BANK LEUMI OF ISRAEL LTD.
AND ITS INVESTEE COMPANIES

Condensed Financial Statements as at March 31 2018

(Unaudited)

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Report of the Board of Directors and Management

The Report of the Board of Directors and Management was prepared in accordance with the Reporting to the Public Directives of the Supervisor of Banks. The principles applied to the preparation of the interim financial statements are consistent with those applied to the annual report as at December 31 2017. The statements herein should be read in conjunction with the 2017 Annual Report.

Summary Financial Information and Main Performance Indicators

Following are the main performance indicators (in %)

	As at March 31		As at December 31
	2018	2017	2017
Main Performance Indicators:			
Return on capital[c]	**9.0**	8.1	9.8
Return on average assets[c][e]	**0.65**	0.57	0.72
CET1 capital ratio	**11.11**	11.02	11.43
Leverage ratio	**6.89**	6.85	6.94
Liquidity coverage ratio	**122**	131	122
Ratio of income[b] to average assets[c][e]	**2.81**	2.94	3.07
Efficiency ratio	**64.0**	64.9	63.1
Ratio of net interest income to average assets	**1.80**	1.73	1.84
Ratio of fees and commissions to average assets[c][e]	**0.94**	0.94	0.94
Additional performance indicators:			
Ratio of total capital to risk components[a]	**14.32**	14.81	14.99
Capital (excluding non-controlling interests) to balance sheet ratio	**7.4**	7.4	7.4
Percentage of tax provision from net income, before taxes	**26.4**	38.5	35.2
Loan loss expenses for loans to the public, net[c][f]	**0.19**	0.15	0.06
Of which: expenses in respect of collective provision out of credit to the public, net[c][f]	**0.27**	0.18	0.17
Net interest income to average outstanding interest-bearing assets (NIM)[c]	**2.00**	1.91	2.05
Total income to total assets under management by the Group[b][c][d]	**0.86**	0.97	0.95
Total operating and other expenses for total assets under Group's management[c][d]	**0.55**	0.63	0.60
Main credit quality indicators:			
Percentage of loan loss provision in respect of loans to the public out of outstanding loans to the public[f]	**1.42**	1.47	1.38
Percentage of impaired loans to the public in arrears of 90 days or more out of outstanding loans to the public[f]	**1.38**	1.72	1.50
Percentage of net accounting write-offs out of average loans to the public[f]	**(0.01)**	(0.05)	(0.14)

(a) Capital - including non-controlling interests and various adjustments.
(b) Total income - net interest income and non-interest income.
(c) Annualized.
(d) Including off-balance-sheet operations.
(e) Average assets are total income-generating and other balance sheet assets.
(f) Including balances classified as held-for-sale assets and liabilities. For more information on the held-for-sale operation, please see the section entitled "Main Changes in the Reporting Period" and Note 16.

Following are the main income statement data:

	months For the three ended March 31		For the year ended December 31
	2018	2017	2017
	in NIS millions		
Net income attributable to the banking corporation’s shareholders	730	622	3,172
Interest income, net	2,006	1,873	8,046
Loan loss provisions	130	101	172
Noninterest income	1,114	1,287	5,428
Of which: Fees and commissions	1,045	1,018	4,138
Total operating and other expenses	1,998	2,050	8,501
Of which: Salaries and related costs[(a)]	1,068	1,119	4,591
Net income attributable to the banking corporation’s shareholders (in NIS):			
Basic and Diluted net income	0.48	0.41	2.10

(a) Reclassified following retroactive application of the Banking Supervision Department's directives on improving the presentation of expenses in respect of pension and other post-employment benefits. Please see Note 1.B.3.

Following are the balance sheet data:

	As at March 31		As at December 31
	2018[(a)]	2017	2017
	in NIS millions		
Total assets	450,567	435,298	450,838
Of which: Cash and deposits with banks	73,376	68,275	82,067
Securities	80,061	77,959	77,299
Loans to the public, net[(a)]	271,458	264,754	267,952
Total liabilities	**416,617**	402,677	417,285
Of which: Deposits by the Public	362,026	341,663	362,478
Deposits from banks	3,077	4,493	5,156
Bonds, promissory notes and subordinated notes	15,603	22,689	15,577
The banking corporation’s shareholders' equity	33,564	32,255	33,167

(a) Including Leumi Card's credit, which, as of March 31 2018, is classified as a held-for-sale asset. For more information on the held-for-sale operation, please see the section entitled "Main Changes in the Reporting Period" and Note 16.

Forward-Looking Information in the Report of the Board of Directors and Management

The Report of the Board of Directors and Management includes, in addition to data relating to the past, information and assessments relating to the future, defined in the Securities Law, 1968 (hereinafter: the "Law") as "forward-looking information". Forward-looking information relates to a future event or matter, the realization of which is uncertain and not under the Bank's exclusive control.

Forward-looking information is generally worded using the following words or phrases: "the Bank believes", "the Bank foresees", "the Bank expects", "the Bank intends", "the Bank plans", "the Bank estimates", "the Bank's policy", "the Bank's plans", "the Bank's forecast", "expected", "strategy", "targets", "likely to impact", and additional phrases indicating that the matter in question is a forecast of the future rather than past facts.

Forward-looking information included in the Report of the Board of Directors and Management is based, inter alia, on forecasts of various matters related to economic developments in Israel and abroad, especially the currency markets and capital markets, legislation, regulators' directives, competitors' behavior, technological developments and human resources issues.

As a result of the inability to foresee with certainty that these forecasts will be realized, and the fact that, in reality, events may differ from those forecasted, users should treat information defined as "forward-looking" with caution, since reliance on such information involves risk and uncertainty and the future financial and business results of the Leumi Group may be materially different.

The Bank does not undertake to publish updates on forward-looking information included in its reports. This does not derogate from the Bank's reporting obligations in accordance with any law.

Main Changes in the Reporting Period

Leumi Card

According to the provisions of the Law on Minimizing Market Centralization and Promoting Economic Competition (Legislative Amendments), 2017, the Bank is required to sell its interest in subsidiary Leumi card Ltd. (hereinafter: Leumi Card), within the period prescribed by the Law. As part of its preparations to execute the above, the Bank is exploring several options.

As a result, Leumi Card is presented as a held-for-sale disposal group. Balance sheet balances of Leumi Card are presented as a single figure under assets and liabilities. There is no change in the presentation format in the income statement.

Following are Leumi Card's balances for the purpose of the Leumi Group's consolidated financial statements.

	March 31		December 31
	2018	2017	2017
	Unaudited		Audited
	In NIS millions		
Assets			
Cash and deposits in banks	**32**	31	28
Loans to the public	**8,266**	7,547	8,286
Loan loss provision	**(138)**	(100)	(121)
Net loans to the public	**8,128**	7,447	8,165
Investments in associates	**7**	3	6
Buildings and equipment	**175**	177	172
Other assets	**171**	134	129
Total assets	**8,513**	7,792	8,500
Liabilities			
Deposits by the public	**89**	93	65
Other liabilities	**6,381**	6,307	6,404
Total liabilities	**6,470**	6,400	6,469

For more information regarding the held-for-sale operation, please see the section entitled "Main investee companies", under Leumi Card, and Note 16.

Trends, Phenomena, Developments and Material Changes

Main developments in the Israeli economy[1]

In Q1 2018, the Israeli economy grew by 4.2% in real terms as compared with the same quarter last year. All the main national accounting components grew in the first quarter, with the considerable hike in car imports having a significant impact on the increased private consumption and fixed asset investments during the period.

Year on year, the Israeli economy grew by a real 4.0% as of the first quarter.

The global economy

In April 2018, the International Monetary Fund (IMF) revised its global growth estimates for 2017 and its forecast for 2018. According to the revised forecasts, in 2018 the global economy is expected to expand by 3.9% in real terms, a 0.1% increase over 2017's growth rate. The expected growth rate for the US in 2018 was revised upwards (from 2.7% to 2.9%) as compared to the previous forecast from January 2018, especially on the back of the expansionary budgetary policy (including the tax cut). A similar revision was made for the Eurozone (from 2.2% to 2.4%), on the back of more positive than expected figures for demands in the various countries.

The state budget and its funding

In the first three months of 2018, Israel's budgetary deficit was NIS 2.1 billion, compared with a deficit of NIS 2.3 billion in the same period last year. The 2018 budget includes an annual deficit of NIS 38.5 billion, which constitutes 2.9% of the GDP. The cumulative deficit in the 12 months ended March 2018 amounted to 1.9% of the GDP.

Foreign trade and capital flows

In the first quarter of 2018, Israel's trade deficit totaled NIS 5.2 billion, a significant increase over the same period last year, in which the figure stood at NIS 2.0 billion. The increase in the trade deficit stems from a significant increase in imports (including all components: raw materials, investment products and consumer products) versus a more moderate increase in exports.

In January to March 2018, direct investments in Israel by nonresidents, through the banking system, totaled $1.5 billion while financial investments of nonresidents in Israel totaled $2.8 billion. On the other hand, foreign investments by Israeli residents (direct investments through banks in Israel and financial investments) reached $4.1 billion, so the volume of inbound investments to Israel was slightly higher than the volume of inbound, foreign-currency denominated investments.

Exchange rate and foreign exchange reserves

In the first three months of 2018, the shekel devalued against the dollar by 1.4% and 4.2% against the euro.

The foreign currency reserves in the Bank of Israel reached $116.0 billion, as compared with $113.0 billion at the end of December 2017.

During the first quarter of the year, the Bank of Israel concluded its foreign currency purchases, as part of the purchase plan to offset the effect of natural gas production on the exchange rate, by $0.4 billion. In total, the Bank of Israel had purchased foreign currency amounting to $2.3 billion during the reporting period.

Inflation and monetary policy

The in lieu Consumer Price Index was down 0.1% during the first quarter of 2018 and up 0.2% during the 12 months ended in March 2018. This rate is under the lower band of the government's price stability target – 1% to 3% - and reflects a very low inflation environment.

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1 Data sources: Central Bureau of Statistics' publications, Bank of Israel, Ministry of Finance, Tel Aviv Stock Exchange.

The Consumer Price Index (the "Known") was down 0.3% during the first quarter of the year. During the first quarter of the year, there was no change in the Bank of Israel's interest rate, which stands at 0.1%, a level also maintained in the interest rate announcement published in April 2018. The Monetary Committee indicated its intention to uphold the expansionary policy as long as needed to support the inflationary environment's remaining within the target range.

Israel’s capital market

The convertible stocks and securities index was down in January through March 2018 by 3.6%, mostly on the back of falling share prices on stock exchanges worldwide.

The average daily trade volume of convertible stocks and securities was up during the first quarter of the year by 13.6% over the 2017 average, totaling NIS 1.6 billion.

In the first three months of the year, the government bond market was characterized by slight price increases. The CPI-linked government bond index was up 0.3%, while the unlinked government bond index was up 0.2% (the fixed-interest-rate bond index was up 0.2%, while the variable-interest-rate bond index, Gilon, remained unchanged).

The non-government (corporate) CPI-linked bond index was down 0.4% in January through March 2018, following a 6.2% increase in 2017. Financial assets held by the public

At the end of February 2018, the financial assets held by the public reached NIS 3,626 billion, a 0.4% increase over December 2017. At the end of February 2018, the weight of stocks (in Israel and abroad) in the Israeli public's financial asset portfolio reached 22.7%, similar to their weight as at the end of December 2017.

The public's financial assets

As at the end of March 2018, the value of the public's financial assets portfolio was NIS 3,639 billion, a 0.7% increase compared to December 2017. The weight of the shares (Israeli and foreign) out of the Israeli public's financial asset portfolio was 22.5% at the end of March 2018, compared to 22.7% at the end of December 2017.

Material Changes in Financial Statement Line Items

The net income attributable to the shareholders (hereinafter: the "net Income") in the first quarter of 2018 (hereinafter: the "reporting period") was NIS 730 million compared with a total of NIS 622 million in the same period last year.

The **return on equity** during the reporting period was 9.0% compared with 8.1% in the same period last year.

It should be noted that the results and return on equity for the first quarter of the year were adversely affected both by the negative CPI rate during the quarter – which was 0.3% (for more information, please see section entitled "Net interest income") – and by a devalued exchange rate. These effects were offset by a lower effective tax rate for the period, as detailed below. The same period last year was also affected by a negative CPI rate of 0.2%, which was offset by an exchange rate revaluation.

It is emphasized that exchange rate changes do not have a material effect on the comprehensive income, but at times have opposing effects on the net income and other comprehensive income.

The **CET1 capital ratio** to risk-weighted components stood at 11.11% on March 31 2018 compared with 11.02% as at March 31 2017. For more information, please see Note 9B.

On May 23 2018, the Bank's Board of Directors approved a dividend distribution of 40% of the Bank's net income for the first quarter of 2018. The Dividend amount approved for the quarter totals NIS 292 million.

Net interest income for the first three months of the year was up NIS 133 million, a 7.1% year-on-year increase. The increase in net interest income stems from an increase in interest rate spreads and an increase in the average outstanding balance of loans to the public and deposits with banks, as well as from bonds and capital notes redemptions.

Loan loss provisions for the first three months of the year reflect a 0.19% expense from net loans to the public, compared with 0.15% in the same period last year. The year-on-year increase stems mainly from the reclassification of restructured debt in the consumer credit domain.

Noninterest finance income amounted to NIS 51 million compared with NIS 255 million for the same period last year. Most of the decrease is on the back of derivative instruments and exchange differences.

The **processing fees** in the first quarter of 2018 were up by NIS 27 million over the same period last year, especially on the back of increased credit card turnovers.

The **operating expenses** were down by NIS 52 million in the first three months of the year compared with the same period last year, a 2.5% year-on-year decrease. Most of the decrease stems from lower salary expenses in the amount of NIS 51 million. Net of salary expenses outside the regular course of business, the operating expenses were down 0.5%. It should be noted that the decrease in salary expenses in the first quarter of 2018 was partially set off by an increase in salary expenses in the subsidiaries, particularly in a certain foreign subsidiary on the back of increase activity.

Tax expenses totaled NIS 262 million, compared with NIS 388 million in the same period last year. The year-on-year decrease in tax expenses stems mainly from a decrease in the statutory tax rate, from recording tax income for previous years during the period, from recognition of a tax shield in respect of the sale of shares in a subsidiary, as well as from positive exchange rates in respect of investments abroad, which do not constitute part of the taxable income, vs. negative exchange rates in the same period last year.

The **basic earnings per share** attributable the shareholders during the reporting period was NIS 0.48 versus NIS 0.41 during the same period last year.

It should be noted that as of this quarter, the investment in Leumi Card is classified as a held-for-sale asset. As a result, Leumi Card's balances of assets and liabilities were classified separately, without classifying comparative results, as at the balance sheet date - March 31 2018.

For more information regarding held-for-sale operation, please see the section entitled "Main Changes in the Reporting Period" and Note 16.

Material Changes in Income, Expenses and Other Comprehensive Income

Following is the change in net income in the first quarter of 2018 compared to corresponding period of the previous year:

	For the three months ended March 31			
	2018	2017	Change	
	in NIS millions		in NIS millions	in %
Net interest income	**2,006**	1,873	133	7.1
Expenses (income) in respect of loan losses	**130**	101	29	28.7
Non-interest income	**1,114**	1,287	(173)	(13.4)
Operating and other expenses	**1,998**	2,050	(52)	(2.5)
Profit before taxes	**992**	1,009	(17)	(1.7)
Provision for taxes	**262**	388	(126)	(32.5)
Profit after taxes	**730**	621	109	17.6
Bank's share in associates' profits	**10**	10	-	-
Net income attributable to non-controlling interests	**(10)**	(9)	(1)	11.1
Net income attributable to the Bank's shareholders	**730**	622	108	17.4
Return on capital (%)	**9.0**	8.1		
Basic earnings per share (NIS)	**0.48**	0.41		

Following is the net income development by quarter:

	2018	2017			
	Q1	Q4	Q3	Q2	Q1
	in NIS millions				
Interest income, net	**2,006**	2,090	1,918	2,165	1,873
Loan loss provisions	**130**	26	3	42	101
Noninterest income	**1,114**	1,615	1,306	1,220	1,287
Operating and other expenses	**1,998**	2,355	2,076	2,020	2,050
Profit before taxes	**992**	1,324	1,145	1,323	1,009
Provision for taxes	**262**	472	376	456	388
Profit after taxes	**730**	852	769	867	621
Bank's share in associates' profits	**10**	7	60	15	10
Net income attributable to non-controlling interests	**(10)**	(5)	(9)	(6)	(9)
Net income attributable to the Bank's shareholders	**730**	854	820	876	622
Return on capital (%)	**9.0**	10.8	10.3	11.3	8.1
Basic earnings per share (NIS)	**0.48**	0.57	0.54	0.58	0.41

Net interest income

In the first three months of the year, the Leumi Group's net interest income was NIS 2,006 million, compared with NIS 1,873 million in the same period last year, a 7.1% increase.

The increase in net interest income stems from an increase in the interest rate spreads, an increase in the average outstanding loans to the public, deposits with banks and from bonds and capital notes redemptions.

It should be noted that the first quarter results were adversely affected by the CPI for a total of NIS 74 million (with an adverse effect of NIS 53 million in the same period last year).

The ratio between the net interest income and the average balance of interest-bearing assets (the net return on interest-bearing assets) in the first three months of the year was 2.00% versus 1.91% in the same period last year.

The total **interest spread** in the reporting period was 1.84% versus a 1.74% spread in the same period last year.

Following are data on interest rate spreads by segment:

In the CPI segment, the interest rate spread during the reporting period stood at 0.37% compared with 0.33% in the same period last year. In the foreign exchange segment, the interest rate spread was 0.82% versus 1.11% in the same period last year. In the unlinked shekel segment, the interest rate spread was 2.15% versus 2.06% in the same period last year.

For more information on interest income and expenses, please see Appendix 1 – Income and Expense Rates and Analysis of Interest Income and Expenses.

Expenses for loan losses

	For the three months ended March 31		Change	
	2018	2017	in NIS millions	in %
	in NIS millions			
Income in respect of loan losses - specific	(52)	(18)	(34)	-
Expenses in respect of loan losses - general	182	119	63	52.9
Total expense (income) for loan losses	130	101	29	28.7
Ratios (in %):				
% of specific income for loan losses out of total loans to the public, net[(a)]	(0.08)	(0.03)	-	-
% of general expense for loan losses out of total loans to the public, net[(a)]	0.27	0.18	-	-
% of total expense (income) for loan losses out of total loans to the public, net[(a)]	0.19	0.15	-	-

	2018	2017			
	Q1	Q4	Q3	Q2	Q1
	in NIS millions				
Income in respect of loan losses - specific	(52)	(84)	(130)	(53)	(18)
Expenses in respect of loan losses - general	182	110	133	95	119
Total expense for loan losses	130	26	3	42	101
Ratios (in %):					
% of specific income for loan losses out of total loans to the public, net[(a)]	(0.08)	(0.13)	(0.20)	(0.08)	(0.03)
% of general expense for loan losses out of total loans to the public, net[(a)]	0.27	0.16	0.20	0.14	0.18
% of total expense for loan losses out of total loans to the public, net[(a)]	0.19	0.03	-	0.06	0.15

(a) Including balances classified as held-for-sale assets and liabilities. For more information on the held-for-sale operation, please see the section entitled "Main Changes in the Reporting Period" and Note 16.

For more information about expenses for loan loss provisions, please see Note 6 and Note 13.

Noninterest income

	For the three months ended March 31		Change	
	2018	2017	in NIS millions	in %
	in NIS millions			
Non-interest finance income	**51**	255	(204)	(80.0)
Fees and commissions	**1,045**	1,018	27	2.7
Other income	**18**	14	4	28.6
Total	**1,114**	1,287	(173)	(13.4)

	2018	2017			
	Q1	Q4	Q3	Q2	Q1
	in NIS millions				
Non-interest finance income	**51**	245	222	197	255
Fees and commissions	**1,045**	1,070	1,043	1,007	1,018
Other income	**18**	300	41	16	14
Total	**1,114**	1,615	1,306	1,220	1,287

The current year-to-date percentage of non-interest income out of total income (i.e., net interest income and non-interest income) in the first three months of the year was 35.7%, compared with 40.7% in the previous year-to-date and 40.3% for the 2017 full year.

Following is a breakdown of noninterest finance income:

	For the three months ended March 31		Change	
	2018	2017		
	in NIS millions		in NIS millions	in %
Income from derivatives and exchange rate differentials, net	**(43)**	390	(433)	-
Gains on sale of available-for-sale bonds, net	**25**	5	20	+
Gains on investment in shares, including dividends	**(1)**	46	(47)	-
Realized and unrealized gains (losses) from adjustments to fair value of held-for-trading bonds and shares, net[a]	**70**	(186)	256	+
Total	**51**	255	(204)	(80.0)

	2018	2017			
	Q1	Q4	Q3	Q2	**Q1**
	in NIS millions				
Income (expenses) in respect of derivatives and exchange rate differentials, net	**(43)**	264	4	121	390
Gains on sale of available-for-sale bonds, net	**25**	33	47	30	5
Gains (losses) on investment in shares, including dividends	**(1)**	(42)	15	42	46
Gains (losses) on sold loans, net	**-**	-	9	-	-
Realized and unrealized gains (losses) from adjustments to fair value of held-for-trading bonds and shares, net[a]	**70**	(10)	147	4	(186)
Total	**51**	245	222	197	255

(a) Realized and unrealized gains (losses) from fair value adjustments of held-for-trading debentures and shares also include the effect of exchange rate differences.

Below is a breakdown of fees and commissions:

	For the three months ended March 31			
	2018	2017	Change	
	in NIS millions		in NIS millions	in %
Account management	**179**	178	1	0.6
Activity in securities and certain derivatives	**168**	169	(1)	(0.6)
Credit cards	**268**	255	13	5.1
Handling of loans	**46**	49	(3)	(6.1)
Financial product distribution fees and commissions	**80**	73	7	9.6
Exchange differences	**94**	84	10	11.9
Loan fees and commissions	**131**	135	(4)	(3.0)
Other fees and commissions	**79**	75	4	5.3
Total fees and commissions	**1,045**	1,018	27	2.7

Fees and commissions in the first three months of 2018 increased 2.7% year-on-year, mainly on the back of increased credit card turnovers.

	2018	2017			
	Q1	Q4	Q3	Q2	Q1
	in NIS millions				
Account management	**179**	182	170	171	178
Activity in securities and certain derivatives	**168**	173	170	163	169
Credit cards	**268**	278	277	265	255
Handling of loans	**46**	48	44	42	49
Financial product distribution fees and commissions	**80**	82	78	74	73
Exchange differences	**94**	94	83	77	84
Loan fees and commissions	**131**	133	140	133	135
Other fees and commissions	**79**	80	81	82	75
Total fees and commissions	**1,045**	1,070	1,043	1,007	1,018

Following is a breakdown of other income:

	For the three months ended March 31		Change	
	2018	2017		
	in NIS millions		in NIS millions	in %
Gains on reserve for severance pay	**3**	7	(4)	(57.1)
Other income, including on sale of buildings and equipment	**15**	7	8	+
Total	**18**	14	4	28.6

	2018	2017			
	Q1	Q4	Q3	Q2	Q1
	in NIS millions				
Gains on reserve for severance pay	**3**	11	11	12	7
Other income, including on sale of buildings and equipment	**15**	289	30	4	7
Total	**18**	300	41	16	14

Operating and other expenses

	For the three months ended March 31		Change	
	2018	2017		
	in NIS millions		in NIS millions	in %
Salaries and related costs[(a)]	**1,068**	1,119	(51)	(4.6)
Depreciation and amortization	**160**	183	(23)	(12.6)
Maintenance expenses for buildings and equipment	**251**	252	(1)	(0.4)
Other expenses[(a)]	**519**	496	23	4.6
Total operating and other expenses	**1,998**	2,050	(52)	(2.5)

	2018	2017			
	Q1	Q4	Q3	Q2	Q1
	in NIS millions				
Salaries and related costs[(a)]	**1,068**	1,259	1,096	1,117	1,119
Depreciation and amortization	**160**	149	155	159	183
Maintenance expenses for buildings and equipment	**251**	273	251	239	252
Other expenses[(a)]	**519**	674	574	505	496
Total operating and other expenses	**1,998**	2,355	2,076	2,020	2,050

(a) Reclassified following retroactive application of the Banking Supervision Department's directives on improving the presentation of expenses in respect of pension and other post-employment benefits. Please see Note 1.B.3.

The operating expenses constitute 64.0% of all income versus 64.9% in the same period last year and 63.1% for the entire 2017.

Total annualized operating and other expenses constitute 1.79% of the entire balance sheet, versus 1.90% in the same period last year and 1.89% for the entire 2017.

Salary expenses

	For the three months ended March 31			
	2018	2017	Change	
	in NIS millions		in NIS millions	in %
Salaries and related expenses	983	1,001	(18)	(1.8)
Pension, severance and retirement expenses[(a)]	85	75	10	13.3
Total current salary expenses	1,068	1,076	(8)	(0.7)
Bonuses and expenses not granted/incurred in the ordinary course of business	-	43	(43)	-
Total salary expenses	1,068	1,119	(51)	(4.6)

(a) Reclassified following retroactive application of the Banking Supervision Department's directives on improving the presentation of expenses in respect of pension and other post-employment benefits. Please see Note 1.B.3. The total effect for the first quarter of 2017 was NIS 172 million.

The total current salary expenses were down by NIS 8 million, reflecting a 0.7% decrease.

	2018				2017
	Q1	Q4	Q3	Q2	Q1
	in NIS millions				
Salaries and related expenses	**983**	1,145	1,012	1,033	1,001
Pension, severance and voluntary retirement expenses[(a)]	**85**	81	84	84	75
Total current salary expenses	**1,068**	1,226	1,096	1,117	1,076
Bonuses not granted in the ordinary course of business	**-**	33	-	-	43
Total salary expenses	**1,068**	1,259	1,096	1,117	1,119

(a) Reclassified following retroactive application of the Banking Supervision Department's directives on improving the presentation of expenses in respect of pension and other post-employment benefits. Please see Note 1.B.3. The total effect on the first quarter of 2017 was NIS 172 million; on the second quarter of 2017 – NIS 159 million, on the third quarter of 2017 – NIS 168 million and on the fourth quarter of 2017 – NIS 182 million.

Operating and other expenses (excl. salaries)

Total operating and other expenses, net of salaries, was NIS 930 million during the reporting period, compared with NIS 931 million in the same period last year, a 0.1% decrease.

Tax expenses

The Leumi Group's provision for tax on income in the reporting period totaled NIS 262 million, compared with NIS 388 million in the same period last year. The provision for tax on income for the reporting period is 26.4% of the pretax net income, versus 12.1% in the same period last year – an 8.7 percentage point decrease. The decrease in tax rates over the periods stems mainly from a statutory tax cut from one period to another, from recording tax income in respect of previous years, from recognition of a tax shield in respect the sale of shares in a subsidiary, and from positive exchange rates in respect of investments abroad, which do not constitute taxable income, versus negative exchange rate differences in the same period last year.

Following is a summary of the comprehensive income statement:

	Other comprehensive income before attribution to non-controlling interests						
	Adjustments in respect of presentation of available-for-sale securities at fair value	Translation adjustments[a] net of hedges[(b)]	Adjustments in respect of presentation of available-for-sale securities at fair value	Translation adjust-ents[a] net of hedges[(b)]	Adjustments in respect of present-ation of available-for-sale securities at fair value	Translation adjustments,[(a)] net of hedges[(b)]	Adjustments in respect of presentation of available-for-sale securities at fair value
	in NIS millions						
Balance on December 31 2016	(86)	(79)	18	(2,169)	(2,316)	(4)	(2,312)
Net change during the period	11	(49)	(8)	332	286	-	286
Balance on March 31 2017	(75)	(128)	10	(1,837)	(2,030)	(4)	(2,026)
Balance on December 31 2017	75	(195)	15	(2,950)	(3,055)	(4)	(3,051)
Net change during the period	**(137)**	**17**	**(2)**	**150**	**28**	**-**	**28**
Balance on March 31 2018	**(62)**	**(178)**	**13**	**(2,800)**	**(3,027)**	**(4)**	**(3,023)**

	Other comprehensive income before attribution to non-controlling interests						
	Adjustments in respect of presentation of available-for-sale securities at fair value	Adjustments in respect of presentation of available-for-sale securities at fair value	Adjustments in respect of presentation of available-for-sale securities at fair value	Adjustments in respect of presentation of available-for-sale securities at fair value	Adjust-ments in respect of present-ation of available-for-sale securities at fair value	Adjustments in respect of presentation of available-for-sale securities at fair value	Adjustments in respect of presentation of available-for-sale securities at fair value
	in NIS millions						
Balance on December 31 2016	(86)	(79)	18	(2,169)	(2,316)	(4)	(2,312)
Net change during the year	161	(116)	(3)	(781)	(739)	-	(739)
Balance on December 31 2017	75	(195)	15	(2,950)	(3,055)	(4)	(3,051)

(a) Adjustments arising from the translation of financial statements of foreign operations whose functional currency is different from the banking corporation's functional currency.
(b) Net gains (losses) in respect of hedging of a net investment in foreign currency.
(c) The adjustments for employee benefits in 2017 include the cost of the voluntary retirement plan published in July 2017.

Structure of, and Changes in, Assets, Liabilities, Capital and Capital Adequacy

The Leumi Group's **balance sheet** totaled, as at March 31 2018, NIS 450.6 billion versus NIS 450.8 billion as at the end of 2017 – a 0.1% decrease and a 3.5% year-over-year increase.

The total assets denominated in foreign currency and linked to foreign currency out of the Group's balances is NIS 92.1 billion, 20.5% of total assets. In the first three months of 2018, the shekel was devalued against the dollar by 1.4% and 4.2% against the euro. The change in the shekel's exchange rate against all foreign currencies caused a 0.4% decrease in the Group's total balance sheet, so that net of the shekel devaluation effect, the balance sheet was down to NIS 448.8 billion.

Total assets under the Group's management – total balance sheet and securities portfolios of customers and provident fund and study funds for which operational management and deposit management services are provided - reached NIS 1,457 billion, compared with a total of NIS 1,425 billion as at the end of 2017 (approximately $415 billion and $411 billion, respectively).

