)

B. Operational supervision segment information (CON'T)

Consolidated	For the year ended December 31, 2017	
	Activity abroad	
	Private Individuals	Total
		(NIS million)
Interest income from external	2	2,704
Interest expense from external	-	402
Net interest income		
- From external	2	2,302
- Inter - segment	-	-
Total net interest income	2	2,302
Non-interest income	19	1,450
Total income	21	3,752
Expenses (income) from credit losses	(3)	121
Operating and other expenses	32	2,607
Operating profit (loss) before taxes	(8)	1,024
Provision for taxes on operating profit	-	358
Operating profit (loss) after taxes	(8)	666
Bank's share in operating profit of investee companies after tax effect	-	54
Net profit (loss):		
Before attribution to noncontrolling interests	(8)	720
Attributed to noncontrolling interests	-	(42)
Net profit (loss) attributed to shareholders of the Bank	(8)	678
Average balance of assets(1)	111	130,488
of which: Investee Company(1)	-	536
of which: Average balance of credit to the public(1)	-	78,714
Balance of credit to the public	-	81,216
Balance of impaired debts	-	542
Balance in arrears over 90 days	-	230
Average balance of liabilities(1)	-	122,270
of which: Average balance of deposits from the public(1)	-	107,511
Balance of deposits from the public	-	113,511
Average balance of risk assets(1)(2)	207	76,775
Balance of risk assets(2)	8	77,371
Average balance of assets under management(1)(3)	-	293,263
Segmentation of net interest income:		
- Earnings from credit - granting activity	-	1,915
- Earnings from deposits - taking activity	2	249
- Other	-	138
Total net interest income	2	2,302

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

B. Operational supervision segment information (CON'T)

Consolidated	For the year ended December 31, 2016*							
	Activity in Israel							
	Households	Private banking	Small and minute businesses	Medium businesses	Large businesses	Institutional entities	Financial Management	Total activity in Israel
								(NIS million)
Interest income from external	1,205	1	614	141	380	17	159	2,517
Interest expense from external	139	22	61	21	53	29	32	357
Net interest income								
- From external	1,066	(21)	553	120	327	(12)	127	2,160
- Inter - segment	(130)	40	(21)	16	(29)	48	76	-
Total net interest income	936	19	532	136	298	36	203	2,160
Non-interest income	569	51	310	69	128	180	152	1,459
Total income	1,505	70	842	205	426	216	355	3,619
Expenses (income) from credit losses	49	-	24	18	(19)	8	-	80
Operating and other expenses	1,428	53	609	99	189	193	61	2,632
Operating profit before taxes	28	17	209	88	256	15	294	907
Provision for taxes on operating profit	8	7	93	39	115	7	129	398
Operating profit after taxes	20	10	116	49	141	8	165	509
Bank's share in operating profit of investee company after tax effect	-	-	-	-	-	-	72	72
Net profit:								
Before attribution to noncontrolling interests	20	10	116	49	141	8	237	581
Attributed to noncontrolling interests	(19)	(1)	(7)	(2)	(2)	-	(8)	(39)
Net profit attributed to shareholders of the Bank	1	9	109	47	139	8	229	542
Average balance of assets(1)	38,186	48	14,634	4,427	18,404	683	49,880	126,262
of which: Investee Company(1)	-	-	-	-	-	-	493	493
of which: Average balance of credit to the public(1)	38,186	48	14,634	4,427	18,404	683	-	76,382
Balance of credit to the public	39,880	45	14,899	4,541	18,126	684	-	78,175
Balance of impaired debts	91	-	195	96	195	-	-	577
Balance in arrears over 90 days	191	-	29	1	-	-	-	221
Average balance of liabilities(1)	44,380	7,031	16,558	5,062	9,508	21,953	13,462	117,954
of which: Average balance of deposits from the public(1)	44,380	7,031	16,558	5,062	9,508	21,953	-	104,492
Balance of deposits from the public	46,298	7,736	16,658	5,543	9,746	19,836	-	105,817
Average balance of risk assets(1)(2)	27,247	145	14,420	6,137	18,076	1,082	8,435	75,542
Balance of risk assets(2)	27,450	147	14,570	6,017	18,095	1,063	8,258	75,600
Average balance of assets under management(1)(3)	35,051	13,135	12,520	3,618	15,261	202,509	-	282,094
Segmentation of net interest income:								
- Earnings from credit - granting activity	852	1	516	133	309	14	-	1,825
- Earnings from deposits - taking activity	111	18	32	9	11	23	-	204
- Other	(27)	-	(16)	(6)	(22)	(1)	203	131
Total net interest income	936	19	532	136	298	36	203	2,160

* Reclassified.

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

B. Operational supervision segment information (CON'T)

Consolidated	For the year ended December 31, 2016*	
	Activity abroad	
	Private Individuals	Total
		(NIS million)
Interest income from external	9	2,526
Interest expense from external	-	357
Net interest income		
- From external	9	2,169
- Inter - segment	-	-
Total net interest income	9	2,169
Non-interest income	21	1,480
Total income	30	3,649
Expenses from credit losses	-	80
Operating and other expenses	51	2,683
Operating profit (loss) before taxes	(21)	886
Provision for taxes on operating profit	-	398
Operating profit (loss) after taxes	(21)	488
Bank's share in operating profit of investee companies after tax effect	-	72
Net profit (loss):		
Before attribution to noncontrolling interests	(21)	560
Attributed to noncontrolling interests	-	(39)
Net profit (loss) attributed to shareholders of the Bank	(21)	521
Average balance of assets(1)	350	126,612
of which: Investee Company(1)	-	493
of which: Average balance of credit to the public(1)	350	76,732
Balance of credit to the public	-	78,175
Balance of impaired debts	-	577
Balance in arrears over 90 days	-	221
Average balance of liabilities(1)	768	118,722
of which: Average balance of deposits from the public(1)	768	105,260
Balance of deposits from the public	-	105,817
Average balance of risk assets(1)(2)	578	76,120
Balance of risk assets(2)	578	76,178
Average balance of assets under management(1)(3)	-	282,094
Segmentation of net interest income:		
- Earnings from credit - granting activity	-	1,825
- Earnings from deposits - taking activity	9	213
- Other	-	131
Total net interest income	9	2,169

* Reclassified.

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)
(NIS million)

B. Operational supervision segment information (CON'T)

Consolidated	For the year ended December 31, 2015							
	Activity in Israel							
	Households	Private banking	Small and minute businesses	Medium businesses	Large businesses	Institutional entities	Financial Management	Total activity in Israel
								(NIS million)
Interest income from external	1,007	2	588	140	343	22	147	2,249
Interest expense from external	118	14	56	18	47	30	22	305
Net interest income								
- From external	889	(12)	532	122	296	(8)	125	1,944
- Inter - segment	(131)	26	(13)	1	(13)	50	80	-
Total net interest income	758	14	519	123	283	42	205	1,944
Non-interest income	626	52	335	63	126	184	128	1,514
Total income	1,384	66	854	186	409	226	333	3,458
Expenses (income) from credit losses	38	-	(26)	4	2	-	-	18
Operating and other expenses	1,441	54	616	99	191	178	95	2,674
Operating profit (loss) before taxes	(95)	12	264	83	216	48	238	766
Provision for taxes (tax saving) on operating profit (loss)	(42)	5	111	37	94	21	100	326
Operating profit (loss) after taxes	(53)	7	153	46	122	27	138	440
Bank's share in operating profit of investee company after tax effect	-	-	-	-	-	-	38	38
Net profit (loss):								
Before attribution to noncontrolling interests	(53)	7	153	46	122	27	176	478
Attributed to noncontrolling interests	(6)	-	(11)	(2)	(3)	-	(10)	(32)
Net profit (loss) attributed to shareholders of the Bank	(59)	7	142	44	119	27	166	446
Average balance of assets(1)	35,562	48	14,281	3,960	16,047	860	50,244	121,002
of which: Investee Company(1)	-	-	-	-	-	-	423	423
of which: Average balance of credit to the public(1)	35,562	48	14,281	3,960	16,047	860	-	70,758
Balance of credit to the public	37,178	53	14,164	4,001	16,814	816	-	73,026
Balance of impaired debts	83	-	234	125	320	2	-	764
Balance in arrears over 90 days	207	6	19	1	1	-	-	234
Average balance of liabilities(1)	40,471	6,272	14,191	5,168	10,191	23,279	13,528	113,100
of which: Average balance of deposits from the public(1)	40,471	6,272	14,191	5,168	10,191	23,279	-	99,572
Balance of deposits from the public	41,792	7,090	15,047	5,241	10,760	22,448	-	102,378
Average balance of risk assets(1)(2)	26,283	136	15,122	5,047	17,066	988	9,550	74,192
Balance of risk assets(2)	27,282	132	14,975	4,881	16,868	892	9,201	74,231
Average balance of assets under management(1)(3)	40,117	12,900	12,545	3,620	23,145	162,528	-	254,855
Segmentation of net interest income:								
- Earnings from credit - granting activity	685	-	510	121	292	18	-	1,626
- Earnings from deposits - taking activity	99	14	26	8	11	25	-	183
- Other	(26)	-	(17)	(6)	(20)	(1)	205	135
Total net interest income	758	14	519	123	283	42	205	1,944

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

B. Operational supervision segment information (CON'T)

Consolidated	For the year ended December 31, 2015	
	Activity abroad	
	Private Individuals	Total
		(NIS million)
Interest income from external	11	2,260
Interest expense from external	2	307
Net interest income		
- From external	9	1,953
- Inter - segment	-	-
Total net interest income	9	1,953
Non-interest income	27	1,541
Total income	36	3,494
Expenses from credit losses	-	18
Operating and other expenses	36	2,710
Operating profit before taxes	-	766
Provision for taxes on operating profit	-	326
Operating profit after taxes	-	440
Bank's share in operating profit of investee companies after tax effect	-	38
Net profit:		
Before attribution to noncontrolling interests	-	478
Attributed to noncontrolling interests	-	(32)
Net profit attributed to shareholders of the Bank	-	446
Average balance of assets(1)	377	121,379
of which: Investee Company(1)	-	423
of which: Average balance of credit to the public(1)	377	71,135
Balance of credit to the public	353	73,379
Balance of impaired debts	-	764
Balance in arrears over 90 days	-	234
Average balance of liabilities(1)	1,037	114,137
of which: Average balance of deposits from the public(1)	1,037	100,609
Balance of deposits from the public	884	103,262
Average balance of risk assets(1)(2)	671	74,863
Balance of risk assets(2)	671	74,902
Average balance of assets under management(1)(3)	-	254,855
Segmentation of net interest income:		
- Earnings from credit - granting activity	-	1,626
- Earnings from deposits - taking activity	9	192
- Other	-	135
Total net interest income	9	1,953

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

Private individuals - household and private banking - activity in Israel

Consolidated	For the year ended December 31, 2017							
	Households segment				Private banking segment			
	Housing loans	Credit cards	other	Total	Credit cards	other	Total	Total
								(NIS million)
Interest income from externals	569	14	768	1,351	-	1	1	1,352
Interest expenses for externals	-	-	155	155	-	27	27	182
Net interest income								
- From externals	569	14	613	1,196	-	(26)	(26)	1,170
- Inter-segmental	(333)	(2)	150	(185)	-	51	51	(134)
Total net interest income	236	12	763	1,011	-	25	25	1,036
Non-interest income	13	84	465	562	1	56	57	619
Total income	249	96	1,228	1,573	1	81	82	1,655
Expenses from credit losses	1	-	63	64	-	-	-	64
Operating and other expenses	104	61	1,245	1,410	1	54	55	1,465
Profit (loss) before taxes	144	35	(80)	99	-	27	27	126
Provision for taxes (tax saving) on profit (loss)	48	12	(27)	33	-	9	9	42
Net (loss) profit:								
Before attribution to non-controlling interests	96	23	(53)	66	-	18	18	84
Attributed to non-controlling interests	-	(1)	(18)	(19)	-	(1)	(1)	(20)
Net profit (loss) attributed to shareholders of the Bank	96	22	(71)	47	-	17	17	64
Average balance of assets(1)	22,340	2,768	15,603	40,711	28	22	50	40,761
Balance of credit to the public at the end of the reported period	22,848	3,182	16,491	42,521	31	21	52	42,573
Balance of impaired debts	7	-	88	95	-	-	-	95
Balance of debts in arrears of more than 90 days	156	-	40	196	-	-	-	196
Average balance of liabilities(1)	-	-	46,273	46,273	-	7,652	7,652	53,925
Balance of deposits from the public at the end of the reported period	-	-	46,371	46,371	-	8,028	8,028	54,399
Average balance of risk-adjusted assets	11,948	2,891	13,266	28,105	29	141	170	28,275
Balance of risk-adjusted assets at the end of the reported period	12,228	3,070	13,797	29,095	30	140	170	29,265
Average balance of assets under management	-	-	35,241	35,241	-	15,097	15,097	50,338
Segmentation of net interest income:								
- Spread from credit granting activity	252	12	648	912	-	1	1	913
- Spread from deposit taking activity	-	-	124	124	-	24	24	148
- Other	(16)	-	(9)	(25)	-	-	-	(25)
Total net interest income	236	12	763	1,011	-	25	25	1,036

(1) The average balance of assets and liabilities expresses the average balance of credit to the public and deposits from the public respectively.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

Private individuals - household and private banking - activity in Israel

Consolidated	For the year ended December 31, 2016*							
	Households segment				Private banking segment			
	Housing loans	Credit cards	other	Total	Credit cards	other	Total	Total
								(NIS million)
Interest income from externals	458	17	730	1,205	-	1	1	1,206
Interest expenses for externals	-	-	139	139	-	22	22	161
Net interest income								
- From externals	458	17	591	1,066	-	(21)	(21)	1,045
- Inter-segmental	(271)	(4)	145	(130)	-	40	40	(90)
Total net interest income	187	13	736	936	-	19	19	955
Non-interest income	15	90	464	569	1	50	51	620
Total income	202	103	1,200	1,505	1	69	70	1,575
Expenses from credit losses	2	-	47	49	-	-	-	49
Operating and other expenses	102	65	1,261	1,428	1	52	53	1,481
Profit before taxes	98	38	(108)	28	-	17	17	45
Provision for taxes (tax saving) on profit (loss)	33	13	(38)	8	-	7	7	15
Net profit (loss):								
Before attribution to non-controlling interests	65	25	(70)	20	-	10	10	30
Attributed to non-controlling interests	-	(2)	(17)	(19)	-	(1)	(1)	(20)
Net profit (loss) attributed to shareholders of the Bank	65	23	(87)	1	-	9	9	10
Average balance of assets(1)	20,879	2,950	14,357	38,186	27	21	48	38,234
Balance of credit to the public at the end of the reported period	21,741	2,962	15,177	39,880	28	17	45	39,925
Balance of impaired debts	8	-	83	91	-	-	-	91
Balance of debts in arrears of more than 90 days	150	-	41	191	-	-	-	191
Average balance of liabilities(1)	-	-	44,380	44,380	-	7,031	7,031	51,411
Balance of deposits from the public at the end of the reported period	-	-	46,298	46,298	-	7,736	7,736	54,034
Average balance of risk-adjusted assets	11,371	2,922	12,954	27,247	18	127	145	27,392
Balance of risk-adjusted assets at the end of the reported period	11,605	3,090	12,755	27,450	19	128	147	27,597
Average balance of assets under management	-	-	35,051	35,051	-	13,135	13,135	48,186
Segmentation of net interest income:								
- Spread from credit granting activity	202	13	637	852	-	1	1	853
- Spread from deposit taking activity	-	-	111	111	-	18	18	129
- Other	(15)	-	(12)	(27)	-	-	-	(27)
Total net interest income	187	13	736	936	-	19	19	955

* Reclassified.

(1) The average balance of assets and liabilities expresses the average balance of credit to the public and deposits from the public respectively.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)
(NIS million)

Private individuals - household and private banking - activity in Israel

Consolidated	For the year ended December 31, 2015							
	Households segment				Private banking segment			
	Housing loans	Credit cards	other	Total	Credit cards	other	Total	Total
								(NIS million)
Interest income from externals	363	41	603	1,007	-	2	2	1,009
Interest expenses for externals	25	25	68	118	-	14	14	132
Net interest income								
- From externals	338	16	535	889	-	(12)	(12)	877
- Inter-segmental	(194)	(3)	66	(131)	-	26	26	(105)
Total net interest income	144	13	601	758	-	14	14	772
Non-interest income	17	89	520	626	-	52	52	678
Total income	161	102	1,121	1,384	-	66	66	1,450
Expenses from credit losses	3	-	35	38	-	-	-	38
Operating and other expenses	116	63	1,262	1,441	-	54	54	1,495
Profit (loss) before taxes	42	39	(176)	(95)	-	12	12	(83)
Provision for taxes (tax saving) on profit (loss)	18	18	(78)	(42)	-	5	5	(37)
Net profit (loss):								
Before attribution to non-controlling interests	24	21	(98)	(53)	-	7	7	(46)
Attributed to non-controlling interests	(1)	(2)	(3)	(6)	-	-	-	(6)
Net profit (loss) attributed to shareholders of the Bank	23	19	(101)	(59)	-	7	7	(52)
Average balance of assets(1)	19,004	2,898	13,660	35,562	27	21	48	35,610
Balance of credit to the public at the end of the reported period	20,032	3,000	14,146	37,178	27	26	53	37,231
Balance of impaired debts	10	-	73	83	-	-	-	83
Balance of debts in arrears of more than 90 days	182	-	25	207	-	6	6	213
Average balance of liabilities(1)	-	-	40,471	40,471	-	6,272	6,272	46,743
Balance of deposits from the public at the end of the reported period	-	-	41,792	41,792	-	7,090	7,090	48,882
Average balance of risk-adjusted assets	11,691	2,959	11,633	26,283	24	112	136	26,419
Balance of risk-adjusted assets at the end of the reported period	12,227	3,077	11,978	27,282	24	108	132	27,414
Average balance of assets under management	-	-	40,117	40,117	-	12,900	12,900	53,017
Segmentation of net interest income:								
- Spread from credit granting activity	159	13	513	685	-	-	-	685
- Spread from deposit taking activity	-	-	99	99	-	14	14	113
- Other	(15)	-	(11)	(26)	-	-	-	(26)
Total net interest income	144	13	601	758	-	14	14	772

(1) The average balance of assets and liabilities expresses the average balance of credit to the public and deposits from the public respectively.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

Small and minute, medium and large bussiness - activity in Israel

Consolidated	For the year ended December 31, 2017									
	Small and minute business segment			Medium business segment			Large business segment			
	Const. & real estate	other	Total	Const. & real estate	other	Total	Const. & real estate	other	Total	Total
										(NIS million)
Interest income from externals	151	497	648	31	135	166	70	285	355	1,169
Interest expenses for externals	-	78	78	-	27	27	-	60	60	165
Net interest income										
- From externals	151	419	570	31	108	139	70	225	295	1,004
- Inter-segmental	(4)	9	5	(2)	8	6	-	1	1	12
Total net interest income	147	428	575	29	116	145	70	226	296	1,016
Non-interest income	37	287	324	15	50	65	37	97	134	523
of which: income from credit cards	-	15	15	-	1	1	-	-	-	16
Total income	184	715	899	44	166	210	107	323	430	1,539
Expenses (income) from credit losses	(19)	64	45	(2)	29	27	(9)	6	(3)	69
Operating and other expenses	94	521	615	17	81	98	35	151	186	899
Profit before taxes	109	130	239	29	56	85	81	166	247	571
Provision for taxes on profit	38	45	83	10	19	29	28	58	86	198
Net profit:										
Before attribution to non-controlling interests	71	85	156	19	37	56	53	108	161	373
Attributed to non-controlling interests	(3)	(4)	(7)	(1)	(3)	(4)	(1)	-	(1)	(12)
Net profit attributed to shareholders of the Bank	68	81	149	18	34	52	52	108	160	361
Average balance of assets(1)	4,678	10,642	15,320	928	3,816	4,744	2,520	14,791	17,311	37,375
Balance of credit to the public at the end of the reported period	4,984	10,770	15,754	999	3,827	4,826	2,482	14,991	17,473	38,053
Balance of impaired debts	40	163	203	11	23	34	43	167	210	447
Balance of debts in arrears of more than 90 days	6	27	33	-	1	1	-	-	-	34
Average balance of liabilities(1)	2,505	13,670	16,175	843	4,384	5,227	1,162	7,964	9,126	30,528
Balance of deposits from the public at the end of the reported period	2,519	12,920	15,439	897	4,412	5,309	1,446	10,237	11,683	32,431
Average balance of risk-adjusted assets	5,730	9,568	15,298	1,769	4,134	5,903	4,785	12,748	17,533	38,734
Balance of risk-adjusted assets at the end of the reported period	5,972	9,659	15,631	1,801	4,005	5,806	4,669	12,426	17,095	38,532
Average balance of assets under management	1,144	11,500	12,644	244	3,505	3,749	1,050	15,254	16,304	32,697
Segmentation of net interest income:										
- Spread from credit granting activity	148	401	549	30	109	139	74	229	303	991
- Spread from deposit taking activity	5	38	43	1	12	13	2	13	15	71
- Other	(6)	(11)	(17)	(2)	(5)	(7)	(6)	(16)	(22)	(46)
Total net interest income	147	428	575	29	116	145	70	226	296	1,016

(1) The average balance of assets and liabilities expresses the average balance of credit to the public and deposits from the public respectively.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

Small and minute, medium and large bussiness - activity in Israel

Consolidated	For the year ended December 31, 2016*									
	Small and minute business segment			Medium business segment			Large business segment			
	Const. & real estate	other	Total	Const. & real estate	other	Total	Const. & real estate	other	Total	Total
										(NIS million)
Interest income from externals	135	479	614	26	115	141	71	309	380	1,135
Interest expenses for externals	-	61	61	-	21	21	-	53	53	135
Net interest income										
- From externals	135	418	553	26	94	120	71	256	327	1,000
- Inter-segmental	(3)	(18)	(21)	(1)	17	16	(3)	(26)	(29)	(34)
Total net interest income	132	400	532	25	111	136	68	230	298	966
Non-interest income	34	276	310	18	51	69	31	97	128	507
of which: income from credit cards	-	15	15	-	1	1	-	-	-	16
Total income	166	676	842	43	162	205	99	327	426	1,473
Expenses (income) from credit losses	(24)	48	24	(3)	21	18	7	(26)	(19)	23
Operating and other expenses	93	516	609	17	82	99	34	155	189	897
Profit before taxes	97	112	209	29	59	88	58	198	256	553
Provision for taxes on profit	43	50	93	13	26	39	26	89	115	247
Net profit:										
Before attribution to non-controlling interests	54	62	116	16	33	49	32	109	141	306
Attributed to non-controlling interests	(2)	(5)	(7)	-	(2)	(2)	-	(2)	(2)	(11)
Net profit attributed to shareholders of the Bank	52	57	109	16	31	47	32	107	139	295
Average balance of assets(1)	4,400	10,234	14,634	759	3,668	4,427	2,604	15,800	18,404	37,465
Balance of credit to the public at the end of the reported period	4,697	10,202	14,899	787	3,754	4,541	2,576	15,550	18,126	37,566
Balance of impaired debts	68	127	195	6	90	96	22	173	195	486
Balance of debts in arrears of more than 90 days	5	24	29	-	1	1	-	-	-	30
Average balance of liabilities(1)	3,350	13,208	16,558	771	4,291	5,062	785	8,723	9,508	31,128
Balance of deposits from the public at the end of the reported period	3,364	13,294	16,658	873	4,670	5,543	1,186	8,560	9,746	31,947
Average balance of risk-adjusted assets	5,311	9,109	14,420	2,080	4,057	6,137	4,951	13,125	18,076	38,633
Balance of risk-adjusted assets at the end of the reported period	5,430	9,140	14,570	1,804	4,213	6,017	5,218	12,877	18,095	38,682
Average balance of assets under management	1,383	11,137	12,520	223	3,395	3,618	1,158	14,103	15,261	31,399
Segmentation of net interest income:										
- Spread from credit granting activity	134	382	516	26	107	133	73	236	309	958
- Spread from deposit taking activity	3	29	32	1	8	9	1	10	11	52
- Other	(5)	(11)	(16)	(2)	(4)	(6)	(6)	(16)	(22)	(44)
Total net interest income	132	400	532	25	111	136	68	230	298	966

* Reclassified.

(1) The average balance of assets and liabilities expresses the average balance of credit to the public and deposits from the public respectively.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

Small and minute, medium and large bussiness - activity in Israel

Consolidated	For the year ended December 31, 2015									
	Small and minute business segment			Medium business segment			Large business segment			
	Const. & real estate	other	Total	Const. & real estate	other	Total	Const. & real estate	other	Total	Total
										(NIS million)
Interest income from externals	171	417	588	24	116	140	47	296	343	1,071
Interest expenses for externals	(37)	93	56	(3)	21	18	9	38	47	121
Net interest income										
- From externals	208	324	532	27	95	122	38	258	296	950
- Inter-segmental	(74)	61	(13)	(6)	7	1	18	(31)	(13)	(25)
Total net interest income	134	385	519	21	102	123	56	227	283	925
Non-interest income	45	290	335	17	46	63	29	97	126	524
of which: income from credit cards	-	14	14	-	2	2	-	-	-	16
Total income	179	675	854	38	148	186	85	324	409	1,449
Expenses (income) from credit losses	(8)	(18)	(26)	(5)	9	4	(28)	30	2	(20)
Operating and other expenses	88	528	616	13	86	99	28	163	191	906
Profit before taxes	99	165	264	30	53	83	85	131	216	563
Provision for taxes on profit	42	69	111	13	24	37	37	57	94	242
Net profit:										
Before attribution to non-controlling interests	57	96	153	17	29	46	48	74	122	321
Attributed to non-controlling interests	(1)	(10)	(11)	-	(2)	(2)	-	(3)	(3)	(16)
Net profit attributed to shareholders of the Bank	56	86	142	17	27	44	48	71	119	305
Average balance of assets(1)	4,416	9,865	14,281	703	3,257	3,960	2,226	13,821	16,047	34,288
Balance of credit to the public at the end of the reported period	4,341	9,823	14,164	681	3,320	4,001	2,442	14,372	16,814	34,979
Balance of impaired debts	96	138	234	-	125	125	25	295	320	679
Balance of debts in arrears of more than 90 days	2	17	19	-	1	1	-	1	1	21
Average balance of liabilities(1)	2,064	12,127	14,191	765	4,403	5,168	553	9,638	10,191	29,550
Balance of deposits from the public at the end of the reported period	2,152	12,895	15,047	730	4,511	5,241	658	10,102	10,760	31,048
Average balance of risk-adjusted assets	6,363	8,759	15,122	1,681	3,366	5,047	4,676	12,390	17,066	37,235
Balance of risk-adjusted assets at the end of the reported period	6,075	8,900	14,975	1,667	3,214	4,881	4,705	12,163	16,868	36,724
Average balance of assets under management	1,056	11,489	12,545	249	3,371	3,620	1,073	22,072	23,145	39,310
Segmentation of net interest income:										
- Spread from credit granting activity	135	375	510	21	100	121	60	232	292	923
- Spread from deposit taking activity	4	22	26	1	7	8	1	10	11	45
- Other	(5)	(12)	(17)	(1)	(5)	(6)	(5)	(15)	(20)	(43)
Total net interest income	134	385	519	21	102	123	56	227	283	925

(1) The average balance of assets and liabilities expresses the average balance of credit to the public and deposits from the public respectively.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)

(NIS million)

Financial Mangement segment - activity in Israel

Consolidated	For the year ended December 31, 2017				
	Trading activity	Assets and liabilities management activity	Real investment activity	Other	Total
					(NIS million)
Interest income from externals	5	162	-	-	167
Interest expenses for externals	4	15	-	-	19
Net interest income					
- From externals	1	147	-	-	148
- Inter-segmental	-	62	-	-	62
Total net interest income	1	209	-	-	210
Non-interest income (expenses)	(12)	61	12	45	106
Total income (expenses)	(11)	270	12	45	316
Expenses from credit losses	-	-	-	-	-
Operating and other expenses	-	53	-	1	54
Profit (loss) before taxes	(11)	217	12	44	262
Provision for taxes (tax saving) on profit (loss)	(4)	76	4	16	92
Operating profit after taxes	(7)	141	8	28	170
Bank's share in operating profit of investee company after tax effect	-	-	54	-	54
Net profit (loss):					
Before attribution to non-controlling interests	(7)	141	62	28	224
Attributed to non-controlling interests	-	(10)	-	-	(10)
Net profit (loss) attributed to shareholders of the Bank	(7)	131	62	28	214
Average balance of assets(1)	793	50,161	709	-	51,663
Of which: Investee company(1)	-	-	536	-	536
Average balance of liabilities(1)	267	14,492	-	-	14,759
Average balance of risk assets(1)(2)	788	6,432	1,326	-	8,546
Balance of risk assets(2)	725	6,539	1,361	-	8,625
Distribution of net interest income and non interest financing income:					
Exchange rate differences, net(3)	-	(26)			
CPI differences, net(3)	-	1			
Interest rate exposures, net(3)	(9)	252			
Exposures to shares, net(3)	(2)	-			
Total net interest and non-interest income, by accrual basis	(11)	227			
Profits or losses from sale or impairment that is not temporary of bonds	-	28			
Difference between fair value and accrual basis of derivatives, recorded in income statement	-	15			
Total net interest income and non interest financing income	(11)	270			

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Including in respect of securities and derivative instruments.

NOTE 28 - SUPERVISORY SEGMENTS OF OPERATION AND GEOGRAPHIC REGIONS (CON'T)
(NIS million)

C. Geographical region information
(NIS million)

Consolidated	Income(2)			Net earnings			Total assets	
	Year ended December 31			Year ended December 31			at December 31	
	2017	**2016**	**2015**	**2017**	**2016**	**2015**	**2017**	**2016**
Israel	**3,731**	3,619	3,458	**686**	542	447	**135,510**	126,906
Western Europe	**21**	30	36	**(8)**	(21)	(1)	**207**	1,001
Consolidated total	**3,752**	3,649	3,494	**678**	521	446	**135,717**	127,907

(1) The distribution to geographical regions is based on the location of the assets.
(2) Net interest income and non-interest income.

NOTE 28A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH

A. General

1. Instructions of the Supervisor of Banks state that a banking corporation, the operating segments of which per Management's approach, materially differ from the regulatory segments of activity, shall, in addition, provide disclosure regarding operating segments according to Management's approach ("administrative operating segments"), in accordance with accounting principles accepted by US banks in the matter of segments of operation (ASC 280-10).
2. The distribution to segments of operation in accordance with Management's approach is made according to criteria detailed in item 3 below. This distribution is used by the chief operational decision maker at the Bank for the purpose of determining the work plan, taking decisions and analyzing the business results of the Group. Management of the Bank and the Board of Directors are considered as the chief operational decision maker at the Bank.
3. The Bank has identified the following administrative operating segments:
   - **Banking Division - housing loans** - the segment is responsible for providing housing credit services to customers in this segment.
   - **Banking Division - other** - the segment includes all activities of private banking customers, households, small businesses and commercial customers of the Banking Division branches. In addition the segment includes the customers of Pagi sub-division, with similar characteristics.
   - **Corporate Division - corporate customers** - The corporate department of the Division coordinates all activities of large and international corporate customers, having a credit facility of NIS 40 million and over, or an income turnover of NIS 200 million and over, as well as the activity of borrower in complex credit areas, such as: communication, diamonds, closed construction projects and such like.
   - **Corporate Division - commercial customers** - The commercial department handles customers having a credit facility of between NIS 5 million and up to NIS 40 million, and an income turnover of between NIS 25 million and up to NIS 200 million and the customers of the branches which are not under authority of the branches' managers. In addition the segment includes the customers of Pagi sub-division, with similar characteristics.
   - **Corporate Division - other** - Bank customers in the business branches subordinated to the corporate division up to the authority of the branches' managers.
   - **Customer Assets Division** - The Division is responsible for the Bank's activity with all customers in operations involving the capital market, foreign currency and deposits.
   - **Financial Management** - The segment includes the results of operations concerning the asset and liability management of the Bank, including management of market and liquidity risk management in general, the results of management of the "nostro" securities portfolio of the Bank, including activity with other banks and with Bank of Israel. The segment includes also the Bank's share in the earnings of Israel Credit Cards Ltd.
   - **Subsidiary companies** - The segment includes the results of operation of its subsidiaries, including the banking subsidiaries Otzar Hachayal Bank and Massad Bank.

NOTE 28A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)

- **Adjustments:**

  A part of the results of operations with customers of the Bank is recorded in more than one operating segment, as detailed below:

  - The results of operation in the capital market product, which includes securities activity of customers, the distribution of pension products and deposits from the public, as well as the foreign currency product, are included both in the Customer Assets Division segment and in the Banking Division-other segment or in any one of the Corporate Division segments.
  - The results of operation of certain commercial customers under the responsibility of the Corporate Division are included both in the Corporate Division-commercial customers segment and in the Banking Division-other segment.
  - The results of operation of certain small business customers under the responsibility of the Banking Division are included both in the Banking Division-other segment and in the Corporate Division-small business segment.
- The results of operation of certain commercial customers under the responsibility of the Customer Assets Division are included both in the Customer Assets Division segment and in the Banking Division-other segment or in any one of the Corporate Division segments.

  The duplicity in the recording of the results of operation as described above is eliminated in the adjustments column.

  The adjustments column includes also the elimination of inter-company balances.

  For detail regarding the principles of the distribution of the results of operation between the different segments of activity, see note 28.

NOTE 28A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)

(NIS million)

Consolidated	For the year ended December 31, 2017									
	Banking Division		Corporate Division							
	Housing loans	Other	Corporate customers	Commercial customers	Other	Customer Asset Division	Financial management	Subsidiary companies	Adjustments	Total
Net interest income	246	758	384	220	27	219	160	639	(351)	2,302
Non-interest income	15	635	227	78	30	645	127	340	(647)	1,450
Total income	261	1,393	611	298	57	864	287	979	(998)	3,752
Expenses (income) from credit losses	(2)	74	(36)	18	4	(8)	-	74	(3)	121
Operating and other expenses	111	1,283	277	143	45	671	40	722	(685)	2,607
Operating profit before taxes	152	36	370	137	8	201	247	183	(310)	1,024
Provision for taxes on operating profit	52	12	126	47	3	69	85	59	(95)	358
Operating profit after taxes	100	24	244	90	5	132	162	124	(215)	666
Bank's share in operating profit of investee company	-	-	-	-	-	-	54	-	-	54
Net profit:										
Before attribution to noncontrolling interests	100	24	244	90	5	132	216	124	(215)	720
Attributed to noncontrolling interests	-	-	-	-	-	-	-	(42)	-	(42)
Attributed to shareholders of the Bank	100	24	244	90	5	132	216	82	(215)	678
Average balance of assets	22,465	15,624	20,797	7,171	471	5,102	44,086	24,277	(9,505)	130,488
Balance of credit to the public at the end of the reported period	22,947	16,225	20,751	7,469	490	5,229	-	17,695	(9,590)	81,216
Balance of deposits from the public at the end of the reported period	-	51,822	24,413	5,196	2,418	91,244	-	23,987	(85,569)	113,511

NOTE 28A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)

(NIS million)

Consolidated	For the year ended December 31, 2016*									
	Banking Division		Corporate Division							
	Housing loans	Other	Corporate customers	Commercial customers	Other	Customer Asset Division	Financial management	Subsidiary companies	Adjustments	Total
Net interest income	198	673	385	195	27	185	167	638	(299)	2,169
Non-interest income	15	625	220	76	30	628	139	339	(592)	1,480
Total income	213	1,298	605	271	57	813	306	977	(891)	3,649
Expenses (income) from credit losses	1	56	(29)	19	5	12	-	35	(19)	80
Operating and other expenses	110	1,293	292	142	46	708	48	753	(709)	2,683
Operating profit (loss) before taxes	102	(51)	342	110	6	93	258	189	(163)	886
Provision for taxes (tax saving) on operating profit (loss)	44	(22)	147	47	3	40	111	84	(56)	398
Operating profit (loss) after taxes	58	(29)	195	63	3	53	147	105	(107)	488
Bank's share in operating profit of investee company	-	-	-	-	-	-	72	-	-	72
Net profit (loss):										
Before attribution to noncontrolling interests	58	(29)	195	63	3	53	219	105	(107)	560
Attributed to noncontrolling interests	-	-	-	-	-	-	-	(39)	-	(39)
Attributed to shareholders of the Bank	58	(29)	195	63	3	53	219	66	(107)	521
Average balance of assets	21,086	14,021	22,338	6,388	501	5,166	41,801	24,296	(8,985)	126,612
Balance of credit to the public at the end of the reported period	21,897	14,873	21,723	6,917	510	5,075	-	16,430	(9,250)	78,175
Balance of deposits from the public at the end of the reported period	-	51,602	22,185	5,193	2,381	84,395	-	22,989	(82,928)	105,817

* Reclassified.

NOTE 28A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)
(NIS million)

Consolidated										For the year ended December 31, 2015*
	Banking Division		Corporate Division							
	Housing loans	Other	Corporate customers	Commercial customers	Other	Customer Asset Division	Financial management	Subsidiary companies	Adjustments	Total
Net interest income	152	610	376	175	26	170	165	545	(266)	1,953
Non-interest income	17	659	229	76	32	676	105	365	(618)	1,541
Total income	169	1,269	605	251	58	846	270	910	(884)	3,494
Expenses (income) from credit losses	3	56	(17)	11	(2)	5	-	7	(45)	18
Operating and other expenses	116	1,301	295	155	48	779	68	734	(786)	2,710
Operating profit (loss) before taxes	50	(88)	327	85	12	62	202	169	(53)	766
Provision for taxes (tax saving) on operating profit (loss)	21	(37)	136	35	6	26	85	67	(13)	326
Operating profit (loss) after taxes	29	(51)	191	50	6	36	117	102	(40)	440
Bank's share in operating profit of investee company	-	-	-	-	-	-	38	-	-	38
Net profit (loss):										
Before attribution to noncontrolling interests	29	(51)	191	50	6	36	155	102	(40)	478
Attributed to noncontrolling interests	-	-	-	-	-	-	-	(32)	-	(32)
Attributed to shareholders of the Bank	29	(51)	191	50	6	36	155	70	(40)	446
Average balance of assets	19,592	12,850	20,296	5,668	551	4,029	44,236	21,468	(7,311)	121,379
Balance of credit to the public at the end of the reported period	20,213	13,330	21,144	5,878	557	4,555	-	15,794	(8,092)	73,379
Balance of deposits from the public at the end of the reported period	-	48,269	25,435	4,292	2,372	83,390	-	21,367	(81,863)	103,262

* Reclassified.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES

(NIS millions)

A. Debts[(1)] and off-balance sheet credit instruments

Provision for credit loses

1. Change in provision for credit losses

Consolidated	For the year ended December 31, 2017					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of year	**501**	**115**	**231**	**847**	**-**	**847**
Expenses from credit losses	**66**	**1**	**64**	**131**	**-**	**131**
- Accounting write-offs	**(211)**	**(2)**	**(120)**	**(333)**	**-**	**(333)**
- Collection of debts written off in accounting in previous years	**115**	**1**	**77**	**193**	**-**	**193**
Net accounting write-offs	**(96)**	**(1)**	**(43)**	**(140)**	**-**	**(140)**
Provision for credit losses at end of year	**471**	**115**	**252**	**838**	**-**	**838**
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of year	**57**	**-**	**14**	**71**	**-**	**71**
Decrease in the provision	**(9)**	**-**	**(1)**	**(10)**	**-**	**(10)**
Provision in respect of off-balance sheet credit instruments at end of year	**48**	**-**	**13**	**61**	**-**	**61**
Total provision for credit losses - debts and off-balance sheet credit instruments	**519**	**115**	**265**	**899**	**-**	**899**

Consolidated	For the year ended December 31, 2016					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of year	498	119	207	824	-	824
Expenses from credit losses	44	2	48	94	-	94
- Accounting write-offs	(165)	(6)	(110)	(281)	-	(281)
- Collection of debts written off in accounting in previous years	128	-	86	214	-	214
Net accounting write-offs	(37)	(6)	(24)	(67)	-	(67)
Other - classified to assets held for sale	(4)	-	-	(4)	-	(4)
Provision for credit losses at end of year	501	115	231	847	-	847
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of year	70	-	15	85	-	85
Decrease in the provision	(13)	-	(1)	(14)	-	(14)
Provision in respect of off-balance sheet credit instruments at end of year	57	-	14	71	-	71
Total provision for credit losses - debts and off-balance sheet credit instruments	558	115	245	918	-	918

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

Consolidated	For the year ended December 31, 2015					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of year	534	132	210	876	-	876
Expenses from credit losses	12	3	38	53	-	53
- Accounting write-offs	(207)	(16)	(122)	(345)	-	(345)
- Collection of debts written off in accounting in previous years	159	-	81	240	-	240
Net accounting write-offs	(48)	(16)	(41)	(105)	-	(105)
Provision for credit losses at end of year	498	119	207	824	-	824
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of year	106	-	14	120	-	120
Increase (decrease) in the provision	(36)	-	1	(35)	-	(35)
Provision in respect of off-balance sheet credit instruments at end of year	70	-	15	85	-	85
Total provision for credit losses - debts and off-balance sheet credit instruments	568	119	222	909	-	909

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

A. Debts[(1)] and off-balance sheet credit instruments (Cont.)

2. Additional information regarding the method of calculating the provision for credit losses in respect of debts[(1)] and the underlying debts[(1)]

Consolidated	For the year ended December 31, 2017					
	Credit to the public					
	Commercial [(3)]	Housing	Other private	Total	Banks and Governments	Total
Recorded balance of debts[(1)]						
Examined on an individual basis	**33,954**	**-**	**226**	**34,180**	**3,300**	**37,480**
Examined on a collective basis	**4,982**	**22,848**	**19,206**	**47,036**	**-**	**47,036**
Of which: provision for which was calculated according to the extent of arrears	**293**	**22,848**	**-**	**23,141**	**-**	**23,141**
Total debts	**38,936**	**22,848**	**19,432**	**81,216**	**3,300**	**84,516**
Provision for credit losses in respect of debts[(1)]						
Examined on an individual basis	**407**	**-**	**33**	**440**	**-**	**440**
Examined on a collective basis	**64**	**115**	**219**	**398**	**-**	**398**
Of which: provision for which was calculated according to the extent of arrears	**1**	[(2)]**115**	**-**	**116**	**-**	**116**
Total provision for credit losses	**471**	**115**	**252**	**838**	**-**	**838**

Consolidated	For the year ended December 31, 2016					
	Credit to the public					
	Commercial [(3)]	Housing	Other private	Total	Banks and Governments	Total
Recorded balance of debts[(1)]						
Examined on an individual basis	33,911	-	408	34,319	2,578	36,897
Examined on a collective basis	4,586	21,741	17,529	43,856	-	43,856
Of which: provision for which was calculated according to the extent of arrears	247	21,741	-	21,988	-	21,988
Total debts	38,497	21,741	17,937	78,175	2,578	80,753
Provision for credit losses in respect of debts[(1)]						
Examined on an individual basis	446	-	28	474	-	474
Examined on a collective basis	55	115	203	373	-	373
Of which: provision for which was calculated according to the extent of arrears	1	[(2)]115	-	116	-	116
Total provision for credit losses	501	115	231	847	-	847

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

(2) Includes the provision exceeding the amount required according to the method of the extent of arrears, calculated on an collective basis in the amount of NIS 81 million (31.12.16 - NIS 78 million).

(3) The balance of commercial debts include housing loans in the amount of NIS 2,500 million, combined in the framework of transaction and collateral of the commercial borrowers or that have been granted to purchase groups at construction stages (31.12.16 - NIS 2,058 million).

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

A. Debts(1) and off-balance sheet credit instruments (Cont.)

Provision for credit loses (Cont.)

1. Change in provision for credit losses (Cont.)

The Bank	For the year ended December 31, 2017					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of year	**407**	**113**	**133**	**653**	**-**	**653**
Expenses from credit losses	**17**	**-**	**38**	**55**	**-**	**55**
- Accounting write-offs	**(151)**	**(2)**	**(69)**	**(222)**	**-**	**(222)**
- Collection of debts written off in accounting in previous years	**83**	**1**	**37**	**121**	**-**	**121**
Net accounting write-offs	**(68)**	**(1)**	**(32)**	**(101)**	**-**	**(101)**
Provision for credit losses at end of year	**356**	**112**	**139**	**607**	**-**	**607**
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of year	**53**	**-**	**9**	**62**	**-**	**62**
Decrease in the provision	**(7)**	**-**	**(1)**	**(8)**	**-**	**(8)**
Provision in respect of off-balance sheet credit instruments at end of year	**46**	**-**	**8**	**54**	**-**	**54**
Total provision for credit losses - debts and off-balance sheet credit instruments	**402**	**112**	**147**	**661**	**-**	**661**

The Bank	For the year ended December 31, 2016					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of year	395	117	100	612	-	612
Expenses from credit losses	21	1	36	58	-	58
- Accounting write-offs	(108)	(5)	(69)	(182)	-	(182)
- Collection of debts written off in accounting in previous years	79	-	49	128	-	128
Net accounting write-offs	(29)	(5)	(20)	(54)	-	(54)
Merging a subsidiary	20	-	17	37	-	37
Provision for credit losses at end of year	407	113	133	653	-	653
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of year	62	-	9	71	-	71
Decrease in the provision	(12)	-	(1)	(13)	-	(13)
Merging a subsidiary	3	-	1	4	-	4
Provision in respect of off-balance sheet credit instruments at end of year	53	-	9	62	-	62
Total provision for credit losses - debts and off-balance sheet credit instruments	460	113	142	715	-	715

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

A. Debts(1) and off-balance sheet credit instruments (Cont.)

Provision for credit loses (Cont.)

1. Change in provision for credit losses (Cont.)

The Bank	For the year ended December 31, 2015					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of year	395	132	92	619	-	619
Expenses (income) in respect of credit losses	(3)	1	34	32	-	32
- Accounting write-offs	(129)	(17)	(52)	(198)	-	(198)
- Collection of debts written off in accounting in previous years	121	-	25	146	-	146
Net accounting write-offs	(8)	(17)	(27)	(52)	-	(52)
Merging a subsidiary	11	1	1	13	-	13
Provision for credit losses at end of year	395	117	100	612	-	612
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of year	82	-	8	90	-	90
Increase (decrease) in the provision	(22)	-	1	(21)	-	(21)
Merging a subsidiary	2	-	-	2	-	2
Provision in respect of off-balance sheet credit instruments at end of year	62	-	9	71	-	71
Total provision for credit losses - debts and off-balance sheet credit instruments	457	117	109	683	-	683

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

A. Debts[(1)] and off-balance sheet credit instruments (Cont.)

2. Additional information regarding the method of calculating the provision for credit losses in respect of debts[(1)] and the underlying debts[(1)]

The Bank	For the year ended December 31, 2017					
	Credit to the public					
	Commercial [(3)]	Housing	Other private	Total	Banks and Governments	Total
Recorded balance of debts[(1)]						
Examined on an individual basis	**30,611**	**-**	**58**	**30,669**	**2,729**	**33,398**
Examined on a collective basis	**3,189**	**22,564**	**7,101**	**32,854**	**-**	**32,854**
Of which: provision for which was calculated according to the extent of arrears	**293**	**22,564**	**-**	**22,857**	**-**	**22,857**
Total debts	**33,800**	**22,564**	**7,159**	**63,523**	**2,729**	**66,252**
Provision for credit losses in respect of debts[(1)]						
Examined on an individual basis	**323**	**-**	**17**	**340**	**-**	**340**
Examined on a collective basis	**33**	**112**	**122**	**267**	**-**	**267**
Of which: provision for which was calculated according to the extent of arrears	**1**	**[(2)]112**	**-**	**113**	**-**	**113**
Total provision for credit losses	**356**	**112**	**139**	**607**	**-**	**607**

The Bank	For the year ended December 31, 2016					
	Credit to the public					
	Commercial [(3)]	Housing	Other private	Total	Banks and Governments	Total
Recorded balance of debts[(1)]						
Examined on an individual basis	30,703	-	261	30,964	1,848	32,812
Examined on a collective basis	2,774	21,491	6,517	30,782	-	30,782
Of which: provision for which was calculated according to the extent of arrears	247	21,491	-	21,738	-	21,738
Total debts	33,477	21,491	6,778	61,746	1,848	63,594
Provision for credit losses in respect of debts[(1)]						
Examined on an individual basis	381	-	19	400	-	400
Examined on a collective basis	26	113	114	253	-	253
Of which: provision for which was calculated according to the extent of arrears	1	[(2)]113	-	114	-	114
Total provision for credit losses	407	113	133	653	-	653

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

(2) Includes the provision exceeding the amount required according to the method of the extent of arrears, calculated on an collective basis in the amount of NIS 79 million (31.12.16 - NIS 76 million).

(3) The balance of commercial debts include housing loans in the amount of NIS 2,269 million, combined in the framework of transaction and collateral of the commercial borrowers or that have been granted to purchase groups at construction stages (31.12.16 - NIS 1,843 million).

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts(1)

1. Credit quality and arrears (Cont.)

Consolidated						December 31, 2017
		Problematic(2)			Unimpaired debts - additional information	
Borrower activity in Israel	Non-problematic	Unimpaired	Impaired (3)	Total	In arrears of 90 days or more(4)	In arrears of 30 to 89 days(5)
Public - commercial						
Construction and real estate - construction	**3,862**	**19**	**54**	**3,935**	**5**	**5**
Construction and real estate - real estate activities	**4,771**	**7**	**40**	**4,818**	**1**	**5**
Financial services	**8,003**	**16**	**1**	**8,020**	**-**	**-**
Commercial - other	**20,636**	**446**	**344**	**21,426**	**28**	**57**
Total commercial	**37,272**	**488**	**439**	**38,199**	**34**	**67**
Private individuals - housing loans	**22,676**	(6)**165**	**7**	**22,848**	**156**	**206**
Private individuals - others	**19,096**	**248**	**88**	**19,432**	**40**	**47**
Total public - activity in Israel	**79,044**	**901**	**534**	**80,479**	**230**	**320**
Banks in Israel	**1,305**	**-**	**-**	**1,305**	**-**	**-**
Israeli government	**675**	**-**	**-**	**675**	**-**	**-**
Total activity in Israel	**81,024**	**901**	**534**	**82,459**	**230**	**320**
Borrower activity abroad						
Public - commercial						
Construction and real estate	**5**	**-**	**-**	**5**	**-**	**-**
Other commercial	**724**	**-**	**8**	**732**	**-**	**-**
Total commercial	**729**	**-**	**8**	**737**	**-**	**-**
Private individuals	**-**	**-**	**-**	**-**	**-**	**-**
Total public - activity abroad	**729**	**-**	**8**	**737**	**-**	**-**
Banks abroad	**1,320**	**-**	**-**	**1,320**	**-**	**-**
Governments abroad	**-**	**-**	**-**	**-**	**-**	**-**
Total activity abroad	**2,049**	**-**	**8**	**2,057**	**-**	**-**
Total public	**79,773**	**901**	**542**	**81,216**	**230**	**320**
Total banks	**2,625**	**-**	**-**	**2,625**	**-**	**-**
Total governments	**675**	**-**	**-**	**675**	**-**	**-**
Total	**83,073**	**901**	**542**	**84,516**	**230**	**320**

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.
(2) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which a provision based on the extent of arrears exists, and housing loans for which a provision based on the extent of arrears does not exist, which are in arrears of 90 days or more.
(3) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in problematic debt restructuring, see Note 29.B.2.c. below.
(4) Classified as unimpaired problematic debts, accruing interest income.
(5) Accruing interest income Debts in arrears of 30 to 89 days, in the amount of NIS 114 million (31.12.16 - NIS 127 million) were classified as unimpaired problematic debts.
(6) Includes a balance of housing loans, in the amount of NIS 3 million (31.12.16 - NIS 6 million) with provision based on the extent of arrears, for which an arrangement has been signed for the borrower's repayment of the amounts in arrears, where a change has been made in the repayment, schedule with regard to the balance of the loan not yet due for repayment.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts (1)(Cont.)

1. Credit quality and arrears (Cont.)

Consolidated	December 31, 2016					
		Problematic(2)			Unimpaired debts - additional information	
Borrower activity in Israel	Non-problematic	Unimpaired	Impaired (3)	Total	In arrears of 90 days or more(4)	In arrears of 30 to 89 days(5)
Public - commercial						
Construction and real estate - construction	3,337	36	66	3,439	4	6
Construction and real estate - real estate activities	4,775	12	30	4,817	1	6
Financial services	6,980	239	2	7,221	-	1
Commercial - other	21,638	525	380	22,543	25	61
Total commercial	36,730	812	478	38,020	30	74
Private individuals - housing loans	21,567	(6)166	8	21,741	*150	*237
Private individuals - others	17,618	236	83	17,937	41	53
Total public - activity in Israel	75,915	1,214	569	77,698	221	364
Banks in Israel	481	-	-	481	-	-
Israeli government	654	-	-	654	-	-
Total activity in Israel	77,050	1,214	569	78,833	221	364
Borrower activity abroad						
Public - commercial						
Construction and real estate	51	-	-	51	-	-
Other commercial	418	-	8	426	-	-
Total commercial	469	-	8	477	-	-
Private individuals	-	-	-	-	-	-
Total public - activity abroad	469	-	8	477	-	-
Banks abroad	1,443	-	-	1,443	-	-
Governments abroad	-	-	-	-	-	-
Total activity abroad	1,912	-	8	1,920	-	-
Total public	76,384	1,214	577	78,175	221	364
Total banks	1,924	-	-	1,924	-	-
Total governments	654	-	-	654	-	-
Total	78,962	1,214	577	80,753	221	364

Credit quailty - the status of debts in arrears

The credit risk policy of the Bank defines principal indicators for the examination of credit quality, among which are the default situation, rating of the customer, status of the collateral etc. The status of debts in arrears is monitored routinely, and serves as one of the key indicators of credit quality. The status of debts in arrears is determined based on actual days of arrears. Debts examined on an individual basis, are treated as impaired debts after 90 days of arrears. In addition debts restructuring of problematic debt are treated as impaired debts. With regard to debts evaluated on a collective basis, the status of arrears effects the classification of the debt (the classification is more severe for more extensive arrears) and mostly after 150 days of arrears, the Bank performs an accounting write-off of the debt up to the extent of the collateral. With regard to housing loans, with the exception of loans without quarterly or monthly payments, the Bank establishes an allowance according to the method of the extent of arrears. The Bank also uses additional indications such as customer rating and status of collateral managed by computer systems in accordance with the credit risk management policy determined by the Board of Directors.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts (1)(Cont'd)

2. Additional information regarding impaired debts

Consolidated					December 31, 2017
A Impaired debts and the individual provision	Balance(2) of impaired debts for which an individual provision exists(3)	Balance of Individual provision(3)	Balance(2) of impaired debts for which no individual provision exists(3)	Total Balance(2) of impaired debts	Balance of contractual principal of impaired debts
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	50	20	4	54	795
Construction and real estate - real estate activities	19	4	21	40	623
Financial services	1	1	-	1	775
Commercial - other	289	111	55	344	1,516
Total commercial	359	136	80	439	3,709
Private individuals - housing loans	-	-	7	7	7
Private individuals - others	78	26	10	88	170
Total public - activity in Israel	437	162	97	534	3,886
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	437	162	97	534	3,886
Borrower activity abroad					
Public - commercial					
Construction and real estate	-	-	-	-	-
Other commercial	-	-	8	8	70
Total commercial	-	-	8	8	70
Private individuals	-	-	-	-	-
Total public - activity abroad	-	-	8	8	70
Banks abroad	-	-	-	-	-
Governments abroad	-	-	-	-	-
Total activity abroad	-	-	8	8	70
Total public	437	162	105	542	3,956
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	437	162	105	542	3,956
Of which:					
Measured at the present value of cash flows	425	161	45	470	
Debts in problematic debt restructuring	225	64	38	263	

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.
(2) Recorded debt balance.
(3) Individual provision for credit losses.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts (1)(Cont'd)

2. Additional information regarding impaired debts (Cont'd)

Consolidated					December 31, 2016
A Impaired debts and the individual provision	Balance(2) of impaired debts for which an individual provision exists(3)	Balance of Individual provision(3)	Balance(2) of impaired debts for which no individual provision exists(3)	Total Balance(2) of impaired debts	Balance of contractual principal of impaired debts
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	38	28	28	66	829
Construction and real estate - real estate activities	14	3	16	30	522
Financial services	2	-	-	2	669
Commercial - other	328	147	52	380	1,973
Total commercial	382	178	96	478	3,993
Private individuals - housing loans	-	-	8	8	8
Private individuals - others	67	22	16	83	162
Total public - activity in Israel	449	200	120	569	4,163
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	449	200	120	569	4,163
Borrower activity abroad					
Public - commercial					
Construction and real estate	-	-	-	-	-
Other commercial	-	-	8	8	77
Total commercial	-	-	8	8	77
Private individuals	-	-	-	-	-
Total public - activity abroad	-	-	8	8	77
Banks abroad	-	-	-	-	-
Governments abroad	-	-	-	-	-
Total activity abroad	-	-	8	8	77
Total public	449	200	128	577	4,240
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	449	200	128	577	4,240
Of which:					
Measured at the present value of cash flows	449	200	63	512	
Debts in problematic debt restructuring	123	27	74	197	

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts (1)(Cont'd)

2. Additional information regarding impaired debts (Cont'd)

Consolidated	For the year ended December 31,								
	2017			2016			2015		
B. Average balance and interest income	Average balance of impaired debts(2)	Interest income recorded (3)	Of which: recorded on a cash basis	Average balance of impaired debts(2)	Interest income recorded (3)	Of which: recorded on a cash basis	Average balance of impaired debts(2)	Interest income recorded (3)	Of which: recorded on a cash basis
Borrower activity in Israel									
Public - commercial									
Construction and real estate - construction	**50**	**-**	**-**	61	-	-	66	-	-
Construction and real estate - real estate activities	**35**	**-**	**-**	36	-	-	42	-	-
Financial services	**92**	**4**	**4**	11	-	-	16	-	-
Commercial - other	**340**	**5**	**3**	474	4	3	543	6	6
Total commercial	**517**	**9**	**7**	582	4	3	667	6	6
Private individuals - housing loans	**13**	**-**	**-**	13	-	-	17	-	-
Private individuals - others	**84**	**2**	**1**	77	2	1	108	3	2
Total public - activity in Israel	**614**	**11**	**8**	672	6	4	792	9	8
Banks in Israel	**-**	**-**	**-**	-	-	-	-	-	-
Israeli government	**-**	**-**	**-**	-	-	-	-	-	-
Total activity in Israel	**614**	**11**	**8**	672	6	4	792	9	8
Borrower activity abroad									
Public - commercial									
Construction and real estate	**-**	**-**	**-**	7	-	-	21	-	-
Other commercial	**8**	**-**	**-**	8	-	-	2	-	-
Total commercial	**8**	**-**	**-**	15	-	-	23	-	-
Private individuals	**-**	**-**	**-**	-	-	-	-	-	-
Total public - activity abroad	**8**	**-**	**-**	15	-	-	23	-	-
Banks abroad	**-**	**-**	**-**	-	-	-	-	-	-
Governments abroad	**-**	**-**	**-**	-	-	-	-	-	-
Total activity abroad	**8**	**-**	**-**	15	-	-	23	-	-
Total public	**622**	**11**	**8**	687	6	4	815	9	8
Total banks	**-**	**-**	**-**	-	-	-	-	-	-
Total governments	**-**	**-**	**-**	-	-	-	-	-	-
Total	**622**	(4)**11**	**8**	687	(4)6	4	815	(4)9	8

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

(2) Average recorded debt balance of impaired debts in the reported period.

(3) Interest income recognized in the reported period in respect of the average balance of impaired debts, during the period of time in which the debts have been classified as impaired.

(4) If the impaired debts were accruing interest in respect of the original terms, an interest income in the amount of NIS 63 million was recorded in the year ended December 31, 2017 (2016 - NIS 73 million, 2015 - NIS 72 million).

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts [1](Cont'd)

2. Additional information regarding impaired debts (Cont'd)

Consolidated	December 31, 2017				
	Recorded debt balance				
C. Problematic debt restructuring	Not accruing interest income	accruing[2] in arrears of 90 days or more	accruing[2] in arrears of 30 to 89 days	Accruing[2], not in arrears	Total[3]
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	**22**	**-**	**-**	**1**	**23**
Construction and real estate - real estate activities	**6**	**-**	**-**	**4**	**10**
Financial services	**1**	**-**	**-**	**-**	**1**
Commercial - other	**124**	**-**	**-**	**23**	**147**
Total commercial	**153**	**-**	**-**	**28**	**181**
Private individuals - housing loans	**-**	**-**	**-**	**-**	**-**
Private individuals - others	**53**	**-**	**-**	**21**	**74**
Total public - activity in Israel	**206**	**-**	**-**	**49**	**255**
Banks in Israel	**-**	**-**	**-**	**-**	**-**
Israeli government	**-**	**-**	**-**	**-**	**-**
Total activity in Israel	**206**	**-**	**-**	**49**	**255**
Borrower activity abroad					
Public - commercial					
Construction and real estate	**-**	**-**	**-**	**-**	**-**
Other commercial	**8**	**-**	**-**	**-**	**8**
Total commercial	**8**	**-**	**-**	**-**	**8**
Private individuals	**-**	**-**	**-**	**-**	**-**
Total public - activity abroad	**8**	**-**	**-**	**-**	**8**
Banks abroad	**-**	**-**	**-**	**-**	**-**
Governments abroad	**-**	**-**	**-**	**-**	**-**
Total activity abroad	**8**	**-**	**-**	**-**	**8**
Total public	**214**	**-**	**-**	**49**	**263**
Total banks	**-**	**-**	**-**	**-**	**-**
Total governments	**-**	**-**	**-**	**-**	**-**
Total	**214**	**-**	**-**	**49**	**263**

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.
(2) Accruing interest income.
(3) Included in impaired debts.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts (1)(Cont'd)

2. Additional information regarding impaired debts (Cont'd)

Consolidated					December 31, 2016
	Recorded debt balance				
C. Problematic debt restructuring	Not accruing interest income	accruing(2) in arrears of 90 days or more	accruing(2) in arrears of 30 to 89 days	Accruing(2), not in arrears	Total(3)
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	14	-	-	1	15
Construction and real estate - real estate activities	8	-	-	1	9
Financial services	1	-	-	-	1
Commercial - other	74	-	-	19	93
Total commercial	97	-	-	21	118
Private individuals - housing loans	-	-	-	-	-
Private individuals - others	56	-	-	15	71
Total public - activity in Israel	153	-	-	36	189
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	153	-	-	36	189
Borrower activity abroad					
Public - commercial					
Construction and real estate	-	-	-	-	-
Other commercial	8	-	-	-	8
Total commercial	8	-	-	-	8
Private individuals	-	-	-	-	-
Total public - activity abroad	8	-	-	-	8
Banks abroad	-	-	-	-	-
Governments abroad	-	-	-	-	-
Total activity abroad	8	-	-	-	8
Total public	161	-	-	36	197
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	161	-	-	36	197

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.
(2) Accruing interest income.
(3) Included in impaired debts.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts [1](Cont'd)

2. Additional information regarding impaired debts (Cont'd)

Consolidated	Restructuring made								
	For the year ended December 31,								
	2017			2016			2015		
C. Problematic debt restructuring	Number of contracts	Debt balance before restructuring	Debt balance after restructuring	Number of contracts	Debt balance before restructuring	Debt balance after restructuring	Number of contracts	Debt balance before restructuring	Debt balance after restructuring
Borrower activity in Israel									
Public - commercial									
Construction and real estate - construction	**30**	**25**	**25**	25	6	6	41	8	6
Construction and real estate - real estate activities	**7**	**2**	**2**	1	1	1	5	1	1
Financial services	**5**	**227**	**227**	5	2	2	6	3	3
Commercial - other	**249**	**92**	**82**	241	71	70	300	64	59
Total commercial	**291**	**346**	**336**	272	80	79	352	76	69
Private individuals - housing loans	**-**	**-**	**-**	-	-	-	-	-	-
Private individuals - others	**1,036**	**48**	**46**	1,055	50	47	1,227	53	50
Total public - activity in Israel	**1,327**	**394**	**382**	1,327	130	126	1,579	129	119
Banks in Israel	**-**	**-**	**-**	-	-	-	-	-	-
Israeli government	**-**	**-**	**-**	-	-	-	-	-	-
Total activity in Israel	**1,327**	**394**	**382**	1,327	130	126	1,579	129	119
Borrower activity abroad									
Public - commercial									
Construction and real estate	**-**	**-**	**-**	-	-	-	-	-	-
Other commercial	**-**	**-**	**-**	-	-	-	-	-	-
Total commercial	**-**	**-**	**-**	-	-	-	-	-	-
Private individuals	**-**	**-**	**-**	-	-	-	-	-	-
Total public - activity abroad	**-**	**-**	**-**	-	-	-	-	-	-
Banks abroad	**-**	**-**	**-**	-	-	-	-	-	-
Governments abroad	**-**	**-**	**-**	-	-	-	-	-	-
Total activity abroad	**-**	**-**	**-**	-	-	-	-	-	-
Total public	**1,327**	**394**	**382**	1,327	130	126	1,579	129	119
Total banks	**-**	**-**	**-**	-	-	-	-	-	-
Total governments	**-**	**-**	**-**	-	-	-	-	-	-
Total	**1,327**	**394**	**382**	1,327	130	126	1,579	129	119

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts [1](Cont'd)

2. Additional information regarding impaired debts (Cont'd)

Consolidated	Restructuring failed [2]					
	For the year ended December 31,					
	2017		2016		2015	
C. Problematic debt restructuring	**Number of contracts**	**Balance of debt recorded**	**Number of contracts**	**Balance of debt recorded**	**Number of contracts**	**Balance of debt recorded**
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	**10**	**-**	13	-	17	6
Construction and real estate - real estate activities	**-**	**-**	3	1	2	-
Financial services	**2**	**-**	-	-	2	1
Commercial - other	**99**	**9**	174	15	172	10
Total commercial	**111**	**9**	190	16	193	17
Private individuals - housing loans	**-**	**-**	-	-	-	-
Private individuals - others	**416**	**9**	525	7	503	7
Total public - activity in Israel	**527**	**18**	715	23	696	24
Banks in Israel	**-**	**-**	-	-	-	-
Israeli government	**-**	**-**	-	-	-	-
Total activity in Israel	**527**	**18**	715	23	696	24
Borrower activity abroad						
Public - commercial						
Construction and real estate	**-**	**-**	-	-	-	-
Other commercial	**-**	**-**	-	-	2	9
Total commercial	**-**	**-**	-	-	2	9
Private individuals	**-**	**-**	-	-	-	-
Total public - activity abroad	**-**	**-**	-	-	2	9
Banks abroad	**-**	**-**	-	-	-	-
Governments abroad	**-**	**-**	-	-	-	-
Total activity abroad	**-**	**-**	-	-	2	9
Total public	**527**	**18**	715	23	698	33
Total banks	**-**	**-**	-	-	-	-
Total governments	**-**	**-**	-	-	-	-
Total	**527**	**18**	715	23	698	33

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

(2) Debts that became debts in arrears of 30 days or more during the reported period which were restructured as a problematic debts during the 12 months that preceded the date in which they became debts in arrears.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

B. Debts (Cont'd)

3. Additional information regarding housing loans

Year-end balances by financing ratio (LTV)*, repayment type, and interest type

	December 31, 2017			
	Balance of housing loans			
	Total	Of which: bullet and balloon	OF which: floating interest rate	Total Off-balance sheet credit risk
First lien financing rate				
LTV - Up to 60%	**16,310**	**371**	**9,919**	**860**
LTV - Over 60%	**6,523**	**87**	**4,236**	**337**
Secondary lien or no lien	**15**	**-**	**11**	**1**
Total	**22,848**	**458**	**14,166**	**1,198**

	December 31, 2016			
	Balance of housing loans			
	Total	Of which: bullet and balloon	OF which: floating interest rate	Total Off-balance sheet credit risk
First lien financing rate				
LTV - Up to 60%	15,381	391	9,445	827
LTV - Over 60%	6,319	100	4,179	313
Secondary lien or no lien	41	-	24	12
Total	21,741	491	13,648	1,152

* Ratio of the approved credit facility, when the facility was provided, to the value of the asset, as approved by the Bank when the facility was provided.

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

4. Syndication and participation in the syndication of loans

	Syndication transactions initiated by the Bank(1)				Syndication transactions initiated by others	
					Balance at end of year	
	Share of the Bank		Share of others		Share of the Bank	
	Credit to the public	Off-balance sheet credit risk (2)	Credit to the public	Off-balance sheet credit risk (2)	Credit to the public	Off-balance sheet credit risk (2)
Industry	41	-	41	-	244	74
Construction and Real estate	17	-	17	-	160	70
Electricity supply	-	-	-	-	377	35
Financial services	1	-	1	-	117	50
Commercial - other	138	-	138	-	3	102
Total commercial	197	-	197	-	901	331
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - others	-	-	-	-	-	-
Total	197	-	197	-	901	331

(1) Including where the Bank has provided material service in the syndication transaction.

(2) Credit risk relating to off-balance sheet financial instruments, as computed for the purpose of restrictions on indebtedness of a single borrower, excluding in respect of derivative instruments.

5. Purchase of credit to the public

Commercial credit to the public that was purchased during 2017 amounts to NIS 2,770 million (of which: problematic credit in the amout of NIS 26 million).

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

C. Classification of Credit and Credit Risk of Off-Balance Sheet Items by Size of Borrowers

Consolidated		December 31, 2017			December 31, 2016		
Size of credit per borrower		Number of borrowers[4]	Credit[1][2]	Off-balance sheet credit risk [1][3]	Number of borrowers [5]	Credit[1][2]	Off-balance sheet credit risk [1][3]
NIS thousands				NIS million			NIS million
	Up to 10	**190,990**	**263**	**664**	190,503	273	661
From 10	to 20	**74,630**	**413**	**813**	74,390	432	810
From 20	to 40	**94,669**	**1,156**	**1,771**	93,635	1,202	1,741
From 40	to 80	**100,317**	**3,066**	**2,888**	97,408	3,036	2,817
From 80	to 150	**77,147**	**5,783**	**2,876**	72,216	5,440	2,720
From 150	to 300	**51,138**	**8,269**	**2,482**	46,717	7,604	2,292
From 300	to 600	**27,531**	**10,130**	**1,635**	25,942	9,599	1,546
From 600	to 1,200	**17,754**	**12,738**	**1,839**	16,101	11,512	1,701
From 1,200	to 2,000	**3,556**	**4,413**	**909**	3,287	4,030	878
From 2,000	to 4,000	**1,751**	**3,710**	**1,098**	1,674	3,574	1,036
From 4,000	to 8,000	**928**	**3,848**	**1,293**	850	3,356	1,325
From 8,000	to 20,000	**621**	**5,641**	**2,032**	627	5,381	2,252
From 20,000	to 40,000	**248**	**4,552**	**2,363**	250	4,172	2,604
From 40,000	to 200,000	**223**	**12,319**	**5,642**	232	12,086	7,057
From 200,000	to 400,000	**26**	**4,130**	**2,453**	26	4,561	1,974
From 400,000	to 800,000	**4**	**1,383**	**817**	5	1,960	582
From 800,000	to 1,200,000	**1**	**901**	**5**	1	800	6
Over 1,600,000		**1**	[5]**1,398**	[5]**231**	1	[5]1,625	[5]279
Total		**641,535**	**84,113**	**31,811**	623,865	80,643	32,281

(1) Credit and off-balance sheet credit risk are presented before the effect of the provision for credit losses, and before the effect of deductible collateral for the purposes of the indebtedness of a borrower.

(2) Credit to the public, investments in corporate bonds, other assets in respect of derivative instruments against the public, at a total of NIS 81,216 million, NIS 1,876 million and NIS 1,021 million, respectively (31.12.2016 - NIS 78,175 million, NIS 1,516 million and NIS 952 million, respectively).