1. Following are the changes in the main balance sheet items:

	March 31	December 31	Change	
	2018	2017	From December 2017	From March 2017
	in NIS millions		in %	
Balance sheet total	**450,567**	450,838	(0.1)	3.5
Cash and deposits with banks	**73,376**	82,067	(10.6)	7.5
Securities	**80,061**	77,299	3.6	2.7
Loans to the public, net[a]	**271,458**	267,952	1.3	2.5
Buildings and equipment	**2,762**	2,986	(7.5)	(8.4)
Deposits from the public	**362,026**	362,478	(0.1)	6.0
Deposits from banks	**3,077**	5,156	(40.3)	(31.5)
Bonds, promissory notes and subordinated notes	**15,603**	15,577	0.2	(31.2)
The Bank's shareholders' equity	**33,564**	33,167	1.2	4.1

(a) Including Leumi Card's credit, which, as of March 31 2018, is classified as a held-for-sale asset. For more information on the held-for-sale operation, please see the section entitled "Main Changes in the Reporting Period" and Note 16

2. Following are the changes in the main off balance sheet items:

	March 31	December 31	Change	
	2018	2017	From December 2017	From March 2017
	in NIS millions		in %	
Letters of credit, net	**1,590**	1,202	32.3	16.2
Loan guarantees, net	**5,436**	5,400	0.7	0.1
Guarantees for apartment buyers[a]	**19,246**	19,297	(0.3)	(2.0)
Guarantees and other commitments, net	**15,344**	15,702	(2.3)	3.9
Derivative instruments[a]	**754,974**	635,790	18.7	19.9
Options - all types	**124,472**	155,751	(20.1)	(3.9)

(a) Including forward transactions, financial swap contracts, swaps, futures and credit derivatives. For more information, please see Note 11.

3. Following are the changes in customers' off-balance-sheet financial assets in the Leumi Group:

	March 31	December 31		
	2018	2017	Change	
	in NIS millions		in NIS millions	in %
Securities portfolios[a]	**708,050**	692,085	15,965	2.3
Assets for which operating services are provided:[a][b][c]				
Mutual funds	**51,673**	51,425	248	0.5
Provident and pension funds	**131,772**	118,564	13,208	11.1
Study funds	**114,932**	112,356	2,576	2.3

(a) Including changes in the market value of securities and value of securities of mutual funds and provident funds in the Group's custody, for which operational management and custody services are provided.
(b) The Group does not manage mutual funds, provident funds and study funds in Israel.
(c) Assets of customers to which the Group provides operational management services, including provident fund balances of customers who receive consulting services from Leumi.

Net loans to the public

Net loans to the public in the Leumi Group, including Leumi Card's outstanding credit - which is classified as of March 31 2018 as a held-for-sale asset - totaled as at March 31 2018 NIS 271.5 billion versus NIS 268.0 billion as at the end of 2017, a 1.3% increase over December 31 2017.

It should be noted that the exchange rate changes of all foreign currencies against the shekel contributed to a 0.3% increase in the total loans to the public, including the outstanding credit balance of Leumi Card - which is classified as a held-for-sale asset.

In addition to loans to the public, the Group invests in corporate securities, which total - as at March 31 2018 - NIS 13,779 million compared to NIS 13,241 million as at the end of 2017, and which also embody credit risk.

The unlinked, NIS-denominated loans to the public constitute, as at March 31 2018, 70.5% of total loans, which constituted 70.0% of total loans as at December 31 2017. Contrary to the increase in the weight of unlinked loans, there was a decrease mostly in CPI-linked loans, which constituted 15.2% of all loans as at March 31 2018 compared with 15.6% as at December 31 2017.

Following are the changes in loans to the public, after provision for loan losses by main economic sectors:

	March 31	December 31			
	2018	2017	Change		Change net of exchange rate differentials
	in NIS millions			in %	
Individuals - housing loans	**77,726**	77,506	220	0.3	0.3
Individuals - other	**36,449**	38,160	(1,711)	(4.5)	(4.4)
Construction and real estate	**54,415**	52,513	1,902	3.6	3.2
Commercial	**28,377**	26,775	1,602	6.0	5.5
Industry	**19,151**	19,098	53	0.3	(0.5)
Other	**55,340**	53,900	1,440	2.7	0.2
Total	**271,458**	267,952	3,506	1.3	1.0
Less balance of outstanding held-for-sale loans to the public[(a)]	**8,128**	-			
Total	**263,330**	267,952			

(a) For more information on the held-for-sale operation, please see the section entitled "Main Changes in the Reporting Period" and Note 16.

For more information regarding changes in loans and credit risk by economic sector, please see Credit risk.

Problem credit risk

Following is the problem credit risk after specific and general provisions:

	March 31			December 31		
	2018			2017		
	Balance-sheet	Off balance-sheet	Total	Balance-sheet	Off balance-sheet	Total
	in NIS millions					
Impaired credit risk, net	**2,251**	**93**	**2,344**	2,633	100	2,733
Substandard credit risk, net	**551**	**40**	**591**	711	49	760
Credit risk under special supervision, net	**2,653**	**1,081**	**3,734**	2,412	876	3,288
Less held-for-sale problem credit risk, net[(a)]	**(322)**	**(6)**	**(328)**	-	-	-
Total	**5,133**	**1,208**	**6,341**	5,756	1,025	6,781

	March 31	December 31
	2018	2017
	in NIS millions	
Problem credit risk - commercial	**6,561**	6,583
Problem credit risk - retail	**1,692**	1,637
Less held-for-sale problem credit risk[(a)]	**(374)**	-
Total	**7,879**	8,220
Balance of loan loss provision	**1,584**	1,439
Less balance of outstanding loan loss provision in respect of held-for-sale loans[(a)]	**(46)**	-
Problem debt after loan loss provision	**6,341**	6,781

(a) For more information on the held-for-sale operation, please see the section entitled "Main Changes in the Reporting Period" and Note 16.

(b) Reclassified. For more information, please see Note 6.

For more information regarding problem debt, please see Credit risk and Note 13.

Reclassification of outstanding loan balances to individuals (excluding housing loans)

It should be noted that following the assimilation of a designated system for handling problem debt, a new module was developed recently to improve automated identification of restructured debt in lieu of adequate or problem debt. As a result, the Bank revised its restructured loans amount.

Following the above, as part of the notes to the financial statements of the first quarter of 2018, the outstanding balances of loans to individuals (excluding housing loans) were reclassified, so that a total of NIS 223 million and a total of NIS 224 million were reclassified from non-problem debts to problem debts, as at March 2017 and December 2017, respectively.

The total classification for impaired debts stood at NIS 319 million as at March 31 2017 (NIS 223 million classified from non-problem debts and NIS 96 million classified for non-impaired problem debt) and a total of NIS 301 million as at December 31 2017 (NIS 224 million classified from non-problem debt and NIS 77 million classified for non-impaired problem debt).

It should be noted that, as a result, the loan loss provision as at March 31 2018 was revised. The effect of the revision on the financial performance for the reporting period is immaterial.

Securities

As at March 31 2018, the Group's investments in securities amounted to NIS 80.1 billion, compared to NIS 77.3 billion at the end of 2017, a 3.6% increase.

The Group's securities are divided into three classes: held-for-trading, available-for-sale and held-to-maturity securities.

Securities purchased by the Bank are classified either to the held-for-trading, available-for-sale or held-to-maturity portfolio on the date of their purchase, according to the manner in which the Bank intends to use the securities. Securities purchased for trading purposes (or for the purpose of hedging other components of the trading portfolio), for market making purposes or as part of the trading room activity are classified as held-for-trading; securities purchased as part of managing the Bank's assets and liabilities are classified as available-for-sale; and securities purchased to be held until maturity are classified as held-to-maturity.

Held-for-trading securities are stated in the balance sheet at fair value, and the difference between the fair value and the amortized cost is recorded in the income statement. Available-for-sale securities are stated in the balance sheet at fair value, and the difference between the fair value and the amortized cost is stated in equity, under other comprehensive income, as a separate item titled “Adjustments for presentation of available-for-sale securities at fair value" less related tax. In any case of an other-than-temporary impairment, the difference is charged to profit and loss. Held-to-maturity securities are stated in the balance sheet at amortized cost.

Following is the classification of the securities item in the consolidated balance sheet:

	March 31 2018				December 31 2017			
	Held-to-maturity securities	Available-for-sale securities[(a)]	Held-for-trading securities[(b)]	Total	Held-to-maturity securities	December 31 2017	Held-to-maturity securities	Total
	in NIS millions							
Bonds								
Of the Israeli government	**436**	**38,509**	**4,501**	**43,446**	35	36,633	3,204	39,872
Of foreign governments	**-**	**10,769**	**78**	**10,847**	-	10,755	82	10,837
Of Israeli financial institutions	**-**	**11**	**172**	**183**	-	11	90	101
Of foreign financial institutions[(c)]	**-**	**9,338**	**256**	**9,594**	-	9,653	142	9,795
Asset-backed (ABS) or mortgage-backed (MBS)	**345**	**8,268**	**293**	**8,906**	353	8,529	268	9,150
Of other Israeli entities	**-**	**162**	**178**	**340**	-	70	111	181
Of other foreign entities	**479**	**2,758**	**251**	**3,488**	478	2,352	299	3,129
Shares and mutual funds	**-**	**3,188**	**69**	**3,257**	-	2,927	1,307	4,234
Total securities[(d)]	**1,260**	**73,003**	**5,798**	**80,061**	866	70,930	5,503	77,299

(a) Including unrealized gains (losses) from fair value adjustments in the amount of NIS (93) million recorded in other comprehensive income (December 31 2017 - NIS 146 million).
(b) Including unrealized gains (losses) from fair value adjustments in the amount of NIS (1) million recorded in profit and loss (December 31 2017 - NIS 9 million).
(c) Most bonds of foreign financial institutions are rated Supranational or are state-backed.
(d) For more information on the held-for-sale operation, please see the section entitled "Main Changes in the Reporting Period" and Note 16.

As at March 31 2018, approximately 91.2% of the Group's nostro (own) portfolio was classified as available-for-sale and 7.2% - as held-for-trading. Approximately 4.1% of the securities' value are investments in corporate shares that are not equity-accounted, but rather stated at cost or according to the share price.

For more information regarding the value of securities by type of measurement, please see Note 15A.

Available-for-sale portfolio

1. In the first quarter of 2018, there was a NIS 207 decrease (before tax) in other comprehensive income in respect of available-for-sale securities, compared with an increase of NIS 20 million (before tax) in the corresponding period last year.

2. Net gains on the sale of available-for-sale bonds - amounting to NIS 25 million, compared with net gains of NIS 5 million in the corresponding period last year, and net losses on investments in available-for-sale shares in the amount of NIS 4 million, compared with gains of NIS 38 million in the corresponding period last year - were stated in profit and loss.

The net fair value adjustments of available-for-sale securities as at March 31 2018 amounted to a negative NIS 62 million (after tax), compared with a positive amount of NIS 75 million at the end of 2017. These amounts represent net unrealized gains (losses) as at the reporting date.

For information regarding fair value adjustments of available-for-sale securities recognized in equity, please see Note 5.

Held-for-trading portfolio

As at March 31 2018, the held-for-trading portfolio has NIS 5.7 billion in debentures, compared with NIS 4.2 billion as at December 31 2017. As at March 31 2018, the held-for-trading portfolio constitutes 7.2% of the Group's total nostro portfolio, compared with 7.1% as at December 31 2017.

Losses in respect of realized and unrealized held-for-trading bonds in the amount of NIS 14 million, compared with losses of NIS 186 billion in the same period last year, were stated in the income statement. For more information on the portfolio's composition, please see Note 5.

Investment in foreign securities

A. Investment in foreign asset-backed securities

The Group's asset-backed (mortgage and non-mortgage) securities portfolio, all investment-grade, amounted to NIS 8.9 billion (about $2.5 billion) as at March 31 2018, compared to NIS 9.2 billion as at the end of 2017. Out of the above portfolio, as at March 31 2018, NIS 8.3 billion (about $2.4 billion) was classified to the available-for-sale portfolio and the remainder - to the held-for-trading and held-to-maturity portfolios.

As of March 31 2018, the available-for-sale foreign asset-backed securities, including investment in mortgage-backed debentures, totaled NIS 6.2 billion. 96% of all asset-backed mortgages in the available-for-sale portfolio was issued by US federal agencies (FNMA, FHLMC, GNMA) and, as of the reporting date, are rated AAA.

As of March 31 2018, the total net cumulative impairment from mortgage-backed bonds charged to shareholders' equity was NIS 157 million.

Total mortgage-backed debentures that are neither government-backed (USA) nor backed by US federal institutions total NIS 388 million.

The weighted average maturity for the entire mortgage-backed debenture portfolio is 3.7 years (average duration). In addition to the mortgage-backed debentures, the Group's available for sale portfolio also includes other non-mortgage asset-backed debentures totaling NIS 2.0 billion, of which CLO debentures account for NIS 1.3 billion. The weighted average maturity for the entire non-mortgage asset-backed debenture portfolio is 3.6 years.

For more information on investment in asset-backed debentures, please see Note 5.

B. Investment in foreign non-asset-backed securities

As of March 31 2018, the Group's securities portfolio includes NIS 28.9 billion ($8.2 billion) in foreign non-asset-backed securities. Out of the above portfolio, NIS 27.8 billion (about $7.9 billion) is classified to the available-for-sale portfolio and the remainder - to the available-for-trade and held-to-maturity portfolios. 99.2% of the total securities are investment grade and include mainly securities of the US government, banks and financial institutions as well as debentures of investment grade corporations, and the remainder are mainly securities issued by the Israeli government.

For more information regarding exposure to foreign financial institutions, please see Credit risk.

As of March 31 2018, the total accumulated impairment in shareholders' equity in respect of foreign non-asset-backed securities which are in the available-for-sale portfolio was NIS 135 million (NIS 89 million after tax).

As aforesaid, in addition to the available-for-sale portfolio, the held-for-trading portfolio and held-to-maturity portfolio also include non-asset-backed securities. The held-for-trading portfolio mainly includes securities issued by governments, banks and financial institutions. 93.3% of the securities in the held-for-trading portfolio are investment-grade.

As at March 31 2018, the value of the non-asset-backed held-for-trading portfolio was NIS 0.60 billion ($0.2 billion). The difference between the fair value and the amortized cost, if any, is recorded in the income statement.

Investments in debentures issued in Israel

As at March 31 2018, investments in debentures issued in Israel amounted to NIS 41.7 billion, of which NIS 41.2 billion was in shekel-denominated debentures issued by the Israeli government and the remainder - Israeli corporate bonds. 33.1% of corporate debentures investments - which constitute NIS 0.2 billion - were included in the available-for-sale portfolio, and the remainder - in the held-for-trading portfolio.

The available-for-sale portfolio corporate debentures - which total NIS 0.2 billion - include a positive capital reserve of NIS 5 million.

All corporate debentures in the held-for-trading portfolio are listed and traded on the stock exchange.

Investments in shares and funds

As at March 31 2018, investments in shares and funds totaled NIS 3,257 million, of which NIS 2,265 million was tradable and NIS 992 million - non-tradable. Of the total investment, NIS 3,188 million is classified to the available-for-sale portfolio and NIS 69 million - to the trading portfolio.

As at March 31 2018, the capital required in respect of these investments is NIS 0 million.

For more information, please see Note 5.

Deposits by the public

As at March 31 2018, the public's deposits with the Group amounted to NIS 362.0 billion, compared to NIS 362.5 billion at the end of 2017, a 0.1% decrease and a 6.0% year-on-year increase.

The change in the shekel exchange rates against all foreign currencies increased the public's total deposits by 0.5%, so that net of the change, the public's deposits would have decreased by 0.6%.

Debentures, capital notes and subordinated notes

As at March 31 2018, bonds, capital notes and subordinated notes totaled NIS 15.6 billion, similar to the balance as at the end of 2017.

On May 23 2018, the Bank's Board of Directors approved a shelf prospectus under the permit granted by the Israel Securities Authority.

Capital and capital adequacy

Shareholders' equity totaled NIS 33,564 million on March 31 2018 compared with NIS 33,167 million as at the end of 2017, a 100.0% year-on-year increase. The increase is mainly due to the net income for the period, which was offset by the dividend distribution during the period.

This capital serves as the basis for calculating the regulatory capital which, in turn, is used to calculate the Bank's capital adequacy ratio with the addition of capital instruments and regulatory adjustments as set out in the Supervisor of Banks, Proper Conduct of Banking Business Directive No. 202.

The equity to total asset ratio reached 7.4% on March 31 2018, similarly to the ratio as at December 31 2017.

Capital adequacy structure

	March 31		December 31
	2018	2017	2017
	Unaudited		Audited
	in NIS millions		
Capital base for capital ratio purposes			
CET1 capital, after regulatory capital deductions and adjustments	**34,316**	32,965	34,653
Tier 2 capital, after deductions	**9,897**	11,325	10,811
Total capital	**44,213**	44,290	45,464
Balance of risk-weighted assets[(a)]			
Credit risk	**282,673**	272,108	277,344
Market risk	**4,343**	6,141	4,464
Operational risk	**21,801**	20,862	21,484
Total balance of risk-weighted assets	**308,817**	299,111	303,292
Capital-to-risk weighted assets ratio (CRAR)			
Ratio of CET1 capital to risk-weighted components	**11.11%**	11.02%	11.43%
Total capital ratio to risk components	**14.32%**	14.81%	14.99%

(a) For more information on the held-for-sale operation, please see the section entitled "Main Changes in the Reporting Period" and Note 16.

Regulatory capital structure

In May 2013, the Banking Supervision Department published the final directives for the implementation of Basel III in Israel, by amending Proper Conduct of Banking Business Directives Nos. 201-211. The directives went into effect on January 1 2014, subject to the transitional provisions included in the Banking Supervision Department's Proper Conduct of Banking Business Directive No. 299.

Pursuant to the directives, the Group's capital components for the purpose of calculating capital adequacy are attributed to two tiers:

1. Tier 1 Capital, which includes Common Equity Tier 1 Capital and Additional Tier 1 Capital.
2. Tier 2 Capital.

The sum of these tiers is called the "capital basis for capital adequacy" or "regulatory capital" or "total capital."

Common Equity Tier 1 capital and Additional Tier 1 capital

Common Equity Tier 1 Capital includes the banking corporation' shareholders' equity, with the addition of some of the minority interests (non-controlling interests of consolidated subsidiaries) less goodwill, other intangible assets and regulatory adjustments and additional deductions

Additional adjustments to Common Equity Tier 1 Capital arising from the implementation of operational efficiency plans and the method of calculating the discount rate for the employee benefits liability, as detailed below.

Additional Tier 1 Capital includes capital instruments complying with the criteria set forth in Proper Conduct of Banking Business Directive No. 202. The Leumi Group has no capital instruments in this tier.

Tier 2 Capital

Tier 2 Capital mainly includes capital instruments and the balance of the general loan loss provision, subject to the maximum prescribed by the directives.

Capital instruments included in Tier 2 Capital at December 31 2013, are subject to transitional provisions and a recognition ceiling, such that the amount actually recognized in respect thereof is the lower of the amortized amount of the instruments and the recognition ceiling based on the balance of capital instruments included in Tier 2 Capital as at December 31 2013, which is amortized at the beginning of each year by 10% until January 1 2022. The recognition ceiling for 2018 is 40%.

From the beginning of 2014, capital instruments must comply with the criteria set forth in Proper Conduct of Banking Business Directive No. 202. To be included in capital, the main criteria that the instrument must include are as follows: (1) a mechanism for absorbing reserve losses by way of conversion to ordinary shares or amortization of the instrument when the banking corporation's Common Equity Tier 1 capital ratio falls below 5%; (2) a clause determining that, on the occurrence of the defining event for non-viability (as defined in Appendix E to Proper Conduct of Banking Business Directive No. 202), the instrument shall be immediately converted to ordinary shares or written off.

For a description of the main features of regulatory capital instruments which have been issued, please see the Bank's website: www.leumi.co.il under About us > Financial information > Disclosure under Pillar 3 of the Basel Accord and Additional information on risks.

Restrictions on capital structure

Proper Conduct of Banking Directive No. 202 prescribes restrictions on the capital structure.

For more information on the regulatory capital structure and restrictions on capital structure, please see the Report of the Board of Directors and Management for 2017.

Capital adequacy

The capital ratios are calculated as the ratio of capital to the risk-weighted assets. The Common Equity Tier 1 capital ratio is calculated as the ratio of Common Equity Tier 1 Capital and the risk-weighted assets, and the total capital ratio is calculated as the ratio of total capital to the risk-weighted assets.

The Bank of Israel's capital adequacy targets:

Under Proper Conduct of Banking Business Regulation No. 201, Capital Measurement and Adequacy - Introduction, Application and Calculation of Requirements, a large banking corporation whose consolidated balance sheet assets total at least 20% of the Israeli banking system's total balance sheet assets, is required to meet a Common Equity Tier 1 capital ratio of at least 10% and a total capital ratio of at least 13.5%, beginning on January 1 2017. This requirement applies to Leumi.

Additionally, under Amendment to Proper Conduct of Banking Business Directive No. 329, Restrictions on Granting Housing Loans, the banking corporation is required to increase its Common Equity Tier 1 Capital target and total capital target by a rate which reflects 1% of the outstanding balance of its housing loans. The effect of this requirement for the reporting period is 0.25% in capital ratio.

As a result, the minimum capital requirements applicable to the Bank as of March 31 2018 are 10.25% for the Common Equity Tier 1 capital ratio and 13.75% for the total capital ratio.

The Bank's capital planning and capital adequacy targets:

The Leumi Group's capital planning reflects a forward-looking view of its risk appetite and profile, business strategy and resulting capital adequacy. Capital planning is approved by the Bank's management and Board of Directors and takes into account the various P&L centers of the Group and other factors that affect the Bank's compliance with the capital requirements, such as profit forecasts, changes in other comprehensive income, regulatory adjustments, the effect of the transitional provisions and the rate of increase in risk-weighted assets. The capital ratios forecast is also subjected to various sensitivity tests and stress scenarios.

The Group's policy, which was approved by the Board of Directors, is to maintain a capital adequacy level that is higher than the minimum threshold set by the Bank of Israel from time to time and no less than the rate of capital required to cover the risks as assessed using the ICAAP process. In addition, the Group set targets it would like to meet in case of a stress scenario event.

Under the regulatory review process, the Supervisor of Banks instructed the banks to set internal capital targets that would match each Bank's risk profile. As a result, the Bank's Board of Directors approved an increase in the Bank's internal Tier 1 capital target to 10.5%, as of December 31 2017.

Adjustments to Common Equity Tier 1 capital:

Measurement of the employee benefits liability

The employee benefits standard, which was first applied in January 2015, has a material effect on Leumi's Common Equity Tier 1 capital, mainly due to the fact that the liability is measured in accordance with market interest rates which are at historical lows, and also due to the considerable volatility that such measurement generates in the Bank's regulatory capital.

In July 2016, the Bank received individual approval from the Bank of Israel regarding the method of calculating the capitalized interest to be used for calculating the liability for employee benefits for the purpose of measuring regulatory capital. Pursuant to the approval, the calculation of the capitalized interest is based on a moving average of market yields for the eight-quarter period ended on the reporting date. The change is to be implemented from the financial statements for the period ended June 30 2016 to the financial statements as at December 31 2020 (inclusive). The method change significantly moderates the volatility of the Bank's regulatory capital resulting from changes in the capitalized interest rate.

For more information regarding the capitalization methodology, please see Accounting Policies and Estimates on Critical Issues.

Relief for operational efficiency plans

In January 2016, the Banking Supervision Department published a circular, *Operational Efficiency of the Banking System in Israel*. Pursuant to this circular, a banking corporation which meets the prescribed conditions will be granted a relief, according to which it may spread the effect of the plan on the capital adequacy and leverage ratios on a straight-line basis, over a period of five years.

In June 2016, the Bank's Board of Directors approved an efficiency plan, for a total cost of NIS 438 million (after tax). As at March 31 2018, 35% of the plan's costs are attributable to regulatory capital.

In July 2017, the Bank's Board of Directors approved an additional efficiency plan, for a total cost of NIS 204 million (after tax). As of March 31 2018, 15% of the plan's costs are attributable to regulatory capital.

Additional regulatory changes:

Developments in measuring capital adequacy in the directives of the Basel Committee on Banking Supervision

In December 2017, the Basel Committee on Banking Supervision completed its revision of the overall capital adequacy framework. As part of the revisions, also known as Basel IV, significant revisions were made in the manner of calculating risk-weighted assets for the purpose of the Tier 1 capital requirements. Inter alia, changes were made in the method of calculating capital requirements according to the standardized approach to credit risk, a uniform standardized approach was prescribed with regard to operating risk, and changes were made in the measurement of market risks. Under the rules of the Basel Committee, these changes are due to take effect gradually from January 1 2022 to January 1 2027. Presently, the Bank does not know how and when these rules will be adopted by Israel's Banking Supervision Department.

The Proper Conduct of Banking Business draft which was issued following the Law for Minimizing Market Centralization and Promoting Economic Competition, 2017 (the "Strum Law").

On April 22 2018, the Bank of Israel published draft amendments to Proper Conduct of Banking Business, with the objective of granting the credit companies relief following their split from the banks, inter alia, including an amendment whereby the banks will weight credit granted to credit card companies similarly to the credit granted to banks.

For more information regarding the draft's proposed amendments, please see the section entitled "Legislation and regulation of the Banking System."

The following is a sensitivity analysis of the main factors affecting the capital adequacy of the Leumi Group:

- Change in the volume of risk-weighted assets – Leumi's risk-weighted assets amounted to NIS 308.8 billion at the end of March 2018. Every 1% increase in risk-weighted assets (about NIS 3 billion) will reduce the Common Equity Tier 1 capital ratio by 0.11%, and the total capital ratio by 0.14%.
- Accrued profit or a change in the capital reserve – Leumi's Common Equity Tier 1 Capital was NIS 34.3 billion at March 31 2018. Total capital amounts to NIS 44.2 billion. Accrual of net income and/or positive change in the capital reserve of each NIS 1 billion will improve the Common Equity Tier 1 Capital ratio and the total capital ratio by 0.32%.
- Liabilities for employee benefits – The actuarial liability for employees is discounted according to an eight-quarter moving average of market yields, which are affected by the Government of Israel's debenture curve and by the U.S. AA corporate debenture spread. A change of 0.1% across the discount rate curve, under the assumption that the curve rises and falls uniformly, means a cumulative effect of 0.07% on the Common Equity Tier 1 capital ratio and total capital ratio. Of which, according to a moving average calculation for eight quarters, an increase of 0.01% in the Common Equity Tier 1 Capital ratio and the total capital ratio for the current quarter.

The above information regarding capital adequacy and its management refers to the Bank's future activities and constitutes "forward-looking information." For the meaning of the term, please see under "Forward-looking information."

Dividend distribution policy

On March 29 2017, the Bank's Board of Directors approved a dividend distribution policy, effective as of the publication date of the financial statements for the first quarter of 2017. Pursuant to said policy, each quarter, the Bank will distribute a dividend constituting 20% of the Bank's net profit according to the Bank's financial statements for the previous quarter, and subject to, among other things, the Bank complying with its capital adequacy targets after the dividend distribution

On November 20 2017, the Bank's Board of Directors approved a change in the Bank's dividend distribution policy, under which the Bank will distribute, each quarter, a dividend of up to 40% of the Bank's net income in accordance with the Bank's financial statements for the previous quarter, and subject to, inter alia, the Bank's meeting its capital adequacy targets, even after the dividend distribution. The actual dividend distribution is subject to the specific resolutions of the Board of Directors prior to each distribution, and to the provisions of the law which apply to dividend distribution, including the provisions of the Companies Law and directives of the Bank of Israel.

In accordance with the revised policy, on May 23 2018, the Board of Directors approved, in respect of Q1 2018, a dividend of 40% of the net income of the quarter. The dividend approved amounted to NIS 292 million, which is 19.15 agorot per share of NIS 1 par value. The Board of Directors designated June 5 2018 as the determining date for purposes of payment of the dividend and June 19 2018 as the payment date.

Details on paid dividend

Announcement date	Payment date	Dividend per share	Cash dividend paid
		In agorot	In NIS millions
May 25 2017	June 22 2017	8.17	124
August 15 2017	September 11 2017	11.50	175
November 21 2017	December 21 2017	21.51	328
March 6 2018	March 28 2018	22.41[1]	342

The Bank's share buyback plan

Pursuant to the immediate report dated March 6 2018 regarding the approval of a share buyback plan in the amount of up to NIS 700 million until March 31 2019, the Bank completed its preparations for conducting the buyback plan according to the safe harbor mechanism prescribed by the Israel Securities Authority (Position Paper 199-8), subject to the terms and conditions outlined in the position paper. To carry out the buyback tranches, the Bank contracted a member of the Stock Exchange which is not part of the Bank and with which it has no material business relationships. Initially, the Bank will transfer NIS 350 million to the Stock Exchange member to fund the buyback. This tranche will begin on May 27 2018 and will be in force until the earliest of any of the following: (a) August 2 2018; (b) Upon completion of the said buyback tranche; (c) A legal impediment to the continued validity of the agreement with the Stock Exchange member; (d) The Bank's announcement whereby it no longer meets the Bank of Israel's capital adequacy conditions for the buyback.

For more information, please see Note 9B.

Operating Segments - Management Approach

Operating segments reporting according to management's approach presents the Bank's results by business line, in accordance with the Bank's organizational structure.
The Bank's business lines specialize in providing services to customer segments with similar characteristics and needs.

For more information regarding the business lines according to management approach, please see Operating segments in the 2017 financial statements.

Following is a summary of financial performance according to management approach:

	For the three months ended March 31 2018											
	In NIS millions											
	Bank									Subsidiaries in Israel	Foreign subsidiaries	Total
	Retail, premium and private banking	Small businesses	Mortgages	Banking - total	Commercial	Business[b]	Real estate[b]	Capital market	Other and adjustments			
Interest income, net	485	333	219	1,037	272	141	123	76	–	92	265	2,006
Noninterest income	339	127	1	467	101	54	76	(24)	(63)	278	225	1,114
Total income	824	460	220	1,504	373	195	199	52	(63)	370	490	3,120
Expenses (income) in respect of loan losses	84	48	6	138	35	(18)	(72)	13	(9)	29	14	130
Total operating and other expenses	671	257	64	992	174	62	29	69	225	237	210	1,998
Profit (loss) before tax	69	155	150	374	164	151	242	(30)	(279)	104	266	992
Tax expenses (benefit)	24	53	51	128	56	52	83	(10)	(100)	26	27	262
Net income (loss) attributable to the banking corporation's shareholders	45	102	99	246	108	99	159	(18)	(179)	76	239	730
Balances as at March 31												
Loans to the public, net	29,969	27,061	78,879	135,909	37,264	33,938	21,354	4,080	5,922	[a]639	24,224	263,330
Deposits from the public	155,226	35,607	–	190,833	44,642	22,904	5,688	72,371	118	[a]–	25,470	362,026
Assets under management	173,581	19,948	–	193,529	23,641	19,990	1,177	450,769	23,310	276,305	17,706	1,006,427

(a) Excluding balances classified as held-for-sale assets and liabilities.