(3) Credit risk relating to off-balance sheet financial instruments as calculated for the purpose of the limitation on indebtedness of a borrower.

(4) The number of borrowers according to the total credit and off-balance sheet credit risk.

(5) The total of credit and off-balance sheet credit risk, less collateral eligible for deduction for the purpose of limitation on indebtedness of a single borrower, amounts to NIS 696 million (31.12.2016 - NIS 718 million).

NOTE 29 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS millions)

D. Off-balance sheet financial instruments

	Consolidated				The Bank			
	Balance of contracts(1)		Balance of provision for credit losses		Balance of contracts(1)		Balance of provision for credit losses	
	December 31				December 31			
	2017	2016	2017	2016	2017	2016	2017	2016
Transactions the balance of which represents credit risk:								
Documentary credit	**244**	119	**-**	1	**235**	110	**-**	1
Guarantees securing credit	**886**	1,022	**8**	10	**554**	655	**7**	8
Guarantees to home purchasers (including commitments to provide guarantees)	**2,498**	2,859	**9**	11	**2,422**	2,728	**8**	9
Guarantees and letters of indemnity to subsidiaries to secure credit granted by them	**-**	-	**-**	-	**36**	80	**-**	-
Guarantees and other liabilities	**3,714**	3,833	**15**	17	**3,423**	3,544	**14**	16
Unutilized credit lines for derivatives instruments	**2,510**	2,857	**-**	-	**2,508**	2,855	**-**	-
Unutilized revolving credit and other on-call credit facilities	**10,432**	10,806	**12**	17	**7,958**	8,047	**10**	15
Irrevocable commitments to grant credit, not yet executed	**3,829**	4,658	**8**	4	**2,800**	3,254	**7**	3
Unutilized credit lines for credit card facilities	**7,048**	6,361	**4**	4	**3,469**	3,148	**3**	3
Facilities for the lending of securities	**279**	190	**-**	-	**279**	190	**-**	-
Required guarantees and collateral in respect of the Stock Exchange and Maof Clearing Houses (see Note 25.3(D,E)).	**182**	139	**-**	-	**182**	139	**-**	-
Commitments to issue guarantees	**1,601**	1,978	**5**	7	**1,478**	1,802	**5**	7
Transactions the stated amount of which does not represents credit risk:								
Guarantees (including guarantees to the courts for claims which may arise upon the occurrence of certain events) and letters of indemnity(2)	**89**	107	**-**	-	**89**	107	**-**	-

(1) Balance of contracts or their stated amounts at the end of the period, before provision for credit losses.

(2) In addition, the Bank provided the courts with letters of self-undertaking unlimited in amounts, given in connection with legal proceedings, in order to secure compensation for the damage to the defendants in the event that the action against them is dismissed or the legal proceedings terminated because of any other reason.

NOTE 30 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES

(NIS million)

Consolidated							December 31, 2017
	Israeli currency		Foreign currency(1)				
	Non-linked	Linked to the consumer price index	U.S. dollar	Euro	Other	Non-monetary items(2)	Total
Assets							
Cash and deposits with banks	37,381	65	1,241	209	290	-	39,186
Securities	2,639	1,021	4,609	1,663	110	196	10,238
Securities which were borrowed	813	-	-	-	-	-	813
Credit to the public, net(3)	65,849	9,710	3,207	909	244	459	80,378
Credit to the government	57	618	-	-	-	-	675
Investee company	-	-	-	-	-	565	565
Premises and equipment	-	-	-	-	-	1,095	1,095
Intangible assets	-	-	-	-	-	235	235
Assets in respect of derivative instruments	405	57	151	102	14	613	1,342
Other assets	541	4	194	2	3	442	1,186
Assets held for sale	-	-	-	-	-	4	4
Total assets	107,685	11,475	9,402	2,885	661	3,609	135,717
Liabilities							
Deposits from the public	87,253	6,037	15,714	2,942	1,099	466	113,511
Deposits from banks	899	52	161	18	3	-	1,133
Deposits from the Government	589	319	50	1	1	-	960
Bonds and subordinated capital notes	714	4,535	-	-	-	-	5,249
Liabilities in respect of derivative instruments	402	40	132	130	9	605	1,318
Other liabilities	4,468	118	89	11	10	466	5,162
Total liabilities	94,325	11,101	16,146	3,102	1,122	1,537	127,333
Difference	13,360	374	(6,744)	(217)	(461)	2,072	8,384
Non-hedging derivatives							
Derivative instruments (not including options)	(7,253)	(268)	6,850	168	503	-	-
Options in the money, net (in terms of underlying asset)	(40)	-	13	26	1	-	-
Options out of the money, net (in terms of underlying asset)	57	-	(65)	7	1	-	-
Total	6,124	106	54	(16)	44	2,072	8,384
Options in the money, net (present value of stated amount)	(223)	-	182	39	2	-	-
Options out of the money, net (present value of stated amount)	(155)	-	231	(78)	2	-	-

(1) Including linked to foreign currency.
(2) Including derivatives instruments which their underlying assets represent non-monetary item.
(3) After deduction of provisions for credit losses attributed to the linkage base.

NOTE 30 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES (CONT'D)

(NIS million)

Consolidated							December 31, 2016
	Israeli currency		Foreign currency(1)				
	Non-linked	Linked to the consumer price index	U.S. dollar	Euro	Other	Non-monetary items(2)	Total
Assets							
Cash and deposits with banks	27,245	80	1,108	401	316	-	29,150
Securities	6,966	1,667	6,112	775	78	178	15,776
Securities which were borrowed	414	-	-	-	-	-	414
Credit to the public, net(3)	62,356	10,142	3,069	980	332	449	77,328
Credit to the government	36	618	-	-	-	-	654
Investee companies	-	-	-	-	-	514	514
Premises and equipment	-	-	-	-	-	1,133	1,133
Intangible assets	-	-	-	-	-	243	243
Assets in respect of derivative instruments	266	50	339	29	22	626	1,332
Other assets	610	37	104	2	10	257	1,020
Assets held for sale	17	-	104	48	129	45	343
Total assets	97,910	12,594	10,836	2,235	887	3,445	127,907
Liabilities							
Deposits from the public	77,324	6,125	16,230	4,454	1,222	462	105,817
Deposits from banks	467	-	242	30	16	-	755
Deposits from the Government	266	172	67	64	1	-	570
Bonds and subordinated capital notes	716	5,085	-	-	-	-	5,801
Liabilities in respect of derivative instruments	345	39	290	50	22	610	1,356
Other liabilities	4,449	120	56	6	24	274	4,929
Liabilities held for sale	50	-	469	171	55	-	745
Total liabilities	83,617	11,541	17,354	4,775	1,340	1,346	119,973
Difference	14,293	1,053	(6,518)	(2,540)	(453)	2,099	7,934
Hedging financial instruments							
Derivative instruments (not including options)	234	-	-	-	(234)	-	-
Non-hedging derivatives:							
Derivative instruments (not including options)	(9,841)	(239)	6,564	2,805	711	-	-
Options in the money, net (in terms of underlying asset)	337	-	(72)	(277)	12	-	-
Options out of the money, net (in terms of underlying asset)	(80)	-	147	(58)	(9)	-	-
Total	4,943	814	121	(70)	27	2,099	7,934
Options in the money, net (present value of stated amount)	333	-	(62)	(293)	22	-	-
Options out of the money, net (present value of stated amount)	(454)	-	650	(173)	(23)	-	-

NOTE 30 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES (CONT'D)

(NIS million)

The bank							December 31, 2017
	Israeli currency		Foreign currency(1)				
	Non-linked	Linked to the consumer price index	U.S. dollar	Euro	Other	Non-monetary items(2)	Total
Assets							
Cash and deposits with banks	31,727	304	1,233	200	87	-	33,551
Securities	1,967	628	4,405	1,388	110	187	8,685
Securities which were borrowed	813	-	-	-	-	-	813
Credit to the public, net(3)	49,281	9,250	2,899	808	218	460	62,916
Investee companies	-	207	-	-	-	2,450	2,657
Premises and equipment	-	-	-	-	-	991	991
Intangible assets	-	-	-	-	-	222	222
Assets in respect of derivative instruments	415	57	151	113	14	613	1,363
Other assets	413	1	194	2	-	420	1,030
Assets held for sale	-	-	-	-	-	2	2
Total assets	84,616	10,447	8,882	2,511	429	5,345	112,230
Liabilities							
Deposits from the public	67,404	5,372	14,342	2,432	1,019	466	91,035
Deposits from banks	2,945	575	434	163	51	-	4,168
Deposits from the Government	453	318	46	-	-	-	817
Bonds and subordinated capital notes	-	3,637	-	-	-	-	3,637
Liabilities in respect of derivative instruments	402	40	134	131	9	606	1,322
Other liabilities	2,507	106	74	8	2	460	3,157
Total liabilities	73,711	10,048	15,030	2,734	1,081	1,532	104,136
Difference	10,905	399	(6,148)	(223)	(652)	3,813	8,094
Non-hedging derivatives:							
Derivative instruments (not including options)	(6,647)	(268)	6,255	168	492	-	-
Options in the money, net (in terms of underlying asset)	(40)	-	13	26	1	-	-
Options out of the money, net (in terms of underlying asset)	57	-	(65)	7	1	-	-
Total	4,275	131	55	(22)	(158)	3,813	8,094
Options in the money, net (present value of stated amount)	(223)	-	182	39	2	-	-
Options out of the money, net (present value of stated amount)	(155)	-	231	(78)	2	-	-

(1) Including linked to foreign currency.
(2) Including derivatives instruments which their underlying assets represent non-monetary item.
(3) After deduction of provisions for credit losses attributed to the linkage base.

NOTE 30 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES (CONT'D)

(NIS million)

The bank							December 31, 2016
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the consumer price index	U.S. dollar	Euro	Other	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	21,581	316	969	287	179	-	23,332
Securities	5,648	1,138	5,881	616	66	174	13,523
Securities which were borrowed	414	-	-	-	-	-	414
Credit to the public, net[3]	46,933	9,674	2,849	880	308	449	61,093
Credit to the Government	7	-	-	-	-	-	7
Investee companies	-	206	-	-	-	2,335	2,541
Premises and equipment	-	-	-	-	-	1,019	1,019
Intangible assets and goodwill	-	-	-	-	-	219	219
Assets in respect of derivative instruments	269	50	341	41	16	625	1,342
Other assets	446	1	103	2	-	232	784
Assets held for sale	-	-	-	-	-	45	45
Total assets	75,298	11,385	10,143	1,826	569	5,098	104,319
Liabilities							
Deposits from the public	58,490	5,462	14,868	3,985	1,136	462	84,403
Deposits from banks	2,003	528	670	319	56	-	3,576
Deposits from the Government	69	172	55	-	-	-	296
Bonds and subordinated capital notes	-	4,019	-	-	-	-	4,019
Liabilities in respect of derivative instruments	344	39	298	51	12	612	1,356
Other liabilities	2,593	108	43	5	-	269	3,018
Total liabilities	63,499	10,328	15,934	4,360	1,204	1,343	96,668
Difference	11,799	1,057	(5,791)	(2,534)	(635)	3,755	7,651
Hedging derivatives							
Derivative instruments (not including options)	234	-	-	-	(234)	-	-
Non-hedging derivatives:							
Derivative instruments (not including options)	(9,011)	(269)	5,784	2,805	691	-	-
Options in the money, net (in terms of underlying asset)	337	-	(72)	(277)	12	-	-
Options out of the money, net (in terms of underlying asset)	(80)	-	147	(58)	(9)	-	-
Total	3,279	788	68	(64)	(175)	3,755	7,651
Options in the money, net (present value of stated amount)	333	-	(62)	(293)	22	-	-
Options out of the money, net (present value of stated amount)	(454)	-	650	(173)	(23)	-	-

NOTE 31 - ASSETS AND LIABILITIES ACCORDING TO CURRENCY AND MATURITY DATES(1)

Consolidated	Future expected cash flows				
	December 31, 2017				
	On demand and up to one month(5)	One to three months(5)	Three months to one year(5)	One to two years	Two to three years
	NIS million				
Israeli currency (including linked to foreign currency)					
Assets	**54,111**	**6,188**	**12,740**	**11,101**	**8,444**
Liabilities	**77,202**	**7,913**	**10,716**	**3,862**	**2,409**
Difference	**(23,091)**	**(1,725)**	**2,024**	**7,239**	**6,035**
Derivative instruments (except options)	**(7,749)**	**133**	**16**	**20**	**(18)**
Options (in terms of underlying assets)	**84**	**60**	**(15)**	**11**	**-**
Difference after effect of derivative instruments	**(30,756)**	**(1,532)**	**2,025**	**7,270**	**6,017**
Foreign currency					
Assets	**3,666**	**2,521**	**2,201**	**954**	**459**
Liabilities	**17,019**	**1,621**	**1,499**	**140**	**60**
Difference	**(13,353)**	**900**	**702**	**814**	**399**
Of which: Difference in U.S. dollar	**(8,598)**	**174**	**883**	**562**	**255**
Of which: Difference in respect of foreign operations	**196**	**-**	**-**	**-**	**-**
Derivative instruments (except options)	**7,749**	**(133)**	**(16)**	**(20)**	**18**
Options (in terms of underlying assets)	**(84)**	**(60)**	**15**	**(11)**	**-**
Difference after effect of derivative instruments	**(5,688)**	**707**	**701**	**783**	**417**
Total					
Assets*	**57,777**	**8,709**	**14,941**	**12,055**	**8,903**
Liabilities**	**94,221**	**9,534**	**12,215**	**4,002**	**2,469**
Difference	**(36,444)**	**(825)**	**2,726**	**8,053**	**6,434**
* Of which: Credit to the public	**17,864**	**7,066**	**11,820**	**10,062**	**7,369**
** Of which: Deposits from the public	**90,479**	**8,487**	**10,478**	**1,249**	**1,067**

	December 31, 2016*				
	On demand and up to one month	One to three months	Three months to one year	One to two years	Two to three years
	NIS million				
Assets	45,470	10,353	16,653	11,692	10,010
Liabilities	87,079	6,932	14,466	3,258	3,565
Difference	(41,609)	3,421	2,187	8,434	6,445

* Reclassified.

(1) This Note presents the anticipated future contractual cash flows in respect of assets and liabilities (including off-balance sheet items) according to their linkage base and to the remaining period to contractual maturity of each item. Rules were prescribed for cash flows relating to credits and deposits bearing variable interest rates, the date of their change falls prior to the maturity date of the principal and/or interest of such credits and deposits. The data is presented net of accounting write-offs and provision for credit losses.

(2) Including overdue amounts of NIS 245 million (31.12.16 - NIS 357 million).

(3) As included in note 30 "Assets and liabilities according to linkage bases" including off-balance sheet amount in respect of derivatives.

(4) The contractual rate of return is the rate of interest discounting the anticipated future contractual cash flows presented in this Note in respect of a financial item, to its stated balance.

(5) Credit in current account classified according to the period of the credit facility in the amount of NIS 4,516 million (31.12.2016 - NIS 5,393 million). Credit in excess of credit facility in the amount NIS 202 million, classified without maturity date (31.12.2016 - NIS 295 million).

Three to four years	Four to five years	Five to ten years	Ten to twenty years	Over twenty years	Total cash flows	Balance-sheet balance [3] Without maturity date[2][5]	Total	Contractual return rate[4]
							NIS million	Percent
5,745	4,586	13,656	10,040	2,204	128,815	307	119,351	2.69
1,413	754	1,858	246	54	106,427	91	105,451	1.08
4,332	3,832	11,798	9,794	2,150	22,388	216	13,900	
-	-	-	-	-	(7,598)	-	(7,521)	
-	-	-	-	-	140	-	17	
4,332	3,832	11,798	9,794	2,150	14,930	216	6,396	
356	706	2,259	237	1	13,360	48	12,757	2.11
58	33	120	-	-	20,550	-	20,345	1.38
298	673	2,139	237	1	(7,190)	48	(7,588)	
206	566	496	26	1	(5,429)	17	(6,883)	
-	-	-	-	-	196	-	196	
-	-	-	-	-	7,598	-	7,521	
-	-	-	-	-	(140)	-	(17)	
298	673	2,139	237	1	268	48	(84)	
6,101	5,292	15,915	10,277	2,205	142,175	355	132,108	2.65
1,471	787	1,978	246	54	126,977	91	125,796	1.09
4,630	4,505	13,937	10,031	2,151	15,198	264	6,312	
5,514	4,508	12,658	9,799	2,186	88,846	246	79,919	2.92
564	625	253	54	-	113,256	-	113,045	0.82

Three to four years	Four to five years	Five to ten years	Ten to twenty years	Over twenty years	Total cash flows	Without maturity date[2]	Total	Contractual return rate[4]
							NIS million	Percent
7,290	5,165	16,020	9,357	2,141	134,151	411	124,462	2.63
1,950	1,126	1,944	162	115	120,597	81	118,627	1.88
5,340	4,039	14,076	9,195	2,026	13,554	330	5,835	

NOTE 31 - ASSETS AND LIABILITIES ACCORDING TO CURRENCY AND MATURITY DATES(1) (CONT'D)

The bank	Future expected cash flows				
	December 31, 2017(5)				
	On demand and up to one month(5)	One to three months(5)	Three months to one year(5)	One to two years	Two to three years
	NIS million				
Israeli currency (including linked to foreign currency)					
Assets	**47,301**	**4,671**	**8,112**	**7,816**	**5,287**
Liabilities	**57,702**	**6,824**	**9,382**	**4,410**	**2,475**
Difference	**(10,401)**	**(2,153)**	**(1,270)**	**3,406**	**2,812**
Derivative instruments (except options)	**(7,662)**	**653**	**16**	**20**	**(18)**
Options (in terms of underlying assets)	**84**	**60**	**(15)**	**11**	**-**
Difference after effect of derivative instruments	**(17,979)**	**(1,440)**	**(1,269)**	**3,437**	**2,794**
Foreign currency					
Assets	**3,579**	**2,064**	**2,094**	**892**	**423**
Liabilities	**15,737**	**1,500**	**1,387**	**141**	**63**
Difference	**(12,158)**	**564**	**707**	**751**	**360**
Of which: Difference in U.S. dollar	**(9,383)**	**335**	**737**	**621**	**258**
Derivative instruments (except options)	**7,662**	**(653)**	**(16)**	**(20)**	**18**
Options (in terms of underlying assets)	**(84)**	**(60)**	**15**	**(11)**	**-**
Difference after effect of derivative instruments	**(4,580)**	**(149)**	**706**	**720**	**378**
Total					
Assets*	**50,880**	**6,735**	**10,206**	**8,708**	**5,710**
Liabilities**	**73,439**	**8,324**	**10,769**	**4,551**	**2,538**
Difference	**(22,559)**	**(1,589)**	**(563)**	**4,157**	**3,172**
* Of which: Credit to the public	**15,595**	**5,252**	**7,695**	**7,319**	**5,180**
** Of which: Deposits from the public	**69,594**	**7,633**	**8,866**	**1,557**	**1,422**

	Future expected cash flows				
	December 31, 2016*				
	On demand and up to one month	One to three months	Three months to one year	One to two years	Two to three years
	NIS million				
Assets	37,837	7,494	13,155	8,653	7,176
Liabilities	66,173	5,850	12,968	3,277	3,689
Difference	(28,336)	1,644	187	5,376	3,487

* Reclassified.

(1) This Note presents the anticipated future contractual cash flows in respect of assets and liabilities (including off-balance sheet items) according to their linkage base and to the remaining period to contractual maturity of each item. Rules were prescribed for cash flows relating to credits and deposits bearing variable interest rates, the date of their change falls prior to the maturity date of the principal and/or interest of such credits and deposits. The data is presented net of accounting write-offs and provision for credit losses.
(2) Including overdue amounts of NIS 205 million (31.12.16 - NIS 313 million).
(3) As included in note 30 "Assets and liabilities according to linkage bases" including off-balance sheet amount in respect of derivatives.
(4) The contractual rate of return is the rate of interest discounting the anticipated future contractual cash flows presented in this Note in respect of a financial item, to its stated balance.
(5) Credit in current account classified according to the period of the credit facility in the amount of NIS 3,163 million (31.12.2016 - NIS 4,015 million). Credit in excess of credit facility in the amount NIS 162 million, classified without maturity date (31.12.2016 - NIS 250 million).

Three to four years	Four to five years	Five to ten years	Ten to twenty years	Over twenty years	Total cash flows	Balance-sheet balance [3] Without maturity date[2][5]	Total	Contractual return rate[4]
							NIS million	Percent
4,139	**3,437**	**11,132**	**9,372**	**2,196**	**103,463**	**159**	**95,248**	**2.84**
1,325	**708**	**1,689**	**203**	**53**	**84,771**	**91**	**83,780**	**1.74**
2,814	**2,729**	**9,443**	**9,169**	**2,143**	**18,692**	**68**	**11,468**	
-	**-**	**-**	**-**	**-**	**(6,991)**	**-**	**(6,916)**	
-	**-**	**-**	**-**	**-**	**140**	**-**	**17**	
2,814	**2,729**	**9,443**	**9,169**	**2,143**	**11,841**	**68**	**4,569**	
342	**705**	**1,853**	**237**	**1**	**12,190**	**47**	**11,637**	**2.14**
53	**48**	**107**	**-**	**-**	**19,036**	**-**	**18,824**	**1.82**
289	**657**	**1,746**	**237**	**1**	**(6,846)**	**47**	**(7,187)**	
210	**563**	**631**	**26**	**-**	**(6,002)**	**18**	**(6,289)**	
-	**-**	**-**	**-**	**-**	**6,991**	**-**	**6,916**	
-	**-**	**-**	**-**	**-**	**(140)**	**-**	**(17)**	
289	**657**	**1,746**	**237**	**1**	**5**	**47**	**(288)**	
4,481	**4,142**	**12,985**	**9,609**	**2,197**	**115,653**	**206**	**106,885**	**2.79**
1,378	**756**	**1,796**	**203**	**53**	**103,807**	**91**	**102,604**	**1.74**
3,103	**3,386**	**11,189**	**9,406**	**2,144**	**11,846**	**115**	**4,281**	
4,018	**3,429**	**10,236**	**9,137**	**2,178**	**70,039**	**206**	**62,456**	**2.92**
950	**600**	**161**	**25**	**-**	**90,808**	**-**	**90,569**	**1.17**

Three to four years	Four to five years	Five to ten years	Ten to twenty years	Over twenty years	Total cash flows	Balance-sheet balance [3] Without maturity date[2]	Total	Contractual return rate[4]
							NIS million	Percent
4,868	4,009	13,387	8,825	2,134	107,538	259	99,221	2.64
1,835	1,112	1,754	114	110	96,882	81	95,325	2.00
3,033	2,897	11,633	8,711	2,024	10,656	178	3,896	

NOTE 32A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS
(NIS million)

					Consolidated
					December 31, 2017
					Fair value(1)
	Stated in the Balance Sheet	(1)	(2)	(3)	Total
Financial assets					
Cash and deposits with banks	39,186	585	38,533	70	39,188
Securities(2)	10,238	3,629	6,568	119	10,316
Securities which were borrowed	813	-	813	-	813
Credit to the public, net	80,378	3,542	1,366	75,544	80,452
Credit to the government	675	-	41	633	674
Assets in respect of derivative instruments	1,342	731	335	276	1,342
Other financial assets	707	423	-	284	707
Total financial assets	(3)133,339	8,910	47,656	76,926	133,492
Financial liabilities					
Deposits from the public	113,511	2,657	92,613	18,477	113,747
Deposits from Banks	1,133	-	1,077	80	1,157
Deposits from the Government	960	708	188	75	971
Bonds and non-convertible subordinated capital notes	5,249	4,716	-	754	5,470
Liabilities in respect of derivative instruments	1,318	730	546	42	1,318
Other financing liabilities	4,082	521	1,366	2,193	4,080
Total financial liabilities	(3)126,253	9,332	95,790	21,621	126,743
Off balance sheet financial instruments					
Transactions were the balance represents credit risk	33	-	-	33	33
In addition, the liability in respect of employee rights, gross - pension and severance pay(4)	1,166	-	-	1,166	1,166

(1) Level 1 - fair value measurements using prices quoted in an active market.
Level 2 - fair value measurements using other significant observable data.
Level 3 - fair value measurements using significant unobservable data.
(2) For further details of the stated balance and the fair value of securities, see Note 12, "Securities".
(3) Of which: assets of NIS 14,116 million and liabilities of NIS 5,202 million, the stated balance of which is identical to their fair value (instruments reflected in the balance sheet at fair value). For further information regarding instruments measured at fair value on a recurring basis and on a non-recurring basis, see note 32.B-32.D.
(4) The liability is shown gross, without taking into account the plan assets managed against it.

					Consolidated
					December 31, 2016
	Stated in the				Fair value(1)
	Balance Sheet	(1)	(2)	(3)	Total
Financial assets					
Cash and deposits with banks	29,150	582	28,480	84	29,146
Securities(2)	15,776	8,421	7,274	123	15,818
Securities which were borrowed	414	-	414	-	414
Credit to the public, net	77,328	2,845	1,030	73,038	76,913
Credit to the government	654	-	36	608	644
Assets in respect of derivative instruments	1,332	698	386	248	1,332
Other financial assets	484	238	-	246	484
Assets held for sale	298	-	-	298	298
Total financial assets	(3)125,436	12,784	37,620	74,645	125,049
Financial liabilities					
Deposits from the public	105,817	1,984	87,690	16,248	105,922
Deposits from Banks	755	-	729	28	757
Deposits from the Government	570	173	323	90	586
Bonds and non-convertible subordinated capital notes	5,801	5,165	-	848	6,013
Liabilities in respect of derivative instruments	1,356	698	616	42	1,356
Other financing liabilities	3,906	491	1,030	2,383	3,904
Liabilities held for sale	745	-	-	745	745
Total financial liabilities	(3)118,950	8,511	90,388	20,384	119,283
Off balance sheet financial instruments					
Transactions were the balance represents credit risk	33	-	-	33	33
In addition, the liability in respect of employee rights, gross - pension and severance pay(4)	1,166	-	-	1,166	1,166

(1) Level 1 - fair value measurements using prices quoted in an active market.
Level 2 - fair value measurements using other significant observable data.
Level 3 - fair value measurements using significant unobservable data.

(2) For further details of the stated balance and the fair value of securities, see Note 12, "Securities".

(3) Of which: assets of NIS 18,609 million and liabilities of NIS 4,020 million, the stated balance of which is identical to their fair value (instruments reflected in the balance sheet at fair value). For further information regarding instruments measured at fair value on a recurring basis and on a non-recurring basis, see note 32.B-32.D.

(4) The liability is shown gross, without taking into account the plan assets managed against it.

NOTE 32A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS - (CONT'D)

A. Fair value of financial instruments.

The Note includes information regarding the fair value of financial instruments. There is no quotable “market value” for most of the financial instruments of the Bank since they are not traded in an active market. Therefore, the fair value is derived by accepted pricing models, such as discounting future cash flows at interest rates reflecting the credit risk inherent in the financial instrument.

Determination of fair value, estimated by discounting future cash flows and determining the relative interest rates is subjective. Furthermore, the fair value estimations for most of the financial instruments does not necessarily indicate the realizable value on the reporting date. The estimated fair value was calculated according to interest rates prevailing on balance sheet date and does not consider interest rate fluctuations. Given other interest rate assumptions fair value estimates may differ materially. This is mainly the case where financial instruments have fixed interest rates or do not bear interest.

In addition, in determining fair value, commissions to be received or paid as a result of the said transactions and tax effects, in respect of the gap between the fair value and the balances at the balance sheet, were not taken into consideration.

Furthermore, the difference between the balance sheet and the fair value amounts may not be realized as the Bank may hold the instruments until maturity. As a result of all of these it is necessary to emphasize that the data included in this note does not reflect the net worth of the Bank as a going concern. Also, as a result of the wide range of possible estimation techniques and methods, care should be taken when comparing fair value of different banks.

B. Principal methods and assumptions used for the calculation of the fair value estimates of financial instruments

Deposits with banks, bonds and non-marketable securities and credit to the Government - By discounting future cash flows according to interest rates used by the Bank in similar transactions close to the reporting date.

Marketable securities - According to their value in the principal market. Where there are several markets on which the instrument is traded, the assessment is made according to the most beneficial market.

Credit to the public - The fair value of the credit to the public balance was estimated according to discounting the future cash flows in an appropriate discount rate. The balance was separated into homogenous categories. The receipts in each category were discounted at a discount rate which reflects the risk inherent in the category. In general, this discount rate is determined according to the interest at which the Bank transacts similar business at the reporting date.
The fair value of impaired debts is assessed using discount rates that reflect the high credit risk inherent in such debts. In any event, such discount rates are not lower than the highest interest rate used by the Bank in transacting business at the reporting date.
Anticipated future cash flows in respect of impaired debts and other debts have been assessed after deducting the effect of accounting write-offs and of provisions for credit losses in respect of the debts.
Accounting write-offs and provisions for credit losses are attributed, where possible, to periods in which these debts had been classified (example: where the provision was assessed on a specific basis, by the present value of future cash flows). In the absence of such data, accounting write-offs and provisions for credit losses are attributed proportionally to the outstanding balance of credit according to maturity periods at end of the period.
Cash flows in respect of mortgages have been assessed according to the premature repayment forecast, which is based on a statistical model. Capitalization of the said cash flow, according to the anticipated repayment dates instead of the contractual repayment dates, increased the fair value of the mortgages by an amount of NIS 46 million. In accordance with the original cash flow, which does not take into account premature repayments, the average period to redemption of assets in the non-linked shekel segment at December 31, 2017, was 0.54 years. In the CPI linked shekel segment the average period to redemption was 3.22 years compared with 0.46 years and 2.55 years, respectively, after taking into account the premature payments. The comparative data as of December 31, 2016, has not been reclassified.

Deposits and subordinate capital notes - By discounting future cash flows according to interest rates used by the Group in raising similar deposits, or issuing similar capital notes (if a quoted price on an active market is not available) at reporting date. As regards bonds and subordinate debt notes that are traded as an asset on an active market, fair value is based upon quoted market prices or on traders' quotations regarding a similar liability traded as an asset on an active market.

Derivative financial instruments - Derivative financial instruments for which an active market exists have been estimated at market value, and where several active markets exist, have been estimated according to the most beneficial market.
Derivative financial instruments for which no active market exists have been calculated according to models which are used by the Group in current activity and take into account the inherent risks of the financial instrument (market risk, credit risk, etc.).

Off-balance sheet financial instruments and transactions the balance of which represents credit risk -the fair value has been assessed in accordance with commission earned in similar transactions at the reporting date, adjusted in respect of the remaining period of the transaction and the credit quality of the counterparty.

NOTE 32B - ITEMS MEASURED AT FAIR VALUE

(NIS million)

A. Items measured at fair value on a recurrent basis

	December 31, 2017				
	Fair-value measurements using -				
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Effect of netting agreements	Balance sheet balance
Assets					
Securities available for sale:					
Government bonds - Israeli government	1,610	2,533	-	-	4,143
Government bonds - Foreign governments	-	1,932	-	-	1,932
Bonds of financial institutions in Israel	106	-	-	-	106
Bonds of foreign financial institutions	-	511	-	-	511
Mortgage backed securities (MBS)	-	300	-	-	300
Bonds of others in Israel	234	124	-	-	358
Bonds of foreign others	-	853	-	-	853
Shares of others	75	-	-	-	75
Total available for sale securities	2,025	6,253	-	-	8,278
Trading Securities:					
Government bonds - Israeli government	442	-	-	-	442
Bonds of foreign financial institutions	-	28	-	-	28
Bonds of others in Israel	38	-	-	-	38
Bonds of foreign others	-	21	-	-	21
Shares of others	2	-	-	-	2
Total trading securities	482	49	-	-	531
Credit in respect of security borrowing	3,542	-	-	-	3,542
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	-	-	22	-	22
Interest rate contract: other	4	199	10	-	213
Foreign currency contracts	122	128	244	-	494
Shares contracts	604	8	-	-	612
Commodities and other contracts	1	-	-	-	1
Total assets in respect of derivative instruments	731	335	276	-	1,342
Assets in respect of MAOF activity	423	-	-	-	423
Total assets	7,203	6,637	276	-	14,116
Liabilities					
Deposits in respect of borrowing between customers	2,657	-	-	-	2,657
Deposits from the Government	708	-	-	-	708
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	-	-	2	-	2
Interest rate contract: other	4	225	-	-	229
Foreign currency contracts	121	321	40	-	482
Shares contracts	604	8	-	-	612
Commodities and other contracts	1	-	-	-	1
Total liabilities in respect of derivative instruments	730	554	42	-	1,326
Other liabilities					
Liabilities in respect of activity in the MAOF market	423	-	-	-	423
Short selling of securities	98	-	-	-	98
Total other liabilities	521	-	-	-	521
Total liabilities	4,616	554	42	-	5,212

NOTE 32B - ITEMS MEASURED AT FAIR VALUE (CONT'D)
(NIS million)

A. Items measured at fair value on a recurrent basis

	December 31, 2016				
	Fair-value measurements using -				
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Effect of netting agreements	Balance sheet balance
Assets					
Securities available for sale:					
Government bonds - Israeli government	5,504	1,930	-	-	7,434
Government bonds - Foreign governments	-	*2,160	-	-	2,160
Bonds of financial institutions in Israel	259	-	-	-	259
Bonds of foreign financial institutions	-	*1,752	-	-	1,752
Mortgage backed securities (MBS)	-	409	-	-	409
Bonds of others in Israel	524	194	-	-	718
Bonds of foreign others	-	*435	-	-	435
Shares of others	48	4	-	-	52
Total available for sale securities	6,335	6,884	-	-	13,219
Trading Securities:					
Government bonds - Israeli government	946	-	-	-	946
Bonds of financial institutions in Israel	4	-	-	-	4
Bonds of foreign financial institutions	-	4	-	-	4
Bonds of others in Israel	7	-	-	-	7
Bonds of foreign others	-	11	-	-	11
Shares of others	3	-	-	-	3
Total trading securities	960	15	-	-	975
Credit in respect of security borrowing	2,845	-	-	-	2,845
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	-	-	23	-	23
Interest rate contract: other	15	213	10	-	238
Foreign currency contracts	73	157	215	-	445
Shares contracts	609	16	-	-	625
Commodities and other contracts	1	-	-	-	1
Total assets in respect of derivative instruments	698	386	248	-	1,332
Assets in respect of MAOF activity	238	-	-	-	238
Total assets	11,076	7,285	248	-	18,609
Liabilities					
Deposits in respect of borrowing between customers	1,984	-	-	-	1,984
Deposits from the Government	173	-	-	-	173
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	-	-	3	-	3
Interest rate contract: other	15	264	-	-	279
Foreign currency contracts	73	352	39	-	464
Shares contracts	609	16	-	-	625
Commodities and other contracts	1	-	-	-	1
Total liabilities in respect of derivative instruments	698	632	42	-	1,372
Other liabilities					
Liabilities in respect of activity in the MAOF market	238	-	-	-	238
Short selling of securities	253	-	-	-	253
Total other liabilities	491	-	-	-	491
Total liabilities	3,346	632	42	-	4,020

* Reclassified.

NOTE 32B - ITEMS MEASURED AT FAIR VALUE (CONT'D)

(NIS million)

B. Items measured at fair value on a nonrecurrent basis

	December 31, 2017				
	Level 1	Level 2	Level 3	Total fair value	Total profit (loss)
Impaired credit the collection of which is contingent on collateral	**-**	**-**	**52**	**52**	**(13)**

	December 31, 2016				
	Level 1	Level 2	Level 3	Total fair value	Total profit (loss)
Impaired credit the collection of which is contingent on collateral	-	-	65	65	19

NOTE 32C - CHANGES IN ITEMS MEASURED AT FAIR VALUE ON A RECURRENT BASIS INCLUDED IN LEVEL 3

(NIS million)

	For the year ended 31, December 2017							
	Fair value as at December 31, 2016	Profits (losses) realized and unrealized Included in the profit and loss statement (1)	Purchases	Payments	Transfers to level 3, gross	Transfer from level 3, gross	Fair value as at December 31, 2017	Unrealized profits (losses) in respect of instruments held as at December 31, 2017
Assets								
Assets in respect of derivative instruments:								
Interest rate contract: NIS-CPI	**23**	**2**	**-**	**(3)**	**-**	**-**	**22**	**2**
Interest rate contract: other	**10**	**4**	**-**	**(4)**	**-**	**-**	**10**	**4**
Foreign currency contracts	**215**	**1,271**	**66**	**(1,308)**	**-**	**-**	**244**	**126**
Total assets	**248**	**1,277**	**66**	**(1,315)**	**-**	**-**	**276**	**132**
Liabilities								
Liabilities in respect of derivative instruments:								
Interest rate contract: NIS-CPI	**3**	**(2)**	**-**	**(3)**	**-**	**-**	**2**	**(2)**
Foreign currency contracts	**39**	**(2)**	**-**	**(1)**	**-**	**-**	**40**	**(2)**
Total liabilities	**42**	**(4)**	**-**	**(4)**	**-**	**-**	**42**	**(4)**

	For the year ended 31, December 2016							
	Fair value as at December 31, 2015	Profits (losses) realized and unrealized Included in the profit and loss statement (1)	Purchases	Payments	Transfers to level 3, gross	Transfer from level 3, gross	Fair value as at December 31, 2016	Unrealized profits (losses) in respect of instruments held as at December 31, 2016
Assets								
Assets in respect of derivative instruments:								
Interest rate contract: NIS-CPI	27	4	-	(8)	-	-	23	3
Interest rate contract: other	10	5	-	(5)	-	-	10	5
Foreign currency contracts	241	2,017	62	(2,105)	-	-	215	95
Total assets	278	2,026	62	(2,118)	-	-	248	103
Liabilities								
Liabilities in respect of derivative instruments:								
Interest rate contract: NIS-CPI	8	-	-	(5)	-	-	3	-
Foreign currency contracts	60	(6)	-	(27)	-	-	39	(6)
Total liabilities	68	(6)	-	(32)	-	-	42	(6)

(1) Realized profits (losses) are included in the profit and loss statement in the item non interest financing income.

NOTE 32D -QUANTITATIVE INFORMATION ON ITEMS MEASURED AT FAIR VALUE INCLUDED IN LEVEL 3

	as of December 31, 2017				
	Value Assessment technique	Unobservable inputs	Fair value	Average	Range
			(NIS million)		in %
A. Items measured at fair value on a recurrent basis					
Assets					
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI linked interest	**22**	**(0.32)**	**(0.42)-(0.30)**
Interest rate contract: other	Discounted cash flow	Counter-party credit risk	**10**	**1.90**	**1.30-4.96**
Foreign currency contracts	Discounted cash flow	1. CPI-linked interest	**60**	**(0.39)**	**(0.52)-0.42**
		2. Counter-party credit risk	**184**	**1.53**	**1.05-4.96**
Liabilities					
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI-linked interest	**2**	**(0.27)**	**(0.69)-2.29**
Foreign currency contracts	Discounted cash flow	CPI-linked interest	**40**	**(0.71)**	**(0.82)-(0.26)**
B. Items measured at fair value on a non-recurrent basis					
Impaired credit the collection of which is contingent on collateral	Collaterals value		**52**		

	as of December 31, 2016				
	Value Assessment technique	Unobservable inputs	Fair value	Average	Range
			(NIS million)		in %
A. Items measured at fair value on a recurrent basis					
Assets					
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI linked interest	23	0.10	(0.84)-0.89
Interest rate contract: other	Discounted cash flow	Counter-party credit risk	10	1.90	1.30-5.01
Foreign currency contracts	Discounted cash flow	1. CPI-linked interest	52	(0.58)	(0.98)-0.59
		2. Counter-party credit risk	163	1.48	1.05-5.01
Liabilities					
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI-linked interest	3	(0.50)	(0.84)-1.91
Foreign currency contracts	Discounted cash flow	CPI-linked interest	39	(0.50)	(0.75)-(0.17)
B. Items measured at fair value on a non-recurrent basis					
Impaired credit the collection of which is contingent on collateral	Collaterals value		66		

NOTE 32D -QUANTITATIVE INFORMATION ON ITEMS MEASURED AT FAIR VALUE INCLUDED IN LEVEL 3 (CONT'D)

Qualitative information regarding items measured at fair value at level 3:

- Interest linked to the CPI - A change in the forecasted inflation rate would affect the fair value of CPI linked transactions, such that a rise (decline) in the inflationary forecast would lead to an increase (decrease) in fair value in accordance with the CPI linkage position of the Bank.
- Credit risk of a counterparty - A change in the credit risk of a counterparty to a transaction, such that in as much as the credit risk of a counterparty to a transaction would be higher/lower, the value of the transaction would also be higher/lower.

NOTE 33 - INTERESTED AND RELATED PARTIES
(NIS million)

A. Balances

	December 31, 2017			
	Interest parties[1]			
	Shareholders			
	Controlling shareholders[2]		Others[3]	
	Year-end balance	Highest balance during the year [5]	Year-end balance	Highest balance during the year [5]
Credit to the public	**-**	**-**	**-**	**-**
Equity basis investee[9]	**-**	**-**	**-**	**-**
Other assets	**-**	**-**	**-**	**-**
Deposits from the public	**5**	**8**	**9**	**15**
Other liabilities	**-**	**-**	**-**	**-**
Shares (included in shareholders' equity)[10]	**3,754**	**3,754**	**-**	**-**
Credit risk in off- balance sheet financial instrument[9][11]	**-**	**-**	**-**	**-**

	December 31, 2016			
	Interest parties			
	Shareholders			
	Controlling shareholders		Others[12]	
	Year-end balance	Highest balance during the year [5]	Year-end balance	Highest balance during the year [5]
Securities[9]	-	-	-	-
Credit to the public	-	-	-	-
Equity basis investee[9]	-	-	-	-
Other assets	-	-	-	-
Deposits from the public	5	5	-	-
Other liabilities	-	-	-	-
Shares (included in shareholders' equity)[10]	3,539	3,583	-	-
Credit risk in off- balance sheet financial instrument[9][11]	-	-	-	-

Note: For notes to the table see page 278.

	Interest parties[1]						Related parties held by the Bank[1]			
	Office-holders[4]		Others[6]		Whoever was an interested party at the time of the transaction		Equity basis investees[7]		others[8]	
	Year-end balance	Highest balance during the year [5]	Year-end balance	Highest balance during the year [5]	Year-end balance	Highest balance during the year [5]	Year-end balance	Highest balance during the year [5]	Year-end balance	Highest balance during the year [5]
	12	**13**	**78**	**79**	**-**	**-**	**900**	**900**	**61**	**61**
	-	**-**	**-**	**-**	**-**	**-**	**565**	**565**	**-**	**-**
	-	**-**	**15**	**15**	**-**	**-**	**1**	**1**	**206**	**206**
	13	**19**	**18**	**117**	**-**	**-**	**4**	**4**	**137**	**231**
	34	**34**	**-**	**-**	**-**	**-**	**-**	**2**	**-**	**-**
	-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	3	**3**	**63**	**63**	**8**	**8**	**6**	**6**	**27**	**27**

	Interest parties						Related parties held by the Bank			
	Key management personnel[13]		Others [14]		Whoever was an interested party at the time of the transaction		Equity basis investees		others[15]	
	Year-end balance	Highest balance during the year [5]	Year-end balance	Highest balance during the year [5]	Year-end balance	Highest balance during the year [5]	Year-end balance	Highest balance during the year [5]	Year-end balance	Highest balance during the year [5]
	-	-	-	-	-	-	-	1	-	-
	15	15	-	-	71	86	800	800	2	2
	-	-	-	-	-	-	514	514	-	-
	-	-	-	-	6	9	-	1	-	-
	11	18	85	86	-	-	3	4	92	125
	31	31	-	-	-	-	2	3	-	-
	-	-	-	-	-	-	-	-	-	-
	3	4	4	4	-	-	6	6	3	6

NOTE 33 - INTERESTED AND RELATED PARTIES (CONT'D)
(NIS million)

B. Condensed results of transactions with related and interested parties

	Interest parties (1)								
	Shareholders								
	Controlling shareholders(2)			Others(3)			Office-holders (4)		
	For the year ended December 31			For the year ended December 31			For the year ended December 31		
Statement of income items	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
Net interest income*	**-**	-	-	**-**	-	-	**-**	-	-
Non-interest income	**-**	-	-	**6**	-	-	**-**	-	-
Operating and other expenses**	**-**	-	-	**-**	-	-	**33**	35	33
Total	**-**	-	-	**6**	-	-	**(33)**	(35)	(33)

* Details are provided in D below.
** Details are provided in C below.

For notes to the table see page 278.

C. Benefits to interested parties (by the Bank and its invetees)

	Salaries to interested parties (by the Bank and its investees)*					
	For the year ended December 31, 2017		For the year ended December 31, 2016		For the year ended December 31, 2015	
	Office-holders(4)		Office-holders(4)		Office-holders(4)	
	Total benefits	Number of Recipients	Total benefits	Number of Recipients	Total benefits	Number of Recipients
An interested party employed by the Bank	****28**	**19**	**30	17	**28	17
Directors not employed by the Bank	**5**	**12**	5	12	5	13

* Not including VAT on salary.
** Of which: employee benefits for short term- NIS 25 million (2016 - NIS 26 million, 2015 - NIS 26 million), other benefits after termination of employment - NIS 3 million (2016 - NIS 4 million, 2015 - NIS 2 million).

Notes:
(1) Interested party, related party, related person - within the definition in Section 80(d) of the public reporting instructions.
(2) Controlling shareholders and their kin - in accordance with Section 80(d)(1) of the public reporting instructions.
(3) Other shareholders - including whoever holds 5% or more of the means of control of a banking corporation, and whoever is entitled to appoint one or more directors to the board of directors of a banking corporation or its general manager - in accordance with Section 80(d)(2) of the public reporting instructions.
(4) Officers - in accordance with Section 80(d)(3) of the public reporting instructions.
(5) On the basis of the outstanding balance at month-end.
(6) In accordance with Section 80(d)(4) of the public reporting instructions- in respect of corporations in which, a person or a corporation, included in one of the groups of interested parties according to the Securities Act, holds twenty-five percent or over of their issued share capital or of the voting therein, or is entitled to appoint twenty-five percent or over of their number of directors.
(7) Equity based investees or investees under joint control - in accordance with Section 80(d)(7) of the public reporting instructions.
(8) In accordance with Section 80(d)(8) of the public reporting instructions.
(9) Details of these items are included also in the following Notes: Note 12 - Securities, Note 15 - Investee companies and Note 26 - Guaranties.
(10) Holdings by interested and related parties in the equity of a banking corporation.
(11) Credit risk inherent in off-balance sheet financial instruments, as computed for the purpose of limitations applying to a single borrower.
(12) Including whoever is entitled to appoint one or more directors of the banking corporation or its chief executive officer.
(13) Including their relatives as defined in IAS 24.
(14) Corporations, which a person or corporation included in one of the groups of interested parties, controls them, holds them jointly, has a significant influence or holds 25% or more of their issued share equity or their voting rights or is entitled to appoint 25% or more of the directors.
(15) Parties which are related parties according to IAS 24 and not included in other columns and party which the activity of the Bank and its subsidiaries are dependent in a significant volume in its activities.

	Interest parties			Related parties held by the Bank (1)					
	Others (6)			Equity basis investees (7)			Others (8)		
	For the year ended December 31			For the year ended December 31			For the year ended December 31		
	2017	**2016**	**2015**	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
	-	-	-	**7**	3	3	**1**	-	-
	1	-	-	**1**	-	-	**1**	-	-
	6	10	11	**-**	1	2	**-**	-	-
	(5)	(10)	(11)	**8**	2	1	**2**	-	-

D. Net interest income in respect of transactions with interested and related parties*

	Consolidated			of which: investee companies		
	For the year ended December 31			For the year ended December 31		
	2017	**2016**	**2015**	**2017**	**2016**	**2015**
In respect of assets						
From credit to the public	**8**	3	3	7	3	3
Total net interest income	**8**	3	3	7	3	3

* For information regarding the terms of transactions and outstanding balances with related and interested parties, see Note 33E, below.

For notes to the table see page 278.

NOTE 33 - INTERESTED AND RELATED PARTIES (CONT'D)

E. Aquisition of control of the Bank

On September 19, 2003, the control of FIBI Holding Ltd. (hereinafter - "FIBI"), the parent company of the Bank holding 48.3% of the equity and 67.2% of the voting in the Bank, was transferrd by way of the transfer by Palimon BV (hereinafter - "Palimon"), the owner of 51.89% in the equity and 70.59% of the voting in FIBI, of the said holdings to Binohon Ltd. and the Australian Lieberman Group, divided between them as to 55% to Binohon owned by Mr. Tzadik Bino, and 45% to the Lieberman Group (composed of the Michael and Helen Abeles family and the Lieberman family (Messrs Barry Liebrman, Casy Lieberman-Harris, Lee Lieberman and Joshua Lieberman), by way of Instanz Holdings Ltd. and Dolphin Energies Ltd. in equal parts). The purchasers have between them a voting and cooperation agreement. The sale was effected by an off-market transaction.

The transfer of control was in accordance of a permit issued by the Governor of Bank of Israel on August 27, 2003 to purchase the control and the means to control in FIBI Holdings Ltd. and The First International Bank of Israel Ltd. granted according to the Banking Law (licensing) 1981.

The permit states different condition and liabilities as to the holding of the means of control, their transfer and the relations between the permit holders, FIBI and the Bank.

The permit states that no dividend shall be distributed out of earnings retained by the Bank as of March 31, 2003, and in the event that the Bank would sustain losses subsequent to that date - no dividend shall be distributed until such losses are recovered. The balance of distributable retained earnings as of March 31, 2003 amounted to NIS 2,391 million.

The permit further determines that the appointment of the Chairman of the Bank and of its President and CEO will be subject to approval of the Supervisor of Banks.

It was also provided that the holders of the permit, including their relations and companies under their control, are not to receive any management fee or any other consideration or benefit from the Bank or from companies controlled by the Bank, however, they are entitled to render services which are provided in the usual manner by persons rendering such services and at market prices, after the Supervisor of Banks had been informed of the matter and given his approval, under terms specified in the permit. This provision does not apply to Directors' remuneration that is paid equally to all Directors.

In accordance with an amendment to the permit of 2008, the holders in Binohon may be Mr. Zadik Bino and/or his children Messrs Gil Bino, Hadar Bino Shmueli and Daphna Bino Or (hereinafter together - "the Bino children"). In accordance with a report by FIBI, Mr. Zadik Bino and the Bino children hold in equal parts the means of control in Binohon (each of them holding 25%).

On March 24, 2013, Instanz Holdings transferred to Instanz Number 2 Ltd. (hereinafter - "Instanz 2"), in an off-market transaction, 4,139,233 shares in FIBI, comprising 15.77% of the issued and paid share capital of FIBI, being all the holdings of Instanz Holdings in FIBI. Instanz 2 is a company incorporated in Israel being fully owned by Sing Acquisitions Pte. Ltd. (hereinafter - "Sing"), a company incorporated in Singapore, which is wholly owned (through Australian entities) by Messrs. Helen and Michael Abeles, who also fully control Instanz Holdings (through the same Australian entitie). The shares are held in trust for Instanz 2 by Guy Trust and Management Co. Ltd. Upon the transfer of the shares, Instanz 2 joined as a party the shareholder agreement between Instanz Holdings, Binohon and Dolphin Energies, as amended from time to time, and Instanz Holdings continues as a party to the shareholder agreement and is a guarantor for the obligations of Instanz 2. In addition the permit was amended that the control of the permit holders mentioned above in FIBI will be by Sing and Instanz 2 instead of Instanz Pty Ltd. and Instanz holdings.

According to FIBI's report, as of the date of the financial statements, the holdings of the controlling shareholders in FIBI (in the equity and voting rights) is as follows: Binohon Ltd.- 38.29%, Instanz number 2 Ltd.- 15.66% and Dolphin Energies Ltd.- 11.68%.

NOTE 33 - INTERESTED AND RELATED PARTIES (CONT'D)

F. (1) The employment agreement of the CEO, Ms. Smadar Berber-Tsadik, was for a period of five years, starting on March 19, 2007, with a provision that at the end of the initial period of the agreement, the agreement will continue for an unspecified period, and each party will be entitled to bring about its termination by means of a written notice of three months in advance. Following the publication of the Compensation of Officers of Financial Corporations (Special permit and the nondeducibility tax wise of exceptional compensation) Act, 2016 (hereinafter - "the Compensation Act"), the General Meeting of Shareholders approved on November 20, 2016 the terms of employment of the CEO of the Bank, Ms. Smadar Berber-Tsadik. These terms apply as from October 12, 2016 (hereinafter - "the beginning date"), taking into consideration the provisions of the Compensation Act (hereinafter - "the terms of employment"), with nothing in the employment terms detracting from the rights of the CEO accumulated prior to the beginning date.

In accordance with the employment terms, the maximum annual fixed compensation of the CEO of the Bank shall equal the maximum amount stated in Section 2(a) of the Compensation Act (not including payments and allowances in respect of severance compensation and pension in accordance with statutory provisions, as detailed in the terms of employment). To the extent that the permissible maximum amount in accordance with the Compensation Act (including in accordance with Section 2(a) of the Act) allows, the component of fixed compensation of the CEO will be increased by an additional fixed component, which is not to exceed the amount of 2.5 salaries per year. In respect of the additional fixed compensation component, the Bank shall provide for payments and allowances in respect of severance compensation and pension in accordance with statutory provisions.

The salary of the CEO is linked to the CPI in accordance with the Compensation Act. In the case of a decline in the CPI, the salary will remain unchanged until a following rise in the CPI eliminates the decline. The CEO is entitled to social benefits, executive insurance or to a provident fund, to a further education fund, to recreation pay and to the reimbursement of expenses incurred in the line of her duties, and to annual vacation and sick leave in accordance with her employment terms. The CEO is entitled to a company car. The CEO is entitled to changes in her monthly salary and/or in the related benefits, subject to parallel changes and adjustments, and subject to any statutory provisions and the stated maximum compensation (as defined in the employment terms).

In accordance with the employment terms, the Bank or the CEO are entitled to inform the other party, at any time during the employment period, of the termination of the employment, by giving a prior notice of three months. During the period of the prior notice, if the CEO continues in office, she would be entitled to a monthly salary and related benefits. The cost of the monthly salary and of the related benefits during the period of advance notice, has been provided in full in the financial statements of the Bank prior to the beginning date, and would be paid to the CEO, in accordance with the said provision, if the Bank decides not to continue the employment of the CEO during the period of advance notice.

The terms of employment define a non-competition period of three months with full pay, the cost of which as part of the previous employment terms of the CEO, had been provided in the financial statements of the Bank prior to the beginning date, and would be paid to the CEO, in accordance with the said provision, in the case of termination of employer/employee relations in accordance with the terms of employment.

The Compensation Committee and the Board of Directors are entitled to grant to the CEO an annual award not exceeding the amount of two monthly salaries, if in their opinion justifiable reasons exist, and subject to the maximum amount permitted by Section 2(b) of the Compensation Act.

NOTE 33 - INTERESTED AND RELATED PARTIES (CONT'D)

In respect of her period of employment as from the beginning date, the CEO would be entitled to severance pay in accordance with the Severance Pay Act, 1963, and Regulations under it, based on the monthly salary in effect on date of termination of employer/employee relations, or to the funds and right accumulated to her credit under the pension arrangements in respect of the allowances for severance compensation during the period following the beginning date, the higher of the two. The CEO is entitled to severance compensation in accordance with statutory provisions and to enlarged severance compensation for the period of her employment up to the beginning date, which had been provided on a current basis in the financial statements of the Bank until the beginning date, had been deposited to her credit with appropriate Funds and would be released to in her favor at date of termination of employment relations.

(2) On January 1, 2017 Mrs. Irit Izakson was appointed as a director and Chairperson of the Board of Directors of the Bank. Her appointment as a director was also approved by the General meeting of shareholders on February 23, 2017, and it was specified for up to three years from the date of the approval of the meeting. The engagement terms of the Chairperson of the Board, Ms. Irit Izakson, are for an unspecified period, which may be terminated by either party by a prior written notice of three months. The maximum amount of the fixed annual compensation of the Chairperson is NIS 2.26 million (excluding payments and allowances in respect of severance compensation and pension in accordance with statutory provisions and excluding an allowance in respect of the non-competition period, as detailed in the engagement terms).

The salary of the Chairperson of the Board is linked to the Consumer Price Index in accordance with the Compensation Act. In the case of a decline in the CPI, the salary will remain unchanged until a following rise in the CPI eliminates the decline. The Chairperson of the Board is entitled to social benefits, executive insurance or to a provident fund, to a further education fund, to recreation pay and to the reimbursement of expenses incurred in the line of her duties, and to annual vacation and sick leave in accordance with her engagement terms. The Chairperson of the Board is entitled to a company car. The Chairperson of the Board is entitled to changes in her monthly salary and/or in the related benefits, subject to parallel changes and adjustments, and subject to any statutory provisions and the stated maximum fixed compensation (as defined in the engagement terms).

The engagement terms of the Chairperson of the Board define a gradual non-competition period carrying a full salary (with no related benefits except for a company car), of one month in case the termination of office occurs during the first year of engagement, of two months in case the termination of office occurs during the second year of engagement, and of three months in case the termination of office occurs during the third year of engagement or thereafter. The Board of Directors has the right to waive the period of non-competition or a part thereof, and in such a case the Chairperson of the Board would not be entitled to the payment, as above.

LIST OF TABLES - CORPORATE GOVERNANCE

Corporate Governance, Additional Information and Appendices to the Annual Report

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

Mrs. Irit Izakson, Chairperson

Mr. Zadik Bino

Mr. David Assia

Mrs. Pnina Bitterman-Cohen

Mr. Gil Bino

Mr. Zeev Ben Asher

Mr. Dov Goldfriend

Mr. Joseph Horowitz

Mrs. Dalia Lev

Mr. Jacob Sitt

Mr. Ilan (Eilon) Aish

Mr. Menachem Inbar

Mr. Daniel Furman

DETAILS OF THE CORPORATION'S DIRECTORS IN ACCORDANCE WITH THE BANK OF ISRAEL'S DIRECTIVES FOR REPORTING TO THE PUBLIC (630) CONCERNING THE BOARD OF DIRECTORS' REPORT

Mrs. IRIT IZAKSON

Chairperson of the Board of Directors of the Bank since 1.1.2017.

Member of the Board of Trustees of Ben Gurion University of the Negev.

Serves as Chairperson of the Friends Society of YELADIM- Fair chance for children.

Served as Chairperson: Isracard Ltd.; Europay (Eurocard)Israel Ltd.; Aminit Ltd.; Poalim Express Ltd.

Served as a director: Bank Hapoalin Ltd.; Arison Holdings (1999) Ltd.; Arison Investments Ltd; Shikun & Binui Ltd.; IDB Ltd.; Azrieli Foundation Israel and member of the Board of Trustees of the Van Leer Jerusalem Institute.

Mr. ZADIK BINO

Director of the Bank since 21.9.2003

Director of Companies: Bino Holdings Ltd.; Binohon Ltd.; Barbino Ltd.; Bigro Commodities Limited; G.H.D. Investments (2006) Ltd.; DADA Management Ltd.

Served as Chairman of the Board of Directors: Paz Oil Company Ltd.

Served as a Director of Companies: Binofree Ltd; Neroteck Ltd; Barbino Ltd (until 21.5.2017).

Mr. DAVID ASSIA

External Director (according to proper Banking Management Directives) of the bank since 24.12.2012.

Chairman of the Board of Directors: iAngels Crowd Ltd.

Director of Companies: Biocatch Ltd; ETORO Israel Ltd.; Mob-Art Consulting Ltd.; Yeda Research and Development Co. Ltd.; N.D.Y.R. Investments Ltd.; Nadir Holdings Millenium Ltd.; S.M. Patentech Ltd.; Enformia Software Ltd.; The Fund for Advancement of Education in Israel Founded by Iraqi Jews Fund in Israel Ltd.; Mashov Investments and Technologies (1993) Ltd. (Inactive); Kismet Investments Ltd; DB Maestro Ltd; IMPACT; Israeli Friends of the Weitzman Institute of Science; Israel Association of Electronics & Software.

Mrs. PNINA BITTERMAN-COHEN

External Director (according to companies law) of the Bank since 3.6.2009.

Served as vice president and legal counsel in Polar Investment Ltd. and as director in Subsidiaries of Polar Group.

Director of companies: Al Daf Engineering Ltd.; Poligir Capital Ltd..

Mr. GIL BINO

Director of the Bank since 21.9.2003

Chairman of the Board of Directors: F.I.B.I. Holding Ltd.

CEO of: Bino Holdings Ltd.; G.H.D. Investments (2006) Ltd.

Director of Companies: Alden Hotel AG.

Served as Chairman of the Board of: ; F.I.B.I. Investment House Ltd

Served as a Director of Companies: Paz Oil Company Ltd.

Served as CEO: Barbino Ltd. (until 21.5.2017).

Mr. ZEEV BEN ASHER

External Director (according to companies law) of the Bank since 23.12.2010.

Director of Company: Sokolovsky Lor Ltd.

Coaches Executives.

Served as Director of: Excellence Investments Ltd; Clal Industries Ltd (until 10.12.2015).

DETAILS OF THE CORPORATION'S DIRECTORS IN ACCORDANCE WITH THE BANK OF ISRAEL'S DIRECTIVES FOR REPORTING TO THE PUBLIC (630) CONCERNING THE BOARD OF DIRECTORS' REPORT (CONT'D)

Mr. DOV GOLDFRIEND

External Director (according to Proper Banking Management Directives) of the bank since 16.7.2015.

Serves as an external director: Rishon LeZion Economic company Ltd.; Rishon initiating Ltd.

CEO of A.T.R.N Management & Consulting Ltd.

Served as an external director of the companies: Leumi Card Ltd; Scorpio Real Estate Ltd.

Served as CEO of Poaley Agudat Isarel Bank Ltd.

Served as Vice President, member of the management and as Head of Chief Accountant Division and as a director of subsidiaries of The First International Bank of Isreal Ltd.

Mr. JOSEPH HOROWITZ

External Director (according to companies law) of the Bank since 15.11.2011.

Director of the company: Yosef Horowitz Advising Ltd; and Yad Vashem The Holocaust Martyrs' and Heroes' Remembrance Authority.

Served as Chief Internal Auditor of Bank Leumi Group and other senior rolls in Bank Leumi.

Mrs. DALIA LEV

Director of the Bank since 24.12.2012

Director of Companies: Belgal Ltd.

Member of the board of trustees of Tel-Aviv University and Ben Gurion University.

Served as Chairperson of the Board of Directors: Mei Avivim Ltd.

Served of a Director of Companies: Paz Oil Company Ltd.; Israel Airports Authority; The First International Bank of Israel Ltd.; Paz Ashdod Refinery Ltd.; Strauss Group Ltd. (until 12.6.2017).

Mr. JACOB SITT

Director of the bank since 30.8.2010.

CEO of F.I.B.I. Holding Ltd.

Director of Companies: SITT Assets Management Ltd; RIT Housing Israel Ltd.; Panmar Ltd; Member of the managing board of ELIA voluntary association.

Served as Director and CEO of F.I.B.I. Investment House Ltd., as Joint Managing Director of Leumi & Co. Underwriters Ltd. and as Investments Manager and business development Vice President of Barbino Ltd.

Mr. ILAN (EILON) AISH

External Director (according to Proper Banking Management Directives) since 10.6.2015.

Director and Joint CEO of Harvest Capital Markets Ltd.

Served as an external Director (according to Proper Banking Management Directives) of Israel Discount Bank Ltd.

Mr. MENACHEM INBAR

External Director (according to Proper Banking Management Directives) since 10.6.2015.

Director of the companies: Shifman Inbar Ltd; Shifman Inbar Advisers Ltd.

Served as CEO: Arkin Holdings; Leumi & Co.

Served as a director of the companies: "Bezeq" - The Israel Telecommunication Corporation Ltd; Poaley Agudat Isarel Bank Ltd; Alrov (Israel) Ltd; Carmel Group Ltd.

Mr. DANIEL FURMAN

External Director (according to Proper Banking Management Directives) since 30.10.2014.

Serves as Chairman of the Board: GemmaCert Ltd.; Arba Capital Markets Ltd.

Director of companies: Arba V. C. Management Co. Ltd; Cohanzick HY Fund Ltd. and CHYF Ltd.

Director and General Manager of ARBA Finance Company Ltd.

Joint Managing Director of Societe Palais De La Promenade SARL.

Member of the Management Committee and Chairman of the investment committee of the Endowment Funds Committee of The Hebrew University of Jerusalem.

For further details on the members of the Board of Directors of the Bank, see Article 26 "Board of Directors of the Bank" in the Bank's periodic report for 2017, which is published on the Securities Authority's magna site.

REPORTING ON DIRECTORS WITH ACCOUNTING AND FINANCIAL EXPERTISE

Pursuant to the Companies Law, 1999, at least one of the external directors must have accounting and financial expertise, and the others should be professionally competent or have accounting and financial expertise (as these terms are defined in the law). In addition, under Bank of Israel directives, at least five of all the members of the Board of Directors and at least two members of the Audit Committee must have accounting and financial expertise.

In practice, of the thirteen directors currently serving on the Board of Directors, twelve directors (including two directors from the public) have accounting and financial expertise. On the Audit Committee, five out of the six directors on the committee have such expertise.

Set out below are details of the present members of the Bank's Board of Directors with accounting and financial expertise, with mention of their membership of the Audit Committee and a description of their professional background and/or education in accordance with which they are to be regarded as having accounting and financial expertise:

1. Chairperson of the Board of Directors **Mrs. Irit Izakson**, graduate in Economic at Tel Aviv university and MBA with specialization in Operations Research from the school of business administration of the Tel Aviv university. Serves as member of the board of trustees of the Ben-Gurion University in Beer Sheva. Served as chairperson of the board: Isracard Ltd.; Europay (Eurocard) Israel Ltd.; Aminit Ltd.; Poalim Express Ltd. Served as director: Bank Hapoalim Ltd.; Arison Holdings (1999) Ltd.; Arison Investments ltd.; Housing and Construction Ltd.; IDB Ltd.; Azrieli Fund and other public companies. Served as member in the board of trustees of Van Leer Institution in Jerusalem.
2. **Mr. Zadik Bino** served as Chairman of the Board of Directors and CEO of the First International Bank of Israel Ltd. and CEO of Bank Leumi Le-Israel B.M. Served as Chairman of the Board of Directors of FIBI Holdings Ltd., parent company of the First International Bank of Israel Ltd. Director of companies.
3. **Mr. Gil Bino**. Attorney-at-law, law and business administration graduate and EMBA, serves as Chairman of FIBI Holdings Ltd., the parent company of First International Bank Israel Ltd.; CEO of Bino Holdings Ltd. Director of companies.
4. **Mr. David Assia**. Economics and social science graduate and EMBA at Tel Aviv University. Serves as Chairman of: iAngels Crowd Ltd. Director at: Biocatch Ltd; Mob-Art Consulting Ltd.; Yeda R&D Co. Ltd.; Nadir Investments Ltd.; Nadir Millennium Holdings Ltd.; S.M. Patentech Ltd.; Enformia Software Ltd.; Israel Education Funds under Iraq Descendants' Education Fund Ltd.; Mashov Investments and Technologies (1993) Ltd. (inactive); Kismet Investments Ltd; DB Maestro Ltd. Director at foundations: Impact, Israel Association of Electronics & Software; Weizmann Institute of Science Board of Governors.
5. **Mr. Zeev Ben-Asher**, (external director, member of the Audit Committee); EMBA graduate at Tel Aviv University; graduation certificate of Advanced Business Administration program at Harvard University. Served as a member of the Management at Bank Hapoalim and the First International Bank of Israel Ltd. Served as Director at Excellence Investments Ltd and Clal Industries Ltd. Coaches managers.
6. **Mr. Dov Goldfiend**, (member of the Audit Committee); CPA, BA in Economic and accounting and MA in Business Management at Tel Aviv University. Serves as CEO at A.T.R.N. management and consulting Ltd. Serves as external director: Rishon LeZion Economic Company Ltd.; Rishon Initiation Ltd. Served as external director: Leumi Card Ltd., Scorpio Real Estate Ltd. Served as the CEO of Poaley Agudat Israel Bank Ltd, as Deputy CEO and Chief Accounting Officer and member of management at The First International Bank of Israel Ltd. And as Director of companies in the First International Bank Group.
7. **Mr. Joseph Horowitz** (director from the public and Chairman of the Audit Committee), attorney-at-law, LLB in law from the Hebrew University of Jerusalem (Tel Aviv branch); serves as director at Yad Vashem memorial authority for the holocaust; served as Chief Internal Auditor and member of the Board of Management of Bank Leumi Le-Israel B.M. for 15 years, and previously served in senior functions at Bank Leumi.
8. **Mrs. Dalia Lev** (member of the Audit Committee). CPA, law degree from Bar-Ilan University, ISMP from Harvard University, qualified arbitrator, risk manager. Served as Chairperson at Mei Avivim Ltd. and Director at: Paz Oil

Company Ltd. (until 18/9/2016); Airports Authority; First International Bank of Israel Ltd.; Paz Ashdod Oil Refinery Ltd. Strauss Group Ltd.(until 12/6/2017); member of the board of trustees of Tel Aviv University and Ben-Gurion University in the Negev.

9. **Mr. Jacob Sitt**, attorney-at-law, LLB Law degree, BA in economics from Tel Aviv University, MBA (Financing) from the Multi disciplinary Center, Herzliya. Serves as CEO of FIBI Holdings Ltd. and as directors of companies. Served as CEO and director at: FIBI Investment House Ltd.. Served as Co-CEO at Leumi & Co. Underwriters Ltd. and as Investment Manager and VP, Business Development, at Barbino Ltd..
10. **Mr. Ilan (Eilon) Aish**, (member of the Audit Committee); CPA, BA in Economic and accounting from the University of Tel Aviv. Serves as Chairman and Co-CEO of Harvest Capital Markets Ltd. Served as external director in Israel Discount Bank Ltd.
11. **Mr. Menachem Inbar,** Social Sciences B.A. graduate and Law M.A. Graduate at Bar Ilan University. Served as CEO: Arkin Holdings; Leumi and Co. Served as a director of the companies: "Bezeq" - The Israel Telecommunication Corporation Ltd; Poaley Agudat Isarel Bank Ltd; Alrov (Israel) Ltd; Carmel Group Ltd.
12. **Mr. Daniel Furman**, Economics and statistics graduate at the Hebrew University of Jerusalem and MBA of Business Administration at INSEAD France. Serves as Chairman of the Board: GemmCert Ltd.; Arba Capital Markets Ltd. Director of Cohanzick HY Fund Ltd; CHYF Ltd. Director and General Manager of ARBA Finance Company Ltd. Joint Managing Director of Societe Palais De La Promenade SARL. Member of the Management Committee and Chairman of the Endowment Funds Committee of The Hebrew University of Jarusalem.

During 2017, the Bank's Board of Directors held 28 meetings in plenary session and 58 meetings of its various Board Committees.

APPOINTMENTS AND RETIREMENTS

On June 4, 2017 Mr. Ron Grisaro was appointed as the CEO of MATAF and in charge of the information technology in the Bank.

On September 19, 2017 Adv. Haviva Dahan was appointed as the Head of the legal department, replacing Adv. Dalia Blank, that retired for pension.