For the three months ended March 31 2017

In NIS millions

	Bank									Subsidiaries in Israel	Foreign subsidiaries	Total
	Retail, premium and private banking	Small businesses	Mortgages	Mortgages	Commercial	Business[(b)]	Real estate[(b)]	Capital market	Other and adjustments			
Interest income, net	454	314	201	969	235	141	108	117	(1)	61	243	1,873
Noninterest income (expenses)	330	123	(2)	451	102	59	84	264	79	293	(45)	1,287
Total income	784	437	199	1,420	337	200	192	381	78	354	198	3,160
Expenses (income) in respect of loan losses	24	67	2	93	4	(7)	15	(15)	(7)	17	1	101
Total operating and other expenses	743	250	74	1,067	171	67	34	73	207	232	199	2,050
Profit before taxes	17	120	123	260	162	140	143	323	(122)	105	(2)	1,009
Tax expenses (benefit)	6	42	43	91	57	49	50	113	(29)	29	28	388
Net income (loss) attributable to the banking corporation’s shareholders	11	78	80	169	105	91	93	211	(93)	76	(30)	622
	Balances as at March 31 2017											
Loans to the public, net	31,141	27,400	78,834	137,375	34,515	32,902	18,801	4,474	5,765	7,945	22,977	264,754
Deposits from the public	155,026	34,968	-	189,994	40,741	20,476	5,779	59,132	49	93	25,399	341,663
Assets under management	164,260	17,134	-	181,394	25,918	18,255	1,991	372,418	26,422	226,640	18,992	872,030

	For the year ended December 31 2017											
	in NIS millions											
	Bank									Subsidiaries in Israel	Foreign subsidiaries	Total
	Retail, premium and private banking	Small businesses	Mortgages	Banking - total	Commercial	Business[a]	Real estate[a]	Capital market	Other and adjustments			Total
Interest income, net	1,923	1,308	843	4,074	1,014	581	461	632	(1)	294	991	8,046
Noninterest income	1,320	492	5	1,817	407	227	325	812	399	1,176	265	5,428
Total income	3,243	1,800	848	5,891	1,421	808	786	1,444	398	1,470	1,256	13,474
Expenses (income) in respect of loan losses	157	273	13	443	26	(72)	(316)	(13)	(23)	75	52	172
Total operating and other expenses	2,984	1,060	296	4,340	725	280	132	306	864	1,021	833	8,501
Profit before taxes	102	467	539	1,108	670	600	970	1,151	(443)	374	371	4,801
Tax expenses	36	163	189	388	235	210	340	404	(123)	89	149	1,692
Net income (loss) attributable to the banking corporation's shareholders	66	304	350	720	435	390	630	750	(320)	345	222	3,172
Balances as at December 31 2017												
Loans to the public, net	30,214	27,438	78,626	136,278	35,712	33,152	20,684	4,437	5,712	8,773	23,204	267,952
Deposits from the public	154,063	35,369	-	189,432	43,484	21,614	6,425	76,065	93	65	25,300	362,478
Assets under management	173,036	19,750	-	192,786	24,432	21,228	1,293	432,806	22,448	260,155	19,282	974,430

Regulatory operating segments

For more information regarding the business lines according to management approach, please see Regulatory operating segments in the 2017 financial statements.

	For the three months ended March 31 2018									
	in NIS millions									
	Activity in Israel							Foreign operations	Total	Activity in Israel
	House-holds	Private banking	Small- and micro-businesses	Medium-sized businesses	Large-sized businesses	Institutio-nals	Financial managemen t	Other		Households
Interest income, net	662	25	508	179	312	24	40	-	256	2,006
Noninterest income	438	41	207	82	156	52	53	20	65	1,114
Total income	1,100	66	715	261	468	76	93	20	321	3,120
Expenses (income) in respect of loan losses	95	-	73	(10)	(43)	(2)	6	-	11	130
Total operating and other expenses	874	28	368	123	116	63	34	183	209	1,998
Profit (loss) before tax	131	38	274	148	395	15	53	(163)	101	992
Tax expenses (benefit)	37	13	93	51	133	5	(11)	(85)	26	262
Net income (loss) attributable to the Bank's shareholders	82	25	181	97	262	10	75	(77)	75	730
Balance on March 31 2018										
Loans to the public, gross	104,877	448	58,911	27,100	58,228	761	-	-	24,552	274,877
Deposits from the public	107,360	25,512	50,553	35,689	50,089	67,441	-	-	25,471	362,115
Assets under management	73,059	46,265	44,013	22,699	74,971	688,117	39,601	-	17,702	

(a) Including balances classified as held-for-sale assets in the amount of NIS 8,266 million.
(b) Including balances classified as held-for-sale liabilities in the amount of NIS 89 million.

	For the three months ended March 31 2017									
	in NIS millions									
	Activity in Israel							Activity in Israel		
	Households	Private banking	Small and micro-businesses	Medium-sized businesses	Large-sized busine-sses	Institutio-nals	Financial management	Households	Private banking	Small and micro-businesses
Interest income, net	640	20	450	159	277	17	72	1	237	1,873
Noninterest income	429	44	184	79	172	45	258	16	60	1,287
Total income	1,069	64	634	238	449	62	330	17	297	3,160
Expenses (income) in respect of loan losses	19	1	76	(5)	17	-	(11)	-	4	101
Total operating and other expenses	929	33	344	125	131	67	41	180	200	2,050
Profit (loss) before tax	121	30	214	118	301	(5)	300	(163)	93	1,009
Tax expenses (benefit)	38	10	74	41	106	(2)	116	(23)	28	388
Net income (loss) attributable to the Bank's shareholders	74	20	140	77	195	(3)	194	(140)	65	622
Balance on March 31 2017										
Loans to the public, gross	110,330	513	52,452	24,624	54,624	2,292	-	-	23,337	268,172
Deposits from the public	111,912	30,412	39,182	31,414	46,612	56,732	-	-	25,399	341,663
Assets under management	76,492	50,962	28,933	16,353	79,187	567,572	33,540	-	18,991	872,030

	For the year ended December 31 2017									
	in NIS millions									
	Activity in Israel					Activity in Israel				
	Households	Private banking	Small- and micro-businesses	Medium-sized businesses	Large-sized businesses	House-holds	Private banking	Small- and micro-businesses	Medium-sized businesses	Large-sized businesses
Interest income, net	2,607	96	1,915	677	1,172	72	539	–	968	8,046
Non-interest income	1,768	171	747	322	672	179	926	370	273	5,428
Total income	4,375	267	2,662	999	1,844	251	1,465	370	1,241	13,474
Expenses (income) in respect of loan losses	178	1	255	(20)	(298)	2	–	–	54	172
Total operating and other expenses	3,890	130	1,444	518	541	264	180	699	835	8,501
Profit (loss) before tax	307	136	963	501	1,601	(15)	1,285	(329)	352	4,801
Tax expenses (benefit)	84	48	336	177	558	(4)	432	(90)	151	1,692
Net income (loss) attributable to the Bank's shareholders	192	88	626	324	1,042	(11)	945	(236)	202	3,172
Balance on December 31 2017										
Loans to the public, gross	108,550	540	54,309	25,728	56,495	2,087	–	–	23,507	271,216
Deposits from the public	109,672	29,013	40,761	32,371	54,866	70,496	–	–	25,299	362,478
Assets under management	77,266	54,793	32,079	17,435	78,748	655,592	39,235	–	19,282	974,430

Major Investee Companies

Leumi Group operates both in Israel and overseas through subsidiaries, which are banks or firms providing financing and financial services. In addition, the Group invests in corporations which do not engage in banking.

As of March 31 2018, the Bank's total investments in investee companies (including in capital notes) was NIS 11.6 billion, compared with NIS 11.5 billion as of December 31 2017, with the investee companies contributing NIS 228 billion to the Group's YTD net income, compared with NIS 92 million in the corresponding period last year.

Consolidated companies in Israel

The Bank's total investments (including in capital notes) in its Israeli consolidated subsidiaries was NIS 7,232 million as of March 31 2018, compared with NIS 7,166 million as of December 31 2017. Their contribution to the Group's net income in the first quarter of 2018 was NIS 70 million, compared with NIS 75 million in the corresponding period last year, a 6.7% decrease. The Group's return on investment in the Israeli consolidated subsidiaries was 4.7% in the first quarter of 2018, compared with 5.3% in the corresponding period last year.

Leumi Card Ltd.

Pursuant to the Law on Minimizing Market Centralization and Promoting Economic Competition (Legislative Amendments), 2017, the Bank is required to sell its subsidiary Leumi Card Ltd. (hereinafter: "Leumi Card") within the period prescribed by the law. The Bank is exploring several options, including selling its stake or holding a public offering of Leumi Card's shares, which may include an offer of sale. On March 2018, Leumi Card filed a first draft of a prospectus for an initial public offering, offer of sale and shelf prospectus. The terms and conditions of the public offering and offer of sale have yet to be determined and it is uncertain whether such an offering will indeed take place.

For more information regarding the preparations for applying the Law on Minimizing Market Centralization and Promoting Economic Competition (Legislative Amendments), 2017, please see the 2017 Annual Report under the "Main Investee Companies" section, as well as Note 10.

During April 2018, various drafts and directives were issued regarding debit cards, including regarding clearing dates of debit card transactions.

For more information regarding the draft's proposed amendments, please see the section entitled "Legislation and regulation of the Banking System."

On August 29 2017, Shufersal notified Leumi Card that it does not wish to renew the agreement for the issue of credit cards and, later on, Shufersal reported to the Tel Aviv Stock Exchange that it had signed a statement of principles with another company for the issue and operation of credit cards to the club's customers. Pursuant to the agreement between Shufersal and Leumi Card, the termination date of the agreement is January 18 2018, with Leumi Card continuing to operate the credit card club until the cards' expiry or their cancellation by the customers, whichever the earlier.

As of March 31 2018, the number of valid credit cards held by the club's customers was about 395 thousand cards.

In addition, on October 19 2017, Shufersal announced its intention to take steps to exercise a call option to purchase all of Leumi Card's holdings in Shufersal Finances according to a valuation of Shufersal Finances Limited Partnership Ltd. to be made by an agreed assessor. Legal proceedings are being held between Leumi Card and Shufersal with respect to exercising the option, including due to a dispute regarding the assessor and valuation on which the acquisition price will be based.

Leumi Partners Ltd.

On May 13 2018, Leumi Partners Ltd. (hereinafter: "Leumi Partners") signed an agreement (the "Agreement") with Indorama Ventures Spain S.L. – a privately held company incorporated in Spain (hereinafter: the "Acquirer") to sell Leumi Partners' entire interests in Avgol Industries 1953 Ltd. (hereinafter: the "Company"), which comprise 14.96% of the Company's share capital and voting rights. Leumi Partners entered into the agreement at the same time as HFH International B.V., the Company's controlling shareholder, entered into an agreement with the Acquirer for the sale of its entire interests in the Company (hereinafter: the "HFH Agreement"). The finalization of the Agreement and HFH Agreement are contingent upon each other and shall be executed simultaneously.

The sale transaction will be completed subject to meeting several preconditions as outlined in the immediate report dated May 13 2018. As of this date, there is no certainty regarding the completion of the abovementioned Agreement.

If the transaction is completed, the Bank is expected to record a pretax gain of NIS 118 million in respect of the investment in the Company and the abovementioned transaction.

Bank Leumi of Israel Trust Company

On April 17 2018, the Bank finalized its agreement to sell its controlling interests in Hermetic Trust to the trust company. The finalized agreement is not expected to have a material effect on the financial results.

Foreign consolidated companies

The Bank's total investments (including in capital notes) in its foreign offices as of March 31 2018 was NIS 4,286 million, compared with NIS 4,143 million as of December 31 2017.

In the first quarter of 2018, the foreign offices' contribution to the Group's shekel net income was NIS 156 million, compared with a profit of NIS 16 million in the corresponding period last year.

For more information on lawsuits and other matters relating to the consolidated companies, please see Note 10 to the financial statements.

Bank Leumi USA

On January 22 2018, the Bank entered into an agreement to bring in strategic partners to Bank Leumi USA (BLUSA). Under the terms and conditions of the agreement, each of the partners acquired 7.5% of the share capital of Bank Leumi Corporation, an American corporation through which the Bank holds a controlling interest in BLUSA. On May 22 2018, the deal was finalized, after several preconditions set in the agreement were met. In accordance with the terms and conditions of the agreement, the consideration paid for the sold shares was NIS 141 million.

Risk Exposure and Management Thereof

This section was written in great detail in the2017 Annual Report of the Board of Directors and Management and in the 2017 Annual Risk Management Report. It should therefore be read in conjunction with these reports.

Managing risks and maximizing returns against them are fundamental to the Bank's business activity. The key risks managed by the Bank are financial ones: credit risks - which are integral to the Bank's core business, as well as market and liquidity risks. In addition, alongside these managed risks, the Bank's activities give rise to related risks, the management of which forms a crucial precondition to meeting the Group's immediate and long-term objectives. These risks include operational risks, such as technological and cyber risks, legal risks, regulatory risks, reputation risks, compliance risks, conduct risks and strategic risk.
The main objectives of Leumi's risk management are: to maintain the Group's stability and support the achievement of its business goals. These objectives are achieved while meeting the predefined risk appetite, the policy and the limitations deriving therefrom, which form the boundaries for the Bank's business activity. This framework is managed subject to adequate control and reporting mechanisms. The Bank continually upgrades its risk management infrastructure and analyzes the risk outlook, to enable informed decision-making.

During the reporting period, there were no changes in the severity of the risk factors relative to the table included in the 2017 Annual Report.

Credit Risk

Credit provision and management are a core activity of the Bank and the Group.

Credit risk is the Bank's risk of loss as a result of the possibility that a borrower or counterparty fails to meet its agreed commitments towards the banking corporation.

Activities which increase credit risk include balance sheet credit risk and off-balance sheet credit risk, including: loans to the public, loans to banks, loans to governments, deposits with banks, investments in debentures, capital holdings, transactions in derivatives, guarantees, unutilized commitments to extend credit and unutilized credit lines.

The Bank applies a comprehensive risk management policy in line with the requirements of Proper Conduct of Banking Business Directive No. 311 and Proper Conduct of Banking Business Directive No. 314, including the accountability of management and the Board of Directors. In addition, the Bank is meticulous about managing risk in compliance with further guidelines and requirements included in the Banking Supervision Department's directives, implementing corporate governance which includes three "lines of defense.

A group-level credit policy and credit risk paper are a prime expression of the Bank's credit risk strategy, outlining the framework and overarching principles for the policy papers of the Bank and each of the Group's subsidiaries in Israel and abroad. The paper also includes the credit boundaries, which are defined and managed at the group level.

As part of its credit risk management, the Bank monitors the quality of its credit portfolio, including adequacy of its provision for credit losses to cover losses embodied in the credit portfolio; the credit portfolio concentration level and activity by main products, such as: credit granted to the construction and real estate sector; credit granted to individuals; housing loans and leveraged credit.

During the reporting period, there was no significant change in the credit portfolio's risk profile.

For more information regarding developments in the credit portfolio and the qualitative indicators characterizing the portfolio, please see below in this section as well as in the Risk Management Report.

Problem credit risk and non-performing assets

	March 31 2018		
	Balance-sheet	Off balance-sheet	Total
	in NIS millions		
1. Problem credit risk:[a]			
Impaired credit risk	**2,929**	**236**	**3,165**
Substandard credit risk	**702**	**43**	**745**
Credit risk under special supervision[b]	**3,176**	**1,167**	**4,343**
Less held-for-sale problem credit to the public risk[a]	**(368)**	**(6)**	**(374)**
Total problem credit risk	**6,439**	**1,440**	**7,879**
Of which: Non-impaired debts, in arrears of 90 days or more[b]	**866**	**-**	**866**
2. Non-performing assets:			
Impaired debts	**2,335**	**-**	**2,335**
Assets received in respect of settled loan	**10**	**-**	**10**
Less held-for-sale impaired debts[c]	**(38)**	**-**	**(38)**
Total non-performing assets	**2,307**	**-**	**2,307**

	March 31 2017		
	Balance-sheet[d]	Off balance-sheet	Total
	in NIS millions		
1. Problem credit risk:[a]			
Impaired credit risk	3,768	293	4,061
Substandard credit risk	1,115	93	1,208
Credit risk under special supervision[b]	2,726	1,240	3,966
Total problem credit risk[a]	7,609	1,626	9,235
Total problem credit risk	852	-	852
Of which: Non-impaired debts, in arrears of 90 days or more[b]			
2. Non-performing assets:	3,169	-	3,169
Impaired debts	14	-	14
Assets received in respect of settled loans	3,183	-	3,183
Total non-performing assets			

	December 31 2017		
	Balance-sheet	Off balance-sheet	Total
	in NIS millions		
1. Problem credit risk:[a]			
Impaired credit risk	3,226	253	3,479
Substandard credit risk	878	52	930
Credit risk under special supervision[b]	2,861	950	3,811
Total problem credit risk	6,965	1,255	8,220
Of which: Non-impaired debts, in arrears of 90 days or more[b]	845	-	845
2. Non-performing assets:			
Impaired debts	2,422	-	2,422
Assets received in respect of settled loan	13	-	13
Total non-performing assets	2,435	-	2,435

Note: Presented balance-sheet and off-balance-sheet credit risk is before the effect of the provision for credit losses and the effect of collateral that is deductible for the purpose of specific and general indebtedness.
(a) Credit risk that is either impaired, substandard or under special supervision.

(b) Including for housing loans for which there is provision according to the delinquency period and housing loans for which there is no provision based on the delinquency period and which are in arrears of 90 days or more.
(c) For more information on held-for-sale operation, please see the section entitled "Main Changes in the Reporting Period" and Note 16.
(d) Reclassified. For more information, please see Note 6.

Following is a breakdown of credit risk indicators

	March 31		December 31
	2018[a]	2017[b]	2017[b]
	in %		
Percentage of impaired loans to the public out of outstanding loans to the public	**1.06**	1.40	1.19
Percentage of non-impaired loans to the public in arrears of 90 days or more out of outstanding loans to the public	**0.32**	0.32	0.31
Percentage of problem loans to the public out of credit risk including for loans to the public	**2.04**	2.34	2.06
Percentage of non-accrual impaired loans to the public (NPL) out of total credit to the public	**0.85**	1.18	0.89
Percentage of expenses (income) in respect of loan losses out of the average outstanding balance of loans to the public	**0.05**	0.04	0.06
Percentage of net write-offs in respect of loans to the public out of average balance of loans to the public	**(0.01)**	(0.05)	(0.14)

(a) Including balances classified as held-for-sale assets. For more information, please see the section entitled "Main Changes in the Reporting Period" and Note 16.
(b) Reclassified. For more information, please see Note 6.

Following is a breakdown of credit risk indicators for loan loss provision:

	March 31		December 31
	2018[a]	2017[b]	2017[b]
	in %		
Percentage of balance of the loan loss provision in respect of loans to the public out of outstanding loans to the public	**1.4**	1.5	1.4
Percentage of balance of the loan loss provision in respect of loans to the public out of outstanding impaired loans to the public	**133.2**	104.6	116.4
Percentage of balance of the loan loss provision in respect of loans to the public out of outstanding impaired loans to the public and the outstanding balance of loans to the public in arrears of 90 days or more	**102.7**	85.3	92.2
Percentage of net write-offs in respect of loan losses for loans to the public	**(0.4)**	(3.6)	(10.2)

(a) Including balances classified as held-for-sale assets. For more information, please see the section entitled "Main Changes in the Reporting Period" and Note 16.
(b) Reclassified. For more information, please see Note 6.

Credit concentration

Credit portfolio diversification among various economic sectors

To diversify the risk embodied in a high concentration in one sector, the Bank's credit portfolio is split between the various economic sectors. In relatively low risk sectors, we aim to reach a higher share than our share of the banking system.

The Bank's credit policy on various operating segments and economic sectors changes from time to time in accordance with the business environment, the Bank's business focus and risk appetite, as well as the Bank of Israel’s general and specific directives.

The Bank's total credit risk to the public by economic sector

	March 31 2018									
	Total credit risk[(a)]			Debts[(b)] and off balance sheet credit risk (net of derivatives)[(c)]						
								Loan losses[(d)]		
					[1]Of which:					
	Total	Credit perform-ance rating[(f)]	Problem[(e)]	Total[1]	Debts[(b)]	Problem[(e)]	Impaired	Expenses (income) in respect of loan losses	Net write-offs	Balance of loan loss provision
	In NIS millions									
<u>In respect of borrower activity in Israel - Public-commercial</u>										
Agriculture	2,243	2,168	75	2,241	1,921	75	49	(18)	(3)	(46)
Mining and quarrying	1,032	1,031	1	952	559	1	1	(2)	-	(1)
Industry	23,249	22,414	835	22,984	15,239	835	418	10	3	(429)
Construction & real estate - construction[(g)]	50,672	49,446	1,226	50,572	20,008	1,221	289	(11)	(15)	(352)
Construction & real estate - real estate activity	28,132	27,523	609	28,010	24,786	609	437	(54)	(52)	(384)
Power and water	4,228	3,814	414	4,164	2,853	414	233	39	-	(91)
Trade	29,004	28,202	802	28,883	24,290	790	273	13	30	(310)
Hotels, accommodation services and food	3,387	3,232	155	3,354	2,903	155	53	1	-	(29)
Transportation and storage	8,561	8,108	453	8,505	6,893	446	139	6	4	(64)
Communications and IT services	5,478	5,385	93	5,185	3,767	93	23	2	5	(36)
Financial services	24,911	24,897	14	13,834	11,007	14	4	4	(4)	(193)
Business and other services	10,665	10,485	180	10,646	7,564	180	51	27	10	(177)
Public and community services	9,093	9,035	58	9,072	7,422	58	17	1	2	(61)
Commercial - total[(h)]	200,655	195,740	4,915	188,402	129,212	4,891	1,987	18	(20)	(2,173)
Individuals - Housing loans	79,188	78,430	758	79,188	77,664	758	-	6	1	(450)
Individuals - Other	65,598	64,700	898	65,592	36,720	900	445	89	30	(848)
Less balance of outstanding held-for-sale loans to individuals[(h)]	(19,974)	(19,600)	(374)	(19,974)	(8,266)	(374)	(38)	-	-	153
Total loans to the public - Activity in Israel	325,467	319,270	6,197	313,208	235,330	6,175	2,394	113	11	(3,318)
Banks in Israel	2,817	2,817	-	924	873	-	-	(2)	-	(1)
Less balances classified as held-for-sale assets[(i)]	(31)	(31)	-	(31)	(31)	-	-	-	-	-
Total banks in Israel	2,786	2,786	-	893	842	-	-	(2)	-	(1)
Government of Israel	44,398	44,398	-	76	76	-	-	-	-	-
Total activity in Israel	372,651	366,454	6,197	314,177	236,248	6,175	2,394	111	11	(3,319)

(a) Balance-sheet credit risk and off-balance-sheet credit risk, including for derivatives. Including debt, debentures, securities borrowed or purchased under agreements to resell, assets in respect of derivatives and credit risk embodied in off-balance-sheet financial instruments, as calculated for the purpose of per-borrower credit limitations in the amounts of NIS 236,247, 43,872, 878, 6,217 and 85,434 million, respectively.

(b) Loans to the public, loans to governments, deposits with banks and other debts, excluding debentures and securities borrowed or purchased under agreements to resell.

(c) Credit risk for off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations, excluding for derivatives.

(d) Including for off-balance-sheet credit instruments (presented in the balance sheet under "Other liabilities").

(e) Balance-sheet and off-balance sheet credit risk that is impaired, substandard or under special supervision, including housing loans for which there is allowance according to the delinquency period and housing loans for which there is no allowance based on the delinquency period which are in arrears of 90 days or more.

(f) Credit risk whose credit rating at the reporting date matches the credit rating for granting new credit in accordance with the Bank's policy.

(g) Including housing loans extended to certain purchasing groups currently in the process of construction.

(h) The balance of outstanding commercial debts includes outstanding housing loans in the amount of NIS 1,109million extended to purchasing groups currently in the process of construction.

(i) For more information on held-for-sale operation, please see the section entitled "Main Changes in the Reporting Period" and Note 16.

	March 31 2018									
	Total credit risk[a]			Debts[b] and off balance sheet credit risk (net of derivatives)[c]						
								Loan losses[d]		
					[1]Of which:					
	Total	Credit performance rating[f]	Problem[e]	Total1	Debts[b]	Problem[e]	Impaired	Expenses (income) in respect of loan losses	Net write-offs	Balance of loan loss provision
	In NIS millions									
In respect of foreign borrower activity - Public-commercial										
Agriculture	93	93	–	92	57	–	–	–	–	(1)
Mining and quarrying	95	95	–	95	22	–	–	–	–	–
Industry	7,735	7,475	260	6,426	4,317	260	48	3	–	(38)
Construction and real estate[g]	14,743	13,753	990	13,937	10,244	990	415	2	1	(149)
Power and water supply	319	319	–	77	16	–	–	–	–	–
Trade	6,452	6,426	26	6,248	4,448	26	22	6	–	(74)
Hotels, accommodation services and food	2,311	2,311	–	2,300	2,176	–	–	(1)	–	(17)
Transportation and storage	91	75	16	68	53	16	16	5	5	(20)
Communications and IT services	2,286	2,259	27	1,868	1,102	27	17	(2)	–	(20)
Financial services	16,382	16,306	76	2,474	1,797	76	76	–	–	(45)
Business and other services	6,412	6,161	251	6,196	5,429	251	97	6	(1)	(27)
Public and community services	730	730	–	721	556	–	–	–	–	(18)
Commercial - Total	57,649	56,003	1,646	40,502	30,217	1,646	691	19	5	(409)
Individuals - Housing loans	519	488	31	519	519	31	31	–	–	(6)
Individuals - Other	597	592	5	597	545	5	5	–	–	(5)
Total loans to the public - Activity overseas	58,765	57,083	1,682	41,618	31,281	1,682	727	19	5	(420)
Foreign banks	32,239	32,239	–	12,884	11,891	–	–	–	–	–
Less Balances classified as assets[h]	(1)	(1)	–	(1)	(1)	–	–	–	–	–
Total Foreign banks	32,238	32,238	–	12,883	11,890	–	–	–	–	–
Foreign governments	12,044	12,044	–	1,199	647	–	–	–	–	–
Total activity outside Israel	103,047	101,365	1,682	55,700	43,818	1,682	727	19	5	(420)
Total	475,698	467,819	7,879	369,877	280,066	7,857	3,121	130	16	(3,739)

(a) Balance-sheet credit risk and off-balance-sheet credit risk, including for derivatives. Including debt, debentures, securities borrowed or purchased under agreements to resell, assets in respect of derivatives and credit risk embodied in off-balance-sheet financial instruments, as calculated for the purpose of per-borrower credit limitations in the amounts of NIS 43,819, 32,929, 5,595 and 20,704 million, respectively.

(b) Loans to the public, loans to governments, deposits with banks and other debts, excluding debentures and securities borrowed or purchased under agreements to resell.

(c) Credit risk for off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations, excluding for derivatives.
(d) Including for off-balance-sheet credit instruments (presented in the balance sheet under "Other liabilities").
(e) Balance-sheet and off-balance sheet credit risk that is impaired, substandard or under special supervision, including housing loans for which there is allowance according to the delinquency period and housing loans for which there is no allowance based on the delinquency period which are in arrears of 90 days or more.
(f) Credit risk whose credit rating at the reporting date matches the credit rating for granting new credit in accordance with the Bank's policy.
(g) Including housing loans extended to certain purchasing groups currently in the process of construction.
(h) For more information on held-for-sale operation, please see the section entitled "Main Changes in the Reporting Period" and Note 16.

	March 31 2017									
	Total credit risk[(a)]			Debts[(b)] and off balance sheet credit risk (net of derivatives)[(c)]						
								Loan losses[(d)]		
					[1]Of which:					
	Total	Credit perform-ance rating[(f)]	Problem[(e)]	Total[1]	Debts[(b)]	Problem[(e)]	Impaired	Expenses (income) in respect of loan losses	Net write-offs	Balance of loan loss provision
	in NIS millions									
In respect of borrower activity in Israel - Public-commercial										
Agriculture	2,176	2,010	166	2,173	1,867	166	87	7	4	(57)
Mining and quarrying	917	908	9	874	288	9	-	-	-	(1)
Industry	21,118	19,886	1,232	20,829	14,286	1,230	431	9	29	(490)
Construction & real estate -	46,715	45,223	1,492	46,633	15,951	1,492	360	33	11	(351)
Construction & real estate - real estate activity	27,155	26,071	1,084	27,073	24,326	1,084	726	(5)	(4)	(435)
Power and water	4,846	4,480	366	4,447	2,968	366	263	-	-	(66)
Trade	28,222	27,225	997	27,974	22,974	979	250	33	27	(321)
Hotels, accommodation services and food	3,220	3,016	204	3,193	2,751	204	71	(4)	(6)	(30)
Transportation and storage	7,955	7,704	251	7,834	6,982	251	167	4	6	(38)
Communications and IT services	5,658	5,458	200	5,381	4,003	196	186	1	-	(70)
Financial services	20,342	19,979	363	15,199	11,656	355	351	(15)	(15)	(216)
Business and other services	9,252	9,094	158	9,216	6,593	158	56	6	10	(136)
Public and community services	8,821	8,764	57	8,797	7,319	57	14	4	2	(50)
Commercial - total[(h)]	186,397	179,818	6,579	179,623	121,964	6,547	2,962	73	64	(2,261)
Individuals - Housing loans	79,748	79,048	700	79,748	77,968	698	-	(1)	2	(460)
Individuals - Other	68,753	67,951	802	68,744	38,797	802	442	21	63	(776)
Total loans to the public - Activity in Israel	334,898	326,817	8,081	328,115	238,729	8,047	3,404	93	129	(3,497)
Banks in Israel	5,444	5,444	-	820	742	-	-	-	-	(1)
Government of Israel	42,964	42,964	-	234	234	-	-	-	-	-
Total activity in Israel	383,306	375,225	8,081	329,169	239,705	8,047	3,404	93	129	(3,498)

(a) Balance-sheet credit risk and off-balance-sheet credit risk, including for derivatives. Including debt, debentures, securities borrowed or purchased under agreements to resell, assets in respect of derivatives and credit risk embodied in off-balance-sheet financial instruments, as calculated for the purpose of per-borrower credit limitations in the amounts of NIS 239,705, 42,475, 878, 3,984 and 96,264 million, respectively.

(b) Loans to the public, loans to governments, deposits with banks and other debts, excluding debentures and securities borrowed or purchased under agreements to resell.

(c) Credit risk for off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations, excluding for derivatives.

(d) Including for off-balance-sheet credit instruments (presented in the balance sheet under "Other liabilities").