MEMBERS OF SENIOR MANAGEMENT AND THEIR FUNCTIONS

Mrs. Smadar Barber-Tsadik	Chief Executive Officer
Mr. Ilan Batzri	Deputy Chief Executive Officer, Head of Corporate Division
Mr. Yossi Levy	Executive Vice President, Head of Resources Division
Mr. Yoram Sirkis	Executive Vice President, Head of Client Assets Management Division
Mr. Nachman Nitzan, C.P.A**.**	Executive Vice President, Head of Chief Accountant Division
Mr. Benzi Adiri	Executive Vice President, Chief Risk Officer & Head of Risk Management Division
Mrs. Yael Ronen, C.P.A	Executive Vice President, Chief Internal Auditor
Mrs. Ella Golan	Executive Vice President, Head of Banking Division
Mr. Aviel Strenschuss	Executive Vice President, Head of Financial Division
Mr. Yinnon Shveka	Executive Vice President, Head of Pagi Division

Corporate Secretary	Mr. Aviad Biller, Adv.
The Bank's auditors	Somekh Chaikin, C.P.A

MEMBERS OF SENIOR MANAGEMENT AND THEIR FUNCTIONS

Mrs. SMADAR BARBER-TSADIK

Serves as CEO since 20.3.2007(*).

Serves as Chairperson of the board: Mataf Computer and Financial Operations Ltd; FIBI Bank (Switzerland) Ltd.

Serves as director of company: Shay Sh.Y.S Holdings (1999) Ltd.

Member of the Executive Committee and Permanent Replacement to the President at The Association of the Banks in Israel.

Served as Chairperson of the Board: FIBI Bank (U.K.) PLC; Bank Otzar Hachayal Ltd.

Mr. ILAN BATZRI

Serves as Deputy CEO and Head of Corporate division since 20.3.2007(*).

Serves as Chairman of the Board of: Bank Massad Ltd.;

Serves as director at Fanka Ltd; FIBI Bank (Switzerland) Ltd.

Served as chairman of the board of FIBI Bank (U.K.) PLC.

Served as Head of Financial Management and Risk Management Division at First International Bank of Israel Ltd.

Mr. YOSSI LEVY

Serves as Executive Vice President, Head of Resources Division since 1.12.2003(*).

Serves as Chairman of the Board of Bank Otzar Hachayal Ltd.

Serves as Director of Fortrab Investment Company Ltd.

Served as Chairman of the Board at First International Underwriting and Investment Ltd.

Served as Chairman of the Board and CEO at MATAF - Computerizing and Financial Operations Ltd.

Served as Director at the companies: Bank Massad Ltd.; Ubank Ltd; Poaley Agudat Israel Bank Ltd.

Served as Head of IT and Operation Division at First International Bank of Israel Ltd.

Mr. YORAM SIRKIS

Serves as Executive Vice President, Head of Client Assets Management Division, member of management, since 20.3.2007(*).

Serves as chairman of the board: Ubank Trust Company Ltd.

Serves as director of companies: First International Issues Ltd; The Tel-Aviv Stock Exchange Ltd.; Israel Credit Cards Ltd.; Yazil Finance Ltd.; ICC (Finance) Ltd.; ICC (Deposits) Ltd.

Served as chairman of the Board at the companies: Ubank Ltd; First International Insurance Agency (2005) Ltd.

Served as a director at The First International Bank of Israel Nominees Company Ltd

Served as manager of securities department at First International Bank of Israel Ltd.

Mr. NACHMAN NITZAN

Serves as Executive Vice President, Head of Chief Accountant Division, member of management, since 1.9.2011(*).

Serves as chairman of the board and CEO at First International Issuance Ltd.

Director of companies: Bank Otzar Hachayal Ltd.; MATAF - Computerizing and Financial Operations Ltd.

Served as director at Israel Credit Cards Ltd.

Served as replacement and Deputy CEO, Head of the Financial Division and member of the executive committee at Jerusalem Bank Ltd.; CFO and Vice President at IDI insurance company (direct insurance); Chief Accountant and Vice President of Jerusalem Bank Ltd.

MEMBERS OF SENIOR MANAGEMENT AND THEIR FUNCTIONS (CONT'D)

Mr. BENZI ADIRI

Serves as Executive Vice President, Chief Risk Officer (CRO) and Head of Risk Management Division, since 23.2.2012(*).

Serves as a director at the subsidiary Bank Otzar Hachayal Ltd.

Served as Manager of Corporate division, Vice President and member of the management of Jerusalem Bank Ltd.

Mrs. YAEL RONEN

Serves as Chief Internal Auditor and Internal Auditor at the banking subsidiaries of First International Bank of Israel's group (excluding FIBI Bank (Switzerland) Ltd since 23.5.2011(*).

Serves as director at the internal audit union.

Served as Chairperson of the SOX committee at the Insurance companies union; member of the audit committee of Information Systems at the Institute of the Internal Auditors; Lecturer at the pre-exams CISA course of the Israeli Union for audit and security information and in the course of Information systems of the institute of Internal Auditors.

Served as manager of SOX department in Clal Insurance Ltd. group and as manager in the Information systems risk management at Somekh Chaikin CPA.

Mrs. ELLA GOLAN

Serves as Executive Vice President, Head of the Banking Division since 1.1.2014(*).

Serves as director at Massad Bank.

Served as director at Ubank Ltd; The Stock exchange clearing house.

Served as Deputy Head of Client Assets Management Division and as Manager of the Countrywide Securities Department of The First International Bank of Israel Ltd.

Mr. AVIEL STERNSCHUSS

Serves as Executive Vice President, Head of Financial Division, member of management, since 18.10.2015(*).

Serves a director of the companies: Stocofin (Israel) Ltd; Israel Credit Cards Ltd; Ubank Trust Company Ltd; Ubank Investments and Holdings Ltd; Yazil Finance Ltd.; ICC (Finance) Ltd.; ICC (Deposits) Ltd.

Served as chairman of the board and CEO at First International Issues Ltd.

Served as CEO of Ubank Ltd.

Served as Chairman of the Board at Ubank Trust Company Ltd.; Menorah - Mivtachim Trust Funds Ltd.

Served as director of companies: Menorah - Mivtachim Investment Portfolio Management Ltd.; FIBI Bank (Switzerland) Ltd.; Business Research Institute; Ubank Underwriting and Consulting Ltd.; Ubank Finance (2005) Ltd.

Acted as Manager of Insurance and Provident Fund Investment sector, Vice President of Menorah - Mivtachim Insurance Ltd.

Mr. YINNON SHVEKA

Serves as Executive Vice President, Head of Pagi Division, member of management since 1.1.2016(*)

Served as CEO of Poaley Agudat Isarel Bank Ltd.

(*) The date of which the office holders get their present title.

For further details on the senior manager members, see Article 26A “Senior Office Holders at the Bank” in the Bank’s periodic report for 2017, which is published on the Securities Authority’s magna site.

DISCLOSURE REGARDING THE INTERNAL AUDITOR

Details of the Chief Internal Auditor

Mrs. Yael Ronen CPA seves as Chief Internal Auditor of the Bank since May 2011, and serves as Internal Auditor at all the banking subsidiaries in the First International Group with the exception of the overseas subsidiary FIBI Bank (Switzerland). At the non-banking subsidiaries, the Deputy Internal Auditor was appointed as the internal auditor.

The Chief Internal Auditor has a bachelors in economics and psychology and in the accounting track for graduates at the University of Tel Aviv. In her previous positions, she managed the Sarbanes Oxley Department of Clal Insurance Ltd., and was manager of the Information Systems Risk Management Department at the KPMG Somekh Chaikin accountants office, with an emphasis on auditing and consulting in the area of banking.

The Chief Internal Auditor is an employee of the Bank and conforms to the conditions prescribed in Paragraph 3(a) of the Internal Auditing Law. The Internal Auditor and her employees serve in auditing functions alone, without any conflict of interests, and act in accordance with the Internal Auditor's Regulations as stated in Paragraph 146 (b) of the Companies Law, the provisions of Paragraph 8 of the Internal Auditing Law, 1992 and Proper Conduct of Banking Business Regulation 307.

Manner of appointment and organizational subordination

The appointment of the Internal Auditor was approved by the Audit Committee on March 15, 2011 and by the Board of Directors on March 22, 2011.

The Internal Auditor's superior in the organization is the Chairperson of the Board of Directors.

The Internal Audit work program

The Internal Auditing Department operates on the basis of a 4-5 years multi-year work program and an annual work program derived from it, which covers all of the Bank's activities and the entities operating within it, including the subsidiaries in Israel. The work program is based on a systematic risk assessment methodology and takes into account inter alia the assessment of risks expressed in the ICAAP document and the Internal Audit's assessments concerning the risk centers in the Bank's activity, including focal points of operational, embezzlement and fraud risks, and the findings arising from previous audits which the Internal Audit and external entities had conducted. The work program includes the allocation of inputs and the frequency at which audits are to be conducted in accordance with the level of risk of the audited entity/activity.

The work program is submitted for discussion by the Audit Committee which recommends its approval to the Board of Directors, and which is then approved by the Board.

Under the work program, the Chief Internal Auditor is permitted at her discretion to deviate from the program and to conduct unplanned audits. Material changes from the approved work program are submitted for discussion by the Audit Committee.

Subsidiaries abroad

The Internal Auditor at FIBI Bank (Switzerland) was employed under an outsourcing arrangement and his work was reviewed and supervised by the Chief Internal Auditor. In light of the agreement signed for the sale of operation of FIBI (Switzerland) to third party in December 2016 (see Note 18A to the financial statements), the extension terminated its banking activity during 2017. Accordingly, as from the fourth quarter of 2017 the local internal auditor terminated its work and the internal audit department of the Bank performs Head Office audit until the ending of the process for returning the banking license.

Positions

As stated, the Chief Internal Auditor is an employee of the Bank and is employed in a full-time position. The number of employees in the Internal Auditing Department of the Bank and its subsidiaries averaged 59 posts in 2017.
The number of employee posts is derived from the multi-year work program and includes outsourcing.

Conduct of the audit

Audit work is carried out on the basis of legal requirements, including the Internal Audit Law, the Banking Order, the Banking Regulations, the directives and guidelines of the Supervisor of Banks, including Proper Conduct of Banking Business Regulation 307 and the directives of other supervisory bodies.
Proper Conduct of Banking Business Regulation 307 governs the matter of the internal audit function at the banking corporation in accordance with the Basel working framework, with the aim of enhancing corporate governance principles. The regulation covers inter alia the positions involved in the function, the extent of its activity, its working methods and the reports which it is required to send.
The Internal Audit operates in accordance with accepted professional standards determined by the international Institute of Internal Auditors.
The Board of Directors and the Audit Committee, which examined the Internal Audit's work program and its actual implementation, expressed their satisfaction that the Bank's Internal Audit conforms to the said requirements.

Access to information

As required in Paragraph 9 of the Internal Auditing Law, the Internal Auditor is given full access to all the information which she requires, including constant and unimpeded access to the information systems of the Bank, including financial data. It should be noted that such full access is given when auditing the subsidiaries in Israel.

Reporting by the Chief Internal Auditor

The Internal Audit reports, including periodic reports, are submitted in writing.
The Internal Audit reports are submitted to the members of Management in charge of the units/matters audited, and in accordance with criteria specified in the Board of Directors' procedures, to the CEO of the Bank and to the Chairman of the Board. Significant audit reports, as relevant, are discussed at meetings with the CEO of the Bank.
In consultation with the Chief Internal Auditor, the Chairman of the Audit Committee determines which audit reports will be presented in their entirety for discussion at the Audit Committee. In addition, a monthly report compiled by the Internal Audit, which contains executive summaries of all the audit reports that were circulated in the past month, is submitted to the members of the Audit Committee, who are entitled to peruse any audit report which they see fit and ask the Chairman to present it in its entirety at the Audit Committee. Also significant audit reports are presented for discussion in the Board of Directors and/or the Risk Management Committee after consultation with the Chairperson.
The Internal Audit's periodic reports include a monthly report, a half-yearly report and an annual report. The monthly report is submitted to the CEO and to the members of the Management of the Bank, to the Chairman and members of the Audit Committee, and to the Chairperson of the Board of Directors. The Internal Audit's half-yearly report and annual report include reporting concerning the performance of the work program versus the plan, a list of all the audit reports that were

circulated in the period reported, a report on the findings from the monitoring of remedial action with respect to deficiencies arising from the audit reports, a summary of the material findings emerging from the audit reports, and the annual report appraising the effectiveness of the Internal Control.

The Board of Directors are sent copies of the Audit Committee's minutes, in order to notify those Board members who are not members of the Audit Committee of the content of the Committee's discussions.

In cases of particularly serious findings, an immediate report is sent to the CEO, to the Chairman of the Audit Committee and to the Chairman of the Board of Directors. The Internal Audit's reports for 2016 were discussed by the Bank's Audit Committee on April 4, 2017. The Internal Audit's reports for the first half of 2017 were discussed by the Bank's Audit Committee on September 12, 2017. The Internal Audit's reports for 2017 will be discussed in March 2018.

The Board of Directors' appraisal of the Chief Internal Auditor's activity

In the opinion of the Board of Directors and the Audit Committee, the scale, the nature and the continuity of the Internal Auditor's activity and work program are reasonable in the circumstances of the matter, and are adequate for the purpose of achieving the objectives of the internal audit function at the Bank.

Remuneration

Set out below are details of the payments to the Chief Internal Auditor and the components of these payments (in NIS thousand), in accordance with the details required in the table of the Bank's highest salary recipients:

	Year	
	2017	**2016**
Salary and bonuses	**981**	960
Severance pay, provident fund, advanced study fund, vacation, national insurance and additional benefits	**254**	280
Value of benefits	**67**	67
Total salary and included expenses	**1,302**	1,307

The compensation of the Chief Internal Auditor is commensurate with her position. In the estimation of the Board of Directors, nothing in the compensation of the Chief Internal Auditor can be regarded as leading to bias in her professional discretion.

DISCLOSURE OF THE PROCESS OF APPROVAL OF THE FINANCIAL STATEMENTS

The office-holders engaged in the preparation of the financial statements of the Bank are the CEO of the Bank, Mrs. Smadar Barber Zadik, and the Chief Accountant, Nachman Nitzan CPA.
In accordance with the SOX 302 directives, a Disclosure Committee chaired by the CEO and with the participation of the Head of the Chief Accountant's Division, heads of divisions and department managers subordinate to the CEO and/or the Board of Directors, the Chief Disclosure Coordinator and the Bank's External Auditor meet every quarter. The Disclosure Committee discusses material matters that could have an effect on the data in the financial statements, and deficiencies that were discovered in the financial reporting control system, and monitors the rectification of those deficiencies.
Before the financial statements are presented to the plenum of the Board of Directors, initial discussions concerning them are held at the Bank's Management, at the Disclosure Committee and with the participation of the CEO, the Head of the Chief Accountant's Division and the Bank's External Auditor. Discussed at this forum are material issues that may arise in the preparation of the financial statements and the accounting policy that needs to be applied.
The Board of Directors has authorized the Audit Committee to act as the Committee for the Review of the Financial Statements, in accordance with the Companies Regulations (Terms and Conditions Concerning the Process of Approval of the Financial Statements), 2010. The Audit Committee is headed by an external director and most of its members are qualified as independent directors and all its members have declared themselves capable of perusing and comprehending financial statements.

In accordance with a resolution of the Board of Directors, at least two directors with accounting and financial speciality must serve on the Board of Directors and on the Audit Committee. Currently, 12 out of the 13 members of the Board of Directors and 5 out of the 6 members of the Audit Committee have accounting and financial speciality. The Audit Committee consists of six directors:

1. **Mr. Joseph Horowitz**, Chairman of the Audit Committee, Serves as external director under the Companies Law, 1999 (and as external director under Proper Conduct of Banking Business Regulation 301 of the Banking Supervision Division), and with qualification as an independent director. Has accounting and financial specialty and the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law), in view of the following: Served for 15 years as Chief Internal Auditor and member of the management of Bank Leumi Le-Israel B.M. and previously served in various senior functions at Bank Leumi.
2. **Mrs. Pnina Bitterman-Cohen,** a member of the Audit Committee, serves as an external director in accordance with the Companies Law, 1999 (and as external director in accordance with Proper Conduct of Banking Business Regulation 301 of the Banking Supervision Division) and is qualified as an independent director. Does not have accounting and financial specialty. Has the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law) in view of the following: has served for over 20 years as senior office-holder at a public company traded on the Tel Aviv Stock Exchange; has served for over 20 years as director of companies operating in various fields; and has attended courses on the analysis of financial statements and risk management.
3. **Mr. Zeev Ben-Asher**, a member of the Audit Committee, serves as external director in accordance with the Companies Law, 1999 (and as external director in accordance with Proper Conduct of Banking Business Regulation 301 of the Banking Supervision Division) and is qualified as an independent director. Has accounting and financial specialty. Has the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law) in view of the following: MBA from Tel Aviv University; Certificate of Advanced Management Program from Harvard University. Served as a member of the Board of Management of Bank Hapoalim and the First International Bank of Israel. Served as Director at Excellence Investments Ltd. and Clal Industries Ltd; managers coach.

4. **Mr. Dov Goldfriend** a member of the Audit Committee. Serves as external director in accordance with Proper Conduct of Banking Business Regulation 301 of the Banking Supervision Division and is not qualified as an independent director. Has accounting and financial specialty. Has the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law) in view of the following: CPA, BA in Economic and accounting and MA in Business Management from the University of Tel Aviv. Served as the CEO of Poaley Agudat Israel Bank Ltd, as Deputy CEO and Chief Accounting Officer and member of management at The First International Bank of Israel Ltd. and as Director of companies.
5. **Mrs. Dalia Lev**, a member of the Audit Committee. Does not serve as an external director and is not qualified as an independent director. Has accounting and financial specialty and has the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law) in view of the following: CPA, ISMP from Harvard University, Bar-Ilan University law graduate, qualified arbitrator, risk manager. Served as Chairperson of the Board of Directors at Mei Avivim Ltd. and Supersal Ltd. Served as joined CEO at IDB Development company Ltd., and as Director at: Paz Oil Co. Ltd; Airports Authority, Paz Oil Refinery Ashdod Ltd.; Strauss Group Ltd (until 12.6.2017); Serves as director: Belgal Ltd.
6. **Mr. Ilan (Eilon) Aish**, a member of the Audit Committee, serves as external director in accordance with Proper Conduct of Banking Business Regulation 301 of the Banking Supervision Division and is qualified as an independent director. Has accounting and financial specialty. Has the ability to peruse and comprehend financial statements (and has signed on a declaration confirming this in accordance with the law) in view of the following: CPA, BA in Economic and accounting from the University of Tel Aviv. Served as external director in Israel Discount Bank Ltd. Serves as director and jointly CEO at Harvest Capital Markets Ltd.

As in each quarter, the Board of Directors' Audit Committee at its meeting on February 20, 2018, discussed allowances for credit losses, in order to approve these allowances and the provisions for writedown in the nostro portfolio before the financial statements were submitted for approval by the Board of Directors. The discussion was attended by the members of the Audit Committee, the CEO, the Chief Accountant and the External Auditor of the Bank.

In addition, at its meeting on February 27, 2018 the Audit Committee discussed the findings of the Disclosure Committee in accordance with the provisions of SOX, and with the participation of the members of the Audit Committee, the CEO, the Chief Accountant and the External Auditor of the Bank.

The Board of Directors' Audit Committee held a detailed preliminary discussion of the draft financial statements. The discussion was held on February 27, 2018, and was attended by the members of the Audit Committee, the CEO, the Chief Accountant and the External Auditor of the Bank. Discussed at this meeting were material issues that may arise in the preparation of the financial statements and the accounting policy that was applied. Following the Audit Committee's discussion, the financial statements, amended as requested by the Audit Committee, were sent to the Board of Directors with the Committee's recommendation that the members of the Board approve the financial statements, since it had compiled recommendations to the Board in all the matters required in the Securities Regulations and directives of the Supervisor of Banks.

The Audit Committee sends its recommendations regarding the approval of the financial statements to the Board of Directors within a reasonable time period prior to their discussion at the Board of Directors, and reports any deficiency or problem discovered in the course of its review, if any.

When the Audit Committee and the Board of Directors are in the process of approving the financial statements, drafts of the financial statements and the Board of Directors Report are submitted for perusal and comments by the directors several days before the date of the meeting that is set for the discussion of the financial statements.

The Board of Directors is the ultimate control and auditing authority at the Bank.

The Board of Directors, at its meeting on March 5, 2018, discussed the approval of the financial statements of the Bank, with the participation of the members of Bank management, including the CEO, the Chief Accountant and the Bank's External Auditor. The aforementioned recommendations by the Audit Committee were submitted to the members of the Board of Directors on February 28, 2018, in due time before the plenary discussion. At the discussion by the plenum of the Board of Directors, the CEO presented the financial results of the Bank and a comparison with previous periods. At this stage, a discussion was held during which the Bank's office-holders answered the directors' questions on matters relating to the financial results and to the financial statements. At the end of the discussion, the Board of Directors resolved to adopt the aforementioned recommendations of the Audit Committee, to approve the Bank's financial statements and to authorize for the Chairperson of the Board of Directors, the CEO and the Chief Accountant to sign the financial statements.

AUDITORS' REMUNERATION (1)(2)(3)

(NIS thousands)

	Consolidated		The Bank	
	2017	**2016**	**2017**	**2016**
For audit work(4):				
Auditors of the Bank	**7,879**	8,302	**5,269**	5,684
Another auditor	**1,768**	1,234	**-**	-
Total	**9,647**	9,536	**5,269**	5,684
For additional Auditing related services(5):				
Auditors of the Bank	**-**	68	**-**	-
For tax services:				
Auditors of the Bank	**715**	397	**715**	397
Other services:				
Auditors of the Bank	**1,366**	1,468	**1,163**	1,298
Another auditor	**1,381**	-	**-**	-
Total	**3,462**	1,933	**1,878**	1,695
Total auditors' remuneration	**13,109**	11,469	**7,147**	7,379

(1) Report of the Directors to the Annual Meeting of shareholders on the remuneration of the auditors for audit work and for additional services, according to sections 165 and 167 of the Companies Law - 1999.

(2) The auditors' remuneration includes payments to partnership and companies under their control as well as payment under the Value Added Tax Law.

(3) Includes remuneration paid and accrued.

(4) Includes audit of annual financial statements, review of interim statements, audit of internal control over financial reporting.

(5) Audit related fees include mainly: Prospectus work, special confirmation letters and comfort letters.

REMUNERATION OF SENIOR OFFICERS

(NIS thousands)

		2017				
Name	**Title**	**Position**	**Holdings in the Bank's equity**	**Salary**	**Bonus**	**benefits(3)**
Irit Izakson	Chairperson of the Board of Directors	**100%**	**-**	**2,085**	**-**	**118**
Smadar Barber-Tsadik	Chief Executive Officer	**100%**	**-**	**2,305**	**-**	**139**
Shuli Garburg	Fibi Bank (Switzerland) Chief Executive Officer(7)	**100%**	**-**	**1,543**	**-**	**-**
Ilan Batzri	Deputy Chief Executive Officer, Head of Corporate Division	**100%**	**-**	**1,356**	**-**	**79**
Yossi Levy	Executive Vice President, Head of Resources Division	**100%**	**-**	**1,391**	**-**	**86**
Yoram Sirkis	Executive Vice President, Head of Client Assets Management Division	**100%**	**-**	**1,267**	**-**	**77**
Ella Golan	Executive Vice President, Head of Banking Division	**100%**	**-**	**1,021**	**-**	**73**

		2016				
Name	**Title**	**Position**	**Holdings in the Bank's equity**	**Salary**	**Bonus**	**benefits(3)**
Rony Hizkiaho	Chairman of the Board of Directors	100%	-	2,409	-	131
Smadar Barber-Tsadik	Chief Executive Officer	100%	-	2,879	-	152
Shuli Garburg	Fibi Bank (Switzerland) Chief Executive Officer	100%	-	1,629	(6)942	-
Yoram Sirkis	Executive Vice President, Head of Client Assets Management Division	100%	-	1,282	-	95
Ilan Batzri	Deputy Chief Executive Officer, Head of Corporate Division	100%	-	1,326	-	80
Moshe Yagen	Executive vice president at Otsar Hahayal, Deputy of head of the banking division	100%	-	873	123	49
Amnon Beck	MATAF Chief Executive Officer	100%	-	1,126	-	81
Yossi Levy	Executive Vice President, Head of Resources Division	100%	-	1,389	-	101

(1) Not including VAT on salaries.
(2) Loans and mortgages granted to senior executives at conditions similar to those that were granted to all Bank employees, the amounts of which were determined on the basis of uniform criteria.
(3) Value of benefits (including: car benefit, cellular phone, rental value, health insurance, etc.).
(4) "excluding deposits and provisions for provident funds and severance compensation (including loss of work ability) in accordance with the law, which are not included in the definition of "compensation" for the purpose of computing the amount of engagement in Section 2(a) of the Compensation of Officers of Financial Corporations Act (Special approval and the non-deductibility tax wise of an expense in respect of exceptional compensation), 2016".
(5) Including remuneration recorded in 2016 for benefits accrued before entry into effect of "Remuneration of senior officers in financial entities" law as detailed: Roni Hizkiaho - NIS 235 thousands, Smadar Barber-Tsadik - NIS 864 thousands, Yoram Sirkis - NIS 730 thousands, Ilan Batzri - NIS 786 thousands.
(6) In 2016- preservation bonus.
(7) Until December 31, 2017.

Employer payments and provisions	Supplement to reserves in respect to incidental expenses following changes in salaries in accounting year	Total payroll and related expenses(1)	Total payroll and related expenses according to remuneration law(1)(4)	Other payments	Loans granted under ordinary market terms(2)
433	**-**	**2,636**	**2,306**	**-**	**-**
418	**-**	**2,862**	**2,497**	**-**	**-**
537	**-**	**2,080**	**1,873**	**-**	**-**
545	**-**	**1,980**	**1,592**	**-**	**29**
388	**-**	**1,865**	**1,595**	**-**	**3,231**
452	**-**	**1,796**	**1,529**	**-**	**-**
354	**34**	**1,482**	**1,223**	**-**	**453**

Employer payments and provisions	Supplement to reserves in respect to incidental expenses following changes in salaries in accounting year	Total payroll and related expenses(1)	Other payments	Loans granted under ordinary market terms(2)
(5)951	-	3,491	-	-
(5)1,561	-	4,592	-	-
353	-	2,924	-	-
(5)1,054	-	2,431	-	-
(5)786	-	2,192	-	71
990	-	2,035	-	269
575	-	1,782	-	11
268	-	1,758	-	3,319

Notes:

A. The bank accounts management conditions for senior executives, including all activity in those accounts, are similar to other customers conditions with similar characteristics.

B. For details regarding the Compensation policy for senior officers as approved by the general meeting of shareholders dated February 23, 2017, see immediate report of the Bank dated January 18, 2017 (reference no. 2017-01-006415) and the supplementary report dated February 14, 2017 (reference no. 2017-01-016098). In 2017 no bonuses were paid to senior officers at the Bank.

Mrs. Irit Izakson - was appointed Chairperson of the Board of Directors of the Bank since January 1, 2017.
For description of the engagement agreement with Mrs. Irit Izakson - see Note 33.H(2) to the financial statements.

Mrs. Smadar Barber-Tsadik - has been employed by the bank since January 9, 2005 and has served as CEO of the Bank since March 19, 2007.
For description of the engagement agreement with Ms. Smadar Berber-Tsadik- see Note 33.H(1) to the financial statements.

Mr. Ilan Batzri - has been employed at the Bank since October 4, 1978, under a collective agreement, and as from October 1, 2000, under a personal agreement for an unassigned period.
Each of the parties to the agreement is entitled to terminate the contractual association at any time and for wharever reason, at six months prior written notification.
On termination of his employment at the Bank. Mr. Batzri is eligible to an ordinary severance payment at a level of 100% of his last monthly salary. The redemption value of the severance payment in the pension fund to which the Bank allocated money in his favor will be deducted from these amounts.
The non-competition period is six months from the date of termination of his employment at the Bank, of which three months will be paid.
Mr. Batzri's salary is linked to the Consumer Price Index.
For details of determination of the annual bonus for 2017 and later years, among others, to Mr. Batzri, see immediate report of the Bank dated February 14, 2017 mentioned above.

Mr. Yossi Levy - Mr. Levy has a personal employment agreement with Mataf and has been seconded to the Bank.
Mr. Levy commenced his employment at Mataf on April 1, 1979, and the present personal employment agreement is valid from September 1, 1980.
Each of the parties to the personal agreement is entitled to terminate the contractual association at any time and for whatever reason, at three months prior written notification.
On termination of his employment, Mr. Levy is eligible to an ordinary severance payment at a level of 100% of the last monthly salary. The redemption value of the severance payment in the pension fund to which the Mataf allocated money in his favor will be deducted from these amounts.
Mr. Levy's salary is linked to the Consumer Price Index.
For details of determination of the annual bonus for 2017 and later years, among others, to Mr. Levy, see immediate report of the Bank dated February 14, 2017 mentioned above.

Mr. Yoram Sirkis - has been employed at the Bank since February 9, 1993, under a collective agreement and a personal agreement valid from Mars 20, 2007, for an assigned period until Mars 20, 2010. After that date the agreement will continue for an unassigned period in which each of the parties to the agreement may terminate the agreement at any time and for whatever reason by a prior and written notification of six month and in accordance with the condition of the employment. On termination of his employment Mr. Sirkis is eligible to an ordinary severance payment at a level of 100% of his last monthly salary, or 200% of his last monthly salary before the signing of the personal agreement, whichever is higher. The redemplion value of the severance payment in the pension fund to which the Bank allocated money in his favor will be deducted from these amounts.
In accordance with the compensation policy for officers of the Bank, to the extent that the termination of his engagement would not be initiated by the Bank, the amount resulting from multiplication between: 200% of the most recent salary prior to the signing of the personal agreement and 100% of his most recent salary, to the extent that it is a positive amount; and (b) the number of years of employment with the Bank since January 1, 2017 and until the date of termination of his employment - shall be considered compensation in respect of termination of employment, classified as variable compensation, the entitlement thereto and the spreading of the payment thereof would be in accordance with the provisions stated in the compensation policy.

The non-competition period is six month from the date of termination of his employment at the Bank of which three months will be paid. In case of termination of employment not as a result of dismissal, the Bank may waive the non-competition condition by prior written notice of one month.
Mr. Sirkis's salary is linked to the consumer price index.
For details of determination of the annual bonus for 2017 and later years, among others, to Mr. Sirkis, see immediate report of the Bank dated February 14, 2017 mentioned above.

Mrs. Shuli Garburg - Acted as General Manager of FIBI Bank(Switzeland) under a personal engagement agreement in effect as from January 1, 2012 until December 31, 2017.

Mr. Amnon Beck -Served as CEO of MATAF since November 1, 2006.
Mr Beck started work at MATAF on March 1, 1980, under a personal employment agreement and terminated his employment as the CEO of Mataf on February 19, 2017 and its employment at MATAF on May 13, 2017. Upon termination of his employment, Mr. Beck was entitled to severance pay based on 100% of his last monthly salary. From this amount was deducted the value of the severance pay component of the executive insurance policy purchased in his favor by MATAF and salary for an additional month.
In addition, Mr. Beck was paid additional payments relating to the termination of his employment in the amount of three monthly salaries (with the value of the related benefits).

Mrs. Ella Golan- employed at the Bank since January 16, 1994 under collective agreement, and personal agreement valid since December 1, 2013 for unassigned period. On termination of her employment Mrs. Golan is eligible to an ordinary severance payment at a level of 100% of her last monthly salary, or 200% of her last monthly salary before the signing of the personal agreement, whichever is higher in case of dismissal and in case of resignation, Mrs. Golan will be entitled to 100% of her last salary. The redemplion value of the severance payment in the pension fund to which the Bank allocated money in his favor will be deducted from these amounts. The non-competition period is three month from the date of termination of her employment.
Mrs. Golan's salary is linked to the consumer price index.
For details of determination of the annual bonus for 2017 and later years, among others, to Mrs. Golan, see immediate report of the Bank dated February 14, 2017 mentioned above.

Mr. Moshe Yagen - serves as Executive vice president at Otsar Hahayal, Deputy of head of the banking division since May 1, 2016. In the employment terms approved by the Board of Directors, an initial work period of three years was determined. At the end of this initial period, the work period is unassigned in which each of the parties to the agreement may terminate the agreement at any time and for whatever reason by a prior and written notification of three months.
On termination of his employment Mr. Yagen is eligible to the funds deposited by the Bank in his favor. If Mr. Yagen work will be terminated in dismissal, the severance pay to which Mr. Yagen will be entitled, including the accrued funds in his favor, will be no less than the multiplication of his last monthly salary by the years of his employment, or 200% of his last monthly salary before the signing of the personal agreement, whichever is higher.
The non-competition period is six month from the date of termination of his employment at the Bank of which three months will be paid.
Mr. Yagen's salary is linked to the consumer price index, in case of decline in the CPI, the salary will not change until a rise in the CPI will eliminate the decline.

TRANSACTIONS WITH INTERESTED PARTIES

a. Amendment to the Securities Regulations (Periodic and Immediate Reports), 1970 - Reports on transactions with controlling shareholders.

From time to time the Bank concludes or is likely to conclude transactions in the normal course of business with controlling shareholders or their relatives or with corporations in which controlling shareholders at the Bank are likely to be regarded as having a personal interest (hereinafter: “controlling shareholders”).

Under the Amendment to the Securities Regulations (Periodic and Immediate Reports), 1970, of 2008 (hereinafter: "the Securities Regulations"), a reporting corporation must publish an immediate report on details of a transaction with a controlling shareholder or in which a controlling shareholder has a personal interest in its approval, including the main elements of the transaction or the contractual engagement, details of the competent organ that approved the transaction and a summary of its reasons for doing so, except in connection with transactions of a type which in the most recent financial reports were determined as negligible as implied by the term in Regulation 41(a)(6)(a) of the Securities Regulations (Annual financial statements), 2010. A similar instruction is applicable on reporting such transaction in the periodic report.

Since the Supervisor’s directives concerning the compilation of annual financial reports apply to the banks, and not the said regulations, the Association of Banks approached the Securities Authority regarding the matter of applying the directive concerning a “negligible transaction” with respect to the banks and the disclosure format. As agreed between the Association of Banks and the Securities Authority, the banks received an exemption from immediate reporting with respect to banking transactions that are not exceptional, providing that the banks have determined criteria for exceptional and negligible transactions.

As a result of this approach to the Securities Authority and the meetings that were subsequently held as a result, the Authority instructed the Bank to provide disclosure in the Bank's prospectus and thereafter in the annual reports, in the format detailed below:

- Regarding banking transactions with controlling shareholders that are not exceptional transactions, the Bank will report within the framework of the prospectus and periodic reporting on balances of credit and balances of deposits, in accordance with the format appearing in the table at the end of this section.
- In the credit table, the disclosure will be split between the controlling shareholder's credit balance and the credit balance of the controlling shareholder's relatives (on a cumulative basis). Credit to any reporting corporation connected with the controlling shareholder will be reported at the level of the reporting corporation in the consolidated report.

In view of the aforementioned, the Bank’s Audit Committee determined criteria regarding the nature of the said transactions as exceptional or as unexceptional or as negligible, in connection with transactions with controlling shareholders or in which controlling shareholders have a personal interest.

The criteria will also be applied to transactions conducted in the ordinary course of business by companies that are controlled by the Bank, such as banking corporations that are controlled by the Bank.

It should be noted that the criteria are likely to be examined from time to time by the Audit Committee inter alia as the result of changes in the Bank's policy and business activities and in market conditions, and that the Audit Committee is likely to change them from time to time and/or add to them additional types of transactions and/or various criteria.

According to additional amendment of the securities regulation from 2015 (applicable from January 2016) the duty to publish an immediate report on such transaction was abolished and the requirement to report these transaction on the periodical report remained.

Accordingly and with respect to banking transactions, the Bank published the report detailed at the end of this section.

In the matter of a non-banking transaction, the Bank has specified that a “negligible transaction” is a transaction that is conducted in the ordinary course of business at market conditions, which conforms to the criteria detailed below:

A one-time transaction for the purchase of services or products from a controlling shareholder, or a transaction as stated in which a controlling shareholder has a personal interest and whose amount does not exceed a minimum amount (as defined below) or a continuing transaction as stated (a number of essentially identical transactions with the same company) whose cumulative amount in the course of the calendar year does not exceed 0.75% of total operating and other expenses as reported in the most recent financial statements of the Bank. It is clarified that the aforementioned are not to be applied to a contractual engagement with a controlling shareholder or his relative regarding the terms of his service and employment. In this respect, the definition of the term “minimum amount” will be as defined in Proper Conduct of Banking Business Regulation 312 "Transactions of banking corporation with related persons".

Transactions involving the rental of sites from a controlling shareholder or transactions as said in which a controlling shareholder has a personal interest, which were approved in a single calendar year, providing that the overall amount of the transactions does not exceed the minimum amount.

Transactions involving the rental of sites to a controlling shareholder or transactions as said in which a controlling shareholder has a personal interest, which were approved in a single calendar year, providing that the overall amount of the transactions does not exceed the minimum amount.

Any other transaction the amount of which does not exceed the minimum amount, or the total amount of transactions of its type for the calendar year which do not exceed the minimum amount.

In the matter of a banking transaction, the Bank has specified that a “negligible transaction” is a transaction that is conducted in the normal course of business at market conditions, which conforms to the criteria detailed below:

1. A transaction for which or as a result of which the indebtedness amount does not exceed the minimum amount (as defined above).
2. Any other transaction for which its amount does not exceed the minimum amount.

An immediate report, inasmuch as required under the Securities Regulations, will be issued in respect of transactions as said that are not banking transactions and that are not negligible transactions.

In addition to the aforementioned, with respect to an indebtedness transaction to which Proper Conduct of Banking Business Regulation 312 does not apply, if the Bank is informed of the said transaction, the Bank undertakes to submit any such transaction for approval in accordance with Proper Conduct of Banking Business Regulation 312, and to provide disclosure on it in the Bank's annual report. The definitions “negligible transaction” and “exceptional transaction” with respect to these transactions will be the same as the above-mentioned definitions specified by the Bank with respect to the Securities Regulations.

b. Determination of criteria for the purpose of the Bank's transactions with interested parties

Under Paragraph 117 (1a) of the Companies Law, 1999 (hereinafter: "the Companies Law") which was amended as part of Amendment No. 16 to the Companies Law, the Audit Committee was charged with responsibility for deciding on the causative basis for the specification of the Bank's transactions with office-holders in it or for transactions in which office-holders have a personal interest and the Bank's transactions with controlling owners or transactions in which a controlling owner has a personal interest, whether these are exceptional or non-exceptional transactions. Paragraph 117 (1a) also stipulates that the Audit Committee may decide as said regarding a type of operation or transaction, on the basis of standards which it will determine once a year in advance.

Accordingly, the Audit Committee of the Bank specified standards, and stipulated that once a year a discussion will be held for the purpose of determining or re-approving the standards.

The standards were determined on the basis of quantitative criteria, and it was stipulated that a transaction that is not exceptional is a transaction executed during the normal course of business at the Bank and at market terms. The audit committee determined standards regarding examination of market terms.

The said criteria will also apply to transactions during the normal course of business which are conducted by companies controlled by the Bank, such as banking corporations controlled by the Bank. The said criteria will not apply in connection with the Bank's transactions with corporations under its control. In addition, it is clarified that the criteria do not concern approval of terms of employment and service at the Bank.

It should be noted that the criteria are likely to be examined from time to time by the Audit Committee inter alia in view of changes in the Bank's policy and business activity or in market conditions, and that the Audit Committee is likely to change from time to time and/or add to the criteria additional types of transaction and/or criteria.

Sections 117(1b) and 117(2a) of the Companies Act became effective in January 2014, within the framework of an indirect amendment to the Companies Act, which was included in the Act for Increasing Competition and Reducing Concentration, 2013. Pursuant to the said paragraphs, the Audit Committee is required to stipulate a requirement to fulfill a competitive process with respect to transactions with controlling owners or in which a controlling owner has an interest, even if these are not extraordinary transactions, under the supervision of the committee or the person deciding in this matter and in accordance with standards that will be prescribed, or to stipulate that other process determined by the Audit Committee are to fulfilled before engagement in the said transactions, all this in accordance with the type of transaction, and is entitled to specify standards once a year in advance. In addition, pursuant to the said paragraphs, the Audit Committee is required to determine the manner in which non-negligible transactions are to be approved, and including in this respect to determine types of transactions as said which will require the Audit Committee's approval.

The Audit Committee approved standards concerning the obligation to perform competitive process according to paragraph 117(1b) to the Companies Act and the manner of approval of non-negligible transactions in accordance with Section 117(2a) to the Companies Act.

c. Transactions with controlling owners or in which a controlling owner has an interest, approved in accordance with Section 270(4) and/or Section 267A of the Companies Act (including framework transactions still valid at the reporting date and transactions approved in accordance with the Companies Regulations (Relief in Transactions with Interested Parties), 2000 (hereinafter: "the Relief Regulations"):

1. In view of the termination of a framework transaction dated October 2009, and following approvals of the Audit Committee, the Compensation Committee and the Board of Directors, the general meeting of shareholders of the Bank approved on June 29, 2014, the following resolutions concerning insurance for directors and officers:
   - Renewal of "directors and officers" insurance policy for a period of eighteen months beginning on July 1, 2014 ("the insurance period") issued by Clal Insurance Co. Ltd. for the Bank and for the Bank Group, including subsidiaries of the Bank and the controlling owner, FIBI Holdings Ltd. (hereinafter - "Group companies"), which will apply to officers serving at the Bank and at Group companies from time to time, including the President and CEO, as well as officers who have a controlling interest in the Bank and/or their next of kin and/or persons the inclusion of whom in the insurance policy, might be the interest of holders of a controlling interest.
   - Prior approval, for the purchase by the Bank of an insurance policy, as stated above, covering the Bank and Group companies for a period of five years following the termination of the insurance period, including by way of extension of the original policies and/or by way of the purchase of new policies, which will apply with respect to officers who may serve at the Bank and at Group companies from time to time, including the President and CEO, as well as officers who have a controlling interest in the Bank and/or their next of kin and/or persons the inclusion of whom in the insurance policy, might be the interest of holders of a controlling interest.

     The said resolution comprises also a resolution for the approval of a framework transaction, as defined in item 1(3) of the Relief Regulations, as well as a resolution under Section 267A of the Companies Act, as part of the compensation policy regarding officers of the Bank (as long as the compensation policy of the Bank remains in effect, details of which were published in an immediate report by the Bank dated January 5, 2014, Ref. No. 004648-01-2014), as stated in item 1B(1) of the Relief Regulations.
   - Approval of the manner in which the said insurance fees are to be allocated among FIBI Holdings Ltd., the Bank and Group's companies which elect to join the insurance policy as from July 1, 2014 for five years. The said

resolution comprises also a resolution for the approval of a framework transaction, as defined in item 1(3) of the Relief Regulations.

The terms for the renewal of the policy following the termination of the insurance period within the framework transaction, the compensation policy and the manner of allocation of the insurance fees between FIBI Holdings Ltd., the Bank and the Bank's subsidiaries, are described in an immediate report of the Bank regarding the matter of the framework transaction dated May 22, 2014 (Ref. No. 071067-01-2014). Moreover, on February 23, 2017, the general meeting of shareholders approved a new compensation policy for officers of the Bank in accordance with Section 267A of the Companies Act, which includes also principles for regulating the insurance of directors and officers, in accordance with Regulation 1.B.1 of the Relief Regulations, the details of which are contained in Section 8 to Appendix "A" to the immediate report of the bank dated January 18, 2017 (Ref. No. 006415-01-2017). The contents of this report are presented here by way of reference.

According to the above, on June 13, 2017 the Bank's Board of Directors passed a resolution, after obtaining the approvals of the Audit Committee and the Remuneration Committee dated May 9, 2017 and June 6, 2017, and in accordance to regulations 1(3), 1a1, 1b(5) and 1b1 to the relief regulations, to approve the renewal of the policy for an 18 months period starting on July 1, 2017 till December 31, 2018 (inclusive) (hereinafter - "the current insurance period") through Menora-Mivtachim Insurance Ltd. for the companies in the group, as defined above. The policy covers also the President and CEO, as well as officers who have a controlling interest in the Bank and/or their next of kin and/or persons the inclusion of whom in the insurance policy, might be the interest of holders of a controlling interest. The terms of the policy for the current insurance period are detailed in the immediate report of the Bank dated June 14, 2017 (Ref. No. 049999-01-2017), the contents of this report are presented hereby way of reference.

2. On October 30, 2017, after obtaining the authorizations from the Compensation Committee and the Board of Directors of the Bank, the general meeting of shareholders approved the continued employment of Mrs. Yehudit Dagan, who is "a relative of a controlling shareholder" in the Bank, as a clerk in the Banking Operations Division at MATAF - Computing and Financial Operation Ltd. (hereinafter: "MATAF"), a wholly owned and wholly controlled subsidiary of the Bank, for a period of up to three additional years beginning on October 30, 2017 (date of expiry of three years since date of the general meeting's approval in 2014 of her continued employment) or until her retirement, whichever is earlier, at the existing terms of Mrs. Dagan's employment which are based on collective labor agreements. Also approved were certain potential changes in the terms of her employment, as is accepted and reasonable in the employment of an employee at the Bank and at MATAF of Mrs. Dagan's seniority and grade, all this as specified in the approval of her employment. For additional details, see the immediate report of the Bank dated September 19, 2017 (Ref. No. 094239-01-2017) included herein by way of reference.
3. On September 19, 2017, after receipt of the approval of the Compensation Committee and in accordance with Regulation 1b. of the Companies Regulations (Reliefs in Transactions with Interested Parties), 2000, the Board of Directors of the Bank reapproved the continued payment of remuneration to directors from among the controlling shareholders of the Bank, as detailed in the immediate report of the Bank dated September 19, 2017 (Ref. No. 094248-01-2017) included herein by way of reference. The amounts of remuneration approved are in accordance with the policy for the compensation for officers of the Bank, as approved by the general meeting of shareholders held on February 23, 2017, which details, as regards directors' remuneration (excluding the Chairman of the Board of Directors) are specified in item 7 to Appendix "A" to the immediate report of the Bank of February 14, 2017 (Ref. No. 016098-01-2017) the contents thereof is presented herein by way of reference.
4. Commitment for the indemnification of directors and officers of the Bank (including directors from among the controlling shareholders of the Bank). The said commitment for indemnification was updated within the framework of the approval by the general meeting of shareholders held on October 30, 2017, following the approvals of the Compensation Committee and the Board of Directors, with principal changes, as detailed below and which are detailed in an immediate report of the Bank dated February 19, 2017 (Ref. No. 094239-01-2017) included herein by way of reference. The granting of a commitment for indemnification of Directors who are controlling shareholders of the

Bank, in accordance with the updated letter of indemnification, as approved by the general meeting of shareholders, as mentioned above, for a period of three years beginning on date of the reapproval of the commitment for indemnification by the general meeting of shareholders held on October 30, 2017 (all as detailed in Note 25.c to the financial statements.

The principal changes in the commitment for indemnification, as approved by the general meeting of shareholders, are:

- Addition of a clarification regarding the possibility of indemnification in respect of expenses incurred in connection with administrative proceedings under the Antitrust Act, 1988, including reasonable litigation costs, which include lawyer fees. For reasons of care, the bylaws of the Bank have also been accordingly amended.
- Updating of the list of events, which in the opinion of the Bank are expected events in view of its operation.

d. Additional information on transactions with interested parties

1. See Note 33 to the financial statements for details of the balances and condensed results of transactions with interested parties and related parties.
2. The Group, including FIBI Holdings and its subsidiaries, jointly purchases insurance policies, including liability insurance for directors and officers (including directors who are controlling owners and their relatives).
3. Granting exemption from responsibility to acting directors and officers and to those who would act at the Bank from time to time, in accordance with the approval of the general meeting of shareholders of 2004 and as detailed in Note 25C. to the financial statements. Furthermore, the general meeting of shareholders of the Bank held on October 30, 2017, approved that in the matter of granting exemption from responsibility to officers, who were initially appointed after February 23, 2017, a qualification is included according to which, the exemption shall not apply to an act of commission or omission by an officer relating to a decision or transaction in respect of which any controlling shareholder or officer has a personal interest therein, and all in accordance with the compensation policy of he Bank, as approved by the general meeting of shareholders held on February 23, 2017, the details of which regarding exemption from responsibility are detailed in Section 8.5 of Appendix "A" to the immediate report of the Bank of February 14, 2017 (Ref. No. 016098-01-2017) presented herein by way of reference. It is noted that the Bank has not tabled for reapproval of the general meeting of shareholders, the granting in 2004 of exemption letters to directors who are controlling shareholders.
4. In addition, the Bank and its subsidiaries conduct from time to time transactions with interested parties in the Bank in the ordinary course of business and at market terms.
5. The Group, in the ordinary course of business, had purchased until March 31, 2017, from the Paz group (Paz Oil Ltd. and subsidiaries and affiliates), which until March 31, 2017 was controlled by the controlling owners in the Bank, fuel for vehicles used by Bank employees (including leased vehicles). In 2017, until March 31, 2017, the Bank Group purchased fuel from Paz group in a total amount of NIS 1.4 million (for the whole of 2016 - NIS 5.7 million). In addition, the Bank had rented from Paz Group office premises of 345 square meter occupied by the Bank's Natanyah branch until September 2017, and a consolidated company is renting from Paz Group office premises of 25 square meter for use of the Kfar Kara branch until February 2020. The rental fee for 2017 until March 31, 2017, amounted to NIS 0.2 million (for the whole of 2016 - NIS 0.8 million). To the best knowledge of the Bank and as reflected in reports published by Paz, the controlling shareholders of the Bank ceased to be interested parties in the Paz Group as from March 31, 2017.

6. Set out below is a collation of data concerning banking transactions that were conducted by the Bank and companies under its control with the controlling owners at the Bank (including their relatives and companies in which controlling owners at the Bank are interested parties), including data concerning transactions conforming to the criteria that were determined with respect to negligible transactions (NIS thousand):

Indebtedness's	Credit	Investment in bonds	Fair value of derivatives	Total balance-sheet monetary indebtedness	Unutilized credit balance	Guarantees granted by Bank for securing credit to a controlling owner or to a party related thereto	Guarantees granted to Bank by controlling owner in favour of third party	Indebtedness of controlling owner in respect of transactions in derivatives	Total
									NIS thousand
December 31, 2017									
Others[2]	**77**	**-**	**-**	**77**	**450**	**-**	**-**	**-**	**527**
Total	**77**	**-**	**-**	**77**	**450**	**-**	**-**	**-**	**527**
December 31, 2016									
Paz group[1]	53,314	-	-	53,314	4,586	160	-	-	58,060
Others[2]	50	-	-	50	192	-	84	-	326
Total	53,364	-	-	53,364	4,778	160	84	-	58,386

Deposits	December 31, 2017		December 31, 2016	
	Balance on balance-sheet date	Highest balance during period[3]	Balance on balance-sheet date	Highest balance during period[3]
		NIS thousand		NIS thousand
Paz group[1]	**-**	**-**	77,877	73,063
Others[2]	**12,265**	**91,991**	4,550	5,140
Total	**12,265**	**91,991**	82,427	78,203

(1) Paz Oil Co. Ltd. and its subsidiaries and affiliated companies. The controlling shareholders at the Bank held more than 5% of controlling means in "Paz" until March 31, 2017.

(2) Relatives of controlling shareholders of the Bank. As the definition of relative in the Banking Law (licensing)-1981.

(3) On the basis of balances at the end of each day.

DETAILS OF THE OWNERS OF CONTROL IN THE BANK

Acquisition of control in FIBI and in the Bank in 2003 and Bank of Israel permit

On September 19, 2003, Binohon Ltd. and the Lieberman Group of Australia purchased shares in FIBI in a manner whereby Binohon, which is controlled by Mr. Zadik Bino, held 28.54% of the equity rights and 50.59% of the voting rights in FIBI, and the Lieberman Group held 23.35% of the equity rights and 20% of the voting rights (in equal parts via Instanz Holdings Ltd., which is controlled by Messrs. Michael and Helen Abeles from Australia, and Dolphin Energies Ltd., which is controlled by Messrs. Barry Lieberman, Casey Lieberman-Harris, Lee Lieberman and Joshua Lieberman from Australia, all of them via a chain of Australian entities). The buyers are party to a voting and cooperation agreement, which includes various arrangements concerning their holdings in the controlling stake at FIBI, and indirectly, at the Bank, which include, to the best knowledge of the Bank, the following provisions:

1) Subject to any law, arrangement for appointment of directors at FIBI Holdings and at the Bank: With respect to FIBI Holdings' Board of Directors, it was determined that at least 9 directors will be appointed, with five or more directors to be recommended by Binohon, one director to be recommended by Instanz Holdings, one director to be recommended by Dolphin Energies and two external directors to be appointed on the basis of Binohon's recommendation after consultation with Instanz Holdings and with Dolphin Energies. With respect to the Bank's Board of Directors, the parties agreed to act in order for the Bank's Board of Directors to consist of at least 11 directors; that FIBI will support the appointment of five directors to be recommended by Binohon, one director to be recommended by Instanz Holdings and one director to be recommended by Dolphin Energies, and for external directors at the Bank to be elected by consensus, as well as an arrangement in case no such consensus is reached;
2) With respect to participation of the parties at general meetings of FIBI's shareholders, the parties agreed to vote at such meetings in line with Binohon's position (after discussion among the parties), except regarding decisions on the appointment of directors at FIBI and at the Bank (to which the aforementioned agreement shall apply), and except for transactions by FIBI, the Bank and/or a subsidiary company thereof with interested parties in them, for which arrangements were determined whereby such transactions will not be made without the written consent of Binohon and either of Instanz Holdings or Dolphin Energies;
3) Subject to any law, arrangements regarding the exercise of their control at FIBI concerning voting by FIBI at general meetings of the Bank's shareholders, as follows: (a) In all matters concerning the subjects on the agenda of the Bank’s general meeting, in respect of which the Board of Directors of the Bank issued resolutions or recommendations to the meeting, FIBI will vote in accordance with the position of FIBI’s Board of Directors; (b) In all matters concerning issues in respect of which the Board of Directors of the Bank did not issue resolutions or recommendations or which were submitted to the Bank’s general meeting at the request of a shareholder, without their having been discussed by the Board of Directors of the Bank, FIBI will vote in accordance with the position of FIBI’s Board of Directors, providing that one of the directors who was appointed by Instanz Holdings or by Dolphin Energies supports the position and in the absence of such support, will vote against the proposed resolution. In the event that a personal interest exists for both the directors who were appointed as said by Instanz Holdings or Dolphin Energies, FIBI will vote in accordance with the position of FIBI’s Board of Directors. It is clarified that these arrangements do not apply to the appointment of directors at the Bank, to which the aforementioned agreement applies. It is also clarified in the agreement that the shareholders’ agreement is not to be construed as constituting a voting agreement applying to the directors at the Bank;
4) Agreement to act in accordance with the permit from the Bank of Israel for holding the means of control at the Bank which was granted to the controlling shareholders;
5) Right of first refusal granted to Binohon for the purchase of FIBI shares which constitute part of the controlling stake held by Instanz Holdings and Dolphin Energies, should any of the latter enter into an agreement to sell these shares;
6) Tag-along right granted to Dolphin Energies and to Instanz Holdings at the time of sale by Binohon of FIBI shares which constitute part of the controlling stake held by Binohon;

7) Binohon's right to require Dolphin Energies and Instanz Holdings to join its sale of FIBI shares.

Transfer of control of FIBI was made in accordance with the permit issued by the Bank of Israel on August 27, 2003 (hereinafter: “the permit”), which prescribed inter alia terms and obligations regarding the direct and indirect means of control in FIBI and the Bank, their transfer and the relationships between the recipients of the permit, FIBI and the Bank, including as follows (to the best of the Bank's knowledge):

1) For as long as the permit recipients are in control of FIBI, FIBI will not sell and will not transfer, directly or indirectly, means of control in the Bank if as a result of this, its rate of holding in the Bank falls below the minimum rate that was determined (48.34% of share capital and 67.25% of voting rights), and a minimum rate for the holdings in FIBI was also determined. The permit stipulates that the controlling group must at any time retain a minimum holding rate in FIBI and the Bank. For this purpose, the controlling group will purchase means of control if the rate of holding in any type of means of control falls below the minimum rate. It was also determined that if FIBI or the Bank issues rights to shares or any other security that is convertible into shares, the controlling group will retain the minimum rate of holding minus three percentage points when calculated at full dilution. Notwithstanding the foregoing, if an equalization of rights is made between the different types of shares existing at FIBI or at the Bank, the core of control or the minimum holding rate with respect to the voting rights, will be equalized to the minimum rate with respect to the share capital, providing that the group continues to retain sole and exclusive control in FIBI and the Bank. Additional means of control in the Bank may be purchased, to be held directly by FIBI, at a rate not exceeding 3% of the Bank's share capital and of the voting rights deriving from this additional holding (means of control at this rate were purchased by FIBI in 2005 and sold by it in April 2013). In addition, it was determined that FIBI's principal activity will be holding of the control in the Bank.
2) Since five years have passed since the permit was granted, the permit holders may sell or transfer means of control in FIBI, but only if (a) they sell or transfer jointly all means of control which constitute the minimum stake in FIBI, to an individual or group lawfully licensed to receive them; or (b) the buyer or transferee are lawfully licensed to purchase and receive the means of control, and to regularly act in coordination with the other permit holders, pursuant to the aforementioned shareholders' agreement in FIBI, or any other agreement approved by the Supervisor of Banks.
3) The means of control in FIBI (which were purchased when the control was purchased) which are held directly by the permit holders as well as the means of control in the Bank which are held by FIBI (at a minimum rate mentioned in Paragraph 1 above) will be deposited with an Israeli resident trustee, whose identity, deed of trust and instructions that were given to it will be subject to the approval of the Supervisor of Banks. The aforementioned means of control in FIBI and the Bank are held in the said manner in accordance with the conditions of the permit via Gai Trust and Management Co. Ltd.
4) Dividends will not be distributed from the earnings accrued at the Bank up to March 31, 2003, and if losses are accrued after this date, dividends will not be distributed unless these losses have been covered. The balance of the distributable surpluses at the Bank as of March 31, 2003 amounted to NIS 2,391 million.
5) Appointments of the Chairman of the Board of Directors and the CEO of the Bank will be subject to the consent of the Supervisor of Banks.
6) The permit recipients, including their relatives and corporations controlled by any of them, will not receive management fees or any proceeds and other benefit from the Bank or from corporations controlled by the Bank. They will however be entitled to provide services that are supplied on a regular basis by their providers and at market prices, after prior notification to the Supervisor of Banks at the conditions specified in the permit. Should the Supervisor of Banks notify that the service is not of a type that is provided on a regular basis to others or that the consideration therefore is unreasonable, the service is not to be provided. This directive will not apply to director remuneration which is paid at an equal amount to all the directors at the Bank.
7) Without the Supervisor of Banks’ approval, the permit recipients and corporations under their control, including FIBI and corporations under its control, will not engage in any business activity, in Israel or outside Israel, which constitutes the receipt of deposits, the granting of credit or any other financial activity that involves an element of competition with

the Bank's business activity. In addition, without the Supervisor of Banks' approval, the permit recipients or any of them or corporations under their control will not be interested parties (as defined in the permit), directors or senior executives at corporations that engage in the said business activities.

8) The purchase of means of control in FIBI or in the Bank, including provision of a guarantee for the said finance, will not be financed, directly or indirectly, by the Bank or by banking corporations under its control.
9) Minimum rates of holding have been determined for the permit recipients in FIBI as well as directives concerning arrangements within the group of permit recipients, including directives concerning their purchase of additional means of control in FIBI, from the aspect of the manner in which they hold additional means of control that will be purchased and from the aspect of the ratio of the rates of holding of FIBI shares among the members of the controlling group.
10) The controlling group undertook to inform the Bank's Board of Directors of the permit and its conditions, with the exception of certain conditions.

Following amendments to the permit, FIBI has been permitted to increase its holdings in the Bank by a rate not exceeding 8% of the Bank's share capital, over and above the holding rates detailed in the permit. Accordingly and taking into account FIBI's holdings in the Bank as at the date of this report, FIBI is entitled to increase its holdings in the Bank by a rate of up to 8% of the Bank's share capital and at a rate of voting rights deriving from this additional holding.
The permit states that the Bino family will hold the means of control in FIBI (being part of the control core acquired in 2003) through Binohon Ltd. directly; furthermore, following the amendments to the permit, the holders of Binohon may be Mr. Zadik Bino and/or the children of Mr. Zadik Bino - Mr. Gil Bino (acting as Director of the Bank), Ms. Hadar Bino Shmueli, Ms. Daphna Bino Or (hereinafter together - "the Bino family").
The Bino family is entitled to hold the surplus rate in FIBI (over and above the minimum rate that is determined in the permit, as stated above), through another corporation.
In 2009, FIBI completed the capital consolidation of its shares.
In 2010, the Bank completed the capital consolidation of its shares.

Additional details regarding the stake in FIBI held by the controlling shareholders

In accordance with the reports of FIBI, as of April 2, 2015 that Mr. Zadik Bino, and his children- Mr. Gil Bino, Mrs. Hadar Bino-Shmueli and Mrs. Dafna Bino-Or, hold equal controling share in Binohon- 25% each.

FIBI reported on March 24, 2013 that Instanz Holdings transfered to Instanz no. 2 (hereinafter - "Instanz 2") in an off-floor transaction 4,139,233 of FIBI shares which constitute 15.77% of the issued and paid-up share capital of FIBI and the entire hodlings of Instanz in FIBI. Instanz 2 is a company incorporated in Israel and is wholly owned subsidiary of Sing Acquisitions Pte. Ltd (hereinafter - "Sing") which is a company incorporated in Singapur and controlled solely by Messers Helen and Michael Abeles (via Australian entities), that also fully control (via the same Australian entities) Instanz. The transfered shares are held in trust for Instanz 2 by Gai Trust and Management Co. Ltd. After the transfer of the shares, Instanz 2 became a party to the shareholders agreement between Instanz Holdings, Binohon and Dolphin Energies, as amended from time to time, and Instanz will continue to be a party to the shareholders agreement and will be a guarantor for the obligations of Instanz 2. In addition, the permit was amended, so that the holdings of the permit holders mentioned above in FIBI would be by means of Sing and Instanz 2 instead of by means of Instanz Pty. Ltd and Instanz holdings.
According to FIBI's reports, as of date of these financial ststements, the holdings of the controlling stakeholders in FIBI (in equity and voting) are as follows: Binohon - 38.29%, Instanz No. 2 Ltd. - 15.66% and Dolphin Energies Ltd - 11.68%.

Details concerning FIBI’s holdings in the Bank

To the best knowledge of the Bank, as of date of publication of the financial statements, FIBI holds 48.34% of the equity and voting rights in the Bank (a rate constituting the core of control, in accordance with the control permit of Bank of Israel).

FIBI is a publicly-traded company whose shares are listed on the Tel Aviv Stock Exchange.

It is noted that in accordance with the provisions of the Promotion of Competition and Reduction in Centralization Act, 2013 (hereinafter - "the Reduction in Centralization Act") and the list of centralized factors in the market that was published recently by the Committee for the Reduction in Centralization, the Bank has been defined as a significant financial institution and PAZ Oil Company Ltd. ("PAZ") has been defined as a significant non-financial corporation. In view of the above, and in accordance with the situation which had existed until March 31, 2017, at the end of a transitional period of six years from date of publication of the Centralization Act, the controlling shareholders of the Bank would not have been pernmitted to control both the Bank and PAZ at the same time, or to control the Bank and hold 5% or more im any meaning of control in PAZ.

In accordance with the reports of Paz, following the sale of shares from time to time by the controlling shareholders of Paz, as from March 31, 2017, Bino Holdings Ltd., Dolphin Energies Ltd. and Instanz Holdings Ltd. are no longer interested parties in Paz.

Under these circumstances, the controlling shareholders of the Bank are not precluded under the Reduction in Centralization Act from continuing to hold control of the bank.

CONTRIBUTION TO THE COMMUNITY

"Believing in You" - the social-community project of the Bank - in cooperation with MATAN - Investing in the Community Organization - is in operation already for ten years. In its early years, the project focused on young persons that were expeled from different frameworks, with the aim of giving these young persons the oportunity to change their lives and live a normative life within the Israeli society. Within the framework of the program the young persons were integrated into business initiatives and different programs combining studies with work and grooming business enterpenuership by development of skills.

In continuance and in recent years the Bank approached additional populations, within the new project "believing in you", in order to expand the voluntiring activity among its employees, while creating social involvement with additional value such as "fathers and sons on the field" and cooperations with populations of childrens at risk.

In 2017 the Bank continues these projects in the framework of "believing in you" with a focus on children and youth in risk situations concentrating on enriching and providing tools in various subjects, such as: financial awarness, enterprenuership, management and exelence skills, and with personal support, tutoring and adoption of groups in various frames.

In addition, other activities of volunteering and aid to weak population take place, by cooperation of joint learning, packaging food baskets, language learning, social rehabilitive activity, etc.

The Bank encourages and supports the volunteers from among employees of the Bank, who are interested in taking part in the project and in contributing their time, experience and skills in favor of these young persons and additioal populations. In addition to these projects, the Bank and its subsidiaries donate to various foundations and organizations.

The total amount of donations contributed by the Bank Group in 2017, amounted to NIS 3 million.

ADDITIONAL INFORMATION

CHART OF PRINCIPAL INVESTEE COMPANIES

Bank Otsar Hahayal Ltd.
(E. 78% V. 78%)*

Bank Massad Ltd
(E. 51% V. 51%)

Israel Credit Cards Ltd.
(E. 28.2% V. 21%)

First International Issues Ltd.
(E. 100% V. 100%)

V - Bank's Voting Right
E - Bank's Share in Equity

* See Note 15.e. regarding the purchase of "Hever" holdings in Otsar Hahayal by the Bank in January 16, 2018, after which the Bank holds 100% of voting rights and the rights to appoint directors and 99.99% of equity.

FIXED ASSETS

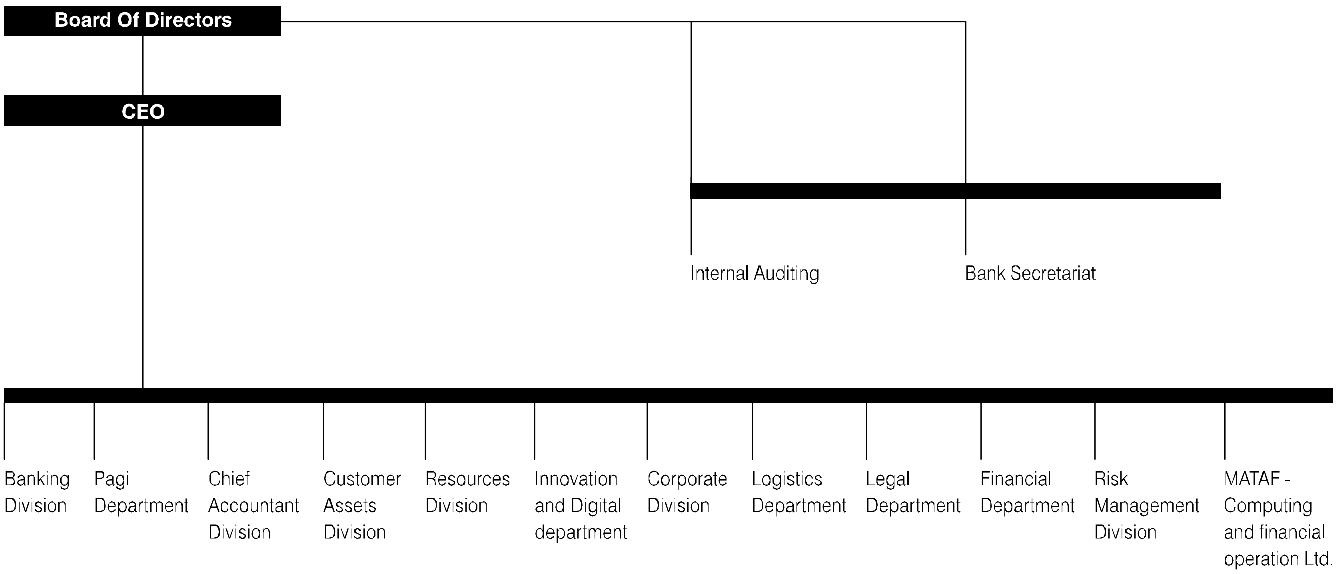
	As of December 31			
	2017			2016
	Cost	Accumulated depreciation	Balance	Balance
				NIS million
Buildings and land (including installations and improvements to rented properties)	**1,610**	**619**	**991**	1,028
Equipment (including computers, furniture and vehicles)	**736**	**632**	**104**	105
Total	**2,346**	**1,251**	**1,095**	1,133

As of December 31, 2017, the Bank Group owned or leased a total area of 61 thousand square meters in 60 properties (December 31, 2016- 69 thousand square meters in 66 properties). In addition, the Group rents in Israel a total area of 47 thousand square meters in 144 properties throughout the country (December 31, 2016- 49 thousand square meters in 156 properties). The rental agreements for rented premises are for varying periods and in most cases an option to extend the rental periods is provided. The majority of rental contracts are linked to the consumer price index.

See Note 16 to the financial statements for details on additional aspects of the investment in premises and equipment.

HUMAN CAPITAL

The organizational structure of the Bank



As of December 31, 2017 the Bank Group operated via 161 branches and sub-branches 94 branches and sub-branches at the Bank, 46 branches and sub-branches in Otzar Hachayal and 21 branches and sub-branches in Massad). The Group examines on a current basis the developments in the profitability and business activity of the branches, relative to the target populations for which they were ment to serve, the targets set in the working plans of the banks in the Group and the ability to utilize to the fullness the potential in the geographical area in which each branch operates. In this franework the compatability of the branches distribution to the business environment is examined on a current basis, as well as to the changes in the areas comprising potential business development in the target population of each bank in the Group.

Human Resources Strategy

The Bank's human resources strategy is formulated in accordance with the Bank's policy and business objectives, and is centered on strategic partnership for the purpose of achieving these objectives and realizing the full potential of the Bank's human capital. Accordingly, human resources strategy in 2017 was focused on a number of main areas:

Development of human capital - Strengthening and development of human capital in accordance with the Bank's requirements and business objectives, from the long-term aspect: detection and full exploitation of the potential inherent among employees, outlining of knowledge gaps and assimilation of core abilities, professional and managerial instruction and executive development.

Long-term personnel planning - Outlining and planning human capital requirements for the purpose of achieving the Bank's objectives, adaptation of career tracks, recruitment and training of managerial cadres and professional cadres in accordance with the Bank's requirements.

Organizational development - Development of advanced tools in all areas for processing the human capital at the organization, including: enhancement of recruitment processes, employee assimilation and retention, recognition of employees' endeavor, increasing the efficiency of organizational processes and development of control devices, performance appraisal, and support at the Bank's units.

Intra-organizational communications - Management of intra-organizational communications in order to promote cross-organizational dialog and cooperation while strengthening human capital, emphasis on openness and transparency of information, employing various means for encouraging dialog at the Bank, and branding of the Bank's welfare activities.

Organizational culture - Supporting a culture that strengthens the values and objectives of the Bank, with an emphasis on excellence in all areas of endeavor, ethical behavior, social accountability and contribution to the community.

Personnel

The number of full-time employees in the First International Bank Group on December 31, 2017 was 4,451 compared with 4,623 at the end of 2016, a decrease of 3.7%.

The following are details of manpower in the Bank Group in terms of positions(1)

	2017		2016	
	Annual average(1)	Balance at end of the year	Annual average(1)	Balance at end of year
The Bank- in Israel	**3,401**	**3,363**	3,548	3,465
Subsidiaries in Israel	**1,094**	**1,078**	1,160	1,129
Subsidiary abroad	**17**	**10**	30	29
Total at the Bank Group	**4,512**	**4,451**	4,738	4,623

(1) Number of positions include translation of overtime to position, with addition of external manpower which are not bank employees, but provide work services needed to adjust the manpower in the framework of current activity and for assimilation of projects.

The following are details of the Group's employees according to supervisory segments of activity:

The positions presented according to segments of activity include position of direct employees of the segment and positions of head-office employees at different levels, which the cost of their employment was allocated on the segment. The computation of the said positions is based on the model of cost allocation which the Bank uses.