(e) Balance-sheet and off-balance sheet credit risk that is impaired, substandard or under special supervision, including housing loans for which there is allowance according to the delinquency period and housing loans for which there is no allowance based on the delinquency period which are in arrears of 90 days or more.

(f) Credit risk whose credit rating at the reporting date matches the credit rating for granting new credit in accordance with the Bank's policy.

(g) Including housing loans extended to certain purchasing groups currently in the process of construction.

(h) The balance of outstanding commercial debts includes outstanding housing loans in the amount of NIS 979 million extended to purchasing groups currently in the process of construction.

	March 31 2017									
	Total credit risk[(a)]			Debts[(b)] and off balance sheet credit risk (net of derivatives)[(c)]						
								Loan losses[(d)]		
					[1]Of which:					
	Total	Credit performance rating[(f)]	Problem[(e)]	Total[1]	Debts[(b)]	Problem[(e)]	Impaired	Expenses (income) in respect of loan losses	Net write-offs	Balance of loan loss provision
	in NIS millions									
In respect of foreign borrower activity - Public-commercial										
Agriculture	76	75	1	74	37	1	1	-	-	(1)
Mining and quarrying	15	15	-	7	4	-	-	-	-	-
Industry	9,013	8,734	279	7,469	4,624	279	96	2	-	(45)
Construction and real estate[(g)]	14,249	13,646	603	13,548	9,522	603	314	4	4	(178)
Power and water supply	159	159	-	77	22	-	-	-	-	-
Trade	6,330	6,290	40	6,176	4,330	40	36	9	(1)	(84)
Hotels, accommodation services and food	1,728	1,724	4	1,728	1,644	4	-	-	-	(9)
Transportation and storage	128	80	48	100	83	48	48	-	-	(5)
Communications and IT services	2,148	2,148	-	1,859	918	-	-	-	-	(1)
Financial services	15,019	14,926	93	1,884	1,256	93	93	(6)	-	(46)
Business and other services	6,694	6,662	32	6,450	5,521	32	8	-	9	(33)
Public and community services	802	793	9	799	427	9	9	-	-	(18)
Commercial - Total	56,361	55,252	1,109	40,171	28,388	1,109	605	9	12	(420)
Individuals - Housing loans	494	465	29	494	493	29	29	(1)	-	(10)
Individuals - Other	640	624	16	640	562	16	16	-	-	(5)
Total loans to the public - Activity overseas	57,495	56,341	1,154	41,305	29,443	1,154	650	8	12	(435)
Foreign banks	26,606	26,606	-	10,429	9,753	-	-	-	-	-
Foreign governments	12,944	12,944	-	668	386	-	-	-	-	-
Total activity outside Israel	97,045	95,891	1,154	52,402	39,582	1,154	650	8	12	(435)
Total	480,351	471,116	9,235	381,571	279,287	9,201	4,054	101	141	(3,933)

(a) Balance-sheet credit risk and off-balance-sheet credit risk, including for derivatives. Including debt, debentures, securities borrowed or purchased under agreements to resell, assets in respect of derivatives and credit risk embodied in off-balance-sheet financial instruments, as calculated for the purpose of per-borrower credit limitations in the amounts of NIS 39,582, 33,105, 7,054 and NIS 17,304 million, respectively.

(b) Loans to the public, loans to governments, deposits with banks and other debts, excluding debentures and securities borrowed or purchased under agreements to resell.

(c) Credit risk for off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations, excluding for derivatives.

(d) Including for off-balance-sheet credit instruments (presented in the balance sheet under "Other liabilities").

(e) Balance-sheet and off-balance sheet credit risk that is impaired, substandard or under special supervision, including housing loans for which there is allowance according to the delinquency period and housing loans for which there is no allowance based on the delinquency period which are in arrears of 90 days or more.

(f) Credit risk whose credit rating at the reporting date matches the credit rating for granting new credit in accordance with the Bank's policy.

(g) Including housing loans extended to certain purchasing groups currently in the process of construction.

	December 31 2017									
	Total credit risk[a]			Debts[b] and off balance sheet credit risk (net of derivatives)[c]						
								Loan losses[d]		
					[1]Of which:					
	Total	Credit perform-ance rating[f]	Problem[e]	Total[1]	Debts[b]	Problem[e]	Impaired	Expenses (income) in respect of loan losses	Net write-offs	Balance of loan loss provision
	in NIS millions									
In respect of borrower activity in Israel - Public-commercial										
Agriculture	2,184	2,027	157	2,183	1,883	156	69	9	2	(59)
Mining and	959	958	1	932	514	1	-	-	-	(1)
Industry	23,004	21,990	1,014	22,771	14,956	1,010	579	104	146	(463)
Construction & real	49,689	48,492	1,197	49,628	18,936	1,197	304	72	45	(350)
Construction & real estate - real estate activity	27,700	26,952	748	27,617	24,444	748	613	(302)	(255)	(394)
Power and water	4,264	3,919	345	4,184	2,803	345	237	(7)	6	(54)
Trade	27,478	26,762	716	27,350	22,703	712	202	56	82	(288)
Hotels, accommodation services and food	3,232	3,070	162	3,206	2,753	162	59	(6)	(8)	(28)
Transportation and	8,160	7,703	457	8,099	6,792	450	149	38	21	(62)
Communications and IT services	5,169	5,108	61	4,964	3,582	60	49	(28)	3	(38)
Financial services	21,721	21,707	14	14,021	11,189	8	3	(76)	(56)	(188)
Business and other services	9,966	9,833	133	9,940	7,154	133	52	42	38	(152)
Public and community services	8,924	8,864	60	8,910	7,440	60	17	28	20	(60)
Commercial - total[h]	192,450	187,385	5,065	183,805	125,149	5,042	2,333	(70)	44	(2,137)
Individuals - Housing loans	79,034	78,313	721	79,034	77,448	722	-	(10)	8	(443)
Individuals - Other	68,649	67,768	881	68,643	38,395	881	440	189	217	(790)
Total loans to the public - Activity in Israel	340,133	333,466	6,667	331,482	240,992	6,645	2,773	109	269	(3,370)
Banks in Israel	3,921	3,921	-	1,701	1,650	-	-	2	-	(3)
Government of Israel	41,161	41,161	-	129	129	-	-	-	-	-
Total activity in Israel	385,215	378,548	6,667	333,312	242,771	6,645	2,773	111	269	(3,373)

(a) Balance-sheet credit risk and off-balance-sheet credit risk, including for derivatives. Including debt, debentures, securities borrowed or purchased under agreements to resell, assets in respect of derivatives and credit risk embodied in off-balance-sheet financial instruments, as calculated for the purpose of per-borrower credit limitations in the amounts of NIS 242,773, 40,102, 1,161, 3,286, and NIS 97,893 million, respectively.

(b) Loans to the public, loans to governments, deposits with banks and other debts, excluding debentures and securities borrowed or purchased under agreements to resell.

(c) Credit risk for off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations, excluding for derivatives.

(d) Including for off-balance-sheet credit instruments (presented in the balance sheet under “Other liabilities").

(e) Balance-sheet and off-balance sheet credit risk that is impaired, substandard or under special supervision, including housing loans for which there is allowance according to the delinquency period and housing loans for which there is no allowance based on the delinquency period which are in arrears of 90 days or more.

(f) Credit risk whose credit rating at the reporting date matches the credit rating for granting new credit in accordance with the Bank's policy.

(g) Including housing loans extended to certain purchasing groups currently in the process of construction.

(h) The commercial debt balance includes housing loans in the amount of NIS 1,066 million granted to purchasing groups in the process of construction.

	December 31 2017									
	Total credit risk[(a)]			Debts[(b)] and off balance sheet credit risk (net of derivatives)[(c)]						
								Loan losses[(d]		
					[1]Of which:					
	Total	Credit perform-ance rating[(f)]	Problem[(e)]	Total[1]	Debts[(b)]	Problem[(e)]	Impaired	Expenses (income) in respect of loan losses	Net write-offs	Balance of loan loss provision
	In NIS millions									
In respect of foreign borrower activity - Public-commercial										
Agriculture	100	100	-	98	60	-	-	-	-	(1)
Mining and quarrying	35	35	-	35	30	-	-	-	-	-
Industry	7,564	7,249	315	6,420	4,567	315	78	(5)	5	(32)
Construction and real estate[(g)]	14,223	13,313	910	13,496	9,748	910	431	19	80	(136)
Power and water supply	260	260	-	87	22	-	-	-	-	-
Trade	6,371	6,350	21	6,203	4,406	21	21	19	3	(71)
Hotels, accommodation services and food	2,250	2,250	-	2,234	2,056	-	-	5	1	(15)
Transportation and storage	84	63	21	67	50	21	21	18	8	(15)
Communications and IT services	1,829	1,808	21	1,596	875	21	21	8	-	(9)
Financial services	16,071	15,992	79	2,135	1,527	79	79	(5)	1	(43)
Business and other services	6,430	6,279	151	6,160	5,411	151	14	6	15	(28)
Public and community services	627	627	-	618	441	-	-	-	-	(17)
Commercial - Total	55,844	54,326	1,518	39,149	29,193	1,518	665	65	113	(367)
Individuals - Housing loans	510	480	30	509	509	30	29	(3)	1	(7)
Individuals - Other	608	603	5	608	522	5	5	(1)	-	(4)
Total loans to the public - Activity overseas	56,962	55,409	1,553	40,266	30,224	1,553	699	61	114	(378)
Foreign banks	31,247	31,247	-	11,251	10,214	-	-	-	-	-
Foreign governments	12,047	12,047	-	1,210	586	-	-	-	-	-
Total activity outside Israel	100,256	98,703	1,553	52,727	41,024	1,553	699	61	114	(378)
Total	485,471	477,251	8,220	386,039	283,795	8,198	3,472	172	383	(3,751)

(a) Balance-sheet credit risk and off-balance-sheet credit risk, including for derivatives. Including debt, debentures, securities borrowed or purchased under agreements to resell, assets in respect of derivatives and credit risk embodied in off-balance-sheet financial instruments, as calculated for the purpose of per-borrower credit limitations in the amounts of NIS 41,022, 32,963, -, 6,294, and NIS 19,977 million, respectively.
(b) Loans to the public, loans to governments, deposits with banks and other debts, excluding debentures and securities borrowed or purchased under agreements to resell.
(c) Credit risk for off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations, excluding for derivatives.
(d) Including for off-balance-sheet credit instruments (presented in the balance sheet under “Other liabilities").
(e) Balance-sheet and off-balance sheet credit risk that is impaired, substandard or under special supervision, including housing loans for

which there is allowance according to the delinquency period and housing loans for which there is no allowance based on the delinquency period which are in arrears of 90 days or more.

(f) Credit risk whose credit rating at the reporting date matches the credit rating for granting new credit in accordance with the Bank's policy.

(g) Including housing loans extended to certain purchasing groups currently in the process of construction.

Activity and risk boundaries in the construction and real estate industry

The construction and real estate industry is the area of activity to which the Bank has the greatest exposure of all the business economic sectors. As with other industries, the credit policy outlines methodologies and criteria for financing transactions in each of the real estate industry's sub-industries.

The Bank closely monitors the real estate credit portfolio. In addition to examining compliance with internal and regulatory restrictions, the risk's trends and development are examined, including the macroeconomic characteristics of the economy, industry and the sub-industries, including the distribution of internal ratings, the division between the various business lines, key parameters, forward-looking assessment regarding the expected risk level, etc. In addition to the regulatory limit and in order to effectively manage the internal credit risk mix, the Bank is careful to apply geographical diversification to the projects, according to demand and across the different sub-industries.

The Bank's construction and real estate credit distribution, by credit to individual borrowers

		March 31		December 31
		2018	2017	2017
Credit to a single borrower in NIS thousands		Outstanding loan balance		
From	To	in NIS millions		
-	300	**2,046**	1,563	1,777
300	600	**1,884**	1,708	1,846
600	1,200	**2,938**	3,069	3,012
1,200	2,000	**2,347**	2,405	2,338
2,000	4,000	**3,556**	3,445	3,483
4,000	8,000	**4,319**	4,444	4,309
8,000	20,000	**6,416**	6,399	6,614
20,000	40,000	**6,945**	6,025	6,624
40,000	200,000	**22,679**	22,518	22,504
200,000	400,000	**13,083**	9,734	12,752
400,000	800,000	**10,304**	12,603	11,520
800,000	1,200,000	**5,926**	4,035	3,045
1,200,000	1,600,000	**-**	-	1,232
Total		**82,443**	77,948	81,056

Groups of borrowers[1]

Restrictions on indebtedness of a borrower and a group of borrowers

1. As at March 31 2018, the Group has no credit exposure to a group of borrowers the indebtedness of which exceeds 15% of the Bank's capital (as defined in Proper Conduct of Banking Business Directive No. 313).

2. As at March 31 2018, the Group has no credit exposure to significant borrowers, borrower groups and banking borrower groups the indebtedness of which exceeds 10% of the Bank's capital. The aggregate regulatory limit for these exposures is 120% of the Bank's capital.

Exposure to foreign countries

Part A - Information regarding total exposure to foreign countries and to countries, where the total exposure to each exceeds 1% of total assets or more than 20% of total capital for capital ratio purposes, the lower of which:

	March 31 2018					
	Balance sheet exposure(a)					
	Cross-border balance sheet exposure			Foreign offices' balance sheet exposure Banking corporation in a foreign country To local residents		
	To governments(c)	To banks	To others	Balance sheet exposure before deduction of local liabilities	Deduction for local liabilities	Net balance sheet exposure after deduction of local liabilities
	in NIS millions					
Country						
United States	3,385	1,728	9,780	22,475	12,313	10,162
UK	-	6,231	2,901	5,823	1,730	4,093
France	4,464	1,613	206	-	-	-
Switzerland	-	693	644	46	43	3
Germany	461	3,703	253	-	-	-
Other	2,599	5,939	6,004	1,090	557	533
Total exposure to foreign countries	10,909	19,907	19,788	29,434	14,643	14,791
Total exposure to LDC countries	211	1,266	1,091	1,078	552	526
Total exposure to GIPS(d) countries(e)	490	65	171	-	-	-

[1] A group of borrowers are all of the following together: the borrower, a person controlling it and all those controlled by them. If a corporation is controlled by more than one person, it is necessary to include in the same group of borrowers the controlling parties for which the controlled corporation is material (such as from a capital standpoint), including the corporation or any other entity under their control. An investee that is material to a non-controlling owner and any entity under their control; borrowers that are associated with the investee in such a manner that harming the financial stability of any one of them could affect the financial stability of the other or that the same factors could affect the financial stability of both.

Part A - Information regarding total exposure to foreign countries and to countries, where the total exposure to each exceeds 1% of total assets or more than 20% of total capital for capital ratio purposes, the lower of which (cont.):

	March 31 2018						
	Balance sheet exposure[(a)]			Off-balance sheet exposure[(a)(b)]			
						Cross-border balance sheet exposure	
						Repayment period	
	Total balance sheet exposure	Problem balance-sheet credit risk	Of which: Balance of outstanding impaired debt	Of which: Total off balance-sheet exposure	Of which: Off balance-sheet problem credit risk	Up to 12 months	More than 12 months
	in NIS millions						
Country							
United States	25,055	1,218	454	7,281	-	5,693	9,200
UK	13,225	168	147	6,644	88	5,433	3,699
France	6,283	13	12	1,780	-	5,570	713
Switzerland	1,340	-	-	1,878	-	692	645
Germany	4,417	-	-	2,024	-	2,881	1,536
Other	15,075	120	115	2,593	-	7,037	7,505
Total exposure to foreign countries	65,395	1,519	728	22,200	88	27,306	23,298
Total exposure to LDC countries	3,094	99	97	1,660	-	230	2,338
Total exposure to GIPS countries[(d)]	726	-	-	224	-	603	123

Part A - Information regarding total exposure to foreign countries and to countries, where the total exposure to each exceeds 1% of total assets or more than 20% of total capital for capital ratio purposes, the lower of which (cont.):

	March 31 2017					
	Balance sheet exposure[a]					
	Cross-border balance sheet exposure			Foreign offices' balance sheet exposure of banking corporation in a foreign country To local residents		
	To governments[c]	To banks	To others	Balance sheet exposure before deduction of local liabilities	Deduction for local liabilities	Net balance sheet exposure after deduction of local liabilities
	in NIS millions					
Country						
United States	5,287	2,403	9,256	24,830	13,526	11,304
UK	182	2,833	3,422	5,839	1,452	4,387
France	2,135	1,286	315	-	-	-
Switzerland	-	1,421	701	63	19	44
Germany	397	3,075	327	-	-	-
Other	3,805	5,271	6,002	1,049	541	508
Total exposure to foreign countries	11,806	16,289	20,023	31,781	15,538	16,243
Total exposure to LDC countries	203	1,131	1,017	1,034	536	498
Total exposure to GIPS[d] countries	346	6	167	-	-	-

	March 31 2017						
	Balance sheet exposure[a]			Off-balance sheet exposure[a][b]			
						Cross-border balance sheet exposure	
						Repayment period	
	Total balance sheet exposure	Problem balance-sheet credit risk	Of which: Balance of outstanding impaired debt	Total off balance-sheet exposure	Of which: Off balance-sheet problem credit risk	Up to 12 months	More than 12 months
	in NIS millions						
Country							
United States	28,250	873	369	7,752	-	4,282	12,664
UK	10,824	191	191	3,730	-	2,278	4,159
France	3,736	6	6	2,009	-	2,592	1,144
Switzerland	2,166	-	-	1,835	-	1,441	681
Germany	3,799	-	-	2,022	-	1,566	2,233
Other	15,586	114	112	2,700	-	7,270	7,808
Total exposure to foreign countries	64,361	1,184	678	20,048	-	19,429	28,689
Total exposure to LDC countries	2,849	98	96	1,754	-	442	1,909
Total exposure to GIPS countries[d]	519	-	-	196	-	423	96

Part A - Information regarding total exposure to foreign countries and to countries, where the total exposure to each exceeds 1% of total assets or more than 20% of total capital for capital ratio purposes, the lower of which (cont.):

	December 31 2017					
	Balance sheet exposure[(a)]					
	Cross-border balance sheet exposure			Foreign offices' balance sheet exposure of banking corporation in a foreign country To local residents		
	To governments[(c)]	To banks	To others	Balance sheet exposure before deduction of local liabilities	Deduction for local liabilities	Net balance sheet exposure after deduction of local liabilities
	in NIS millions					
Country						
United States	7,668	1,461	11,073	23,080	12,345	10,735
UK	174	4,534	2,901	6,031	1,729	4,302
France	1,624	1,012	210	-	-	-
Switzerland	92	710	554	44	41	3
Germany	334	2,950	674	-	-	-
Other	996	7,994	5,280	1,077	544	533
Total exposure to foreign countries	10,888	18,661	20,692	30,232	14,659	15,573
Total exposure to LDC countries	237	1,201	1,062	1,065	543	522
Total exposure to GIPS[(d)] countries	470	74	231	-	-	-

	December 31 2017						
	Balance sheet exposure[(a)]			Off-balance sheet exposure[(a)(b)]			
						Cross-border balance sheet exposure	
						Repayment period	
	Total balance sheet exposure	Problem balance-sheet credit risk	Of which: Balance of outstanding impaired debt	Of which: Total off balance-sheet exposure[(e)]	Of which: Off balance-sheet problem credit risk	Up to 12 months	More than 12 months
	in NIS millions						
Country							
United States	30,937	1,190	418	5,855	-	6,667	13,535
UK	11,911	160	160	7,129	-	4,289	3,320
France	2,846	13	12	1,761	-	1,551	1,295
Switzerland	1,359	-	-	1,898	-	766	590
Germany	3,958	-	-	2,147	-	2,211	1,747
Other	14,803	117	111	2,730	-	7,043	7,227
Total exposure to foreign countries	65,814	1,480	701	21,520	-	22,527	27,714
Total exposure to LDC countries	3,022	96	93	1,833	-	393	2,107
Total exposure to GIPS countries[(d)]	775	-	-	234	-	659	116

(a) Balance-sheet and off-balance-sheet credit risk, problem commercial credit risk and impaired debts are stated before the effect of the provision for loan losses and the effect of collateral that is deductible for the purpose of specific and general indebtedness and before the effect of bilateral offsetting for derivatives.

(b) Credit risk for off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations, before the effect of bilateral offsetting for derivatives.

(c) Including governments, public institutions, and central banks.

(d) Exposure to the GIPS countries includes: Portugal, Italy, Greece and Spain.

(e) Including balances in respect of held-for-sale assets totaling NIS 1 million.

Notes:

1. The "Total exposure to LDCs" line item includes total exposure to countries defined as less developed countries (LDCs), which are classified by the World Bank as low or mid-income countries.
2. Balance sheet exposure to a foreign country includes cross-border balance sheet exposure and balance sheet exposure of the banking corporation's foreign offices to the local residents of that foreign country. Cross-border balance sheet exposure includes balance sheet exposure of the banking corporation’s Israel-based offices to residents of the foreign country and balance sheet exposure of the banking corporation’s foreign offices to nonresidents of the country in which the foreign office is located. Balance sheet exposure of the banking corporation’s foreign offices to local residents includes the balance sheet exposure of the banking corporation's foreign offices in that foreign country to its residents, net of the foreign offices’ liabilities (the deduction is made up to the level of the exposure).
3. Exposure to foreign countries is presented based on the final risk.

Part B - As at March 31 2018 and for comparative periods, there is no aggregate balance sheet exposure to foreign countries, the total exposure to each of which ranges between 0.75% and 1% of total consolidated assets or between 15% and 20% of equity, whichever the lower.

Part C - The total exposure amount to foreign countries with liquidity issues as defined by the Bank of Israel (a country receiving financial support from the IMF or whose obligations are rated CCC or lower) amounts to NIS 567 million in respect of 8 countries (in March 31 2017 - NIS 763 million in in respect of 11 countries and as at December 31 2017 - NIS 610 million in respect of 9 countries).

Credit exposure to foreign financial institutions

Credit exposure to foreign financial institutions refers to commercial banks, banking holding entities, investment banks, insurers and institutional entities.

The exposure mainly includes short-term deposits with foreign banks for up to one week and debentures of up to 5 years. The Bank closely monitors the position of banks worldwide and analyzes their robustness on a regular basis. The Bank maintains a small list of high-quality banks with which it and its foreign offices make deposits.

Following is the credit exposure to foreign financial institutions[(a)]:

	As at March 31 2018		
	Balance-sheet credit risk[(b)]	Current balance-sheet credit risk[(c)]	Current credit exposure
	in NIS millions		
Current credit exposure to foreign financial institutions[(d)]			
AA- to AAA	16,210	859	17,069
A- to A+	4,981	587	5,568
BBB- to BBB+	320	211	531
B- to BB+	32	19	51
Less than: B-	1	-	1
No credit rating	352	-	352
Total current credit exposure to foreign financial institutions	21,896	1,676	23,572
Problem credit risk	-	-	-

See notes below.

	As at March 31 2017		
	Balance-sheet credit risk[(b)]	Current balance-sheet credit risk[(c)]	Current credit exposure
	in NIS millions		
Current credit exposure to foreign financial institutions[(d)]			
AA- to AAA	14,950	1,740	16,690
A- to A+	2,217	3	2,220
BBB- to BBB+	471	239	710
B- to BB+	3	14	17
Less than: B-	16	1	17
No credit rating	211	-	211
Total current credit exposure to foreign financial institutions	17,868	1,997	19,865
Problem credit risk	-	-	-

	As at December 31 2017		
	Balance-sheet credit risk[(b)]	Current balance-sheet credit risk[(c)]	Current credit exposure
	in NIS millions		
Current credit exposure to foreign financial institutions[(d)]			
AA- to AAA	14,983	913	15,896
A- to A+	3,747	613	4,360
BBB- to BBB+	281	298	579
B- to BB+	10	11	21
Less than: B-	14	18	32
No credit rating	396	1	397
Total current credit exposure to foreign financial institutions	19,431	1,854	21,285
Problem credit risk	-	-	-

(a) Foreign financial institutions include the following: banks, investment banks, brokers/dealers, insurers and institutional entities.
(b) As at March 31 2018, deposits with banks, credit to the public, securities borrowed or bought under agreements to resell, other assets in respect of derivatives (fair value of derivatives), and investments in debentures, including debentures of banks rated "subordinated" total NIS 322 million (on March 31 2017 - NIS 417 million and on December 31 2017 - NIS 253 million).
(c) Mainly guarantees and commitments to extend credit (excluding off-balance-sheet derivatives).
(d) To rate the foreign financial institutions to which it has credit exposure, the Bank relies solely on the ratings of Moody's and S&P.
(e) Including balances in respect of held-for-sale assets totaling NIS 1 million.

Notes:
1. The credit exposures do not include investment in asset-backed securities (for more information, please see Note 5.
2. Some of the banks received various forms of government support, including by way of direct investment in the bank's capital, government guarantees for certain asset portfolios, guarantees for raising funding for the banks, etc.
3. For more information regarding the composition of credit exposures for derivatives with banks and brokers/dealers (local and foreign), please see Note 11 to the Financial Statements.

Housing loan portfolio risks

Credit risk developments

During the reporting period, the granting of new loans ("performance") is stable in relation to demand for housing loans in Israel both for residential and investment purposes.

Following trends in recent years, and to ensure effective risk management, the Banks monitors its housing loan portfolio on a regular basis, while analyzing trends in risk characteristics and concentrations, placing main emphasis on the following: loan-to-value (LTV) ratios, monthly repayment capacity, credit ratings under the Bank's internal statistical model.
The Bank adheres to a balanced underwriting policy that takes into account the borrower's repayment capacity, loan-to-value ratio, linkage base and interest, etc., in compliance with all the requirements of the Banking Supervision Department.
The Bank also extends individual housing loans to members of housing purchase groups. Extending loans to members of housing purchase groups answers market demand by private organizations, non-profits, historical landowners, etc. From a risk standpoint, the loans are extended to various, geographically diversified populations, following close scrutiny of each borrower's capacity to repay the loan.

Following are data on the performance of new loans and refinancing loans for the purchase of residential apartments with mortgaging of residential apartments in Israel

	For the three months ended March 31		Rate of change
	2018	2017	
		in NIS millions	in %
By the Bank	**2,641**	1,850	42.8
By the government of Israel:	**-**	-	-
Directed loans	**20**	3	+
Non-recourse loans	**3**	2	50.0
Total new loans	**2,664**	1,855	43.6
Recycled loans	**437**	237	84.4
Total performance	**3,101**	2,092	48.2

Disclosure on housing loans

Following are data regarding the risk characteristics of housing loans, developments in credit risks and the manner in which they are managed, including measures taken by the Bank to mitigate the risk characteristics.

Development of total outstanding housing loans in Israel, net

	Outstanding loans portfolio	Rate of change
	in NIS millions	in %
December 31 2016	78,184	(2.4)
December 31 2017	77,005	(1.5)
March 31 2018	**77,216**	**0.3**

During the reporting period, there was stability in the housing loans granted by the Bank

Data on new housing loans in Israel

During the reporting period, the Bank granted new housing loans in the amount of NIS 2.7 billion from its own resources.

During 2017, the Bank granted new housing loans in the amount of NIS 8.3 billion from its own resources.

The average loan extended by the Bank during the reporting period was NIS 629 thousand, compared with NIS 529 thousand in 2017 and NIS 555 in 2016.

It should be noted that in December 2017, the Bank's joint loan venture with Harel (hereinafter: "Joint Venture") came to an end. The data for 2017 and 2016 relate to the Bank's exposure during the Joint Venture period and do not take into account the customers' exposure, which was higher (in 2017, the customer's exposure was NIS 708 thousand). Following the end of the joint venture in the first quarter of 2018,

	Non-linked	% of the loans portfolio	CPI-linked	% of the loans portfolio	Foreign currency	% of the loans portfolio	Non-linked
	in NIS millions	in %	in NIS millions	in %	in NIS millions	in %	in NIS millions
December 31 2016	44,955	57.5	31,986	40.9	1,243	1.6	78,184
December 31 2017	45,588	59.2	30,407	39.5	1,010	1.3	77,005
March 31 2018	**46,049**	**59.6**	**30,162**	**39.1**	**1,005**	**1.3**	**77,216**

Net development of total outstanding housing loans in Israel, by linkage type

	Fixed		Variable			Total loan portfolio
	Non-linked	Linked	Non-linked	Linked	Foreign currency	
	in NIS millions					
December 31 2016	13,706	11,792	31,249	20,194	1,243	78,184
December 31 2017	13,858	12,002	31,730	18,405	1,010	77,005
March 31 2018	**13,697**	**12,127**	**32,352**	**18,035**	**1,005**	**77,216**

Development of new housing loans by interest track, in Israel

The following table outlines the development of the new credit performance by variable and fixed interest tracks (a variable-interest loan's interest rate may change over the loan period):

	2018	2017				2016
	Q1	Q4	Q3	Q2	Q1	Annual average
	Rate of performance					
	in %					
Fixed - linked	**15.0**	13.9	15.9	15.1	16.6	18.7
Variable every 5 years or more - linked	**15.6**	15.7	16.9	16.8	16.1	13.3
Variable up to 5 years - linked	**-**	0.1	0.1	0.1	0.2	0.6
Fixed - non-linked	**31.3**	31.8	28.5	30.0	28.0	30.2
Variable every 5 years or more - non-linked	**6.3**	7.0	6.4	7.0	7.3	7.7
Variable up to 5 years - non-linked	**31.2**	31.0	32.0	30.8	31.2	29.2
Variable - foreign currency	**0.6**	0.5	0.2	0.2	0.6	0.3

The percentage of new variable-interest housing loans granted by the Bank during the reporting period was 53.7%, compared with 55.0% in 2017. The data refer to all variable interest tracks and the various linkage segments, including loans in which the interest rate changes every five years or more. Excluding loans in which the variable interest rate changes every 5 years or more - which do not qualify as a variable interest loan under the Supervisor of Bank's directive - the percentage of variable-rate housing loans extended during the reporting period is 31.8% compared to 31.7% in 2017.

Following is the balance of outstanding housing loans and the outstanding loans in arrears of over 90 days, in Israel

	Recorded outstanding debt	Delinquent amount	Rate of delinquent amount
	in NIS millions		in %
December 31 2016	78,645	749	1.0
December 31 2017	77,448	752	1.0
March 31 2018	**77,664**	**767**	**1.0**

As of March 31 2018, the loan loss provision, which includes the general provision for housing loans, is NIS 448 million, constituting 0.58% of the housing loans' outstanding balance (compared with NIS 443 million as at December 31 2017), which constitutes 0.58% of the outstanding housing loans.

Development of new outstanding credit granted in Israel at a loan-to-value ratio of over 60%

Following is the development in new credit granted by the Bank at a loan-to-value ratio of over 60%, (LVR is the ratio of the total loan granted to the borrower - even if it has not yet been actually granted either in full or in part - out of the value of the mortgaged property during the approval of the credit line).