	Year 2017	Year 2016
Large business segment	**270**	295
Medium business segment	**161**	178
Small and minute business segment	**1,095**	1,100
Household segment	**2,532**	2,673
Private banking segment	**97**	107
Institutional entities	**301**	319
Financial management segment	**56**	66
Total	**4,512**	4,738

Human resource characteristics

The average seniority of the Bank’s employees amounted to 18.7 years compared with 18.1 years in 2016. The average age of the Bank's employees was 47.2 compared with 46.6 in 2016.

Employee mobility

In order to reduce as far as possible the dependency on office-holders and as part of employees' personal and professional development, the Bank insists on employee mobility and rotation of employees within the Bank. For this purpose, the Bank regularly moves employees in sensitive functions who have served in their positions for more than the desirable number of years on the basis of a multi-year rotation plan, according to the type of position and/or personnel requirements and subject to the constraints imposed by the work agreements at the Bank.

Human resource quality and managerial quality

The enhancement of human resources continued in 2017 via the creation of advanced processes at the different stages of the employee's life at the organization: recruitment, classification and absorption of new employees, the conferral of tenure and new appointments and management development.

Management cadres and management development plans

The Bank’s management cadre was built up on the basis of the managerial profile and critical core proficiencies. This cadre is used as a means for monitoring employees with managerial potential, for personal planning and development purposes and in order to map qualitative and quantitative gaps. As a result, different tracks for management development have been established during recent years, in order to train managerial reserves for various terms.
The proportion of graduate employees at the Bank amounted to 58% at the end of 2017.

Code of Ethics

The Bank has institutionalized the process of developing tools for assimilation of the code and for promoting a culture of ethical behavior and social accountability. For this purpose, the Bank established ethical institutions at the bank, including an Ethics Committee headed by a member of management, which is responsible for assimilation of the code and for providing guidance and training on the basis of the values in the Code of Ethics, among other things, using a Code of Ethics Portal was instituted at the Bank. This portal contains interactive tools for the use of all employees. The Bank's Code of Ethics was updated in cooperation with employees during 2016. During 2017, all employees and managers of the Bank paticipated in seminars on the Code of Ethics, as part of the assimilation of the subject.

Intra-organizational communication

Intra-organizational communication serves as a strategic managerial tool for supporting the Bank's objectives and activities, for assisting in all key processes and events, and for fostering dialog and a sense of connection between employees and the organization. The Bank has placed an emphasis on effective management of intra-organizational communication for the purpose of promoting transparency, increasing the level of employee satisfaction and strengthening the connection between all of the Bank's employees.

Professional instruction and training

In 2017, an emphasis was placed on the development of a climate of study and excellence among the Bank's employees, and innovative information tools and processes were employed for mapping knowledge gaps and for the development of advanced professional instruction activities in the Bank Group. An emphasis was also placed on instruction in the Bank's core areas of activity, and on managers' development before entering into and during the function.
The number of days of instruction at the Bank Group totaled 20,178 in 2017, which were equivalent to 79 employee positions and an average of 4 days of instruction a year per employee at the Group. This compares with 19,284 days of instruction in 2016, which were equivalent to 75 employee positions and an average of 3.7 days of instruction a year per employee.

LABOR RELATIONS AT THE BANK

Two labor organizations exist at the Bank: the union of managers and signatories numbering approximately 800 employees and the clerks union numbring approximately 1,900 employees. Collective labor agreement are in effect at the Bank, which link to a certain extent, the employment terms of the clerks and managers to those agreed upon by the Management of Bank Leumi Le'Israel Limited (hereinafter - "Bank Leumi") and the unions of its employees.

A. The managers and signatories of the Bank filed on September 28, 2016, a party motion regarding the dispute concerning the collective employment agreement. It is argued in the motion that under the linkage to Bank Leumi employment terms agreement, the managers and signatories are entitled to an award equal to one month's salary per person, following such a payment made by Bank Leumi to its employees on June 2, 2016. Following the hearing of evidence on, the case is at the summing-up stage, and is expected to be concluded in March 2018.

B. The clerks of the Bank also filed on November 17, 2016, a party motion regarding the dispute concerning the collective employment agreement. It is argued in the motion that under the linkage to Bank Leumi employment terms agreement, the clerks are entitled to an award equal to one month's salary per person, following such a payment made by Bank Leumi to its employees on June 2, 2016. Following the hearing of evidence on November 30, 2017, the summing-up stage has been concluded, and the parties are awaiting the verdict.

C. On March 23, 2017, the Regional Labor Tribunal in Tel Aviv admitted the claim of the clerks in the party motion served by them regarding the collective dispute, stating that they are entitled to the conversion of unutilized sick leave days to vacation days for actual utilization upon retirement on grounds of age, following an agreement made at Bank Leumi in January 2015. The Bank appealed the above decision. On November 2, 2017 the hearing of the appeal took place, in which the Tribunal suggested that the parties reach a compromise and allowed them to inform the Tribunal until December 17, 2017, if such compromise had in fact been reached, otherwise it will give its verdict. The parties informed the Tribunal that no compromise had been reached and are now awaiting the verdict.

D. The managers and signatories submitted on March 14, 2017, a party motion in the collective dispute, in which they request temporary and permanent relief against the continuing efficiency measures at the Bank, while requesting the Tribunal to instruct the Bank to enter into negotiations with them towards the signing of a collective agreement as regards everything relating to the implications of the efficiency measures on the managers and signatories. The parties exchanged claims briefs, and the managers were permitted to file an amended party motion to which the Bank may respond by filing an amended party response. The hearing of evidence is fixed for May 6, 2018.

E. A notice from the New Federation of Labor (hereinafter - "the Federation") was received on March 8, 2017, according to which, over one third of the employees of MATAF Computer and Financial Operations Ltd. (hereinafter - "MATAF") had joined the Federation, and that as from that date, the Federation serves as the representative organization for MATAF employees. Management of MATAF has begun negotiations with the employees for the signing of an initial labor agreement.

COMPENSATION POLICY IN A BANKING CORPORATION

The compensation policy for officers of the Bank

The General Meeting of Shareholders of the Bank approved on February 16, 2014, a compensation policy for officers of the Bank, in accordance with Section 267A of the Companies Act and with Proper Conduct of Banking services Directive No.301A "compensation policy of a banking corporation" (hereinafter - "the Directive"). For additional details regarding the said compensation policy for officers, see the immediate report of the Bank dated January 5, 2014 (Ref. No. 004648-01-2014). On April 12, 2016 the Compensation of Officers of Financial Corporation Act (Special approval and the non-deductibility tax wise of exceptional compensation), 2016 (hereinafter - "the Compensation Act"), was published. On August 13, 2016 and on September 29, 2016, amendments to the Directive were published (hereinafter - "amendments to the Directive"). On February 23, 2017, the General Meeting of Shareholders of the Bank approved a new compensation policy for officers of the Bank under Section 267A of the Companies Act, updated in accordance with the provisions of the Compensation Act and the amendments to the Directive, as well as the terms of engagement of the Chairperson of the Board, Ms. Irit Izakson. For additional details, see the immediate report by the Bank dated January 18, 2017 (ref. No. 006415-01-2017) and the suplementary report dated February 14, 2017 (ref. No. 016098-01-2017). The content of this report is included hereby by way of reference.

Employee compensation policy

In accordance with Proper Conduct of Banking services Directive No.301A "compensation policy of a banking corporation" (hereinafter - "the Directive"), in April 2014, the Bank approved, after three years from the previous approval, a compensation policy for all Bank employees, including central employees, as well as principles for the compensation policy of the Group, the compensation policy for officers, as approved on February 23, 2017 by the General meeting of Shareholders, forming a part thereof. The compensation policy for employees sets rules for the compensation of employees and of central employees, including in accordance to the updates of the directive from its first publication, as well as instructions regarding the distribution of responsibility among the relevant functions at the Bank engaged in the compensation mechanism. Moreover, within the framework of the compensation policy of the Group principles were set regarding the fixed compensation and the variable compensation for officers of the controlled companies including paying attention to the principles of the compensation policy to the office holders in the Bank.

For further disclosure in the matter of compensation, see the document "Disclosure according to Pillar III of Basel and additional information regarding risk", available for perusal on the Internet.

MATERIAL AGREEMENTS

Apart from the agreements in the ordinary course of business, the agreements detailed below, which were signed in 2017 and/or were signed previously and are still binding on the Bank, are likely to be considered as material agreements not in the ordinary course of business:

1. Agreement with the holders of shares and a PUT option in Otsar Hahayal

   As part of the arrangements reached in 2006 between the Bank and "Hever" Servicemen and Veterans Ltd. (hereinafter - "Hever"), which until recently was an additional shareholder of Otsar Hahayal, the Bank had certain obligations towards Hever, among which is a PUT option, due to expire on February 17, 2018, whereby Hever was entitled to obligate the Bank to purchase its holdings in Otsar Hahayal, in whole or in part.

   On January 14, 2018, the Bank offered all shareholders of Otsar Hahayal to purchase their shares in Otsar Hahayal, of whatever class, within the framework of proceedings in accordance with Section 341 of the Companies Act, 1999 (hereinafter - "the Companies Act"). The total consideration offered in respect of the purchase of the shares is NIS 340 million, a price equal to the exercise price stated in the terms of the option granted to Hever, and which reflects a price equal to 121% of the equity capital of Otsar Hahayal, in accordance with its financial statements as of September 30, 2017.

   The acquisition by the Bank of the holdings of Hever in Otsar Hahayal was completed on January 16, 2018, following which, the Bank holds 100% of the voting rights in Otsar Hahayal and of the right to appoint directors, and 99.99% of equity rights. With the transfer of the holding of Hever to the Bank, the PUT option described above also expired.

   The Bank is acting now to complete the purchase of the shares in Otsar Hahayal held by the remaining shareholders, in accordance with Sections 341 and 342 of the Companies Act, subject to the terms and dates stated therein.

2. Collective Labor Agreements:

   There are two employees' organizations at the Bank - the clerks' organization, and the managers and authorized signatories' organization.

   The following is a summary of the principal agreements signed with the two employees' organizations:

   - A collective agreement of November 19, 1975 between the Bank's management and the National Organization of the Association of the Managers and Authorized Signatories of the Bank regarding the linkage of salary conditions and related work conditions as practiced with respect to authorized signatories at Bank Leumi Le-Israel Ltd. On November 12, 2000 a special collective agreement was signed. The agreement stipulated employees' obligations and rights, inter alia, concerning mobility between functions, overtime policy, annual vacation, recreation pay, sick leave, maternity leave, studies, dismissal and resignation and severance pay (labor statute).

     Apart from these agreements, specific agreements are signed from time to time between the Bank and the said organization with respect to specific subjects.
   - A collective agreement of October 25, 1974 between the Bank's management and the national organization of the Bank's employees concerning the receipt of related payments such as are received by the employees of Bank Leumi le-Israel Ltd. There is also a special collective agreement from that year which determines the obligations and rights of employees, inter alia, concerning mobility between functions, overtime policy, annual vacation, recreation pay, sick leave, maternity leave, studies, dismissal and resignation and severance pay (labor statute). In addition to these agreements, specific agreements are signed from time to time between the Bank and the said organization with respect to specific subjects.

3. Indemnification and exemption for officers of the Bank and its subsidiaries - see Note 25C to the financial statements.

4. Deeds of trust and guarantees relating to the issue of bonds, subordinated debt notes and subordinated capital notes.

   First International Issues Company Ltd., a wholly owned subsidiary of the Bank, concluded deeds of trust in connection with the issue of bonds, subordinated debt notes and subordinated capital notes of different series issued by First International Issues, in accordance with prospectuses in public or private placements.

Agreements were signed between First International Issues and the Bank, according to which, concerning issues whose proceeds are placed in deposits or subordinated deposits with the Bank at terms identical to the terms of the debt notes, part of which with the addition of a commission, the Bank is committed to bear all payments due to the holders of the debt notes, including the repayment of principal and payments of interest.

The total revaluated value of the debt notes that were issued under the said deeds of trust, whose proceeds were deposited at the Bank, and which are held by the public, amounted to NIS 4,567 million on December 31, 2017 (including linkage increments, accrued interest, issue expenses, discounting and premium).

5. Arrangements concerning matters connected with the capital market - a notification which the Bank sent on August 1, 1984 to the Supervisor of Banks at the time, concerning a number of restrictions which the Bank took upon itself in connection with its activity in the capital market.

6. Pledge of the Bank's assets to clearing houses in Israel and abroad and to foreign banks and brokers - see Note 26 to the financial statements.

7. Pledge to the benefit of the Bank of Israel - see Note 26 to the financial statements.

8. Mutual guarantee for the MAOF Risk Fund and a risk fund that was established by the stock exchange - see Note 25.3.D and 25.3.E to the financial statements.

LIMITATIONS REGARDING LEGISLATION, STANDARDS AND SPECIAL CONSTRAINTS AFFECTING THE BANK GROUP

Set out below are brief details of legislative changes and legislative initiatives relevant to the period of the report, which have an effect on or are likely to have a material effect on the Bank's activity.

BANKING

Banking Rules (Customer service) (Commission fees) (Amendment), 2017

The said Amendment to the Banking Rules (Customer service) (Commission fees), 2008, was formally published on August 24, 2017. The Amendment states, among other things, that fees charged in respect of services provided online, would be lower than those charged for the same service provided by a bank employee.

This Amendment is expected to increase competition between banks in providing online services, which, on the one hand may lead to an increase in the volume of activity in these channels, and on the other hand to a possible erosion in fees. At this stage it is not possible to quantify the effect of the change on the Bank's Group.

Announcement by the Governor of Bank of Israel regarding an outline for the reduction in cross-commission fees

The Governor of Bank of Israel announced on January 16, 2018 her intention to reduce the cross-commission fees applying to deferred debit transactions that its final details will be determined following a study of comments made by the public After such comments were studied, the Bank of Israel published on February 25, 2018 an updated framework of reducing the cross-commission fees:

The cross commission fees applying to deffered debit transactions will be reduced from the present rate of 0.7% to a rate of 0.5%. The reduction would be made in five installments during the coming years, beginning on January 1, 2019, reduction to 0.6% and after that each year by additional 0.025%. The last installment taking effect on January 1, 2023 will be reduced to 0.5%.

The cross commission fees applying to immediate debit transactions will be reduced from the present rate of 0.3% to a rate of 0.25%. The reduction would be made in two installments during the coming years, beginning on January 1, 2021, the second installment taking effect on January 1, 2023.

The reduction in the rate of the cross-commission fees is expected to have a certain effect on the income of the Bank from credit card operations.

Payment Services Bill Memorandum, 2017

The Bill Memorandum was published on July 19, 2017, following the report by the Inter-ministerial Committee for the Promotion of Use of Means of Payment, and is intended to replace the Debit Cards Act, 1986, by a more comprehensive and up-to-date Act, which is in line with the technological developments in this field, and is also based on European regulation, in accordance with the principles stated in the PSD (Payment Service Directive).

The Proposed Bill intends to regulate two principal contractual systems -

- between the "provider of the payment service and the payer" (the issuer of means of payment or the manager of the payment account) and the payer;
- between the "provider of the payment service and the beneficiary" (the clearing agent or the manager of the payment account) and the beneficiary (receiver of payment).

The payment services to which the prposed Bill would apply are: management of a payment account, issue of means of payment, clearing of a payment transaction and any additional service determined by the Minister, with the consent of the Minister of Finance and the Governor of Bank of Israel.

The proposed Bill deals with the material directives and the consumer protection in respect of the payment services field and introduces directives regarding the following material issues: service payment contract (the manner of signing the contract, its contents, fulfillment and termination), responsibility for the misuse of payment services, the termination of

payment orders under certain circumstances, authorization for debiting an account or means of payment, the manner of performing a payment order, determination of criminal sanctions and monetary sanctions in respect of certain violations of the provisions of the Act.
At this stage it is not possible to quantify the effect of the Bill Memorandum on the Bank Group.

ONLINE BANKING

Proper Conduct of Banking Business Directive No. 367 regarding online banking

The Directive was published on July 21, 2016, with a view of encouraging the development of digital banking, thus increasing competition in the banking segment. The Directive removes existing obstractions and allows expansion of the scope of banking services provided by technological means, as well as providing means for the remote conduct of various banking operations. At the same time, the Directive imposes on banking corporations increased responsibility for the management of the singular risks inherent in such operations, among which are data protection and cyber risks as well as risk of damage to privacy. The Directive also requires the reinforement of the risk management framework and its adaptation to the environment of advanced technological operations, including the addition of controls, the monitoring of irregular operations, delivery of warning notices to customers and guidance provided to customers.
The Directive constitutes a reform in banking rules and is expected to lead to changes in a variety of banking services and their scope, that would be provided online to customers, this according to the technological developments in the fintech field and intenational trends. A special department for holistic treatment in the area of innovation and digital.
An amendment to the Directive was published on December 25, 2017, within the framework of which were regulated mostly the rules for the implementation of the duty imposed on the banking corporations by the Increase in Competition and the Reduction in Concentration in the Banking Market in Israel, (Legislation amendemnts), 2017, to deliver to other financial bodies information regarding the current account balance of a customer.
The Bank is preparing to implement the directive as from its due date.

CREDIT AND COLLATERAL

The Bills discussed below offer a significant reform in collateral and insolvency laws, and includes, inter alia, possible impairment in the rights of secured creditors and in the ability to collect debts.

The Insolvency and Economic Recovery Bill, 2016

The Bill passed its first reading on March 9, 2016. It includes a comprehensive reform of insolvency legislation, while determining one legislative framework that includes the two classes of debtors - corporations and individuals, as well as reference to the unique aspects relating to each. Among other things, the Bill includes the following new premises:
The definition of insolvency would be based on the cash flow test, this, instead of the assets test in practice today; a future creditor would not be entitled to request the opening of insolvency proceedings, otherwise than in the case where the debtor is acting with intention of deceiving his crediros; as regards corporations, the District Court shall decide on the appropriate manner for dealing with insolvency of a corporation (economic recovery proceedings or liquidation proceedings); as regards individuals, proceedings shall be conducted before a Magistrate Court or before administrative authorities, depending on the scope of debts of the debtor. During an examination period, the economic condition and conduct of the debtor will be examined and a stay of proceedings will apply. At the end of the examination period, a recovery plan would be formed for the debtor, whereupon the conclusion thereof, the individual would be exempted from his debts. Where the individual has no ability to repay his debts, he would be immediately exempted; the majority of preferential debts would be cancelled; a creditor secured by a floating pledge, would be entitled to an amount of up to 75% of the value of the assets subject to the floating pledge, unless the floating pledge had been registered prior to the publication of the Act, subject to terms detailed in the Bill; A secured creditor would be entitled to receive interest in

arrears on the secured debt, payable out of the proceeds of realization of the pledged assets, only after the debts of the ordinary creditors have been repaid in full.
Since the publication of the Bill, it has been widely discussed by the Constitution, Legislation and Justice Committee of the Knesset, in which additional amendment had been proposed and formed, also with respect to the contents of the Bill.

The Pledge Bill, 2015

On July 17, 2015, the Knesset passed, in first reading, the Pledge Bill.
The Bill proposes to establish a comprehensive reform of the pledge laws and to replace the provisions of the existing Pledge Act and of the Companies Ordinance in this matter.
Among the central changes of the Bill are: the right of an individual to pledge an asset not yet in his possession or even an asset that has not yet come into existence; revocation of the concept of a "floating pledge" - the borrower company would be able to create a fixed pledge upon its future assets, and the status of such pledge would not be automatically inferior to specific pledges; cancellation of the possibility of a creditor to limit the power of the debtor to effect transactions regarding the pledged asset, and more.

COMPETITION

Increase in Competition and Reduction in Concentration in the Banking Market in Israel Act (Legislation amendments), 2017

Following the recommendations of the committee for the increase in competition regarding prevalent banking and financial services, headed by Adv. Dror Strom ("the Committee"), the Increase in Competition and Reduction in Concentration in the Banking Market in Israel Act, 2017 ("the Act") was published on January 31, 2017, the principal provisions thereof are detailed below.
Further steps are being taken by Bank of Israel for the implementation of the recommendations of the Committee, among which are increasing the number of participants in the retail credit market, removal of obstructions for the establishment of new banks in Israel, including mitigation for credit card companies and opening the payment layout to competition.
Among the main items of the Act are: a bank having a wide scope of operations, the value of its assets, as stated in its most recent financial statements prepared on a consolidated basis ("balance sheet assets") exceeds 20% of the said assets of all banks in Israel ("a bank having a large volume of activity") shall not engage in the issue of debit cards and in the clearing of transactions made by debit cards, shall not control and shall not hold means of control in a corporation engaged in the issue and clearing as stated above (a bank shall be entitled to operate the issue of debit cards through another entity or to engage with a clearing agents).The said restrictions on a bank having a large volume of activity (if it controlled or held means of control immediately prior to the date of publication of the Act) would apply three years from date of publication of the Act, and under certain conditions - four years from date of publication of the Act.
It is further stated that as from the end of four years from date of publication of the Act and until six years from that date, The Minister of Finance will have the authority to determine that the said restrictions would apply also to a banking corporation which is not a bank having a large volume of activity, provided that the value of its balance sheet assets does not exceed 10% of the total balance sheet assets of all banks in Israel.
As of date of publication of this report, the value of the balance sheet assets of the Bank is less than 10% of total balance sheet assets of all banks in Israel.

In addition, a transitional period of five years since date of publication of the Act has been determined, and in respect of a bank having a large volume of activity - three years from date of separation of ownership ("the transitional period"), within the framework of which restrictions would be imposed on banks that issue debit cards and prior to date of publication of the Act controlled or held means of control in a debit card company (including the Bank). It is, inter alia, stated that as from the end of one year from date of publication of the Act and until the end of the transitional period, banks, as stated, are required to perform the debit card issue operation through at least one debit card company, and with respect to a bank having a large volume of activity and to any other bank not engaged in issueance operations (including the Bank), by means of at least two companies, provided that at least one of which is not controlled by that bank and it does not hold means of control in that company. It is further stated that as from the end of two years from date of publication of the Act and until the end of the transitional period, a bank, as stated, shall not perform through one debit card company the operation and issue of over 52% of the total number of new debit cards which it issues to its customers. The Minister of Finance, with the consent of the Governor and with the approval of the Economic Committee of the Knesset, may, at any time, change during the transitional period, by an Order issued to all banks or to a certain class thereof, the rate stated in this Section, if he finds the matter justified in order to enhance competition in the credit market. Additional restrictions apply during the transitional period to a bank having a large volume of activity in respect of the division of income between such bank and the credit card company, of the reduction in credit facilities and of setting limits to the date on which it is entitled to approach its customers regarding an offer for the issue/renewal of a card.

During the transitional period, credit cards companies are entitled to make use of the name of the customer and the details of engagment with him, if legally obtained while performing the issue of a debit card, for the purpose of approching the customer offering him a debit card or the granting of credit, this even without obtaining the consent of the customer (so long as the customer has not requested that use would not be made of the said information).

The Act includes further instructions, the aim of which is to increase competition as well as the negotiating ability of customers, imposing a duty on a bank to issue credit cards of issuers engaged with that bank in an issue agreement and presentation of data to the customer, at his request, also regarding transactions made by credit card that had not been issued by the bank and payments therefore were made by charging the account of the customer with that bank, prohibiting the changing to the worse of engagement terms and prohibiting the prevention of competition and access to information of financial bodies. It is further stated that a financial body shall enable the customer or a provider of a cost comparison service (acting on behalf of the customer) to view online financial information relating to the customer and make use of such information for the purpose of providing services stated in the Act.

The Act further prohibits the unreasonable refusal of a request by the customer for the registration of an additional subordinate pledge on an asset, in favor of another creditor, as well as for the realization of such a pledge. An amendment of Proper Conduct of Banking business Directive No. 311 in the matter of "the management of credit risk", published on October 22, 2017, requires a banking corporation to take into consideration in its credit policy, both the implications resulting from the right of the debtor to create an additional subordinate pledge on the pledged asset, and in particular, the implications of such a pledge being realized by the other creditor. The Bank is preparing for the formation of a policy with respect to this issue.

The Act further prohibits the holding of over 10% of a certain class of means of control in Automatic Bank Services Ltd., which operates an interface between issuers and clearing agents for the approval of debit card transactions, and a transitional period in this respect has been determined in respect of existing stakeholders.

The Act instructs the establishment of a technological infrastructure providing computer services. If at the end of eighteen months since the effective date of the Act, the Minister of Finance finds that no adequate alternative technologies are available and that the matter is essential for the increase in competition, then he could require a bank, whose share in balance sheet assets exceeds 10%, to sell and operate computer services or lease out properties used for this purpose, under terms determined in the Act. As stated above, this limit does not apply to the banks in the Group.

The measures involved in this legislation are expected to increase the level of competition in the banking sector in Israel, whether by way of increasing the negotiating power of the consumer, or by way of encouraging the entry of new participants. This result creates on the one hand a competitive threat to the First International Bank Group, though , on the other hand, contains opportunities, in particular for the Bank, which does not have a large volume of activity. The Bank plans to utilize to the fullest the business opportunities inherent in the enhanced competition in this field.

Regulation of Off-banking Loans Act (Amendment No. 5), 2017

Amendment No. 5 of this Act was published on August 9, 2017. Inter alia, the Amendment changed also the name of the Act to the Fair Credit Act, 1993 (hereinafter - "the Act").

The Amendment to the Act was passed on background of the recommendations of the team examining the increase of competition in the banking sector, with the aim of equalizing the norms applying to non-institutional lenders to those applying to institutional lenders, including banks. The Amendment states maximum amounts with respect to the cost of credit and maximum rates of interest appling to credit in arrears, and in addition, all the provisions of the Act, including instructions relating to the granting and collection of credit, apply now to the institutional bodies including the banks. The Amendment to the Act imposes criminal and administrative sanctions in respect of the different violations of the Act. The Act applies to individual borrowers only, though the Minister of Finance has the authority to expand its application also to corporations of a class to be determined. The Amendment takes effect at the end of fifteen months from date of publication thereof, and it applies to agreements signed as from the effective date of the Amendment. The Bank is preparing to implement the Act as from its due date.

THE CAPITAL MARKET

A. Provident funds

The Ministry of Finance published on December 19, 2016, a draft of the Supervision over Financial Services Regulations (Provident funds) (Purchase, sale and holding of securities) (Amendment), 2016, which amends prior drafts in the same matter.

According to the draft amendment, an institutional investor being a member of a group of investors, where one of them has an agreement with a corporation for the provision of management or operating services ("the Operator"), may purchase of sell securities by means of the Operator, or by means of a related party thereof, provided that the rate of the purchase or sale commission shall not exceed 20% of the total purchase or sale commissions paid by the institutional investor during the year. Furthermore, conditions were stated, under which an institutional investor may purchase or sell securities by means of parties related to the institutional investor. The Draft amendment also adds a requirement for a competitive process, at least once in every three years, with respect to the holding of securities and states that an institutional investor who had engaged in a direct agreement with a global custodian (excluding a bank, a mortgage bank or a foreign bank holding a license from Bank of Israel) for the holding of securities, shall be exempted from the duty to hold a competitive process for obtaining holding services.

The final regulations that were published on October 31, 2017, do not include the above mentioned limitation of 20% with respect to the purchase and sale of securities by means of the Operator or by means of a related party thereof, as stated above. It is also determined that the competitive process relating to the holding of securities, shall be conducted once in every period of five years instead of three years, the requirement to conduct a competitive process, as stated, taking effect only after the termination of one year from date of publication of the Regulations.

It is still impossible to assess the implications of the Regulations on the income of the Bank from this segment.

B. Securities Law (Amendment No. 63), 2017- A change in the ownership structure of the Stock Exchange and the clearing houses

The Securities Act (Amendment 63), 2017, ("the Amendment") was published On April 6, 2017. The Amendment took effect on July 6, 2017, except for specific issues for which other effective dates has been set. The aim of the Amendment is to regulate a change in the ownership structure of the Stock Exchange and the clearing houses, while severing the link between the ownership of the Stock Exchange and of the clearing houses and the membership therein, turning them into profit-earning companies. Following the structural change, access to trading and/or clearing would no longer be dependent on ownership rights in the Stock Exchange and/or the clearing houses, but would be based upon a contractual engagement between the Stock Exchange and/or the clearing houses and the potential members.

Following are the main provisions of the Amendment:

The regulation of licensing, holding and manner of management of the Stock Exchange and/or the clearing houses following the change.

A Stock Exchange member or a banking corporation shall not be permitted to obtain a holding permit of over 5% or a control permit in the Stock Exchange and in the clearing houses following the change in the structure of ownership.

Moreover, it is determined that the proceeds from the sale of the means of control by existing Stock Exchange members, which are in excess of their proportionate part in the equity of the Stock Exchange, in accordance with its financial statements for 2015, which totals to NIS 508 million, shall be paid over to the Stock Exchange and used exclusively for the reduction in commission fees and for investment in technological infrastructure.

In accordance with the Amendment, dates have been fixed for the approval by the Court of the arrangement program.

Upon termination of the period of five years since date of approval of the arrangement program by the Court, or until the date of issue to the public of shares in the Stock Exchange and their listing for trade, if at all, whichever is earlier, the present members of the Stock Exchange shall not be permitted to hold means of control in the Stock Exchange at a rate exceeding 5%. During this period, they shall not purchase means of control that exceed the rate permitted by the Act, as well as any rights attached to such holdings.

In addition, The Amendment contains special corporate governance principles in accordance with the holdings of Stock Exchange members in the Stock Exchange. Likewise, reporting duties to the Finance Committee were determined with respect to different issues.

On September 7, 2017, the Court approved the arrangement program within the framework of proceedings in terms of Section 350 of the Companies Act, submitted by the Stock Exchange for the implementation of the change in structure of the Stock Exchange and the turning of it into a profit earning corporation, having only one class of share capital. According to the arrangement program, shares in the Stock Exchange were allotted to the present members of the Stock Exchange, the share of the Bank Group (following allottment of shares to employees and officers of the Stock Exchange) amounting to 20.3%. For details regarding the proposal to sell the shares in the stock Exchange held by the Bank Group, see Note 12F.

On May 11, 2017, Knesset members filed a petition with the High Court of Justice, requesting the abolishment of the Amendment to the Act on grounds of it being unconstitutional and detrimental to basic constitutional rights, among which, public ownership rights. The motion was rejected by the Court on June 22, 2017.

C. Proper Conduct of Banking Business Directive No. 330 - Management of credit risk involved in the trading activity of customers regarding derivative instruments and securities.

The Directive, which was published on October 23, 2017, includes principles for the management of credit risk involved in trading operations of customers regarding derivative instruments and securities, mainly with respect to speculative activity, including instructions regarding corporate governance, measurement of risk, management and control of risk and guidelines regarding management of operating and legal risks.

Among other things, the Directive states a requirement for liquid collateral in respect of OTC derivatives - variable collateral (regarding existing exposure) and primary collateral (regarding potential exposure). Most of the instructions are to be applied no later than July 1, 2018.

The demand in respect of collateral from customers will not apply, at this stage, on supervised customer (banking corporation, provident funds, insurance companies, trust funds and basket certificates), central bank or customer which is not involved in speculative activity, and they will be determined in later date.

The Bank is preparing for the implementation of the instructions.

CORPORATE GOVERNANCE AND COMPANIES

Amendment of Proper Conduct of Banking Business Directive No. 301 - Board of Directors

On July 5, 2017, Bank of Israel published an amendment of Proper Conduct of Banking Business Directive No. 301. The aim of the amendment is to increase effectiveness of discussions by the Board of Directors and the modification of the structure of the Board to the activity of the Bank, thus assissting the Board to focus in a better fashion on strategic issues and central risks. Among the principal amendments are included the following amendments: a requirement has been added for a policy determining the period of office of the Chairman of the Board; additional terms have been added for the qualification of a Director; the maximum number of Directors has been reduced from fifteen to ten; the need for the ratification by the full Board of any resolution taken by a committee of the Board has been abolished, and matters which may not be delegated to a committee of the Board have been changed. The amendment took immediate effect, except for the change in the number of Directors and in the terms of qualification required of a Director, which would take effect on July 1, 2020.

CROSS BORDER ACTIVITY BY CUSTOMERS

The Income Tax Ordinance Amendment Act (No. 227), 2016

In order to be able to implement the bilateral agreement between the United States and Israel with respect to the implementation of FATCA ("the FATCA agreement") and agreements for the automatic exchange of information for tax purposes relating to financial accounts (CRS - Common Reporting Standard) to be signed by the competent authorities in Israel and the competent authorities in countries with which an agreement for the exchange of information had been signed, in the format determined by the OECD, the Income Tax Ordinance Amendment Act (No. 227), 2016 was published on July 14, 2016. The Act requires reporting Israeli financial institutions to collect and deliver information, as defined in the Act, everything as will be determined by the Minister of Finance in regulations to be published in this respect. In terms of the Act, a montary sanction may be imposed on reporting Israeli financial institutions in respect of unidentified details, or due to deficiencies in transmitting them, and this without derogating from the criminal responsibility of a person stemming from violation of an instruction, as stated, comprising an offence.

The Income Tax Regulations (Implementation of the FATCA Agreement), 2016

These Regulations, published on August 4, 2016, state the duties applying to financial institutions for the purpose of implementation of the FATCA Agreement, and regularize the various procedures that financial institutions have to apply in respect of a due diligence examination of financial accounts for the identification of the account holders and the classification thereof as accounts that should be reported under the agreement. The Regulations include also the duty of informing the customer regarding information provided to the Tax Authorities, the duty of reporting and withholding of tax imposed on financial institutions which are not participating in the implementation of the FATCA Agreement, and transitional instructions applying to the terms of recognition of an entity as a "public institution" by a reporting Israeli financial institution.

Circular letter of Bank of Israel regarding the management of risks associated with cross-border activity by customers

In accordance with the circular, published on March 16, 2015, in view of the growing risks involved in the activity regarding foreign residents, a banking corporation has to review and update its policy, procedures and controls with respect to operations of foreign residents. It is further stated in the circular that refusal to open a new account for a customer who does not cooperate with the banking corporation in the manner required for the implementation of the policy and procedures of that banking corporation with respect to the cross-border risks, and refusal to provide banking services with respect to an existing account, which expose the banking corporation to the risk of being considered a collaborator of the customer in evading the foreign legislation applying to the customer, shall be considered "reasonable refusal" in terms of the Banking Act (Customer service), 1981.

The Bank is aware of the risks involved in the operations of foreign residents and of the intensified regulation and enforcement exercised by the foreign tax authorities, including risks regarding possible tax evasion by customers subject to US tax laws. The Bank has a singular group policy in this respect and employs measures for the facing of risks involved in the activity with foreign residents, being part of the different procedures of the Bank, alongside the preparations for the implementation of the FATCA rules, as required.

Prohibition on money laundering and compliance with Israeli tax laws

Proper Conduct of Banking Business Directive No. 411 in the matter of the management of money laundering, the finance of terror and customer identification risks

The amended Directive, published on March 6, 2017, is intended to expand and re-edit Proper Conduct of Banking Business Directive No. 411 as a risk management Directive, as well as determine operational measures for the reduction of risk.

An additional Chapter was, inter alia, added within the framework of this amendment relating to the assessment of risk, which states that a bank has to perform an extensive risk assessment for the identification and analysis of money laundering and finance of terror risks, which would constitute the infrastructure for the implementation of a risk based approach, and , inter alia, would assist in the adequate allocation of resources for the reduction in identified risks.

Also added is a Chapter dealing with risk reduction, which states that the policy and procedures, the measures and controls for the reduction of risk, should be consistent with the risk assessment of the bank.

The amendment to the Directive took effect on January 1, 2018.

The amendment to the Directive, reqires changes to be made by the Bank to the methodological and mechanized preparations for money laundering risk management.

As required, the Bank is preparing for the implementation of the Directive on the due date.

LEGAL PROCEEDINGS

Note 25G to the financial statements includes details of material claims pending against the Bank and its subsidiary companies.

THE RATING OF THE BANK BY RATING AGENCIES

Set out below is the Bank’s rating as determined by rating agencies in Israel and by an international rating agency:

- S&P Maalot rated the Bank ilAA+/Stable and its subordinated notes at ilAA and its subordinated notes with loss absorption mechanism ilA+.
- Midrug rated the Bank's internal finance resolution at aa3.il/positive, the Bank's short-term deposits P-1.il, its long-term deposits and senior debt Aa1.il/positive and its subordinated notes Aa2.il/positive, and its subordinated notes with loss absorption mechanism A1.il(hyb)/positive.

  On July 11, 2017, Midrug upgraded the rating forecast of the long-term deposits, the senior debt of the Bank and its subordinated notes from Stable to Positive.
- Moody's rates the Bank as follows: long and short-term foreign-currency and local currency deposits "A3/Prime-2". The rating forecast is "stable".

PRINCIPAL DEVELOPMENTS IN ISRAEL AND GLOBALLY

Nonfinancial developments

Published indicators for nonfinancial activity, continue to be positive indicating that the economy continued to grow also in 2017, with the labor market continuing to demonstrate might, with relatively low unemployment rates and a forecasted trend of increasing growth over a period of time, at an increasing pace. In accordance with assessments published during January 2018 by the Central Bureau of Statistics (hereinafter - "the CBS"), the economy grew in the third quarter of 2017 by 3.5% (in annualized terms) following a growth of 2.7% in the second quarter of 2017 and an increase of 1.0% in the first quarter of 2017. The growth in the product in the third quarter of 2017, reflects increases in the private consumption expenditure, in investments in fixed assets and in exports of goods and services, and on the other hand a decrease in the public consumption expenditure. An additional parameter indicating recovery is Bank of Israel's Composite State-of-the-Economy Index, which rise during 2017 by 3.3%.

The Research Division of Bank of Israel raised in January 2018 the product growth forecast for 2018 to 3.4%, in comparison with 3.3% in the former forecast. The product growth forecast for 2019 is 3.5%. Exports are expected to continue and expand, inter alia because global trade is expected to continue its recovery. Investments in fixed assets are also expected to continue and expand. An update is expected in January 2019 in the "green tax" formula on motor vehicles, which is expected to result in the advancement of purchases of vehicles to the end of 2018, thus supporting the growth data for this year. Following this, Bank of Israel estimates that, net of the effect of the taxation on vehicles, the growth rate forn 2018 will be 3% (in contrast to 3.4% as stated above).

According to a preliminary assessment of the Ministry of Finance, the ratio of the public debt to the product in 2017 amounts to 61.1%, in comparison to 62.4% in 2016. The central factors contributing to this decrease in the ratio of debt to product are the nominal growth rate alongside a low deficit as well as the strengthening of the shekel as against the US dollar and the continuing decline in accumulated interest on the government debt.

State budget

The government budgetary deficit for 2017 is expected to be lower than that recorded last year, as well as lower than the targeted budgetary deficit for this year. In accordance with the assessment of the Ministry of Finance, a deficit of NIS 24.8 billion was measured in the budgetary activity of the government for 2017, comprising 1.97% of the GDP, as compared with a deficit of NIS 25.9 billion, comprising 2.15% of GDP measured in 2016. The planned deficit for 2017 was NIS 36.6 billion, comprising 2.9% of GDP.

The low deficit in relation to that planned in the original budget, is explained by higher than forecasted revenues in the amount of NIS 13.3 billion, mainly due to the campaign of "dividend tax" imposed on shareholders and from the sale of companies. Tax revenues in 2017 amounted to NIS 306.5 billion, an increase of 8.4% in comparison to the corresponding period last year.

During the month of April 2017, the Fitch rating agency ratified the credit rating forecast of the State of Israel regarding the foreign currency debt at the level of "A+".

During the month of August 2017, the S&P rating agency updated the ctedit rating forecast of the State of Israel regarding the foreign currency debt from "neutral" to "positive", and ratified it at the level of "A+". The meaning of this announcement is that the raising of the credit rating of the State of Israel is expected within the range of six months and two years, provided that no material adverse change occurs in the interim period in one of the central criteria on which the rating is based.

Inflation

The year 2017 was the first year in which the Israeli economy recorded a positive inflation rate, though still relatively low, following three years of a negative inflation rate. The Consumer Price Index ("CPI") rose in 2017 by 0.4% (the CPI "for the month"). The "known" CPI rose by 0.3%. During 2017, price increases were recorded mostly in the housing item - an increase of 2.4% and in the housing maintenance item - an increase of 1.1%. Price decreases were mostly noted in the apparel and footwear item - a decrease of 4.6% and in the fruit and vegetables item - a decrease of 3.8%.

According to estimates of the Research Division of Bank of Israel of January 2018, the inflation in 2018 would reach a level of 1%, still at the lower edge of the targeted price stability range of the Government (1% to 3%), and that in 2019 the inflation rate would be 1.4%. The increase in prices of the domestic products and services would be activated by pressure from the direction of the labor market, which is in a full employment environment, though it would be moderated by continuing growth in competition and by the measures taken by the Government in order to reduce the cost of living.
As of January 2018, inflationary expectations for the coming twelve months, derived from the capital market, amount to a low rate of 0.5%.

Housing market

Recent publications reflect moderation in the rise in housing prices. In accordance with the housing price index of the CBS published in January 2018, a decrease of 0.7% was recorded in housing prices in November-December 2017, in comparison with the months of October-November 2017. Prices of transactions made in November-December 2017 were 2% higher than those of the corresponding period last year.
5,630 new apartments were sold in the months of September to November 2017, a decline of 5.6% in comparison to the number of new apartments sold in June to August 2017 (net of seasonal factors). The number of new apartments sold in the first eleven months of 2017 amounted to 22,710 new apartments, a drop of 19% in comparison with the corresponding period last year (net of seasonal factors).

Labor market

Unemployment data continue to be low, though a slight increase has been recently recorded. The rate of unemployment in December 2017 (for ages 15 and over) amounted to 4.0%, in comparison with 4.3% in November 2017. With respect to the main employable ages (ages 25-64), the rate of unemployed is low amounting to 3.6% in December 2017, similarly to that of November 2017. According to the Research Division of Bank of Israel, pressure arising from the labor market being in a full employment environment, is expected to lead to price increases of domestic products and services.

Exchange rate

The exchange rate of the shekel as against the US dollar dropped sharply by 9.8% in 2017, while the exchange rate of the shekel as against the Euro rose by 2.7%.
In the course of 2017, Bank of Israel purchased an amount of US$6.6 billion (of which US$1.5 billion are intended to offset the effect on the exchange rate of the natural gas production in Israel). In November 2017 Bank of Israel informed that, within the framework of the plan to offset the effect on the exchange rate of the natural gas production in Israel, it will purchase an amount of US$1.5 billion in 2018.

	Exchange rate as of			Rate of change	
	31.12.17	**30.9.16**	**31.12.16**	**2017**	**2016**
US dollar	**3.47**	3.53	3.85	(9.8%)	(1.5%)
Euro	**4.15**	4.16	4.04	2.7%	(4.8%)

Bank of Israel interest rate

Since February 2015, in which the Monetary Committee of Bank of Israel decided to reduce the interest rate for March 2015 to a level of 0.1%, the monetary interest in the economy remained stable. At the time, the Committee assessed that the monetary policy would remain expansionary so long as required, in order to establish the inflationary environment within the target range.
According to an assessment of the Research Division of Bank of Israel of January 2018, the interest rate is expected to remain at its present level until the third quarter of 2018, expected to rise to a level of 0.25% in the fourth quarter of 2018, continuing to rise to a level of 0.5% in the third quarter of 2019.

The global environment

The data relating to the global economy continue to indicate improvement despite the rise in oil prices. Growth forecasts are being repeatedly updated upwards and the improvement in global trade continues, so that in January 2018, the International Monetary Fund raised its forecasts for global growth for the years 2018 and 2019 to 3.9% from a forecast of 3.7% published in October 2017.

The US growth forecast for 2018 rose from 2.3% in the previous forecast to 2.7% in the present forecast on background of the expected cut in corporation tax. Concurrently, improvement continues in global tade. Notwithstanding, and despite the increase in oil prices, inflation in most of the principal economies continues to remain under the target of 2%. Economic improvement in the US covers most of the economic sectors, and the approved tax reform is expected to support economic activity in the short-term, while increasing the deficit and the debt in following years. As expected, the FED raised the interest rate in December, and is expected to continue and gradually increase it in 2018. Economic data published in Europe indicate continuation of improvement in operations, though developments in Spain and Italy led to a certain increase in political risk. The ECB adheres to the negative interest policy, though has begun, as announced, to reduce the monthly volume of asset purchases, within the framework of quantitative expansion. Assessments in Japan indicate the continuous economic growth at a higher rate than the potential growth, though it seems that this does not affect the rate of inflation and the policy continues to be expansionary. Economic data in China indicate a certain moderation in economic activity in the fourth quarter of the year.

Capital markets

A positive trend of the principal equities indices was recorded during 2017 in the local capital market: the TA 125 Index rose by 6.4% and the TA 35 Index rose by 2.7%. The general bond index rose by 4.7%.

The trade turnover in equities on the local Stock Exchange recorded a recovery. The average daily trade turnover of the TA 35 shares recorded a rise of 14.7%, and of the TA 125 shares recorded a rise of 17.9%. Weakness continues in the trade turnover of bonds, which recorded a decrease of 3.2%.

	Rate of change		Average daily trade turnover	
	%		NIS million	
	2017	**2016**	**2017**	**2016**
TA 35 Index	**2.7%**	(3.8%)	**742**	647
TA 125 Index	**6.4%**	(2.5%)	**996**	845
General bond Index	**4.7%**	2.1%	**3,639**	3,761

The total amount of capital raised in 2017 (both in shares and bonds) recorded a decrease of 8%, in comparison with the corresponding period last year. This decrease was due mainly to the decrease in issues of shares and bonds, mostly on background of the private placement made by TEVA last year in the amount of NIS 21 billion, as part of the acquisition of the generic operation of Allergan plc.

	Amount of capital raised		
	NIS million		
	2017	**2016**	**Rate of change**
Shares and convertibles	**11,657**	27,149	(57.1%)
Government bonds	**46,279**	47,511	(2.6%)
Corporate bonds (incl. institutional)	**72,006**	67,135	7.3%
Total	**129,942**	141,795	(8.4%)

The S&P 500 Index rose during 2017 by 19.4%. In Europe the Eurostocks 600 Index rose by 7.7% and the developing countries index (the MSCI_EM Index) rose by 34.3%.

THE SUPERVISORY SEGMENTS OF ACTIVITY - ADDITIONAL DETAILS

For the description of segments of activity see note 28 to the financial statements and the chapter of segments of activity in the Board of Directors and Management report.

Structure of the competition in the segment and changes in it

CORPORATE SEGMENT

- The majority of business customers in Israel manage accounts at a number of banks, and often at all the large banks operating in Israel as well as at foreign banks.
- The level of competition in the banking system for quality corporate segment customers is very high. The competition is reflected by the level of service and rapidity of response, by the level of prices and Fees, and by the terms for the extension of credit. The Bank Group competes with the four other largest banks in Israel, as well as foreign banks with representative offices in Israel. The banks compete in their ability to provide a rapid and effective response to the changing requirements of each customer, in the quality of service and personnel, and in the development of sophisticated and innovative banking products.
- Apart from the expansion of the non-bank market in Israel as a substitute for bank credit as described above, globalization and liberalization have provided the Corporate Segment's customers with opportunities for raising capital in local and worldwide capital markets, and with ready access to credit and banking services from foreign banks and financial entities abroad.

THE PRIVATE BANKING SEGMENT

- Activity in the private banking segment, which is characterized by a high level of competition, comprises a central layer of the Group's strategy. The Group competes in this segment against all Israeli banks as well as against representative offices in Israel of foreign banks and investment houses, against institutional bodies, private brokers and investments in overseas markets.
- On this background, and in view of the relatively low credit risk level involved in the private banking segment operations, competition as regards customers is fierce and very dynamic. This competition is expressed in the allocation of considerable resources for the raising of the level of service and consulting to private banking customers, in the training of staff, in a continuous expansion of the array of products being offered, the upgrading of decision supporting technological systems, in the benefits regarding account management terms, in the erosion in the level of bank charges and fees, in many advertising campaigns, focus on personal service and creation of a customer adjusted overall service program.
- In the upper section of the private banking segment, as well as with respect to activity with foreign resident customers, the Group faces competitors in the global private banking market, which is characterized by a specially high level of competition. In particular, the Group competes against Israeli banks operating abroad, against banks and other institutions specializing in private banking for the foreign population and against international investment houses.

  In order to improve the Group preparedness in attending to the upper section of private banking segment, the Bank changed Ubank's branches into platinum centers which attend the said customers with a service model that is uniquely tailored to the character of the customers' activity and their needs.
- The Bank and the Group are constantly acting to improve work processes and introduce technological improvements with the aim of improving the level of service and expanding the variety of products, including the upgrading and development of services offered on the Internet and on cellular phones, and development of advanced capital market services.

THE MEDIUM BUSINESS SEGMENT

- The competition in the banking system for commercial segment customers is growing continually. The competition is reflected by the level of service and rapidity of response, by the level of prices and Fees, and by the terms for the extension of credit. The Bank Group competes with the four other largest banks in Israel, as well as foreign banks with representative offices in Israel. The banks compete in their ability to provide a rapid and effective response to the changing requirements of each customer, in the quality of service and personnel, and in the development of sophisticated and innovative banking products. Competition also comes from non-banking entities, such as insurance companies, and from the opportunity for raising capital in local and overseas markets.
- Most commercial customers in Israel manage accounts at a number of banks, which increases the competition for these customers. In addition, regulatory requirements that restrict the banks in their activity with large business customers and their increased severity in recent years are prompting the banking system to focus on commercial, mainly middle-market customers.
- The Bank uses the competitive advantage existing in the Group's activity and offers customers to enjoy the factoring services and the financing within the framework of the small and middle market business fund managed by Otsar Hachayal.
- Competition also exists in investment and savings activity with the segment's middle-market customers, against other banks and against non-bank entities that specialize in the capital and money markets (including insurance companies and investment houses).

THE HOUSEHOLD SEGMENT

In recent years the level of competition on the household segment is rising- both in the banking system and against entities outside the banking system. As part of competition on market share the Group performs needed changes, including adjustment of preparations in the following areas:

- Focusing on the development of the online services of the Group; "International online", advanced cellular phone applications, self-service stations, etc.
- An extensive marketing activity based on supportive computer systems.
- Modifications to the branch layout in accordance with developments in the targeted population of the Group and in accordance with business potential areas.
- Strengthening the personal bond and relations with the customer.
- At the same time, the group continues to focus on specific target populations within the household segment, such as: defense agencies staff and retirees, teaching staff population, professionals, employees of large corporations, the ultra-orthodox customer segment and more.

The improved position of the Group in the household segment will continue to comprise a central layer of the business strategy of the Group. This strategy is designed to decentralize the income mix of the Group, as well as create a new customer pool, which will provide reserve of private banking customers in the future. The Bank strives to preserve and enlarge the activity of the Group among existing customers, including dual customers, who conduct a part of their financial activity with other banks. Moreover, the Group continues to attract new customers from among the target population of the Group, each member bank in its own specialized field, and to introduce measures for the efficiency and improvement of the retail infrastructure.

The following processes are being implemented and/or planned in the course of business for the realization of this strategy:

- Strengthening the concept of focusing on the customer, while modifying value offers, products, the level of service and distribution channels to the preferences and financial needs of each customer.
- Educated management of the retail network with a multi-channel concept, based both on the adequate deployment of the branch layout, and on the constant expansion of online banking services, including advanced automatic appliances, the Internet website, cellular phone applications which are in a state of constant expansion of the banking services included in them, such as FIBI - the virtual banker, biometric identification, expansion of the service of information in a click- allowing the customer receiving information without the need to identify, sending personal massages to customers, correspondence with a banker via mail or sms in the website or the application, etc.
- A data based systematic initiation of activity with customers in all lines of operation, including account management services, investment activity and consulting, consumption credit and mortgages.
- Preservation of leadership and competitive advantage in the field of savings and investments.
- Development of mortgage activity as a supplementary retail product.

THE SMALL AND MINUTE BUSINESS SEGMENT

The competition in the Small and minute Business Segment has increased during recent years. In this segment, the Group competes with all the banks in Israel and mainly with the four largest banks. During recent years however, competition has also increased from the small banks, which are expanding their activity with the segment. Competition also derives from such financial entities as credit card companies, leasing companies and insurance companies. Additional factor contributing to the intensification of the competition in the segment is the existence of specific government funds for granting credit to small and medium sized businesses. These days the Bank examines the possibility to found several designated funds, independently or with the participation of institutional entity.

APPENDICES

APPENDIX 1 -
RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES

A. Average balances and interest rates - assets

	Year ended December 31, 2017			Year ended December 31, 2016			Year ended December 31, 2015		
	Average balance (1)	Interest income	Rate of income	Average balance (1)	Interest income	Rate of income	Average balance (1)	Interest income	Rate of income
	NIS million		%	NIS million		%	NIS million		%
Interest-bearing assets									
Credit to the public(2)(5)									
- In Israel	**72,904**	**2,531**	**3.47**	70,282	2,360	3.36	65,454	2,117	3.23
- Outside Israel	**-**	**-**	**-**	350	7	2.00	377	9	2.39
Total	**72,904**	**2,531**	**3.47**	70,632	2,367	3.35	65,831	2,126	3.23
Credit to the Government									
- In Israel	**639**	**-**	**-**	641	-	-	651	(3)	(0.46)
Total	**639**	**-**	**-**	641	-	-	651	(3)	(0.46)
Deposits with banks									
- In Israel	**3,479**	**13**	**0.37**	2,931	10	0.34	3,177	8	0.25
- Outside Israel	**120**	**1**	**0.83**	297	-	-	508	1	0.20
Total	**3,599**	**14**	**0.39**	3,228	10	0.31	3,685	9	0.24
Deposits with central banks									
- In Israel	**24,964**	**26**	**0.10**	21,284	22	0.10	22,970	28	0.12
Total	**24,964**	**26**	**0.10**	21,284	22	0.10	22,970	28	0.12
Securities borrowed or repurchased									
- In Israel	**694**	**1**	**0.14**	567	1	0.18	498	1	0.20
Total	**694**	**1**	**0.14**	567	1	0.18	498	1	0.20
Held to maturity or available for sale bonds(3)									
- In Israel	**11,961**	**126**	**1.05**	14,697	119	0.81	13,170	92	0.70
- Outside Israel	**45**	**-**	**-**	99	2	2.02	116	2	1.72
Total	**12,006**	**126**	**1.05**	14,796	121	0.82	13,286	94	0.71
Trading bonds									
- In Israel	**788**	**5**	**0.63**	895	5	0.56	965	5	0.52
- Outside Israel	**-**	**-**	**-**	2	-	-	3	-	-
Total	**788**	**5**	**0.63**	897	5	0.56	968	5	0.52
Other assets									
- In Israel	**10**	**-**	**-**	110	-	-	147	-	-
Total	**10**	**-**	**-**	110	-	-	147	-	-
Assets held for sale									
- Outside Israel	**111**	**1**	**0.90**	-	-	-	-	-	-
Total	**111**	**1**	**0.90**	-	-	-	-	-	-
Total Interest-bearing assets	**115,715**	**2,704**	**2.34**	112,155	2,526	2.25	108,036	2,260	2.09
Non-interest-bearing debtors regarding credit cards	**2,501**			2,317			2,305		
Other non-interest-bearing assets(4)	**12,241**			12,152			11,029		
Total assets	**130,457**			126,624			121,370		
Total interest-bearing assets attributed to activity outside Israel	**276**	**2**	**0.72**	748	9	1.20	1,004	12	1.20

See notes in page 342.

APPENDIX 1 - RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

B. Average balances and interest rates - liabilities and capital

	Year ended December 31, 2017			Year ended December 31, 2016			Year ended December 31, 2015		
	Average balance (1)	Interest expenses	Rate of expense (1)	Average balance (1)	Interest expenses	Rate of expense (1)	Average balance (1)	Interest expenses	Rate of expense (1)
		NIS million	%		NIS million	%		NIS million	%
Interest-bearing liabilities									
Deposits from the public									
- In Israel									
Demand	**5,532**	**-**	**-**	6,390	-	-	5,968	1	0.02
Fixed-term	**56,672**	**222**	**0.39**	57,861	182	0.31	57,367	131	0.23
Total	**62,204**	**222**	**0.36**	64,251	182	0.28	63,335	132	0.21
Deposits from the Government									
- In Israel	**255**	**5**	**1.96**	304	5	1.64	618	6	0.97
Total	**255**	**5**	**1.96**	304	5	1.64	618	6	0.97
Deposits from banks									
- In Israel	**2,183**	**5**	**0.23**	1,361	3	0.22	1,344	1	0.07
Total	**2,183**	**5**	**0.23**	1,361	3	0.22	1,344	1	0.07
Bonds									
- In Israel	**5,356**	**165**	**3.08**	5,611	163	2.91	5,902	168	2.85
Total	**5,356**	**165**	**3.08**	5,611	163	2.91	5,902	168	2.85
Other liabilities									
- In Israel	**267**	**5**	**1.87**	245	4	1.63	522	-	-
Total	**267**	**5**	**1.87**	245	4	1.63	522	-	-
Total Interest-bearing liabilities	**70,265**	**402**	**0.57**	71,772	357	0.50	71,721	307	0.43
Non-interest-bearing deposits from the public	**45,307**			41,009			36,100		
Non-interest-bearing creditors in respect of credit cards	**2,501**			2,317			2,305		
Other non-interest-bearing liabilities(6)	**4,197**			3,624			4,011		
Total liabilities	**122,270**			118,722			114,137		
Total capital resources	**8,187**			7,902			7,233		
Total liabilities and capital resources	**130,457**			126,624			121,370		
Interest spread			**1.77**			1.75			1.66
Net return on interest-bearing assets(7)									
- In Israel	**115,439**	**2,300**	**1.99**	111,407	2,160	1.94	107,032	1,941	1.81
- Outside Israel	**276**	**2**	**0.72**	748	9	1.20	1,004	12	1.20
Total	**115,715**	**2,302**	**1.99**	112,155	2,169	1.93	108,036	1,953	1.81
Total interest-bearing liabilities attributed to activity outside Israel	**-**	**-**	**-**	-	-	-	-	-	-

See notes in page 342.

APPENDIX 1 -
RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

C. Average balances and income rates - additional information on interest-bearing assets and liabilities attributed to activity in Israel

	Year ended December 31, 2017			Year ended December 31, 2016			Year ended December 31, 2015		
	Average balance (1)	Interest income (expenses)	Rate of income (expense)	Average balance (1)	Interest income (expenses)	Rate of income (expense)	Average balance (1)	Interest income (expenses)	Rate of income (expense)
		NIS million	%		NIS million	%		NIS million	%
Non-linked Israeli currency									
Total interest-bearing assets	**91,599**	**2,127**	**2.32**	85,109	1,982	2.33	80,839	1,762	2.18
Total interest-bearing liabilities	**52,016**	**(96)**	**(0.18)**	49,403	(79)	(0.16)	46,836	(67)	(0.14)
Interest spread			**2.14**			2.17			2.04
Israeli currency linked to the CPI									
Total interest-bearing assets	**11,572**	**348**	**3.01**	12,413	299	2.41	13,929	277	1.99
Total interest-bearing liabilities	**10,551**	**(244)**	**(2.31)**	11,081	(220)	(1.99)	13,031	(205)	(1.57)
Interest spread			**0.70**			0.42			0.42
Foreign currency (including linked to f-c)									
Total interest-bearing assets	**12,268**	**227**	**1.85**	13,885	236	1.70	12,264	209	1.70
Total interest-bearing liabilities	**7,698**	**(62)**	**(0.81)**	11,288	(58)	(0.51)	11,854	(35)	(0.29)
Interest spread			**1.04**			1.19			1.41
Total activity in Israel									
Total interest-bearing assets	**115,439**	**2,702**	**2.34**	111,407	2,517	2.26	107,032	2,248	2.10
Total interest-bearing liabilities	**70,265**	**(402)**	**(0.57)**	71,772	(357)	(0.50)	71,721	(307)	(0.43)
Interest spread			**1.77**			1.76			1.67

See notes in page 342.

APPENDIX 1 -
RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

D. Analysis of changes in interest income and expenses

	Year ended December 31, 2017 compared with the year ended December 31, 2016			Year ended December 31, 2016 compared with the year ended December 31, 2015		
	Increase (decrease) due to the change			Increase (decrease) due to the change		
	Quantity	Price	Net change	Quantity	Price	Net change
						NIS million
Interest-bearing assets						
Credit to the public						
In Israel	**91**	**80**	**171**	162	81	243
Outside Israel	**(3)**	**(4)**	**(7)**	(1)	(1)	(2)
Total	**88**	**76**	**164**	161	80	241
Other interest-bearing assets						
In Israel	**6**	**8**	**14**	(2)	28	26
Outside Israel	**(1)**	**1**	**-**	(1)	-	(1)
Total	**5**	**9**	**14**	(3)	28	25
Total interest income	**93**	**85**	**178**	158	108	266
Interest-bearing liabilities						
Deposits from the public						
- In Israel						
Demand	**-**	**-**	**-**	-	(1)	(1)
Fixed-term	**(5)**	**45**	**40**	2	49	51
Total	**(5)**	**45**	**40**	2	48	50
Other interest-bearing liabilities						
In Israel	**12**	**(7)**	**5**	(20)	20	-
Total	**12**	**(7)**	**5**	(20)	20	-
Total interest expenses	**7**	**38**	**45**	(18)	68	50
Total interest income less interest expenses	**86**	**47**	**133**	176	40	216

(1) On the basis of opening balances, excluding the non-linked Shekel segment in which calculated on daily balances.
(2) Before deduction of the average balance of provisions for credit losses including impaired debts which are non-interest-bearing income.
(3) From the average balance of available for sale bonds was deducted the average balance of unrealized gains from adjustments to fair value of bonds, included in other comprehensive income in the item "adjustments to fair value of available for sale securities" for the year ended on December 31, 2017 in the amount of NIS 31 million (year ended on December 31, 2016 amount of NIS 12 million was added and for the year ended on December 31, 2015 an amount of NIS 9 million was deducted).
(4) Including derivative instruments, other non-bearing interest assets and after deduction of provision for credit losses.
(5) Fees in the amount of NIS 108 million, NIS 95 million and NIS 137 million were included in interest income for the years ended December 31, 2017, December 31, 2016 and December 31, 2015 respectively.
(6) Including derivative instruments.
(7) Net return- net interest income to total interest-bearing assets.
(8) Change attributed to quantity was calculated by multiplying the price in the reported period by the change in the quantity in the compared periods.
Change attributed to price was calculated by multiplying the quantity in the previous period by the change in the price in the compared periods.

APPENDIX 2 - CONSOLIDATED STATEMENTS OF INCOME - MULTI-PERIOD DATA

(NIS million)

	Year ended December 31,				
	2017	**2016**	**2015**	**2014**	**2013**
Interest Income	**2,704**	2,526	2,260	2,664	3,322
Interest Expenses	**402**	357	307	563	1,135
Interest Income, net	**2,302**	2,169	1,953	2,101	2,187
Expenses from credit losses	**121**	80	18	89	97
Net Interest Income after expenses from credit losses	**2,181**	2,089	1,935	2,012	2,090
Non-Interest Income					
Non Interest Financing income	**83**	115	149	230	200
Commissions	**1,305**	1,300	1,378	1,375	1,418
Other income	**62**	65	14	62	46
Total non-Interest income	**1,450**	1,480	1,541	1,667	1,664
Operating and other expenses					
Salaries and related expenses	**1,627**	1,656	1,629	1,780	1,746
Maintenance and depreciation of premises and equipment	**380**	409	428	444	438
Amortizations and impairment of intangible assets and goodwill	**94**	116	131	139	145
Other expenses	**506**	502	522	549	531
Total operating and other expenses	**2,607**	2,683	2,710	2,912	2,860
Profit before taxes	**1,024**	886	766	767	894
Provision for taxes on profit	**358**	398	326	328	366
Profit after taxes	**666**	488	440	439	528
The bank's share in profit of equity-basis investees, after taxes	**54**	72	38	35	30
Net profit:					
Before attribution to noncontrolling interests	**720**	560	478	474	558
Attributed to noncontrolling interests	**(42)**	(39)	(32)	(19)	(20)
Attributed to shareholders of the Bank	**678**	521	446	455	538
Primary profit per share attributed to the shareholders of the Bank					
Net profit per share of NIS 0.05 par value	**6.76**	5.19	4.45	4.54	5.36

APPENDIX 3 -
CONSOLIDATED STATEMENTS OF INCOME FOR 2016-2017 - MULTY QUARTER DATA
(NIS million)

Year				**2017**				**2016**
Quarter	**4**	**3**	**2**	**1**	**4**	**3**	**2**	**1**
Interest Income	**696**	**615**	**753**	**640**	627	682	670	547
Interest Expenses	**104**	**50**	**170**	**78**	71	129	136	21
Interest Income, net	**592**	**565**	**583**	**562**	556	553	534	526
Expenses (income) from credit losses	**25**	**9**	**53**	**34**	34	21	92	(67)
Net Interest Income after expenses from credit losses	**567**	**556**	**530**	**528**	522	532	442	593
Non-Interest Income								
Non Interest Financing income	**12**	**38**	**21**	**12**	24	24	33	34
Commissions	**333**	**321**	**317**	**334**	318	326	329	327
Other income	**1**	**6**	**13**	**42**	6	5	42	12
Total non-Interest income	**346**	**365**	**351**	**388**	348	355	404	373
Operating and other expenses								
Salaries and related expenses	**409**	**397**	**407**	**414**	413	404	405	434
Maintenance and depreciation of premises and equipment	**93**	**94**	**94**	**99**	100	104	99	106
Amortizations and impairment of intangible assets	**25**	**24**	**22**	**23**	23	31	31	31
Other expenses	**136**	**125**	**127**	**118**	129	123	123	127
Total operating and other expenses	**663**	**640**	**650**	**654**	665	662	658	698
Profit before taxes	**250**	**281**	**231**	**262**	205	225	188	268
Provision for taxes on profit	**97**	**78**	**86**	**97**	95	91	94	118
Profit after taxes	**153**	**203**	**145**	**165**	110	134	94	150
The bank's share in profit of equity-basis investee, after taxes	**16**	**12**	**16**	**10**	10	3	49	10
Net profit:								
Before attribution to noncontrolling interests	**169**	**215**	**161**	**175**	120	137	143	160
Attributed to noncontrolling interests	**(11)**	**(12)**	**(10)**	**(9)**	(8)	(9)	(9)	(13)
Attributed to shareholders of the Bank	**158**	**203**	**151**	**166**	112	128	134	147

				NIS				NIS
Primary profit per share attributed to the shareholders								
Net profit per share of NIS 0.05 par value	**1.58**	**2.01**	**1.52**	**1.65**	1.11	1.27	1.35	1.46

APPENDIX 4 -
CONSOLIDATED BALANCE SHEETS - MULTI-PERIOD DATA
(NIS million)

	As at December 31,				
	2017	**2016**	**2015**	**2014**	**2013**
Assets					
Cash and deposits with banks	**39,186**	29,150	30,727	29,182	26,100
Securities	**10,238**	15,776	16,439	12,554	10,799
Securities which were borrowed	**813**	414	353	477	990
Credit to the public	**81,216**	78,175	73,379	69,807	69,507
Provision for Credit losses	**(838)**	(847)	(824)	(876)	(827)
Credit to the public, net	**80,378**	77,328	72,555	68,931	68,680
Credit to the government	**675**	654	669	658	23
Investments in investee companies	**565**	514	438	396	373
Premises and equipment	**1,095**	1,133	1,229	1,222	1,180
Intangible assets	**235**	243	272	335	407
Assets in respect of derivative instruments	**1,342**	1,332	1,636	3,015	1,462
Other assets	**1,186**	1,020	1,158	1,037	895
Assets held for sale	**4**	343	-	-	116
Total assets	**135,717**	127,907	125,476	117,807	111,025
Liabilities, temporary equity and Shareholders' Equity					
Deposits from the public	**113,511**	105,817	103,262	95,155	89,122
Deposits from banks	**1,133**	755	1,565	1,469	1,335
Deposits from the Government	**960**	570	511	556	650
Bonds and subordinated capital notes	**5,249**	5,801	5,862	4,903	5,702
Liabilities in respect of derivative instruments	**1,318**	1,356	1,659	3,162	1,789
Other liabilities	**5,162**	4,929	4,954	5,519	5,515
Liabilities held for sale	**-**	745	-	-	11
Total liabilities	**127,333**	119,973	117,813	110,764	104,124
Temporary equity - noncontrolling interest	**338**	330	326	-	-
Capital attributed to the shareholders of the Bank	**7,756**	7,321	7,073	6,797	6,673
Noncontrolling interests	**290**	283	264	246	228
Total equity	**8,046**	7,604	7,337	7,043	6,901
Total liabilities, temporary equity and shareholders' equity	**135,717**	127,907	125,476	117,807	111,025

APPENDIX 5 -
CONSOLIDATED BALANCE SHEETS FOR 2017-2016 - MULTY QUARTER DATA
(NIS million)

Year				2017				2016
Quarter	**4**	**3**	**2**	**1**	**4**	**3**	**2**	**1**
Assets								
Cash and deposits with banks	**39,186**	**33,205**	**30,969**	**30,255**	29,150	26,672	30,635	29,336
Securities	**10,238**	**10,590**	**13,047**	**14,675**	15,776	16,127	14,917	16,599
Securities which were borrowed	**813**	**895**	**903**	**492**	414	505	602	726
Credit to the public	**81,216**	**81,091**	**79,964**	**78,820**	78,175	78,944	76,955	75,321
Provision for Credit losses	**(838)**	**(855)**	**(845)**	**(827)**	(847)	(865)	(858)	(787)
Credit to the public, net	**80,378**	**80,236**	**79,119**	**77,993**	77,328	78,079	76,097	74,534
Credit to the government	**675**	**652**	**646**	**648**	654	653	647	645
Investments in investee companies	**565**	**549**	**535**	**518**	514	505	505	450
Premises and equipment	**1,095**	**1,097**	**1,105**	**1,113**	1,133	1,144	1,200	1,206
Intangible assets	**235**	**226**	**232**	**240**	243	223	237	255
Assets in respect of derivative instruments	**1,342**	**1,203**	**1,295**	**1,340**	1,332	1,139	1,480	1,872
Other assets	**1,186**	**1,235**	**968**	**1,002**	1,020	980	987	985
Assets held for sale	**4**	**-**	**17**	**242**	343	44	-	-
Total assets	**135,717**	**129,888**	**128,836**	**128,518**	127,907	126,071	127,307	126,608
Liabilities, Temporary equity and Shareholders' Equity								
Deposits from the public	**113,511**	**108,394**	**107,280**	**106,198**	105,817	104,549	105,316	103,853
Deposits from banks	**1,133**	**782**	**746**	**716**	755	789	1,207	1,624
Deposits from the Government	**960**	**846**	**1,038**	**593**	570	515	841	669
Bonds and subordinated capital notes	**5,249**	**5,230**	**5,070**	**5,575**	5,801	5,597	5,693	5,697
Liabilities in respect of derivative instruments	**1,318**	**1,160**	**1,341**	**1,447**	1,356	1,300	1,564	2,041
Other liabilities	**5,162**	**5,151**	**5,170**	**5,222**	4,929	5,304	4,746	4,916
Liabilities held for sale	**-**	**-**	**16**	**691**	745	-	-	-
Total liabilities	**127,333**	**121,563**	**120,661**	**120,442**	119,973	118,054	119,367	118,800
Temporary equity - noncontrolling interests	**338**	**336**	**336**	**331**	330	329	326	323
Capital attributed to the shareholders of the Bank	**7,756**	**7,706**	**7,563**	**7,456**	7,321	7,411	7,339	7,216
Noncontrolling interests	**290**	**283**	**276**	**289**	283	277	275	269
Total equity	**8,046**	**7,989**	**7,839**	**7,745**	7,604	7,688	7,614	7,485
Total liabilities, Temporary equity and shareholders' equity	**135,717**	**129,888**	**128,836**	**128,518**	127,907	126,071	127,307	126,608

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