	2018	2017				2016
	Q1	Q4	Q3	Q2	Q1	Annual average
Financing rate	In %[(a)]					
Over 60 to 70, inclusive	**18.0**	19.8	19.8	16.9	15.7	16.1
Over 70 to 80, inclusive	**13.0**	16.8	15.9	17.8	14.3	14.7
Over 80	**0.20**	0.17	0.08	0.04	0.10	0.12

(a) Out of the total new credit granted by the Bank.

On March 15 2018, Section 72 to Directive 2013 of the Bank of Israel was amended, so that the capital allocation for housing loans granted from that date – with a loan to value ratio of 60% or more – was reduced from 75% to 60%.

Development of the loan-to-value (LTV) ratio, outstanding loans portfolio in Israel

The average LTV of the outstanding loan portfolio as at March 31 2018 stands at 45.7%, compared with 46.0% in 2017.

Development of new loans, in which the repayment ratio is lower than 2.5, in Israel

The percentage of loans with a repayment ratio of less than 2.5 on the loan approval date in the reporting period was 1.4% of the total number of new loans granted, similarly to 2017.

The calculation is in accordance with the Bank of Israel's Reporting Directive No. 876.

Development of new loans, for which the repayment dates are longer than 25 years in Israel

The new percentage of housing loans in which the repayment dates under the loan agreements are more than 25 years, stood at an average of 33.9% of the total new loans granted, compared with an average of 34.9% in 2017 and 35.9% in 2016.

Credit risk in respect of loans to individuals (excluding housing loans)

Credit granted to individuals, whose repayment capacity is largely based on their household's earning capacity, is characterized by a very wide diversification of borrowers and a variety of credit products (various types of loans, current accounts, credit cards) and to a lesser extent (on average) - credit per individual customer. Individual customer activity is almost entirely concentrated in the Banking Division.

To ensure effective risk management, the Bank operates under strict internal management restrictions, mainly with the following characteristics: loan-to-value ratios, monthly repayment capacity, credit ratings in accordance with the Bank's internal statistical model.

The retail credit policy, formulated by the Risk Management Division in collaboration with the Banking Division, constitutes an important element in outlining the risk appetite and ongoing management of this domain.

Following are developments in outstanding credit risk in respect of loans to individuals (in Israel, excluding housing loans)

	Balance of credit risk
	in NIS millions
December 31 2016	49,987
December 31 2017	48,477
March 31 2018	**46,318**

Following is a distribution of the balance sheet credit risk in respect of loans to individuals, by remaining loan period (in Israel, excluding housing loans)

	March 31 2018		December 31 2017	
	in NIS millions	% of portfolio	in NIS millions	% of portfolio
Up to one year	**6,365**	**21.9**	5,975	19.5
Over one year to 3 years	**4,407**	**15.2**	5,245	17.1
Over 3 years to 5 years	**8,930**	**30.7**	9,360	30.5
Over 5 years to 7 years	**6,314**	**21.7**	6,578	21.5
Over 7 years	**536**	**1.9**	566	1.9
Without repayment period[(a)]	**2,508**	**8.6**	2,927	9.5
Total	**29,060**	**100.0**	30,651	100.0

(a) The amount includes overdrawn balances in current accounts and loans in arrears.

Following is a distribution of the total credit risk in respect of loans granted by the Bank to individuals, by individual borrower's indebtedness (in Israel, excluding housing loans)

Credit risk amount in NIS thousands		March 31 2018		December 31 2017	
From	To	in NIS millions	% of portfolio	in NIS millions	% of portfolio
-	25	**5,128**	**11.0**	5,043	10.4
25	50	**7,270**	**15.7**	7,268	15.0
50	75	**6,604**	**14.3**	6,782	14.0
75	100	**5,804**	**12.5**	6,031	12.4
100	150	**8,245**	**17.8**	8,623	17.8
150	200	**5,193**	**11.3**	5,440	11.3
200	300	**4,929**	**10.6**	5,293	10.9
Over 300		**3,145**	**6.8**	3,997	8.2
Total credit risk - Total		**46,318**	**100.0**	48,477	100.0

Following is a distribution of the total credit risk in respect of loans granted by the Bank to individuals, by main credit products (in Israel, excluding housing loans)

	March 31 2018		December 31 2017	
	in NIS millions	% of portfolio	in NIS millions	% of portfolio
Current balances and utilized credit card balances	**6,796**	**14.7**	7,365	15.2
Car purchase loans (secured)	**2,037**	**4.4**	2,257	4.6
Other loans	**20,227**	**43.7**	21,029	43.4
Total balance-sheet credit risk	**29,060**	**62.8**	30,651	63.2
Unutilized current account credit facilities	**6,801**	**14.7**	6,870	14.2
Unutilized credit card facilities	**10,161**	**21.9**	10,617	21.9
Other off balance sheet credit risk	**296**	**0.6**	339	0.7
Total off balance-sheet credit risk	**17,258**	**37.2**	17,826	36.8
Total credit risk - Total	**46,318**	**100.0**	48,477	100.0

Following is a distribution of the balance sheet credit risk in respect of loans granted by the Bank to individuals, by linkage segment and interest tracks (in Israel, excluding housing loans)

	March 31 2018				
	Non-linked	Linked	Foreign currency	Total balance-sheet credit risk	% of portfolio
	in NIS millions				in %
Current account balances	**2,054**	**-**	**10**	**2,064**	**7.1**
Utilized credit card balances	**4,683**	**-**	**49**	**4,732**	**16.3**
Other variable interest loans	**20,968**	**37**	**15**	**21,020**	**72.3**
Total variable interest loans	**27,705**	**37**	**74**	**27,816**	**95.7**
Fixed interest loans	**1,164**	**52**	**28**	**1,244**	**4.3**
Total balance-sheet credit risk	**28,869**	**89**	**102**	**29,060**	**100.0**

	December 31 2017				
	Non-linked	Linked	Foreign currency	Total balance-sheet credit risk	% of portfolio
	in NIS millions				in %
Current account balances	2,464	-	12	2,476	8.1
Utilized credit card balances	4,846	-	43	4,889	15.9
Other variable interest loans	21,975	33	18	22,026	71.9
Total variable interest loans	29,285	33	73	29,391	95.9
Fixed interest loans	1,166	61	33	1,260	4.1
Total balance-sheet credit risk	30,451	94	106	30,651	100.0

Following is a distribution of the outstanding financial asset portfolio balances of individuals with total credit risk in the Bank (in Israel, excluding housing loans)

	March 31 2018	December 31 2017
	in NIS millions	
Deposits from the public	**98,926**	104,850
Securities portfolios	**67,734**	75,498
Total financial asset portfolio	**166,660**	180,348
Total indebtedness to customers with financial asset portfolios	**35,343**	38,087

Following is a distribution of the balance sheet credit risk in respect of loans granted by the Bank to individuals, by fixed income amount deposited in the customer's current account[(a)] (in Israel, excluding housing loans)

	March 31 2018		December 31 2017	
Income	in NIS millions	% in	in NIS millions	% in
Accounts without fixed income	**2,413**	**8.3**	2,697	8.8
Of which: Loan accounts[(b)]	**1,794**	**6.2**	1,985	6.4
Less than NIS 10 thousand	**9,516**	**32.7**	9,783	31.9
More than NIS 10 thousand and less than NIS 20 thousand	**9,351**	**32.2**	9,765	31.9
NIS 20 thousand or more	**7,780**	**26.8**	8,406	27.4
Total	**29,060**	**100**	30,651	100

(a) The fixed income amount deposited in a customer's current account (by ID number) includes the fixed credits to the customer's account, such as salary, transfers from another bank or bank account, cash deposits, checks, etc. The fixed monthly income is calculated according to the average income on several consecutive months, net of exceptional credits.

(b) A loan repayment account is an account whose only purpose is to repay a loan, while most of the customer's current account activity takes place in another bank.

As aforesaid, the Bank's credit policy towards individuals is based on a borrower's repayment capacity in relation to his/her income. As a result, over 90% of balance-sheet credit is from fixed-income earners, with close to 60% among earners of a fixed income with more than NIS 10 thousand per month.

	March 31	December 31	
	2018	2017	2016
	in NIS millions		
Non-problem loans	**28,540**	31,383	30,105
Problem unimpaired loans	**112**	111	135
Problem impaired loans	**408**	421	411
Total balance-sheet credit risk	**29,060**	31,915	30,651
Percentage of problem debt risk out of total balance sheet credit risk to individuals	**1.8%**	1.7%	1.8%

(a) Reclassified. For more information, please see Note 6.

For more information, including regarding problem debts and loan loss expenses, please see Note 6 and Note 13, and in the Risk Exposure section, under "Credit Risk", Total credit risk in respect of the public by economic sector."

The Bank's exposure to leveraged loans

According to Proper Conduct of Banking Directive No. 311, the Bank's credit policy should also address leveraged loans. The Bank's credit policy for this segment is subject to unique principles, including with respect to financial parameters, credit authorizations, etc.

Leveraged loans are defined and managed by the Bank pursuant to the updated directives.

The aggregate outstanding balances of loans to leveraged borrowers, each of which has a credit balance of at least 0.5% of the Bank's Tier 1 capital

	March 31						December 31		
	2018			2017			2017		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
Economic sector	In NIS millions								
Mining and quarrying	**283**	**51**	**334**	130	254	384	279	101	380
Industry and manufacturing	**693**	**16**	**709**	860	16	876	426	16	442
Power generation, gas, steam and air conditioning	**304**	**418**	**722**	404	404	808	290	409	699
Construction and real estate	**374**	**33**	**407**	708	29	737	198	13	211
Trade	**199**	**15**	**214**	394	30	424	208	15	223
Transportation and storage	**293**	**-**	**293**	-	-	-	281	-	281
Financial services	**-**	**-**	**-**	500	17	517	-	-	-
Total	2,146	533	2,679	2,996	750	3,746	1,682	554	2,236

Market Risk

Market risk is defined as the risk of loss in balance sheet and off-balance sheet positions as a result of a change in the fair-value of a financial instrument due to change in market conditions (i.e., changes in: price levels in various markets; interest rate volatility; foreign exchange rates; inflation rates; share prices and commodities, as well as in other economic measures). Market risk exposure is reflected in the financial performance, in the fair value of the assets and liabilities, in shareholders' equity and in cash flows.

The Bank complies with the Supervision of Banks Department's directives regarding the management of the Group's market risks, including Proper Conduct of Banking Business Directive No. 333, *Interest Rate Risk Management*, and No. 339, *Market Risk Management*. To implement these directives, the Bank established basic principles and control mechanisms for these risks, including the purviews of management and the Board of Directors, defining the means of control and tools for measuring risk and the means of control and oversight of these risks, while implementing corporate governance with three lines of defense.

Market risk management policy

The Market risk management policy is an expression of the Group's market risk management strategy, alongside existing procedures for identifying, measuring, monitoring, developing and controlling market risk. The policy is designed, on the one hand, to support the achievement of business targets while assessing the risks and rewards that may arise from exposure to the risks compared with the expected gains therefrom and, on the other hand, to mitigate the risk level arising from the Bank's ongoing activities, including by maintaining a high level of liquidity.

The policy constitutes an important tool for defining the Bank's risk appetite for its own account, trading rooms and market exposure across the entire Leumi Group. The policy outlines the corporate governance, division of organizational responsibility and escalation mechanisms.

The market risks are routinely managed at a Group level. The foreign subsidiaries determine their market risk management policies in line with the Group's policies and its approved risk frameworks. Information on the actual exposure status according to the established frameworks is reported by the subsidiaries and taken into account in the overall management of the Group's exposures.

Market risk management is performed in two risk centers – the banking portfolio and the held-for-trading portfolio. The definition of the trading portfolio is derived from the Basel rules and includes the Bank's tradable securities portfolio and derivative transactions as part of its trading activity. The banking portfolio includes those trading transactions which are not included in the trading portfolio.

Exposure to market risks arising from employee pension obligations

The Bank applies the US GAAP for employee benefits, as prescribed by the Bank of Israel. Managing the market risks in respect of the obligations for employees is partly performed as part of the banking portfolio and partly in an independent and separate manner against "plan assets", which was designed to yield long term returns to serve the obligation's value. The long-duration actuarial obligation to employees is significantly impacted by changes in the discount interest. The discount rate, which is used for calculating the actuarial liabilities for employee benefits, is based on the Government of Israel's debenture yield curve plus the fixed spread curve of internally AA-graded corporate debentures which match the average durations of the liabilities for employee rights.

Interest rate risk

The interest rate risk is the risk of loss as the result of changes in risk-free interest rates in various currencies, arising from several sources, such as: gaps between repayment or interest change dates (the earliest of the two) of the assets and liabilities in each of the linkage segments and the basis spread risk.

The interest exposure policy is to limit the effect of potential changes in interest rates on the potential erosion of economic value[1] and the financing profit for the upcoming year.

In reality, the interest rate risk is measured and managed on the basis of various behavioral assumptions as to the repayment dates of the assets and liabilities. According to past experience, the Bank treats some of the current account balances as long-term liabilities. In addition, there are assumptions referring to prepayments of mortgages, on the basis of a statistical model that attempts to forecast prepayments based on interest rates. These estimates are of great importance in managing interest rate risks, inter alia due to the significant increase in these balances in recent years.

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1 The economic value of the capital is defined as the difference between the present value of the assets and liabilities. When calculating the present value, the cash flows are deducted by the credit risk-free yield curve, and the cash flows in foreign-currencies by LIBOR.

The exposure to interest rate changes is measured for both increases and decreases in interest rates in each linkage segment. The measurement is designed to test the sensitivity of the current structure of the value of assets and liabilities to a change in interest rates, and therefore the calculation is performed without changing the asset and liability structure.

Below is a summary of exposures to unexpected changes in interest rates at the Group Level (before tax, in NIS millions)*:

	The potential change in economic value as a result of scenario								
	As at March 31 2018			As at March 31 2017			As at December 31 2017		
Scenario	Increase of 1%	Decrease of 1%	Increase of 0.1%	Increase of 1%	Decrease of 1%	Increase of 0.1%	Increase of 1%	Decrease of 1%	Increase of 0.1%
In NIS									
Banking portfolio	**(452)**	**347**	**(45)**	(220)	6	(12)	(411)	306	(41)
Held-for-trading portfolio	**(32)**	**13**	**(2)**	(84)	87	(8)	(38)	25	(3)
In foreign currency									
Banking portfolio	**126**	**(201)**	**15**	(46)	(97)	(3)	175	(249)	22
Held-for-trading portfolio	**(18)**	**(27)**	**1**	70	(112)	10	32	47	2

* The exposure to a 1% interest rate decrease is based on the interest rate on credit and deposits being reduced by the same rate. Since currently, the interest rate on most deposits is less than 1%, and there is a low probability that the interest on deposits will fall below 0%, the above exposure calculation should be considered a measure in line with the accepted standards.

Capital exposure to an immediate increase or decrease in interest rates (before tax, in NIS millions):

	Exposure in NIS			Exposure in foreign currency		
	As at March 31 2018					
	Increase of 1%	Decrease of 1%	Increase of 0.1%	Increase of 1%	Decrease of 1%	Increase of 0.1%
Capital exposure to an immediate increase/decrease in interest rates*	**1,617**	**(2,083)**	**181**	**(430)**	**342**	**(40)**

	As at March 31 2017					
	Increase of 1%	Decrease of 1%	Increase of 0.1%	Increase of 1%	Decrease of 1%	Increase of 0.1%
Capital exposure to an immediate increase/decrease in interest rates*						
	1,317	(1,712)	149	(329)	177	(29)

	As at December 31 2017					
	Increase of 1%	Decrease of 1%	Increase of 0.1%	Increase of 1%	Decrease of 1%	Increase of 0.1%
Capital exposure to an immediate increase/decrease in interest rates*	1,615	(2,083)	180	(349)	352	(34)

* The measurement includes exposure to an immediate change in the interest rate of the Bank's own portfolios, revalued according to market value and the actuarial obligation for employees. The measurement does not include the sensitivity effect of the plan assets to changes in interest rates estimated - as at March 31 2018 - in an increase of NIS 131 million in the value of the assets (on March 31 2017 - NIS 115 million; on December 31 2017 - NIS 134 million) under a scenario of a 1% interest rate increase. Neither does the measurement include the effects of the transitional provisions of the Employee Benefits Standard, on which the capital adequacy ratio calculation is based.

The sensitivity of the assets' and liabilities' fair value to the interest rate

Following is the fair value of financial instruments before the effect of the interest rate changes and of potential changes in the interest rates on the fair value of the Bank's financial instruments and its consolidated companies, excluding non-monetary components, according to accounting principles:

Fair value of financial instruments before the effect of the interest rate changes:

	March 31 2018					
	In NIS		NIS, including NIS linked to foreign currency			
	Non-linked	CPI-linked	USD	Euro	Other	Total
	in NIS millions					
Financial assets	**289,761**	**45,040**	**65,682**	**12,555**	**9,765**	**422,803**
Amounts receivable in respect of derivative and off-balance-sheet financial instruments	**244,847**	**7,188**	**242,728**	**65,879**	**41,318**	**601,960**
Financial liabilities[(a)]	**242,513**	**49,179**	**96,877**	**12,684**	**7,139**	**408,392**
Amounts payable in respect of derivative and off-balance-sheet financial instruments	**265,802**	**12,114**	**213,603**	**66,018**	**44,810**	**602,347**
Net fair value of financial instruments	**26,293**	**(9,065)**	**(2,070)**	**(268)**	**(866)**	**14,024**

	March 31 2017					
	In NIS		NIS, including NIS linked to foreign currency			
	Non-linked	CPI-linked	USD	Euro	Other	Total
	in NIS millions					
Financial assets	278,016	46,964	64,899	9,636	9,144	408,659
Amounts receivable in respect of derivative and off-balance-sheet financial instruments	250,545	6,838	213,951	56,656	32,366	560,356
Financial liabilities[(a)]	232,360	53,790	89,790	12,992	6,976	395,908
Amounts payable in respect of derivative and off-balance-sheet financial instruments	272,941	8,691	191,043	53,679	35,012	561,366
Net fair value of financial instruments	23,260	(8,679)	(1,983)	(379)	(478)	11,741

	December 31 2017					
	In NIS		NIS, including NIS linked to foreign currency			
	Non-linked	CPI-linked	USD	Non-linked	CPI-linked	USD
	In NIS millions					
Financial assets	293,416	45,077	66,379	10,565	8,431	423,868
Amounts receivable in respect of derivative and off-balance-sheet financial instruments	219,364	7,058	195,057	55,422	30,790	507,691
Financial liabilities[(a)]	247,997	50,252	93,530	13,111	6,749	411,639
Amounts payable in respect of derivative and off-balance-sheet financial instruments	238,904	12,297	169,824	53,188	33,236	507,449
Net fair value of financial instruments	25,879	(10,414)	(1,918)	(312)	(764)	12,471

(a) Including fair value of the actuarial liabilities to employees and excluding the value of the plan assets.

Effect of potential changes in interest rates on the fair value* of financial instruments:

	March 31 2018							
	Net fair value of financial instruments net of interest rate changes[(a)]						Change in fair value	
	In NIS		NIS, including NIS linked to foreign currency					
	Non-linked	CPI-linked	USD[(b)]	Euro	Other	Total	Total	Total
	in NIS millions						in NIS millions	in %
Immediate concurrent increase of 1%	**25,269**	**(7,483)**	**(2,587)**	**(294)**	**(875)**	**14,030**	**6**	**0.04**
Immediate concurrent increase of 0.1%	**26,187**	**(8,888)**	**(2,118)**	**(271)**	**(867)**	**14,043**	**19**	**0.14**
Immediate decrease increase of 1%	**27,280**	**(11,101)**	**(1,652)**	**(243)**	**(856)**	**13,428**	**(596)**	**(4.25)**

	March 31 2017							
	Net fair value of financial instruments net of interest rate changes[(a)]						Change in fair value	
	In NIS		NIS, including NIS linked to foreign currency					
	Non-linked	CPI-linked	USD[(b)]	Euro	Other	Total	Total	Total
	in NIS millions						in NIS millions	in %
Immediate concurrent increase of 1%	22,577	(7,145)	(2,446)	(413)	(477)	12,096	355	3.02
Immediate concurrent increase of 0.1%	23,197	(8,506)	(2,025)	(383)	(478)	11,805	64	0.55
Immediate decrease increase of 1%	23,863	(10,691)	(1,696)	(340)	(479)	10,657	(1,084)	(9.23)

	December 31 2017							
	Net fair value of financial instruments net of interest rate changes[(a)]						Change in fair value	
	In NIS		NIS, including NIS linked to foreign currency					
	Non-linked	CPI-linked	USD[(b)]	Euro	Other	Total	Total	Total
	in NIS millions						in NIS millions	in %
Immediate concurrent increase of 1%	24,819	(8,690)	(2,404)	(317)	(771)	12,637	166	1.33
Immediate concurrent increase of 0.1%	25,771	(10,222)	(1,964)	(312)	(765)	12,508	37	0.30
Immediate decrease increase of 1%	26,912	(12,610)	(1,403)	(310)	(757)	11,832	(639)	(5.12)

(a) The measurement includes exposure to an immediate change in the interest rate of the Bank's own portfolios, revalued according to market value and the actuarial obligation for employees. The measurement does not include the sensitivity effect of the plan assets to changes in interest rates estimated - as at March 31 2018 - to have decreased by NIS 131 million (on March 31 2017 - NIS 117 million; on December 31 2017 - NIS 134 million) under a scenario of a 1% interest rate increase. Neither does the measurement include the effects of the transitional provisions of the Employee Benefits Standard, on which the capital adequacy ratio calculation is based.

(b) Of which: The effect of compound financial assets: An immediate corresponding increase of 1% - NIS (294) million (as of March 31 2017 - NIS (284) million and as of December 31 2017 - NIS (283) million), an immediate corresponding decrease of 1% - NIS 240 million (on March 31 2017 - NIS 208 million; on December 31 2017 - NIS 199 million).
An immediate corresponding increase of 2% - NIS (604) million (as of March 31 2017 - NIS (591) million and as of December 31 2017 - NIS (592) million), an immediate corresponding decrease of 2% - NIS 383 million (on March 31 -0 - NIS 319 million; on December 31 2017 - NIS 317 million, respectively).

* Excluding the estimated value of income from early repayment fees.

Exposure to interest rate changes

	March 31 2018						
	Demand of up to one month	More than one month to three months	More than three months to one year	More than one year to three years	More than three years to five years	More than five years to ten years	More than ten years to twenty years
	in NIS millions						
Unlinked NIS							
Financial assets, amounts receivable in respect of derivatives and off-balance-sheet financial instruments							
Financial assets[(a)]	212,214	12,402	31,401	14,698	8,851	6,932	2,283
Derivative financial instruments (net of options)	42,855	69,129	46,933	40,457	19,809	18,244	206
Options (by underlying assets)[(c)]	258	2,494	3,008	1,272	29	10	86
Off balance-sheet financial instruments	-	-	-	-	-	-	-
Total fair value	255,327	84,025	81,342	56,427	28,689	25,186	2,575
Financial liabilities, amounts payable in respect of derivatives and off-balance-sheet financial instruments							
Financial liabilities[(a)]	206,663	6,396	7,459	17,033	2,244	2,614	92
Derivative financial instruments (net of options)	52,213	73,321	54,860	40,207	17,669	18,572	203
Options (by underlying assets)[(c)]	1,296	1,728	3,296	1,853	390	51	84
Off balance-sheet financial instruments	-	-	31	-	-	-	-
Total fair value	260,172	81,445	65,646	59,093	20,303	21,237	379
Financial instruments, net							
Exposure to interest rate changes for sector	(4,845)	2,580	15,696	(2,666)	8,386	3,949	2,196
Cumulative exposure for sector	(4,845)	(2,265)	13,431	10,765	19,151	23,100	25,296
CPI-linked NIS							
Financial assets, amounts receivable in respect of derivatives and off-balance-sheet financial instruments							
Financial assets[(a)]	1,746	2,048	8,709	13,304	9,529	5,135	2,634
Derivative financial instruments (net of options)	273	582	1,685	2,334	1,177	1,137	-
Options (by underlying assets)[(c)]	-	-	-	-	-	-	-
Off balance-sheet financial instruments[(c)]	-	-	-	-	-	-	-
Total fair value	2,019	2,630	10,394	15,638	10,706	6,272	2,634
Financial liabilities, amounts payable in respect of derivatives and off-balance-sheet financial instruments							
Financial liabilities[(a)]	1,501	1,282	3,718	16,275	5,484	2,999	870
Derivative financial instruments (net of options)	970	529	1,637	5,412	2,386	1,064	-
Options (by underlying assets)[(c)]	-	-	-	-	-	-	-
Off balance-sheet financial instruments[(c)]	-	-	116	-	-	-	-
Total fair value	2,471	1,811	5,471	21,687	7,870	4,063	870
Financial instrument, net	-	-	-	-	-	-	-
Exposure to interest rate changes for sector	(452)	819	4,923	(6,049)	2,836	2,209	1,764
Cumulative exposure for sector	(452)	367	5,290	(759)	2,077	4,286	6,050

(a) Excluding balance sheet outstanding derivatives, the fair value of off-balance-sheet financial instruments and of fair value of compound financial instruments. The “No repayment period" column features the non-capitalized balance sheet balances, including outstanding balances with past due dates totaling NIS 1,002 million as at March 31 2018.

(b) Weighted average by fair value of the average duration.

					As at March 31 2017			As at December 31 2017		
Over twenty years	Without repayment period	Total fair value	Internal rate of return	Average effective life(b)	Total fair value	Internal rate of return	Average effective life(b)	Total fair value	Internal rate of return	Average effective life(b)
			in %	in years		in %	in years		in %	in years
508	472	289,761	2.97	0.60	278,016	3.04	0.60	293,416	2.97	0.59
57	–	237,690	–	1.38	243,006	–	1.61	211,445	–	1.48
–	–	7,157	–	0.77	7,539	–	0.66	7,919	–	0.76
–	–	–	–	–	–	–	–	–	–	–
565	472	534,608	2.97	0.95	528,561	3.04	1.07	512,780	2.97	0.96
–	–	–	–	–	–	–	–	–	–	–
–	12	242,513	0.78	0.27	232,360	1.05	0.38	247,997	0.85	0.27
28	–	257,073	–	1.27	267,939	–	1.51	231,365	–	1.34
–	–	8,698	–	0.78	4,978	–	0.54	7,509	–	0.77
–	–	31	–	0.50	24	–	0.50	30	–	0.50
28	12	508,315	0.78	0.79	505,301	1.05	0.98	486,901	0.85	0.79
–	–	–	–	–	–	–	–	–	–	–
537	–	–	–	–	–	–	–	–	–	–
25,833	–	–	–	–	–	–	–	–	–	–
1,921	14	45,040	2.23	4.18	46,964	2.70	3.82	45,077	2.42	4.09
–	–	7,188	–	2.45	6,838	–	2.55	7,058	–	2.38
1,921	14	52,228	2.23	3.94	53,802	2.70	3.66	52,135	2.42	3.85
–	–	–	–	–	–	–	–	–	–	–
–	–	32,129	0.42	2.85	38,160	0.75	2.88	32,634	0.47	2.97
–	–	11,998	–	2.42	8,546	–	2.86	12,170	–	2.57
–	–	–	–	–	–	–	–	–	–	–
–	–	116	–	–	145	–	–	127	–	–
–	–	44,243	0.42	2.72	46,851	0.75	2.87	44,931	0.47	2.85
1,921										
7,971										

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Exposure to interest rate changes

	March 31 2018						
	Demand of up to one month	More than one month to three months	More than three months to one year	More than one year to three years	More than three years to five years	More than five years to ten years	More than ten years to twenty years
	in NIS millions						
Foreign currency and foreign currency-linked[e]							
Financial assets, amounts receivable in respect of derivatives and off-balance-sheet financial instruments							
Financial assets[a]	44,301	12,498	10,393	6,151	4,727	6,934	1,463
Of which: Compound financial instruments	2,517	748	222	1,059	1,640	1,875	781
Derivative financial instruments (net of options)	82,766	84,266	114,703	34,146	6,826	18,211	547
Options (by underlying assets)[d]	1,760	2,516	4,185	(62)	(57)	30	40
Off balance-sheet financial instruments	-	-	-	-	-	-	-
Total fair value	128,827	99,280	129,281	40,235	11,496	25,175	2,050
Financial liabilities, amounts payable in respect of derivatives and off-balance-sheet financial instruments							
Financial liabilities[a]	87,032	9,738	15,825	2,339	237	243	4
Derivative financial instruments (net of options)	65,243	77,208	103,962	40,043	8,406	21,672	576
Options (by underlying assets)[d]	640	1,449	3,768	858	(18)	39	99
Off balance-sheet financial instruments	-	-	24	-	-	-	-
Total fair value	152,915	88,395	123,579	43,240	8,625	21,954	679
Financial instrument, net	-	-	-	-	-	-	-
Exposure to interest rate changes for sector	(24,088)	10,885	5,702	(3,005)	2,871	3,221	1,371
Cumulative exposure for sector	(24,088)	(13,203)	(7,501)	(10,506)	(7,635)	(4,414)	(3,043)
Total exposure to interest rate changes							
Financial assets, amounts receivable in respect of derivatives and off-balance-sheet financial instruments							
Financial assets[a][c]	258,261	26,948	50,503	34,153	23,107	19,001	6,380
Derivative financial instruments (net of options)	125,894	153,977	163,321	76,937	27,812	37,592	753
Options (by underlying assets)[d]	2,018	5,010	7,193	1,210	(28)	40	126
Off balance-sheet financial instruments	-	-	-	-	-	-	-
Total fair value	386,173	185,935	221,017	112,300	50,891	56,633	7,259
Financial liabilities, amounts payable in respect of derivatives and off-balance-sheet financial instruments							
Financial liabilities[a][c][f]	295,196	17,416	27,002	35,647	7,965	5,856	966
Derivative financial instruments (net of options)	118,426	151,058	160,459	85,662	28,461	41,308	779
Options (by underlying assets)[d]	1,936	3,177	7,064	2,711	372	90	183
Off balance-sheet financial instruments	-	-	171	-	-	-	-
Total fair value	415,558	171,651	194,696	124,020	36,798	47,254	1,928
Financial instrument, net	-	-	-	-	-	-	-
Exposure to interest rate changes for sector	(29,385)	14,284	26,321	(11,720)	14,093	9,379	5,331
Cumulative exposure for sector	(29,385)	(15,101)	11,220	(500)	13,593	22,972	28,303
And interest rate exposure in respect of liabilities for employee benefits, gross - Pension and severance pay	61	124	558	1,293	1,364	3,518	5,687

(a) Excluding balance sheet outstanding derivatives, the fair value of off-balance-sheet financial instruments and of fair value of compound financial instruments. The “No repayment period" column features the non-capitalized balance sheet balances, including outstanding balances with past due dates totaling NIS 1,002 million as at March 31 2018.

(b) Weighted average by fair value of the average duration.
(c) Including non-monetary items featured in the “No repayment period" column.
(d) Including foreign-currency linked NIS.
(e) Including fair value of the actuarial liabilities to employees and excluding the value of the plan assets.

					As at March 31 2017			As at December 31 2017		
Over twenty years	Without repayment period	Total fair value	Internal rate of return	Average effective life[(b)]	Total fair value	Internal rate of return	Average effective life[(b)]	Total fair value	Internal rate of return	Average effective life[(b)]
			in %	in years		in %	in years		in %	in years
254	**1,281**	**88,002**	**2.44**	**1.35**	83,679	1.98	1.28	85,375	2.21	1.21
64	**-**	**8,906**	**2.91**	**3.79**	8,684	2.60	3.49	9,150	2.60	3.49
48	**-**	**341,513**	**-**	**0.89**	294,960	-	0.97	273,787	-	1.05
-	**-**	**8,412**	**-**	**0.31**	8,013	-	0.61	7,482	-	0.32
-	**-**	**-**	**-**	**-**	-	-	-	-	-	-
302	**1,281**	**437,927**	**2.44**	**0.97**	386,652	1.98	1.03	366,644	2.21	1.07
1	**888**	**116,307**	**1.45**	**0.16**	109,392	0.62	0.17	113,013	1.83	0.14
462	**-**	**317,572**	**-**	**1.11**	269,410	-	1.22	248,447	-	1.29
-	**-**	**6,835**	**-**	**0.76**	10,316	-	0.92	7,785	-	1.21
-	**-**	**24**	**-**	**0.50**	8	-	0.50	16	-	0.50
463	**888**	**440,738**	**1.45**	**0.86**	389,126	0.62	0.92	369,261	1.83	0.94
(161)										
(3,204)										
2,683	**6,639**	**427,675**	**2.58**	**1.11**	412,212	2.68	1.11	429,634	2.60	1.06
105	**3,776**	**590,167**	**-**	**1.11**	546,433	-	1.27	494,645	-	1.26
-	**377**	**15,946**	**-**	**0.52**	15,682	-	0.63	15,641	-	0.55
-	**-**	-	**-**	**-**	-	-	-	-	-	-
2,788	**10,792**	**1,033,788**	**2.58**	**1.10**	974,327	2.68	1.19	939,920	2.60	1.16
1	**2,551**	**392,600**	**0.70**	**0.45**	381,152	0.87	0.57	395,323	0.77	0.46
490	**3,483**	**590,126**	**-**	**1.21**	547,003	-	1.39	495,111	-	1.35
-	**68**	**15,601**	**-**	**0.77**	15,352	-	0.80	15,342	-	0.99
-	**189**	**360**	**-**	**0.09**	373	-	0.04	364	-	0.09
491	**6,291**	**998,687**	**0.70**	**0.90**	943,880	0.87	1.05	906,140	0.77	0.95
2,297										
30,600										
4,838	**-**	**17,443**	**2.09**	**15.49**	15,996	2.60	15.32	17,995	2.36	14.24

General notes:

1. The periodic data in the table state the present value of future cash flows discounted at the internal rate of return that brings them to the fair value of the financial instrument, in accordance with the assumptions used to calculate the fair value of the financial instrument. For more information regarding the assumptions used to calculate the fair value of the financial instruments, please see Note 15A.
2. An internal rate of return is the interest rate that discounts the expected cash flows from a financial instrument to the fair value included in respect thereof.
3. The average effective average duration of a class of financial instruments is an approximation of the percentage change in the fair value of the financial instrument class which will result from a small change (0.1% increase) in each financial instrument's internal rate of return.
4. The effect of hedge transactions is included in Total assets or Total liabilities, as relevant.
5. Estimates of early mortgage repayments and of deposit withdrawals by the public, respectively, were taken into account in calculating the average duration of the assets and liabilities. After neutralizing the effect of the original average duration models, in the CPI-linked segment, the assets' average duration is 4.65 years, the liabilities' average duration is 2.80 years, and the IRR gap is 1.44%. In the NIS non-linked segment, the assets' average duration is 0.95 years, the liabilities' average duration is 1.06 years, and the IRR gap is 2.16%. In addition, in managing interest-rate exposures, the Bank treats a portion of the NIS-denominated current account and foreign currency balances as a long-term liability (spread over one and ten years), rather than up to one month according to the Reporting to the Public directives.
6. More information on the exposure to interest rate changes in each financial assets and liabilities segment, by balance sheet item, will be provided on request.

Liquidity risk

Liquidity risk is the risk arising due to uncertainty regarding the possibility of raising sources and/or disposing of assets, unexpectedly and within a very short time, without incurring a substantial loss. The Leumi Group's liquidity risk management policy is part and parcel of its strategic business management and is adapted to the requirements of Proper Conduct of Banking Business Directive No. 342, Liquidity Risk Management, and the requirements of Proper Banking Management Directive No. 221, Liquidity Coverage Ratio, which adopts the recommendations of the Basel III Committee for calculating the liquidity coverage ratio (LCR), with adjustments for the Israeli economy. The minimum liquidity coverage ratio for the Bank and the Group is 100%.

Leumi maintains a proper liquidity level by investing its own portfolio in high-quality and diversified assets in NIS and foreign currencies, to enable it to meet all liquidity needs under a variety of stress scenarios, as well as through a policy of raising diversified and solid sources with different time ranges and emphasis on raising deposits from retailers and issuing long duration debentures.

Leumi monitors its liquidity position using indicators capable of providing early warning of changes in the liquidity position, inter alia, by way of a regulatory model, as well as internal models developed by Leumi in accordance with the Bank of Israel directives and accepted international standards.

For more information regarding liquidity risk, please see the "Liquidity Risk" section in the 2017 Risk Management Report on the Bank's website and Note 9B.

Operational Risks

Operational risk is the risk of loss as a result of inadequate, or failure of, internal processes, people and systems, or external events.

The Leumi Group engages in a wide range of financial activities and is therefore exposed to operational risks which include, inter alia: information security and cybersecurity risks, technological risk, business continuity risk as well as embezzlement and fraud risks.

The Group's operational risk management policy outlines Leumi's operational risk management principles, guidelines and approach, including: risk-oriented management adapted to each business line and a focus on risks with potentially significant consequences.

For more information, please see the "Operation Risk" section in the 2017 Report of the Board of Directors and Management and Risk Management Report.

Other risks

Regulation and compliance risks

Regulation risk

In the past few years, capital and liquidity requirements from banks – both in Israel and around the world – have been extended, following the lessons drawn from the financial crisis (Basel III Rules). In addition, international guidelines regarding recently issued new standards may affect the Bank's capital and risk-weighted assets. These trends affect the capital allocation for the Group's various business activities. In addition, laws and regulations were recently published which focus on the consumer environment and which aim, among other things, to increase competition.

The increase in regulatory requirements in Israel and abroad affects the Group's business model, profitability and capital adequacy requirements.
The Bank monitors these developments, studies them and prepares accordingly.

Compliance risk

A. Compliance, prohibition on money laundering and financing of terrorism

To effectively manage compliance risk, Leumi has in place a compliance and enforcement array, headed by the Chief Compliance Officer. The latter is responsible, among other things, for meeting the legal requirements of the prohibition on money laundering and financing of terrorism. The Chief Compliance Officer also serves as the securities law enforcement officer and the responsible officer for FATCA, as detailed below.

The Compliance and Enforcement Department reports to the Chief Legal Counsel.

Pursuant to developing worldwide trends, the Bank handles a range of issues, such as: compliance, prohibition on money laundering and on the financing of terrorism as well as taxation aspects, including FATCA and CRS.

The Bank focuses, among other things, on risk centers in the technological-financial domain (such as FinTech, P2P, hedge funds, virtual currencies, etc.), managing compliance and money laundering risks in a developing technological-financial domain which is characterized by a lack of clear regulation and professional complexity, as well as a lack of built-in practices for control processes, due to the novelty of the issues.

B. Administrative enforcement

The Law of Efficiency of Enforcement Procedures in the Israel Securities Authority (Legislative Amendments), 2011 was designed to streamline the enforcement of legislative provisions in the securities domain. The law allows to impose various sanctions on a corporation, its officeholders and employees if they have violated the relevant provisions.

Further to the law, the Israel Securities Authority published a list of criteria for recognition of an internal enforcement program in the securities domain (hereinafter: the "Criteria Document").

In the Criteria Document, the Israel Securities Authority ordered the corporation, inter alia, to appoint an enforcement officer, whose role is to be responsible for implementing the enforcement plan.

The Group’s Chief Compliance Officer also serves as the enforcement officer.
The Board of Directors has approved the internal enforcement plan, after the plan had been validated by an outside specialist, who had also reviewed the main enforcement procedures.

C. FATCA - Foreign Account Tax Compliance Act

According to Amendment 227 to the Income Tax Authority and Income Tax Regulations (Implementation of the FATCA Agreement), 2016 - the Bank is required to identify customers and forward information on accounts held by U.S. customers to the Israel Tax Authority, to be forwarded to the US's Internal Revenue Service.

The Bank implements a declared money policy, ensuring that no undeclared funds – which have not been declared to the relevant tax authority – are managed by the Bank. In this context, extensive efforts were made to locate and identify the relative populations and report to the tax authorities, in accordance with the FATCA rules, as established in the agreement between Israel and the US tax authorities.

The Bank acts on several levels to ensure the compliance of Leumi Group and individuals therein with the provisions of the law, including: Appointment of a compliance as the party responsible; adoption of appropriate policy and work procedures; development of automated tools supporting the working processes; formulation of training and assimilation, testing, control and operation mechanisms required for complying with the directives and instructing the Group's subsidiaries on adequate preparations.

D. Common Reporting Standard (CRS)

The OECD published a uniform standard for implementing the Automatic Exchange of Information regarding Intergovernmental Financial Accounts (hereinafter: the "Standard"). The Standard is formulated in the spirit of the US FATCA and is intended to increase transparency and supervision over tax reporting by residents of the countries holding financial accounts outside their countries of residence. In July 2016, Amendment 227 to the Income Tax Ordinance was published, regarding the implementation of the FATCA and the Standard. Regulations for applying the Standard have not yet been published.

Leumi is prepared for complying with the legislative requirements. The branches of Bank Leumi in the UK and Romania have begun to implement the Standard on January 1 2016, in accordance with the local applicable regulatory directives.

Legal risk

There is a general exposure, which cannot be assessed or quantified, arising, inter alia, from the complexity of the services provided by the Bank and the consolidated companies to their customers. The complexity of these services embodies, inter alia, a potential for claims, interpretations and others, relating to several commercial and regulatory terms and conditions. It is impossible to foresee all of the types of claims which may be raised in this area and the exposure deriving from these and other claims in connection with the services provided by the Bank and the consolidated companies, which are filed, inter alia, via the procedural mechanism provided in the Class Action Law.

There is also exposure due to regulatory changes and directives issued by the Banking Supervision Department. Some engagements with customers last many years, in the course of which policies, regulations and legal trends, as well as court rulings, may change. The Bank and the consolidated companies use complex automated systems, which are adjusted on a regular basis in light of the changes as aforesaid. All these create an increased operating and legal exposure.

There is also a general exposure arising from complaints filed from time to time with the Banking Supervision Department against the Bank and the consolidated companies, which may, under certain circumstances, result in legal proceedings against the Bank. Currently, it is impossible to assess whether there is exposure in respect of such complaints and whether the Banking Supervision Department will issue an industry-wide decision about the complaints and/or whether class actions or other type of lawsuits will be brought as a result of such proceedings. It is therefore impossible to assess the potential exposure for the such complaints. Accordingly, no provision was included in respect of the said exposure.

During the reporting period, there have been no material changes in the legal risk and its management by the Bank.

For more information regarding the legal risk and its management, please see the section entitled "Other Risks" in the 2017 Report of the Board of Directors and Management.

Reputational Risk

Reputational risk is the risk of damaging the trust of the Bank's various stakeholders, including customers, shareholders, employees, counter parties to transactions, suppliers, regulators and any other stakeholder whose trust in the Bank is essential for its business activity.

During the reporting period, there were no material changes in the Bank's reputational risk and its management.

For more information, please see the section entitled "Other Risks" in the 2017 Report of the Board of Directors and Management.

Strategic Risk

Strategic risk is defined as the risk of a material decrease in profitability as a result of a decrease in income which cannot be compensated by an adequate decrease in expenses or by finding additional sources of income. Such a decrease can arise from erroneous strategic decisions, inability to implement correct strategies, inadequate implementation of decisions or failure to respond to and prepare for (industry, economic, regulatory, consumer-related or technological) changes in the business environment.

A strategic risk can be such that its harm touches on the Bank's business model or one of its material business lines. This is a type of risk the immediate effect of which on profit may be insignificant, but may be dramatic in the long term.

During the reporting period, there were no material changes in the Bank's reputational risk and its management.

For more information, please see the section entitled "Other Risks" in the 2017 Report of the Board of Directors and Management.

Macroeconomic Risk

Macroeconomic risk is the risk to the Group's income and capital arising from macroeconomic conditions, including a low interest rate environment, global political power relations and their impact on global trade – the US's economic policy, social and political processes in Europe and geopolitical instability in conflict zones around the world, inter alia on the back of the increased threat of terrorism.

During the reporting period, there were no material changes in the Bank's reputational risk and its management.

For more information, please see the section entitled "Other Risks" in the 2017 Report of the Board of Directors and Management.

Conduct Risk

Conduct risk is the risk that the Bank's conduct vis-à-vis its customers will lead, by act or omission, to an unwanted outcome for them, without the customer being able to take this outcome into account. As a result, the Bank may incur losses from legal damages, fines or reputational damage.

During the reporting period, there were no material changes in the Bank's reputational risk and its management.

For more information, please see the section entitled "Other Risks" in the 2017 Report of the Board of Directors and Management.

Accounting Policies and Estimates on Critical Issues

Overview

The financial statements are prepared in accordance with the generally accepted accounting principles and the directives and instructions of the Banking Supervision Department regarding the preparation of annual and quarterly financial statements of a banking corporation as detailed in Note 1 to the Annual Financial Statements as at December 31 2017.

The preparation of the consolidated financial statements in accordance with generally accepted accounting principles and directives of the Banking Supervision Department requires Management to use of estimates and assessments which affect the reported amounts of assets and liabilities as well as income and expense amounts.

The actual results of these estimates may differ from the estimates and/or assessments. In most cases, the estimates and assessments are based on economic forecasts, assessments regarding different markets and past experience, while exercising discretion, and which Management believes to be reasonable at the time of signing the financial statements.

The main critical accounting issues in the December 31 2017 Annual Report are as follows: Provision for loan losses and classification of problem debts, derivatives, securities, liabilities for employee benefits, liabilities for legal claims and income tax.

Liability for employee benefits

Retirement and pension benefits are determined according to a classification of employment periods at the Bank: Employees who began working at the Bank from January 1 1999 have ongoing pension and provident fund contributions, for which the Bank has no pension liability, except for supplementary severance pay. Employees who began working at the Bank prior to January 1 1999 may choose, on reaching retirement age, to either receive severance pay and compensation or a pension annuity from the Bank, all in accordance with, and subject to, the provisions of the various agreements applicable to the employees. For these employees, the Bank deposits contributions in the employees' provident and severance pay fund, which is managed by a management company held by the fund's members (hereinafter: the "Fund").

In recent years, the Bank took several measures to mitigate the effect of these liabilities on the financial statements. Following these measures, the Bank began assessing alternatives to the current situation according to which all the funds are deposited in said Fund. At this stage, it is impossible to determine whether this will lead to forming a plan which will be approved and implemented and it is impossible to determine whether the required agreements will be reached in order to implement the above.

The calculation of pension liability amounts is based on actuarial models. The discount rate used to calculate the actuarial liabilities for employee benefits is based on market yields according to the alternative chosen by the Bank from among those prescribed by the Bank of Israel, according to which the yield curve is composed of yields of Israeli government bonds plus a fixed-spread curve of AA-graded corporate debentures which match the average durations of the liabilities for employee rights.

Based on past experience, the actuarial calculations also take into account the forecasted real pay raises that change according to the employee's age.

The actuarial models include assumptions about: life expectancy, disability rates, departure rates, exit rates with preferential terms and conditions, percentage of utilizing pension benefits and percentage of withdrawal of severance pay and benefits, etc. Although the criteria have been set with adequate caution and professionalism, a change in any or several of the actuarial criteria and/or capitalization rate and/or pay raise rates will alter the Bank's liabilities amount.

The actuarial assessment of the employees' benefits is on the Israel Securities Authority's website, on the following address www.magna.isa.gov.il.

As at March 31 2018, the balance of accumulated other comprehensive income for employee benefits amounted to a negative balance of NIS 2,800 million, after the tax effect, a NIS 150 million decrease after taxes in the negative reserve balance, compared with December 31 2017.

The outstanding balance of the liability for employee benefits as at March 31 2018, according to a discount rate based on Israeli corporate bonds ("deep market according to the Israel Securities Authority's approach") is NIS 875 million less than the actual outstanding balance of the liability.

Controls and Procedures Regarding Financial Statements Disclosures

The Banking Supervision Department's directives impose the requirements of Sections 302 and 404 of the SOX Act on banking corporations. The SEC and the Public Company Accounting Oversight Board have established provisions with regard to the abovementioned sections, on management's responsibility for instating and maintaining disclosure controls and procedures and for exercising internal control over financial reporting and the opinion of the independent auditors on the audit of internal controls over financial reporting.

The Supervisor of Bank's directives require the following:

- Banking corporations shall apply Sections 302 and 404 and the SEC directives issued thereunder.
- Adequate internal control requires an auditing system that follows a predefined, recognized framework. The 1992 COSO (Committee of Sponsoring Organizations of the Treadway Commission) meets these requirements and can be used to evaluate the internal controls.

The Bank regularly applies the directive to the Leumi Group.

During 2018, the Bank will validate and update material control processes and conduct effective evaluations of its entire internal system of control over financial reporting.

Disclosure controls and procedures

The Bank's management, President and Chief Executive Officer and Head of the Finance Division and the Chief Accountant have evaluated the effectiveness of the Bank's disclosure controls and procedures as at the end of the reporting period. Based on this evaluation, the Bank's President and Chief Executive Officer and the Head of the Finance Division and the Chief Accountant have concluded that, as at the end of the reporting period, the Bank's disclosure controls and procedures are effective for the purpose of recording, processing, summarizing and reporting the information the Bank is required to disclose in its financial statements pursuant to the Banking Supervision Department's Reporting to the Public Directives and as at the date prescribed by the Directives.

Changes in internal control

In the quarter ended March 31 2018, no material change has occurred in the Bank's internal control over financial reporting which has had a material effect, or is reasonably expected to have a material effect, on the Bank's internal control over financial reporting.

Board of Directors

Year to date, Leumi's Board of Directors held 6 plenum meetings and its committees held 16 meetings.

At a Board meeting held on May 23 2018, the Board resolved to approve and publish the Group's condensed consolidated unaudited financial statements as at March 31 2018 and for the period then ended.

The Bank's Board would like to express its appreciation and gratitude to the employees and managers of the Bank and the Group's subsidiaries - both in Israel and overseas - for their dedicated work and contribution to the Group's business.

David Brodet
Chairman of the Board

Rakefet Russak-Aminoach
President and CEO

May 23 2018

Certification

I, Rakefet Russak-Aminoach, hereby certify as follows:

1. I have reviewed the quarterly report of Bank Leumi of Israel Ltd. (hereinafter: the “Bank") for the quarter ended March 31 2018 (hereinafter: the “Report").

2. To my knowledge, the Report does not contain any misrepresentation of a material fact, or omit a representation of a material fact, that is necessary in order for the representations included in it - under the circumstances in which such representations were included - to be misleading as to the reporting period.

3. To my knowledge, the quarterly report and other financial information included in the Report fairly represent, in all material aspects, the Bank’s financial position, financial performance and changes in shareholders' equity and cash flows as at the dates and for the periods presented in the Report.

4. I and others at the Bank signing this certification are responsible for the establishment and implementation of controls and procedures regarding the Bank's disclosure and internal control over financial reporting (as defined in the Reporting to the Public Directives regarding “Report of the Board of Directors and Management"). In addition:

    A. We have established such controls and procedures, or caused such controls and procedures to be established under our oversight, with the aim of ensuring that material information about the Bank and its consolidated companies is brought to our attention by others in the Bank and companies, especially during the preparation of the Report;

    B. We have established such internal controls over the financial reporting or have caused such controls to be established under our oversight, with the aim of providing reasonable assurance as to the reliability of the financial reporting and that the financial statements for external purposes have been prepared in accordance with the generally accepted accounting principles and the directives and instructions of the Banking Supervision Department;

    C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in the report our conclusions regarding the effectiveness of the disclosure controls and procedures as at the end of the reporting period according to our evaluation; and

    D. The Report discloses any change in the Bank’s internal control over financial reporting which occurred during the quarter and has materially affected, or is reasonably expected to affect, the Bank’s internal control over financial reporting; and

5. I and others at the Bank signing this certification have disclosed to the joint independent auditors, the Board of Directors, and the Board of Directors’ committees, based on our most recent evaluation of the internal control over financial reporting, the following:

    A. All significant deficiencies and material weaknesses in the establishment or implementation of the internal controls over financial reporting that may harm the Bank’s ability to record, process, summarize and report financial information; and

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

Nothing in the foregoing shall derogate from my responsibility or the responsibility of any other person, under any law.

May 23 2018

Rakefet Russak-Aminoach
President and CEO

Certification

I, Omer Ziv, hereby certify as follows:

1. I have reviewed the quarterly report of Bank Leumi of Israel Ltd. (hereinafter: the "Bank") for the quarter ended March 31 2018 (hereinafter: the "Report").
2. To my knowledge, the Report does not contain any misrepresentation of a material fact, or omit a representation of a material fact, that is necessary in order for the representations included in it - under the circumstances in which such representations were included - to be misleading as to the reporting period.
3. To my knowledge, the quarterly report and other financial information included in the Report fairly represent, in all material aspects, the Bank's financial position, financial performance and changes in shareholders' equity and cash flows as at the dates and for the periods presented in the Report.
4. I and others at the Bank signing this certification are responsible for the establishment and implementation of controls and procedures regarding the Bank's disclosure and internal control over financial reporting (as defined in the Reporting to the Public Directives regarding "Report of the Board of Directors and Management"). In addition:
   A. We have established such controls and procedures, or caused such controls and procedures to be established under our oversight, with the aim of ensuring that material information about the Bank and its consolidated companies is brought to our attention by others in the Bank and companies, especially during the preparation of the Report;
   B. We have established such internal controls over the financial reporting or have caused such controls to be established under our oversight, with the aim of providing reasonable assurance as to the reliability of the financial reporting and that the financial statements for external purposes have been prepared in accordance with the generally accepted accounting principles and the directives and instructions of the Banking Supervision Department;
   C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in the report our conclusions regarding the effectiveness of the disclosure controls and procedures as at the end of the reporting period according to our evaluation; and
   D. The Report discloses any change in the Bank's internal control over financial reporting which occurred during the quarter and has materially affected, or is reasonably expected to affect, the Bank's internal control over financial reporting; and
5. I and others at the Bank signing this certification have disclosed to the joint independent auditors, the Board of Directors, and the Board of Directors' committees, based on our most recent evaluation of the internal control over financial reporting, the following:
   A. All significant deficiencies and material weaknesses in the establishment or implementation of the internal controls over financial reporting that may harm the Bank's ability to record, process, summarize and report financial information; and
   B. Any fraud, whether or not material, involving management or other employees who have a significant role in the Bank's internal control over financial reporting.

Nothing in the foregoing shall derogate from my responsibility or the responsibility of any other person, under any law.

May 23 2018

Omer Ziv
First Executive Vice President
Head of Finance Division

Certification

I, Shlomo Goldfarb, hereby certify as follows:

1. I have reviewed the quarterly report of Bank Leumi of Israel Ltd. (hereinafter: the "Bank") for the quarter ended March 31 2018 (hereinafter: the "Report").

2. To my knowledge, the Report does not contain any misrepresentation of a material fact, or omit a representation of a material fact, that is necessary in order for the representations included in it - under the circumstances in which such representations were included - to be misleading as to the reporting period.

3. To my knowledge, the quarterly report and other financial information included in the Report fairly represent, in all material aspects, the Bank's financial position, financial performance and changes in shareholders' equity and cash flows as at the dates and for the periods presented in the Report.

4. I and others at the Bank signing this certification are responsible for the establishment and implementation of controls and procedures regarding the Bank's disclosure and internal control over financial reporting (as defined in the Reporting to the Public Directives regarding "Report of the Board of Directors and Management"). In addition:

   A. We have established such controls and procedures, or caused such controls and procedures to be established under our oversight, with the aim of ensuring that material information about the Bank and its consolidated companies is brought to our attention by others in the Bank and companies, especially during the preparation of the Report;

   B. We have established such internal controls over the financial reporting or have caused such controls to be established under our oversight, with the aim of providing reasonable assurance as to the reliability of the financial reporting and that the financial statements for external purposes have been prepared in accordance with the generally accepted accounting principles and the directives and instructions of the Banking Supervision Department;

   C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in the report our conclusions regarding the effectiveness of the disclosure controls and procedures as at the end of the reporting period according to our evaluation; and

   D. The Report discloses any change in the Bank's internal control over financial reporting which occurred during the quarter and has materially affected, or is reasonably expected to affect, the Bank's internal control over financial reporting; and

5. I and others at the Bank signing this certification have disclosed to the joint independent auditors, the Board of Directors, and the Board of Directors' committees, based on our most recent evaluation of the internal control over financial reporting, the following:

   A. All significant deficiencies and material weaknesses in the establishment or implementation of the internal controls over financial reporting that may harm the Bank's ability to record, process, summarize and report financial information; and

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

Nothing in the foregoing shall derogate from my responsibility or the responsibility of any other person, under any law.

May 23 2018

Shlomo Goldfarb
First Executive Vice President
Chief Accounting Officer
Head of Accounting Division

Review Report of the Joint Independent Auditors to the Shareholders of Bank Leumi of Israel Ltd.

Introduction

We have reviewed the accompanying financial information of Bank Leumi of Israel Ltd. and its subsidiaries (hereinafter: the “Bank"), which includes the condensed consolidated interim balance sheet as at March 31 2018 and the condensed consolidated interim income statement, comprehensive income statement, statement of changes in equity and cash flow statement for the three-month period then ended. The Board of Directors and management are responsible for the preparation and presentation of the financial information for this interim period in accordance with Israeli GAAP for interim financial reporting and in accordance with the Banking Supervision Department’s directives and guidelines. Our responsibility is to express a conclusion regarding the financial information for this interim period based on our review.

Review scope

We performed our review pursuant to Review Standard 1 of the Institute of Certified Public Accountants in Israel, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, and a review standard applied in the review of banking corporations pursuant to the Banking Supervision Department’s directives and instructions. A review of interim financial information consists of inquiries, mostly of persons responsible for financial and accounting issues, and of applying analytical and other review procedures. A review is substantially smaller in scope than an audit performed pursuant to Israeli GAAP and, as a result, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Consequently, we are not expressing an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial information is not prepared, in all material respects, in accordance with Israeli GAAP for interim financial reporting and in accordance with the directives and guidelines of the Supervisor of Banks.

Somekh Chaikin
CPAs

Kost Forer Gabbay & Kasierer
CPAs

Joint Independent Auditors

May 23 2018

BANK LEUMI OF ISRAEL LTD. AND ITS CONSOLIDATED COMPANIES
Condensed Consolidated Income Statement
For the period ended March 31 2018

	Note	For the three months ended March 31		For the year ended December 31
		2018	2017	2017
		Unaudited		Audited
		in NIS millions		
Interest income	2	**2,421**	2,319	10,069
Interest expense	2	**415**	446	2,023
Interest income, net	2	**2,006**	1,873	8,046
Loan Loss Expenses	6,13	**130**	101	172
Interest income, net of Loan Loss Expenses		**1,876**	1,772	7,874
Non-interest income				
Non-interest finance income	3	**51**	255	919
Fees and commissions		**1,045**	1,018	4,138
Other income		**18**	14	371
Total non-interest income		**1,114**	1,287	5,428
Operating and other expenses				
Salaries and related costs[(a)]		**1,068**	[(a)]1,119	[(a)]4,591
Buildings and equipment - maintenance and depreciation		**411**	435	1,661
Other expenses		**519**	[(a)]496	[(a)]2,249
Total operating and other expenses		**1,998**	2,050	8,501
Profit before taxes		**992**	1,009	4,801
Provision for taxes on profit		**262**	388	1,692
Profit after taxes		**730**	621	3,109
The Bank's share in associates' profits, after tax		**10**	10	92
Net income				
Before attribution to non-controlling interests		**740**	631	3,201
Attributable to non-controlling interests		**(10)**	(9)	(29)
Attributable to the Bank's shareholders		**730**	622	3,172
Basic and diluted earnings per share (in NIS)				
Basic net income attributable to the Bank's shareholders		**0.48**	0.41	2.10
Diluted net income attributable to the Bank's shareholders		**0.48**	0.41	2.10

(a) Reclassified due to retrospective application of the Banking Supervision Department's directive regarding improved presentation of expenses for pension and other post-employment benefits. Please see Note 1.B.3.

The notes to the condensed financial statements form an integral part thereof.

David Brodet
Chairman of the Board

Rakefet Russak-Aminoach
President and CEO

Omer Ziv
First Executive Vice President
Head of Finance Division

Shlomo Goldfarb
First Executive Vice President
Chief Accounting Officer
Head of Accounting Division

Date the financial statements were approved: May 23 2018

BANK LEUMI OF ISRAEL LTD. AND ITS CONSOLIDATED COMPANIES

Condensed Consolidated Statement of Comprehensive Income

For the period ended March 31 2018

	For the three months ended March 31		For the year ended December 31
	2018	2017	2017
	Unaudited		Audited
	in NIS millions		
Net income before amount attributable to non-controlling interests	**740**	631	3,201
Less net income attributable to non-controlling interests	**10**	9	29
Net income attributable to the Bank's shareholders	**730**	622	3,172
Other comprehensive income (loss), before taxes			
Adjustments in respect of presentation of available-for-sale securities at fair value, net	**(207)**	20	259
Adjustments from translation of financial statements, net[(a)], net of hedges[(b)]	**4**	12	(39)
Adjustments of liabilities in respect of employee benefits[(c)]	**225**	502	(1,177)
The Bank's share in other comprehensive income of associates	**(3)**	(8)	(10)
Other comprehensive income (loss), before taxes	**19**	526	(967)
Relevant tax effect	**9**	(240)	232
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	**28**	286	(735)
Less other comprehensive income attributable to non-controlling interests	**-**	-	-
Other comprehensive income (loss) attributable to the Bank's shareholders, after taxes	**28**	286	(735)
Comprehensive income before attribution to non-controlling interests	**768**	917	2,466
Less comprehensive income attributable to non-controlling interests	**10**	9	29
Comprehensive income attributable to the Bank's shareholders	**758**	908	2,437

(a) Adjustments from the translation of the financial statements of a foreign operation whose functional currency is different from Bank's functional currency.
(b) Hedges - net gains (losses) in respect of hedging of a net investment in foreign currency.
(c) Mostly reflects adjustments in respect of actuarial estimates, as at the end of the period, of defined benefit plans and a deduction of amounts previously recorded in Other comprehensive income.

See also Note 4, under Other comprehensive income (loss).

The notes to the condensed financial statements form an integral part thereof.

BANK LEUMI OF ISRAEL LTD. AND ITS CONSOLIDATED COMPANIES

Condensed Consolidated Balance Sheet as at March 31 2018

		March 31		December 31
		2018	2017	2017
		Unaudited		Audited
	Note	in NIS millions		
Assets				
Cash and deposits with banks		**73,376**	68,275	82,067
Securities[(a)(b)]	**5**	**80,061**	77,959	77,299
Securities borrowed or purchased under agreements to resell		**878**	903	1,161
Loans to the public	**6, 13**	**266,611**	268,172	271,216
Loan loss provision	**6, 13**	**(3,281)**	(3,418)	(3,264)
Loans to the public, net		**263,330**	264,754	267,952
Loans to governments		**723**	620	715
Investments in investee companies		**831**	878	807
Buildings and equipment		**2,762**	3,016	2,986
Intangible assets and goodwill		**16**	17	16
Assets for derivatives	**11**	**11,803**	11,032	9,573
Other assets[(a)]		**8,274**	7,844	8,262
Held-for-sale assets[(d)]		**8,513**	-	-
Total assets		**450,567**	435,298	450,838
Liabilities and capital				
Deposits from the public	**7**	**362,026**	341,663	362,478
Deposits from banks		**3,077**	4,493	5,156
Deposits from governments		**968**	770	452
Securities loaned or sold under agreements to repurchase		**495**	481	558
Bonds, promissory notes and subordinated notes		**15,603**	22,689	15,577
Liabilities in respect of derivative instruments	**11**	**11,417**	11,272	9,740
Other liabilities[(a)(c)]		**16,561**	21,309	23,324
Held-for-sale liabilities[(d)]		**6,470**	-	-
Total liabilities		**416,617**	402,677	417,285
Shareholders' equity	**9**	**33,564**	32,255	33,167
Non-controlling interests		**386**	366	386
Total capital		**33,950**	32,621	33,553
Total liabilities and capital		**450,567**	435,298	450,838

(a) For more information regarding amounts measured at fair value, please see Note 15A.
(b) For more information on securities pledged to lenders, please see Note 5.
(c) Of which: a provision for loan losses for off-balance-sheet credit instruments, NIS 457 million (as at March 31 2017 - NIS 514 million; as at December 31 2017 - NIS 484 million).
(d) For more information, please see Note 16.

The notes to the condensed financial statements form an integral part thereof.

BANK LEUMI OF ISRAEL LTD. AND ITS CONSOLIDATED COMPANIES
Condensed Consolidated Changes in Equity Statement
For the period ended March 31 2018

	For the three months ended March 31 2018 (unaudited)		
		Capital reserves	
	Share capital	Premium	Share-based payment and other transactions[(a)]
	in NIS millions		
Balance as at December 31 2017 (audited)	7,110	1,729	38
Effect of first time application of IFRS 9 to foreign subsidiaries	-	-	-
Net income for the period	-	-	-
Issue of shares	**1**	**7**	**(8)**
Other comprehensive loss, net of tax	-	-	-
Dividend paid by consolidated companies	-	-	-
Dividend paid	-	-	-
Balance on March 31 2018	**7,111**	**1,736**	**30**

	For the three months ended March 31 2017 (unaudited)		
		Capital reserves	
	Share capital	Premium	Share-based payment and other transactions[(a)]
	in NIS millions		
Balance as at December 31 2016 (audited)	7,109	1,722	36
Net income for the period	-	-	-
Other comprehensive income, net of tax	-	-	-
Dividend paid by consolidated companies	-	-	-
Balance on March 31 2017	7,109	1,722	36

	For the year ended December 31 2017 (audited)		
		Capital reserves	
	Share capital	Premium	Share-based payment and other transactions[(a)]
	in NIS millions		
Balance on December 31 2016	7,109	1,722	36
Implementation of the US tax reform[(b)]	-	-	-
Net income	-	-	-
Issue of shares	1	7	(8)
Employee benefit in respect of share-based payment transactions	-	-	10
Other comprehensive loss, net of tax	-	-	-
Dividend paid by consolidated companies	-	-	-
Dividend paid	-	-	-
Balance on December 31 2017	7,110	1,729	38

(a) Including NIS 10 million in other capital reserves.
(b) Effect of income taxes arising from tax rate changes following the tax reform; the taxes were reclassified from other comprehensive income to retained earnings.
The notes to the condensed financial statements form an integral part thereof.

BANK LEUMI OF ISRAEL LTD. AND ITS CONSOLIDATED COMPANIES

Condensed Consolidated Changes in Equity Statement (cont.)

For the period ended March 31 2018

Total share capital and capital reserves	Accumulated other comprehensive loss	Retained earnings	Total	Non-controlling interests	Total capital
8,877	(3,051)	27,341	33,167	386	33,553
-	-	**(19)**	**(19)**	-	**(19)**
-	-	**730**	**730**	**10**	**740**
-	-	-	-	-	-
-	**28**	-	**28**	-	**28**
-	-	-	-	**(10)**	**(10)**
-	-	**(342)**	**(342)**	-	**(342)**
8,877	**(3,023)**	**27,710**	**33,564**	**386**	**33,950**

Total share capital and capital reserves	Accumulated other comprehensive loss	Retained earnings	Total	Non-controlling interests	Total capital
8,867	(2,312)	24,792	31,347	367	31,714
-	-	622	622	9	631
-	286	-	286	-	286
-	-	-	-	(10)	(10)
8,867	(2,026)	25,414	32,255	366	32,621

Total share capital and capital reserves	Accumulated other comprehensive loss	Retained earnings	Total	Non-controlling interests	Total capital
8,867	(2,312)	24,792	31,347	367	31,714
-	(14)	14	-	-	-
-	-	3,172	3,172	29	3,201
-	-	-	-	-	-
10	-	-	10	-	10
-	(725)	(10)	(735)	-	(735)
-	-	-	-	(10)	(10)
-	-	(627)	(627)	-	(627)
8,877	(3,051)	27,341	33,167	386	33,553

BANK LEUMI OF ISRAEL LTD. AND ITS CONSOLIDATED COMPANIES

Condensed Consolidated Cash Flow Statement
For the period ended March 31 2018

	For the three months ended March 31		For the year ended December 31
	2018	2017	2017
	Unaudited		Audited
	in NIS millions		
Cash flows from operating activities			
Net income for the period	**740**	631	3,201
Adjustments:			
Group's share in undistributed profits of associates[(a)]	**82**	14	68
Depreciation of buildings and equipment (including impairment)	**161**	183	662
Expenses in respect of loan losses	**130**	101	172
Gains on sale of loan portfolios	**-**	-	(9)
Gains on sale of available-for-sale securities	**(21)**	(43)	(187)
Realized and unrealized gain (loss) from adjustments to fair value of held-for-trading securities	**(70)**	186	45
Gains on disposal of buildings and equipment	**(11)**	-	(278)
Provision for impairment of available-for-sale shares	**-**	-	11
Deferred taxes - net	**12**	(72)	(231)
Severance pay and pension - increase (decrease) in excess reserves over fund	**223**	[(b)]497	(42)
Interest received for available-for-sale bonds beyond the interest accrued during the period	**59**	7	100
Interest payable on bonds and subordinated notes	**92**	162	671
Effect of exchange rate differentials on cash and cash equivalent balances	**(169)**	587	447
Other, net	**-**	-	(2)
Net change in current assets:			
Assets for derivatives	**(2,230)**	(381)	1,077
Held-for-trading securities	**(224)**	81	2,948
Other assets	**(299)**	[(b)](294)	(111)
Net change in current liabilities:			
Liabilities in respect of derivative instruments	**1,711**	642	(915)
Other liabilities	**(298)**	(505)	317
Net cash provided from (for) current activities	**(112)**	[(b)]1,796	[(b)]7,944

(a) Net of dividend received.
(b) Reclassified, including in respect of the application of US GAAP ASC 230, *Statement of Cash Flows*. Please see Note 1.B.2.

The notes to the condensed financial statements form an integral part thereof.

BANK LEUMI OF ISRAEL LTD. AND ITS CONSOLIDATED COMPANIES

Condensed Consolidated Cash Flow Statement (cont.)

For the period ended March 31 2018

	For the three months ended March 31		For the year ended December 31
	2018	2017	2017
	Unaudited		Audited
	in NIS millions		
Cash flows from investing activities			
Net change in deposits with banks with original maturities of more than three months	**(3,449)**	[a](37)	[a](1,085)
Net change in loans to the public	**(3,390)**	[a](3,840)	[a](8,017)
Net change in loans to governments	**(8)**	[a]22	[a](73)
Net change in securities borrowed or purchased under agreements to resell	**283**	[a]381	[a]123
Purchase of held-to-maturity bonds	**(401)**	-	(74)
Proceeds from the sale of held-to-maturity bonds	**19**	57	128
Purchase of available-for-sale securities	**(27,539)**	(28,021)	(90,845)
Proceeds from the sale of available-for-sale securities	**13,686**	14,057	42,394
Proceeds from redemption of available-for-sale securities	**11,520**	12,691	45,187
Purchase of associates' shares	**(117)**	-	17
Proceeds from sale of loan portfolios	**-**	-	96
Purchase of buildings and equipment	**(178)**	(215)	(637)
Proceeds from disposal of buildings and equipment	**22**	3	315
Proceeds from disposal of assets transferred to the Group's ownership	**-**	2	-
Central severance pay fund	**123**	[a]296	373
Other	**(20)**	-	-
Net cash from (for) investing activities	**(9,449)**	(4,604)	(12,098)
Cash flows from financing activities			
Net change in deposits from banks with original maturities of more than three months	**(2,095)**	[a]1,317	[a]2,094
Net change in deposits from the public	**(669)**	[a](3,950)	[a]17,817
Net change in deposits from governments	**512**	[a](92)	[a](387)
Net change in securities loaned or sold under agreements to resell	**(63)**	[a](58)	[a]19
Redemption of bonds and subordinated notes	**(66)**	(113)	(7,734)
Dividend paid to shareholders	**(342)**	-	(627)
Dividend paid to external shareholders in consolidated companies	**(10)**	(10)	(10)
Net cash from (for) financing activities	**(2,733)**	(2,906)	11,172
Increase (decrease) in cash and cash equivalents classified as held-for-sale assets and liabilities[b]	**(12,294)**	(5,714)	7,018
Less balances of cash and cash equivalents classified as held-for-sale assets and liabilities[b]	**2**	-	-
Increase (decrease) in cash and cash equivalents	**(12,296)**	(5,714)	7,018
Balance of cash and cash equivalents at beginning of period	78,840	72,269	72,269
Effect of exchange rate differentials on cash and cash equivalent balances	169	(587)	(447)
Balance of cash and cash equivalents at end of period	**78,840**	72,269	72,269

(a) Reclassified, including in respect of the application of US GAAP ASC 230, *Statement of Cash Flows*. Please see Note 1.B.2.
(b) For more information, please see Note 16.

BANK LEUMI OF ISRAEL LTD. AND ITS CONSOLIDATED COMPANIES
Condensed Consolidated Cash Flow Statement (cont.)
For the period ended March 31 2018

Interest and taxes paid or received and dividends received

	For the three months ended March 31		For the year ended December 31
	2018	2017	2017
	Unaudited		Audited
	in NIS millions		
Interest received	**2,547**	2,658	10,057
Interest paid	**(568)**	(366)	(2,447)
Dividends received	**96**	32	176
Income tax paid	**(514)**	(352)	(1,855)

Appendix A - Non-cash investments and financing activities in the reporting period:

For the period ended March 31 2018

On January 1 2017, a balance of NIS 957 million was reclassified from the available-for-sale securities portfolio to the held-to-redemption bonds portfolio.

On April 6 2017, the Bank issued PSUs. As a result, NIS 10 million was classified from other liabilities to the share-based payment transaction reserve. Please see Note 9A.

For more information, please see Note 25A to the 2017 Financial Statements.

The notes to the consolidated financial statements form an integral part thereof.

Note 1 – Significant Accounting Policies

A. Basis of financial reporting

A. Reporting principles

The condensed interim financial statements are prepared as at March 31 2018, in accordance with the Israeli GAAP on interim financial reporting and the directives and guidelines of the Banking Supervision Department regarding the preparation of quarterly financial statements of a banking corporation. In most topics, the directives are based on US GAAP for banks. In other, less material, topics, the directives are based on certain IFRSs, interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and Israeli GAAP.

When IFRSs allow for several alternatives, or do not include a specific reference to a particular situation, the Banking Supervision Department's directives provide specific application guidelines that are usually based on US GAAP for banks.

The accounting principles applied to the preparation of the financial statements are consistent with those applied to the audited annual financial statements as at December 31 2017, except as outlined in Section B below. The financial statements should be read in conjunction with the annual financial statements as at December 31 2017 and their accompanying notes. On May 23 2018, the Bank's Board of Directors approved the condensed consolidated interim financial statements for publication.

B. Use of estimates

Preparing the condensed consolidated interim financial statements in accordance with the Israeli GAAP and directives and guidance of the Banking Supervision Department requires management to use estimates, assessments and judgment, which affect the reported amounts of assets and liabilities as well as income and expense amounts during the reporting period. It is clarified that the actual results may differ from such estimates.

When developing accounting estimates used in the preparation of the Bank's financial statements, the Bank's management is required to make assumptions regarding circumstances and events involving significant uncertainty. In exercising its judgment to determine the accounting estimates, the Bank's management relies on past experience, various facts, external factors and reasonable assumptions, in accordance with each estimate's particular circumstances.

C. Changes in estimates

The underlying estimates and assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognized in the period in which the estimates were restated and for any future affected periods.

B. First-time application of new accounting standards, accounting standard revisions, and new directives issued by the Banking Supervision Department

As of the reporting periods commencing on January 1 2018, the Bank applies the following accounting standards and directives:

1. Revenue recognition

On January 11 2015, a circular was published regarding the adoption of revised accounting principles, Revenue from Contracts with Customers. The circular revises Reporting to the Public Directives following the publication of Update No. 2014-09, which adopts a new standard on income recognition for the US GAAP. According to the Standard, revenue should be recognized in the amount expected to be received in return for the transfer of goods or provision of services to customers.
The Standard provides a five-stage model for determining the timing and amount for recognizing the revenue.

The Standard also outlines the rules for presenting these revenues and the costs incurred in respect thereof.

Note 1 – Significant Accounting Policies (cont.)

B. First-time application of new accounting standards, accounting standard revisions, and new directives issued by the Banking Supervision Department (cont.)

The new standard is not applicable, inter alia, to financial instruments and contractual rights or obligations within the scope of Accounting Standards Codification (ASC) Topic 310. According to the Bank of Israel directives, the provisions of the new standard are not applicable to the accounting treatment of interest income and expenses and non-interest finance income. As a result, the new directives have no effect on most of the Bank's revenues.

The circular shall be implemented prospectively from January 1 2018, by charging the cumulative effect to retained earnings.

The implementation of the circular had no significant effect on the financial statements.

2. Reporting by banking corporations pursuant to US GAAP

On October 13 2016, the Banking Supervision Department published a circular titled “Reporting by Banking Corporations Pursuant to US GAAP.”

The circular revises, inter alia, the Reporting to the Public Directives and adopts the US GAAP on the following topics:

- Discontinued operations in accordance with ASC Subtopic 205-20 on “Non-Current Assets Held for Sale and Discontinued Operations.”
- Property, plant, and equipment in accordance with ASC Topic 360 *Property, Plant, and Equipment*.
- Earnings per share in accordance with ASC Topic 260, *Earnings per Share*.
- Statement of cash flows in accordance with ASC Subtopic 230-10, *Statement of Cash Flows*.
- Interim reporting in accordance with ASC Topic 270, *Interim Reporting*.
- Capitalization of interest costs pursuant to ASC Subtopic 835-20, *Capitalization of Interest*.
- Measurement and disclosure of guarantees in accordance with ASC Topic 460, *Guarantees*.
- The implementation of the circular had no significant effect on the financial statements.

3. Improved presentation of pension and other post-employment benefits

On January 1 2018, the Banking Supervision Department published a circular titled “Improved presentation of pension and other post-employment benefits.”

Pursuant to the circular, the salary expenses in the income statement should only include the cost of service, while all other cost components of the benefit should be presented under “Other expenses.”

In addition, the circular clarified that only the cost of service component may be capitalized.

The implementation of the circular had no significant effect on the financial statements, except on the manner of presentation and disclosure, including restatement of comparative information for previous periods.

4. Standard update on stock compensation

In May 2017, the Financial Accounting Standards Board (FASB) published ASU 2017-09 which constitutes an amendment to the provisions of ASC 718, “Compensation — Stock Compensation." The ASU is intended to clarify when modification accounting is applicable following a change in the stock compensation terms.

The implementation of the circular had no significant effect on the financial statements.

Note 1 – Significant Accounting Policies (cont.)

C. New accounting standards and new directives issued by the Banking Supervision Department prior to their application

Publication and topic	Publication's requirements	Effective date and transitional provisions	Effect on the financial statements
Standard update ASU 2017-04, on impairment of goodwill	In January 2017, the FASB issued ASU 2017-04, which amends ASC 350, "Intangibles - Goodwill and Other." According to the ASU, it is no longer required to calculate the fair value of goodwill and recognize an impairment in respect of the difference between the fair value and carrying amount. Goodwill impairment should be recognized as the difference between the fair value of the reported unit and its carrying amount. However, the impairment loss cannot exceed the goodwill amount attributed to the reporting unit.	The change is to be applied prospectively from January 1 2020.	The implementation of the circular is not expected to have a significant effect on the financial statements.
ASU 2017-08, "Receivables"	In March 2017, the FASB published ASU 2017-08, "Premium Amortization of Purchased Callable Debt Securities (hereinafter: the "ACU"), which constitutes an update to Subtopic 310-208 - "Receivables - Nonrefundable Fees and Other Costs" (formerly FAS 91). Pursuant to the update, the amortization period of premiums on purchased callable debt securities by the issuer will be shortened from the contractual amortization period to one ending with the earliest early repayment date.	The change is to be applied prospectively from January 1 2019.	The implementation of the circular is not expected to have a significant effect on the financial statements.
Adoption of updates to US GAAP for banks - provisions for expected loan losses and other directives	On March 28 2018, the Banking Supervision Department published a letter titled "Adoption of Updates to US GAAP for Banks - Provisions for Expected Loan Losses and other Directives." The letter requires Israeli banks to apply US GAAP for banks on the following topics: **Update on accounting for loan loss provisions - CECL** The letter adopts US GAAP for expected loan losses as published in ASU 2016-13. The purpose of the new rules is to improve the quality of reporting on a banking corporation's financial position by early recording the provisions for loan losses so as to reinforce the anti-cyclical behavior of the loan loss provisions in order to support a swifter response by banks to a deterioration in borrowers' credit quality and enhance the correlation between credit	The effective date of the change is January 1 2021, which is to be applied by recording retained earnings on the first-time application date of the cumulative effect of the rules' application.	The Bank is assessing the effect of the letter on its financial statements

Publication and topic	Publication's requirements	Effective date and transitional provisions	Effect on the financial statements
	risk management and the manner in which these risks are reflected in the financial statements. The main highlights of the expected changes are as follows: • The loan loss provision will be calculated according to the expected loss over the life of a loan rather than the estimated loss that has been incurred but not yet identified. • When estimating loan losses, significant use will be made of forward-looking information which shall reflect reasonable forecasts regarding future economic events. • Disclosure of the effect of the loan granting date on the credit quality of the loan portfolio will be expanded • A change will be made in the manner in which impairment of bonds in the available-for-sale portfolio will be recorded. • The new rules for calculating the loan loss provision will apply to loans, held-to-maturity bonds and certain off-balance sheet credit exposures.		
	Update of financial instruments' accounting treatment The letter adopts US GAAP on recognition and measurement of financial instruments as published in ASU 2016-01. The purpose of the new rules is to simplify the model of reporting on financial instruments and provide users with more useful information for decision making purposes. The main highlights of the expected changes are as follows: a. Tradable shares in the available-for-sale portfolio will be measured at fair value through profit or loss rather than unrealized adjustments to fair value in other comprehensive income. b. Changes in the fair value of financial liabilities deriving from instrument-specific credit risk, measured at fair value, will be recognized in other comprehensive income rather than in the income statement. c. The manner of presenting financial instruments in the balance sheet will be updated.	The change is to be applied from January 1 2019, in accordance with the transitional provision in the US GAAP. Unrealized gains for shares in the available-for-sale portfolio recorded in a capital reserve will be reclassified to retained earnings.	
	Update of accounting treatment of derivatives	The change is to be applied from January 1 2019, in	

Publication and topic	Publication's requirements	Effective date and transitional provisions	Effect on the financial statements
	and hedging activities The letter adopts US GAAP for derivatives and hedging activities as published in ASU 2017-12. The objective of the new rules is to improve financial reporting on hedge ratios so as to better reflect the financial results of the banking corporation's risk management through changes in the designation, measurement and presentation of the hedging results. Another objective is to simplify the application of hedge accounting. The main highlights of the expected changes are as follows: a. The rules expand the ability to hedge certain risk components, thereby matching the recording of hedging instruments and hedged items in the financial statements. b. The rules facilitate the application of accounting guidelines on hedging, mainly by easing requirements on examining hedge effectiveness and documenting hedges. c. The disclosure of activities in derivatives will be updated.	accordance with the transitional provision in the US GAAP. The change is to be applied from January 1 2020 onwards.	
	Update of accounting for leases The letter adopts US GAAP for leases as published in ASU 2016-02. The main objective of the new rules is to have the financial statements fully reflect the leverage level resulting from long-term leases. The main highlights of the expected changes are as follows: a. Leases longer than 12 months will be recognized in the balance sheet even if a lease is classified as an operating lease. b. In operating leases, an asset shall be recorded in the balance sheet which reflects the corporation's right to use the leased asset against an obligation to pay the lease. c. Leasing transactions in which a banking corporation sells an asset and leases it back may be considered, under certain circumstances, as accounting sales transactions subject to meeting certain conditions specified in the new rules.		

Note 2 – Finance Income and Expenses

	For the three months ended March 31	
	2018	2017
	Unaudited	
	in NIS millions	
A. Interest income[(a)]		
From loans to the public	**2,197**	2,104
From loans to governments	**7**	5
From deposits with the Bank of Israel and from cash	**19**	13
From deposits with banks	**27**	29
From bonds[(b)]	**171**	168
Total interest income	**2,421**	2,319
B. Interest expenses[(a)]		
For deposits from the public	**(315)**	(278)
For deposits from governments	**(1)**	(1)
For deposits from banks	**(6)**	(4)
For bonds, promissory notes and subordinated notes	**(93)**	(163)
Total interest expense	**(415)**	(446)
Total interest income, net	**2,006**	1,873
C. Details of the net effect of hedging derivative instruments on interest income and expenses[(c)]		
Interest income	**(2)**	(10)
D. Details of interest income from bonds, on accrual basis		
Available for sale	**166**	157
Held for trading	**4**	11
Held to maturity	**1**	[(d)]–
Total included in interest income	**171**	168

(a) Including an effective component in hedging ratios.
(b) Including interest in respect of mortgage-backed securities (MBS) in the amount of NIS 55 million for the three-month period ended March 31 2018 (NIS 52 million for the three-month period ended March 31 2017).
(c) More information about the effect of hedging derivatives on subsections A. and B.
(d) Income lower than NIS 1 million.

Note 3 – Noninterest Finance Income

	For the three months ended March 31	
	2018	2017
	Unaudited	
	in NIS millions	
A. Non-interest finance income for non-trading activities		
A.1. From activity in derivative instruments[(a)]		
Income (expenses) in respect of derivatives ALM[(b)]	**341**	(1,169)
Total from activity in derivatives	**341**	(1,169)
A.2. From investment in bonds		
Gains on sale of available-for-sale bonds[(f)]	**37**	20
Losses on sale of available-for-sale bonds[(f)]	**(12)**	(15)
Total from investment in bonds	**25**	5
A.3. Exchange rate differentials, net	**(384)**	1,559
A.4. Profits (losses) from investment in shares		
Gains on the sale of available-for-sale shares[(c)(f)]	**4**	48
Losses from the sale of available-for-sale shares[(c)(f)]	**(8)**	(10)
Gain on sale of associates' shares	**4**	8
Dividends from available-for-sale shares	**(1)**	-
Total from investment in shares	**(1)**	46
Total non-interest finance income for non-trading activities	**(19)**	441
B. Non-interest finance income for trading activities		
Realized and unrealized gains (losses) from adjustments to fair value of held-for-trading bonds, net[(d)]	**(14)**	(186)
Realized and unrealized gains (losses) from adjustments to fair value of held-for-trading shares, net[(d)]	**84**	-
Total from trading activities[(g)(h)]	**70**	(186)
Total non-interest finance income	**51**	255

(a) Excluding an effective component in hedging ratios.
(b) Derivatives which constitute part of the Bank's assets and liabilities management system that are not designated for hedging ratios.
(c) Profit from the sale of Kenon and Kornit in the amount of NIS 14 million and NIS 17 million, respectively, for the three months ended March 31 (there were no material gains from the sale of shares in the three months ended March 31 2018).
(d) Of which: a NIS (1) million loss for the three months ended March 31 2018 in respect of held-for-trading debentures held as at the balance sheet date (for the three months ended March 31 2017 - a NIS 20 million profit).
(e) Of which a NIS (4) million loss in respect of held-for-trading shares still held as at the balance sheet date.
(f) Including provisions for impairment of available-for-sale bonds in the amount of NIS 4 million in the three months ended March 31 2018. There were no material provisions for impairments in the three months ended March 31 2017.
(g) Reclassified from other comprehensive income.
(h) For interest income from investments in held-for-trading debentures, please see Note 2.
(i) Including exchange rate differentials from trading activities.

Note 3A – Earning per Ordinary Share

A. Basic earnings attributed to the Bank's shareholders

The basic earnings per share is based on the net income attributable to the holders of the Bank's ordinary shares divided by the weighted average of the number of outstanding ordinary shares, as follows:

	For the three months ended March 31	
	2018	2017
	Unaudited	
	in NIS millions	
Basic net income		
Total net income attributable to the Bank's shareholders		
Weighted average of the number of shares (in thousands of shares)		
Balance on January 1	**1,512,735**	1,512,326
Effect of exercised PSUs, RSUs and share issue	**146**	-
Weighted average of the number of shares	**1,512,881**	1,512,326
Basic earnings per share (in NIS)	**0.48**	0.41

B. Diluted earnings per share

Calculation of the Bank's diluted earnings per share is divided by the weighted average of the number of the Bank's outstanding ordinary shares, after adjustment for all the potentially diluting ordinary shares, as follows:

	For the three months ended March 31	
	2018	2017
	Unaudited	
	in NIS millions	
Diluted net income		
Weighted average of the number of shares (in thousands of shares)	**1,512,881**	1,512,326
Effect of yet unexercised PSUs and RSUs	**1,059**	1,176
Weighted average of the number of shares, fully diluted	**1,513,940**	1,513,502
Diluted earnings per share (in NIS)	**0.48**	0.41

Note 4 – Accumulated Other Comprehensive Income (Loss)

B. Changes in accumulated other comprehensive income (loss) after tax effect

1. Changes in accumulated other comprehensive income for the three-month period ended March 31 2018 and 2017 (unaudited)

	Other comprehensive income (loss) before attribution to non-controlling interests						
	Adjustments in respect of stating available-for-sale securities at fair value	Adjustments in respect of translations[(a)] net after the effect of hedges[(b)]	The banking corporation's share in other comprehensive income of investees treated according to the equity method	Adjustments in respect of employee benefits[(c)]	Total	Other comprehensive loss attributed to non-controlling interests	Other comprehensive loss attributed to the Bank's shareholders
	In NIS millions						
Balance as at December 31 2016 (audited)	(86)	(79)	18	(2,169)	(2,316)	(4)	(2,312)
Net change during the period	11	(49)	(8)	332	286	-	286
Balance as at March 31 2017	(75)	(128)	10	(1,837)	(2,030)	(4)	(2,026)
Balance as at December 31 2017 (audited)	75	(195)	15	(2,950)	(3,055)	(4)	(3,051)
Net change during the period	**(137)**	**17**	**(2)**	**150**	**28**	**-**	**28**
Balance as at March 31 2018	**(62)**	**(178)**	**13**	**(2,800)**	**(3,027)**	**(4)**	**(3,023)**

2. Changes in accumulated other comprehensive income (loss) for the three-month period ended March 31 2018 and 2017 (unaudited)

	Other comprehensive income (loss) before attribution to non-controlling interests						
	Adjustments in respect of stating available-for-sale securities at fair value	Adjustments in respect of translations[(a)] net after the effect of hedges[(b]	The banking corporation's share in other comprehensive income of investees treated according to the equity method	Adjustments in respect of employee benefits[(b)]	Total	Other comprehensive loss attributed to non-controlling interests	Other comprehensive loss attributed to the Bank's shareholders
	In NIS millions						
Balance as at December 31 2016	(86)	(79)	18	(2,169)	(2,316)	(4)	(2,312)
Net change during the period	161	(116)	(3)	(781)	(739)	-	(739)
Balance as at December 31 2017	75	(195)	15	(2,950)	(3,055)	(4)	(3,051)

(a) Adjustments arising from the translation of financial statements of foreign operations whose functional currency is different from the Bank's functional currency.
(b) Net income (losses) in respect of hedging of a net investment in foreign currency.
(c) Including reclassifying balances from other comprehensive income to retained earnings. Please see statement of changes in equity.

Note 4 – Accumulated Other Comprehensive Income (Loss) (cont.)

C. Changes in accumulated other comprehensive income (loss) components, before and after tax effect

	For the three months ended March 31 (unaudited)					
	2018			2017		
	Pretax	Tax effect	After tax	Pretax	Tax effect	After tax
	in NIS millions					
Changes in other comprehensive income (loss) components before attribution to non-controlling interests:						
Adjustments in respect of presentation of available-for-sale securities at fair value:						
Net realized and unrealized gains (losses) from adjustments to fair value	**(186)**	**63**	**(123)**	63	(21)	42
Gains (losses) in respect of available-for-sale securities reclassified to the income statement[(a)]	**(21)**	**7**	**(14)**	(43)	12	(31)
Net change during the period	**(207)**	**70**	**(137)**	20	(9)	11
Translation adjustments[(b)]:						
Adjustments from translation of financial statements	**37**	**-**	**37**	(159)	-	(159)
Hedges[(c)]	**(33)**	**13**	**(20)**	171	(61)	110
Net change during the period	**4**	**13**	**17**	12	(61)	(49)
The banking corporation's share in other comprehensive income (loss) of associates accounted for using the equity method	**(3)**	**1**	**(2)**	(8)	-	(8)
Net change during the period	**(3)**	**1**	**(2)**	(8)	-	(8)
Employee benefits:						
Net actuarial gain (loss) for the period	**124**	**(40)**	**84**	418	(141)	277
Net gains (losses) reclassified to the income statement[(d)]	**101**	**(35)**	**66**	84	(29)	55
Net change during the period	**225**	**(75)**	**150**	502	(170)	332
Total net change during the period	**19**	**9**	**28**	526	(240)	286
Changes in other comprehensive income components attributable to non-controlling interests	**-**	**-**	**-**	-	-	-
Total net change during the period	**19**	**9**	**28**	526	(240)	286

(a) The pre-tax amount is reported in the income statement under the non-interest finance income item. See Note 3 - Non-Interest Finance Income
(b) Adjustments arising from the translation of financial statements of foreign operations whose functional currency is different from the Bank's functional currency.
(c) Net gains (losses) in respect of hedging of a net investment in foreign currency.
(d) The pre-tax amount is reported in the income statement under Salaries and related expenses. For more information, please see Note 8 - Employee Benefits.

Note 4 – Accumulated Other Comprehensive Income (Loss) (cont.)

B. Changes in accumulated other comprehensive income (loss) components, before and after tax effect (cont.)

	For the year ended December 31 2017 (audited)		
	Pretax	Tax effect	After tax
	in NIS millions		
Changes in other comprehensive income (loss) components before attribution to non-controlling interests:			
Adjustments in respect of presentation of available-for-sale securities at fair value:			
Net realized and unrealized gains (losses) from adjustments to fair value	435	(133)	302
Gains (losses) in respect of available-for-sale securities reclassified to the income statement[(a)]	(176)	43	(133)
Net change during the year	259	(90)	169
Translation adjustments[(b)]:			
Adjustments from translation of financial statements	(284)	-	(284)
Hedges[(c)]	245	(87)	158
Net change during the year	(39)	(87)	(126)
The banking corporation's share in other comprehensive loss of associates accounted for using the equity method	(10)	7	(3)
Net change during the year	(10)	7	(3)
Employee benefits:			
Net actuarial gain (loss) for the period	(1,512)	519	(993)
Net gains (losses) reclassified to the income statement[(d)]	335	(117)	218
Net change during the year	(1,177)	402	(775)
Total net change during the year	(967)	232	(735)
Changes in other comprehensive income components attributable to non-controlling interests			
Total net change during the year	(967)	232	(735)

(a) The pre-tax amount is reported in the income statement under the non-interest finance income item. See Note 3 - Non-Interest Finance Income.
(b) Adjustments arising from the translation of financial statements of foreign operations whose functional currency is different from the Bank's functional currency.
(c) Net gains (losses) in respect of hedging of a net investment in foreign currency.
(d) The pre-tax amount is reported in the income statement under Salaries and related expenses. For more information, please see Note 8 - Employee Benefits.

Note 5 – Securities

	As at March 31 2018 (unaudited)				
	Balance sheet value	Amortized cost	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value[(a)]
	in NIS millions				
1. Held-to-maturity bonds:					
Of the Israeli government	436	436	-	-	436
Of other foreign entities	345	345	-	(16)	329
Mortgage-backed (MBS)	479	479	-	(9)	470
Total held-to-maturity bonds	1,260	1,260	-	(25)	1,235

	As at March 31 2018 (unaudited)				
			Accumulated other comprehensive income (loss)		
	Balance sheet value	Amortized cost (in shares - cost)	Gains	Losses	Fair value[(a)]
	in NIS millions				
2. Available-for-sale securities: Bonds -					
Of the Israeli government	38,509	38,444	98	(33)	38,509
Of foreign governments	10,769	10,800	1	(32)	10,769
Of Israeli financial institutions	11	11	-	-	11
Of foreign financial institutions	9,338	9,367	19	(48)	9,338
Asset-backed (ABS) or mortgage-backed (MBS)	8,268	8,424	11	(167)	8,268
Of other Israeli entities	162	157	5	-	162
Of other foreign entities	2,758	2,821	1	(64)	2,758
Total bonds	69,815	70,024	135	(344)	69,815
Shares and mutual funds[(b)]	3,188	3,072	136	(20)	3,188
Total available-for-sale securities[(f)]	73,003	73,096	[(c)]271	[(c)](364)	73,003

Note 5 – Securities (cont.)

	As at March 31 2018 (unaudited)				
	Balance sheet value	Amortized cost (in shares - cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value[(a)]
	in NIS millions				
3. Held-for-trading securities: Bonds -					
Of the Israeli government	4,501	4,493	8	-	4,501
Of foreign governments	78	79	-	(1)	78
Of Israeli financial institutions	172	171	1	-	172
Of foreign financial institutions	256	259	-	(3)	256
Asset-backed (ABS) or mortgage-backed (MBS)	293	294	1	(2)	293
Of other Israeli entities	178	176	2	-	178
Of other foreign entities	251	254	-	(3)	251
Total bonds	5,729	5,726	12	(9)	5,729
Shares and mutual funds	69	73	-	(4)	69
Total held-for-trading securities	5,798	5,799	(d)12	(d)(13)	5,798
Total securities	80,061	80,155	283	(402)	80,036

	As at March 31 2017 (unaudited)				
	Balance sheet value	Amortized cost	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value[(a)]
	in NIS millions				
1. Held-to-maturity bonds:					
Of the Israeli government	37	37	-	-	37
Of other foreign entities[(g)]	466	466	1	(13)	454
Mortgage-backed (MBS)	352	352	2	(16)	338
Total held-to-maturity bonds	855	855	3	(29)	829

Note 5 – Securities (cont.)

	As at March 31 2017 (unaudited)				
			Accumulated other comprehensive income (loss)		
	Balance sheet value	Amortized cost (in shares - cost)	Gains	Losses	Fair value[(a)]
	in NIS millions				
2. Available-for-sale securities: **Bonds -**					
Of the Israeli government	36,781	36,863	83	(165)	36,781
Of foreign governments[(g)]	10,174	10,216	2	(44)	10,174
Of Israeli financial institutions	23	22	1	-	23
Of foreign financial institutions	8,387	8,360	38	(11)	8,387
Asset-backed (ABS) or mortgage-backed (MBS)	8,424	8,497	30	(103)	8,424
Of other Israeli entities	292	275	17	-	292
Of other foreign entities[(g)]	2,393	2,397	18	(22)	2,393
Total bonds	66,474	66,630	189	(345)	66,474
Shares and mutual funds[(b)]	2,393	2,354	70	(31)	2,393
Total available-for-sale securities[(f)]	68,867	68,984	[(C)]259	[(C)](376)	68,867

	As at March 31 2017 (unaudited)				
	Balance sheet value	Amortized cost (in shares - cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value[(a)]
	in NIS millions				
3. Held-for-trading securities: **Bonds -**					
Of the Israeli government	5,038	5,020	19	(1)	5,038
Of foreign governments	1,630	1,630	-	-	1,630
Of Israeli financial institutions	211	211	-	-	211
Of foreign financial institutions	414	414	1	(1)	414
Asset-backed (ABS) or mortgage-backed (MBS)	260	260	2	(2)	260
Of other Israeli entities	145	143	2	-	145
Of other foreign entities	539	537	6	(2)	539
Total bonds	8,237	8,215	28	(6)	8,237
Shares and mutual funds	-	-	-	-	-
Total held-for-trading securities	8,237	8,215	[(d)]28	[(d)](6)	8,237
Total securities[(e)]	77,959	78,054	290	(411)	77,933

Note 5 – Securities (cont.)

	Balance as at December 31 2017 (audited)				
	Balance sheet value	Amortized cost	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value[a]
	in NIS millions				
1. Held-to-maturity bonds: **Bonds -**					
Of the Israeli government	35	35	-	-	35
Of other foreign entities	353	353	1	(7)	347
Mortgage-backed (MBS)	478	478	10	(2)	486
Total held-to-maturity bonds	866	866	11	(9)	868

	Balance as at December 31 2017 (audited)				
			Accumulated other comprehensive income (loss)		
	Balance sheet value	Amortized cost (in shares - cost)	Gains	Losses	Fair value[a]
	in NIS millions				
2. Available-for-sale securities: **Bonds -**					
Of the Israeli government	36,633	36,516	156	(39)	36,633
Of foreign governments	10,755	10,768	3	(16)	10,755
Of Israeli financial institutions	11	11	-	-	11
Of foreign financial institutions	9,653	9,627	44	(18)	9,653
Asset-backed (ABS) or mortgage-backed (MBS)	8,529	8,595	11	(77)	8,529
Of other Israeli entities	70	66	4	-	70
Of other foreign entities	2,352	2,349	18	(15)	2,352
Total bonds	68,003	67,932	236	(165)	68,003
Shares and mutual funds[b]	2,927	2,852	97	(22)	2,927
Total available-for-sale securities[f]	70,930	70,784	[C]333	[C](187)	70,930

Note 5 – Securities (cont.)

	Balance as at December 31 2017 (audited)				
	Balance sheet value	Amortized cost (in shares - cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value[a]
	in NIS millions				
3. Held-for-trading securities: Bonds -					
Of the Israeli government	3,204	3,185	19	-	3,204
Of foreign governments	82	83	-	(1)	82
Of Israeli financial institutions	90	89	1	-	90
Of foreign financial institutions	142	142	1	(1)	142
Asset-backed (ABS) or mortgage-backed (MBS)	268	267	2	(1)	268
Of other Israeli entities	111	107	4	-	111
Of other foreign entities	299	298	3	(2)	299
Total bonds	4,196	4,171	30	(5)	4,196
Shares and mutual funds	1,307	1,323	1	(17)	1,307
Total held-for-trading securities	5,503	5,494	(d)31	(d)(22)	5,503
Total securities[e]	77,299	77,144	375	(218)	77,301

Notes:

(a) In most case, fair value data are based on quoted share prices, which do not necessarily reflect the price that can be obtained from selling bulks of securities.

(b) Including shares and funds for which no fair value is available, which are stated at cost, in the amount of NIS 992 million (March 31 2017 - NIS 912 million; December 31 2017 - NIS 991 million).

(c) "Adjustments in respect of the presentation of available-for-sale securities at fair value, net" are included in equity under other comprehensive income, except for securities designated to be hedged at fair value.

(d) Charged to the income statement but yet unrealized.

(e) Including impaired interest-accruing debentures in the amount of NIS 7 million (in March 31 2017 – there were no interest-accruing impaired bonds; December 31 2017 - NIS 7 million).

(f) Total of NIS 8.4 billion out of total foreign currency securities are rated SSA (Supernationals, Sovereign and Agencies) (March 31 2017 - NIS 8.2 billion, December 31 2017 - NIS 9.1 billion).

(g) Reclassified.

General notes:

Loaned securities in the amount of NIS 336 million (as at March 31 2017 - NIS 266 million; as at December 31 2017 - NIS 215 million).

Securities pledged to lenders totaled NIS 6,873 million (as at March 31 2017 - NIS 4,445 million; as at December 31 2017 - NIS 6,377 million).

For more information on of the financial performance of investments in bonds, shares and mutual funds, please see Note 2 and Note 3.

The distinction between Israeli and foreign debentures was made according to the issuer's country of residence.

Note 5 – Securities (cont.)

More information on amortized cost and unrealized losses, by duration and impairment percentage, of held-to-maturity debentures in an unrealized loss position

	As at March 31 2018 (unaudited)									
	Less than 12 months[a]					12 months or more[b]				
		Unrealized losses from adjustments to fair value					Unrealized losses from adjustments to fair value			
	Amortized cost	0-20%[c]	20%-35%[d]	Over 35%[e]	Total	Amortized cost	0-20%[c]	20%-35%[d]	Over 35%[e]	Total
	in NIS millions									
Bonds										
Of the Israeli government	35	[f]–	–	–	–	–	–	–	–	–
Mortgage-backed (MBS)	144	3	–	–	3	202	13	–	–	13
Of other foreign entities	266	5	–	–	5	213	4	–	–	4
Total held-to-maturity bonds	**445**	**8**	**–**	**–**	**8**	**415**	**17**	**–**	**–**	**17**

	As at March 31 2017 (unaudited)									
	Less than 12 months[a]					12 months or more[b]				
		Unrealized losses from adjustments to fair value					Unrealized losses from adjustments to fair value			
	Amortized cost	0-20%[c]	20%-35%[d]	Over 35%[e]	Total	Amortized cost	0-20%[c]	20%-35%[d]	Over 35%[e]	Total
	in NIS millions									
Bonds										
Mortgage-backed (MBS)	373	13	–	–	13	–	–	–	–	–
Of other foreign entities[h]	260	16	–	–	16	–	–	–	–	–
Total held-to-maturity bonds	633	29	–	–	29	–	–	–	–	–

(a) Investments in a continuous unrealized loss position for a period of less than 12 months.
(b) Investments in a continuous unrealized loss position for a period of 12 months or more.
(c) Investments whose unrealized loss represents up to 20% of their amortized cost.
(d) Investments whose unrealized loss represents over 20% but no more than 35% of their amortized cost.
(e) Investments whose unrealized loss represents over 35% of their amortized cost.
(f) Losses of less than NIS 1 million.
(g) Reclassified.

Note 5 – Securities (cont.)

More information on amortized cost and unrealized losses, by duration and impairment percentage, of held-to-maturity debentures in an unrealized loss position (cont.)

	December 31 2017 (audited)									
	Less than 12 months[a]					12 months or more[b]				
		Unrealized losses from adjustments to fair value					Unrealized losses from adjustments to fair value			
	Amortized cost	0-20%[c]	20%-35%[d]	Over 35%[e]	Total	Amortized cost	0-20%[c]	20%-35%[d]	Over 35%[e]	Total
	in NIS millions									
Bonds										
Mortgage-backed (MBS)	41	(f)–	–	–	–	203	7	–	–	7
Of other foreign entities	–	–	–	–	–	79	2	–	–	2
Total held-to-maturity bonds	41	–	–	–	–	282	9	–	–	9

More information on fair value and unrealized losses, by duration and impairment percentage, of available-for-sale securities in an unrealized loss position

	As at March 31 2018 (unaudited)									
	Less than 12 months[a][g]					12 months or more[b][g]				
		Unrealized losses					Unrealized losses			
	Fair value	0-20%[c]	20%-35%[d]	Over 35%[e]	Total	Fair value	0-20%[c]	20%-35%[d]	Over 35%[e]	Total
	in NIS millions									
Bonds										
Of the Israeli government	10,942	33	–	–	33	–	–	–	–	–
Of foreign governments	8,849	17	–	–	17	528	15	–	–	15
Of foreign financial institutions	3,182	39	–	–	39	2,225	9	–	–	9
Asset-backed (ABS) or mortgage-backed (MBS)	3,466	38	–	–	38	3,267	129	–	–	129
Of other Israeli entities	56	(f)–	–	–	–	–	–	–	–	–
Of other foreign entities	1,818	46	–	–	46	789	18	–	–	18
Shares and mutual funds	417	16	–	–	16	156	4	–	–	4
Total available-for-sale securities	28,730	189	–	–	189	6,965	175	–	–	175

(a) Investments in a continuous unrealized loss position for a period of less than 12 months.
(b) Investments in a continuous unrealized loss position for a period of 12 months or more.
(c) Investments whose unrealized loss represents up to 20% of their amortized cost.
(d) Investments whose unrealized loss represents over 20% but no more than 35% of their amortized cost.
(e) Investments whose unrealized loss represents over 35% of their amortized cost.
(f) Losses of less than NIS 1 million.
(g) Amounts charged to capital reserve as part of other comprehensive income, net, after tax effect.

Note 5 – Securities (cont.)

More information on amortized cost and unrealized losses, by duration and impairment percentage, of held-to-maturity debentures in unrealized loss position (cont.)

	As at March 31 2017 (unaudited)									
	Less than 12 months[(a)(g)]					12 months or more[(b)(g)]				
		Unrealized losses					Unrealized losses			
	Fair value	0-20%[(c)]	20%-35%[(d)]	Over 35%[(e)]	Total	Fair value	0-20%[(c)]	20%-35%[(d)]	Over 35%[(e)]	Total
	in NIS millions									
Bonds										
Of the Israeli government	11,342	165	-	-	165	-	-	-	-	-
Of foreign governments[(h)]	6,791	44	-	-	44	-	-	-	-	-
Of foreign financial institutions	3,839	10	-	-	10	17	1	-	-	1
Asset-backed (ABS) or mortgage-backed (MBS)	5,408	102	-	-	102	47	1	-	-	1
Of other Israeli entities	-	-	-	-	-	3	[(f)]-	-	-	-
Of other foreign entities[(h)]	1,084	22	-	-	22	-	-	-	-	-
Shares and mutual funds	528	15	-	-	15	266	16	-	-	16
Total available-for-sale securities	28,992	358	-	-	358	333	18	-	-	18

	December 31 2017 (audited)									
	Less than 12 months[(a)(g)]					12 months or more[(b)(g)]				
		Unrealized losses					Unrealized losses			
	Fair value	0-20%[(c)]	20%-35%[(d)]	Over 35%[(e)]	Total	Fair value	0-20%[(c)]	20%-35%[(d)]	Over 35%[(e)]	Total
	in NIS millions									
Bonds										
Of the Israeli government	1,172	4	-	-	4	2,227	35	-	-	35
Of foreign governments	7,846	16	-	-	16	-	-	-	-	-
Of foreign financial institutions	5,915	17	-	-	17	16	1	-	-	1
Asset-backed (ABS) or mortgage-backed (MBS)	4,491	28	-	-	28	2,010	49	-	-	49
Of others in Israel	-	-	-	-	-	-	-	-	-	-
Of other foreign entities	1,233	15	-	-	15	-	-	-	-	-
Shares and mutual funds	634	18	-	-	18	93	4	-	-	4
Total available-for-sale securities	21,291	98	-	-	98	4,346	89	-	-	89

(a) Investments in a continuous unrealized loss position for a period of less than 12 months.
(b) Investments in a continuous unrealized loss position for a period of 12 months or more.
(c) Investments whose unrealized loss represents up to 20% of their amortized cost.
(d) Investments whose unrealized loss represents over 20% but no more than 35% of their amortized cost.
(e) Investments whose unrealized loss represents over 35% of their amortized cost.
(f) Losses of less than NIS 1 million.
(g) Amounts charged to capital reserve as part of other comprehensive income, net, after tax effect.
(h) Reclassified.

Note 5 – Securities (cont.)

More information on available-for-sale mortgage-backed and asset-backed securities in an unrealized loss position

	As at March 31 2018 (unaudited)					
	Up to 12 months		More than 12 months		Total	
	Fair value	Unrealized losses from adjustments to fair value[(a)]	Fair value	Unrealized losses from adjustments to fair value[(a)]	Fair value	Unrealized losses from adjustments to fair value[(a)]
	in NIS millions					
Mortgage-backed securities (MBS)	**993**	**(1)**	**1,286**	**(64)**	**2,279**	**(65)**
Other mortgage-backed securities (Including CMOs, REMICs and stripped MBSs)	**1,178**	**(34)**	**1,704**	**(63)**	**2,882**	**(97)**
Asset-backed securities (ABS)	**1,295**	**(3)**	**277**	**(2)**	**1,572**	**(5)**
Total	**3,466**	**(38)**	**3,267**	**(129)**	**6,733**	**(167)**

	As at March 31 2017 (unaudited)					
	Up to 12 months		More than 12 months		Total	
	Fair value	Unrealized losses from adjustments to fair value[(a)]	Fair value	Unrealized losses from adjustments to fair value[(a)]	Fair value	Unrealized losses from adjustments to fair value[(a)]
	in NIS millions					
Mortgage-backed securities (MBS)	1,779	(52)	46	(1)	1,825	(53)
Mortgage-backed securities (including CMOs, REMICs and stripped MBSs)	2,991	(47)	-	-	2,991	(47)
Asset-backed securities (ABS)	638	(3)	1	[(b)]-	639	(3)
Total	5,408	(102)	47	(1)	5,455	(103)

	December 31 2017 (audited)					
	Up to 12 months		More than 12 months		Total	
	Fair value	Unrealized losses from adjustments to fair value[(a)]	Fair value	Unrealized losses from adjustments to fair value[(a)]	Fair value	Unrealized losses from adjustments to fair value[(a)]
	in NIS millions					
Mortgage-backed securities (MBS)	1,060	(10)	920	(18)	1,980	(28)
Other mortgage-backed securities	1,833	(8)	1,090	(31)	2,923	(39)
Asset-backed securities (ABS)	1,598	(10)	-	-	1,598	(10)
Total	4,491	(28)	2,010	(49)	6,501	(77)

(a) Amounts charged to capital reserve as part of other comprehensive income, net, after tax effect.
(b) Losses of less than NIS 1 million.
(c) Reclassified.

Note 5 – Securities (cont.)

More information on available-for-sale mortgage-backed and asset-backed securities

	As at March 31 2018 (unaudited)			
	Amortized cost	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value
	in NIS millions			
Mortgage-backed securities (MBS)				
Other mortgage-backed held-to-maturity securities (including CMOs and stripped MBSs)	345	-	(16)	329
Of which: Securities issued or backed by FHLMC, FNMA or GNMA	162	-	(13)	149
Total mortgage-backed securities (MBS)	345	-	(16)	329
Total held-to-maturity asset-backed securities	345	-	(16)	329

	As at March 31 2017 (unaudited)			
	Amortized cost	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value
	in NIS millions			
Mortgage-backed securities (MBS)				
Other mortgage-backed held-to-maturity securities (including CMOs and stripped MBSs)	466	1	(13)	454
Of which: Securities issued or backed by FHLMC, FNMA or GNMA	280	-	(11)	269
Total mortgage-backed securities (MBS)	466	1	(13)	454
Total held-to-maturity asset-backed securities	466	1	(13)	454

Note 5 – Securities (cont.)

More information on held-to-maturity mortgage-backed securities

	December 31 2017 (audited)			
	Amortized cost	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value
	in NIS millions			
Mortgage-backed securities (MBS)				
Other mortgage-backed held-to-maturity securities (including CMOs and stripped MBSs)	353	1	(7)	347
Of which: Securities issued or backed by FHLMC, FNMA or GNMA	169	-	(6)	163
Total mortgage-backed securities (MBS)	353	1	(7)	347
Total held-to-maturity asset-backed securities	353	1	(7)	347

(a) Restated in accordance with a format set in the Banking Supervision Department's circular entitled *Improving the Usability of Public Reports by Banking Corporations for 2017 and 2018*, which was first applied as of the 2017 financial statement.

More information on mortgage-backed and asset-backed available-for-sale securities

	As at March 31 2018 (unaudited)			
		Accumulated other comprehensive income (loss)[(a)]		
	Amortized cost	Gains	Losses	Fair value
	in NIS millions			
Mortgage-backed securities (MBS)				
Pass-through type available-for-sale securities	2,415	-	(65)	2,350
Of which: GNMA-backed securities	276	-	(14)	262
Securities issued by FNMA or FHLMC	2,139	-	(51)	2,088
Other mortgage-backed securities (including CMOs and stripped MBSs)	3,969	5	(97)	3,877
Of which: Securities issued or backed by FHLMC, FNMA or GNMA	3,819	4	(97)	3,726
Total mortgage-backed securities (MBS)	6,384	5	(162)	6,227
Total asset-backed securities (ABS)	2,040	6	(5)	2,041
Of which: Loans granted to other than individuals - CLO bonds	1,318	5	(1)	1,322
Of which: Loans granted to other than individuals - SBA guaranteed securities	722	1	(4)	719
Total mortgage-backed and asset-backed available-for-sale securities	8,424	11	(167)	8,268

Note 5 – Securities (cont.)

More information on mortgage-backed and asset-backed available-for-sale securities (cont.)

	As at March 31 2017 (unaudited)			
		Accumulated other comprehensive income[c] (loss)[a]		
	Amortized cost	Gains	Losses	Fair value
	in NIS millions			
Mortgage-backed securities (MBS)				
Pass-through type available-for-sale securities	1,886	-	(53)	1,833
Of which: GNMA-backed securities	218	-	(6)	212
Securities issued by FNMA or FHLMC	1,668	-	(47)	1,621
Other mortgage-backed securities (including CMOs and stripped MBSs)	4,199	7	(47)	4,159
Of which: Securities issued or backed by FHLMC, FNMA or GNMA	3,994	5	(47)	3,952
Total mortgage-backed securities (MBS)	6,085	7	(100)	5,992
Total asset-backed securities (ABS)[b]	2,412	23	(3)	2,432
Of which: Loans granted to other than individuals - CLO bonds	1,400	10	(1)	1,409
Of which: Loans granted to other than individuals - SBA guaranteed securities	706	6	(2)	710
Total mortgage-backed and asset-backed available-for-sale securities	8,497	30	(103)	8,424

(a) Amounts charged to capital reserve as part of other comprehensive income, net, after tax effect.
(b) Reclassified.
(c) Restated in accordance with the format prescribed by the Banking Supervision Department's circular, "Improving the Usability of Public Reports of Banking Corporations for 2017 and 2018", which was first applied to the 2017 financial statements.

Note 5 – Securities (cont.)

More information on mortgage-backed and asset-backed available-for-sale securities (cont.)

	December 31 2017 (audited)			
		Accumulated other comprehensive income (loss)[(a)]		
	Amortized cost	Gains	Losses	Fair value
	in NIS millions			
Mortgage-backed securities (MBS)				
Pass-through type available-for-sale securities	2,286	1	(28)	2,259
Of which: GNMA-backed securities	326	-	(8)	318
Securities issued by FNMA or FHLMC	1,960	1	(20)	1,941
Other mortgage-backed securities (including CMOs and stripped MBSs)	3,960	4	(39)	3,925
Of which: Securities issued or backed by FHLMC, FNMA or GNMA	3,800	3	(39)	3,764
Total mortgage-backed securities (MBS)	6,246	5	(67)	6,184
Total asset-backed securities (ABS)	2,349	6	(10)	2,345
Of which: Loans granted to other than individuals - CLO bonds	1,599	6	(2)	1,603
Of which: Loans granted to other than individuals - SBA guaranteed securities	750	-	(8)	742
Total mortgage-backed and asset-backed available-for-sale securities	8,595	11	(77)	8,529

(a) Amounts charged to capital reserve as part of other comprehensive income, net, after tax effect.
(b) Restated.

Note 5 – Securities (cont.)

More information on mortgage-backed and asset-backed held-for-trading securities

	As at March 31 2018 (unaudited)			
	Amortized cost	Unrealized gains from adjustments to fair value[(a)]	Unrealized losses from adjustments to fair value[(a)]	Fair value
	in NIS millions			
Mortgage-backed securities (MBS)				
Pass-through type held-for-trading bonds	4	-	-	4
Of which: Securities issued by FNMA or FHLMC	4	-	-	4
Other mortgage-backed securities (including CMOs and stripped MBSs)	54	-	-	54
Of which: Securities issued by FNMA or FHLMC	-	-	-	-
Total mortgage-backed securities (MBS)	58	-	-	58
Total asset-backed securities (ABS)	236	1	(2)	235
Total mortgage-backed and asset-backed held-for-trading securities	294	1	(2)	293

(a) Gains (losses) charged to the income statement.

	As at March 31 2017 (unaudited)			
	Amortized cost	Unrealized gains from adjustments to fair value[(a)]	Unrealized losses from adjustments to fair value[(a)]	Fair value
	in NIS millions			
Mortgage-backed securities (MBS)				
Pass-through type held-for-trading bonds	5	-	-	5
Of which: Securities issued by FNMA or FHLMC	5	-	-	5
Other mortgage-backed securities (including CMOs and stripped MBSs)	74	1	-	75
Of which: Securities issued by FNMA or FHLMC	-	-	-	-
Total mortgage-backed securities (MBS)	79	1	-	80
Total asset-backed securities (ABS)	181	1	(2)	180
Total mortgage-backed and asset-backed held-for-trading securities	260	2	(2)	260

(a) Gains (losses) charged to the income statement.

Note 5 – Securities (cont.)
More information on mortgage-backed and asset-backed held-for-trading securities (cont.)

	December 31 2017 (audited)			
	Amortized cost	Unrealized gains from adjustments to fair value[(a)]	Unrealized losses from adjustments to fair value[(a)]	Fair value
	in NIS millions			
Mortgage-backed securities (MBS)				
Pass-through type held-for-trading bonds	4	-	-	4
Of which: Securities issued by FNMA or FHLMC	4	-	-	4
Other mortgage-backed securities (including CMOs and stripped MBSs)	54	-	-	54
Of which: Securities issued by FNMA or FHLMC	-	-	-	-
Total mortgage-backed securities (MBS)	58	-	-	58
Total asset-backed securities (ABS)	209	2	(1)	210
Total mortgage-backed and asset-backed held-for-trading securities	267	2	(1)	268

(a) Gains (losses) charged to the income statement.

(b) Restated in accordance with the format prescribed by the Banking Supervision Department's circular, "Improving the Usability of Public Reports of Banking Corporations for 2017 and 2018", which was first applied to the 2017 financial statements.

Note 6 - Credit Risk, Credit to the Public and Loan Loss Provision

Reclassification of outstanding loan balances in respect of individuals

Following the assimilation of a designated system for handling problem debt, the Bank has implemented a module for improved automated identification of restructured problem debts in lieu of adequate or problem debts. As a result, the Bank revised its restructured loans amount.

Following the above, as part of the notes to the financial statements of the first quarter of 2018, the outstanding balances of loans to individuals (excluding housing loans) were reclassified, so that a total of NIS 223 million and a total of NIS 224 million were reclassified from non-problem debts to problem debts, as at March 2017 and December 2017, respectively.

The total classification for impaired debts stood at NIS 319 million as at March 31 2017 (NIS 223 million classified from non-problem debts and NIS 96 million classified for non-impaired problem debt) and a total of NIS 301 million as at December 31 2017 (NIS 224 million classified from non-problem debt and NIS 77 million classified for non-impaired problem debt).

It should be noted that, as a result, the loan loss provision as at March 31 2018 was revised. The effect of the revision on the financial performance for the reporting period is immaterial.

A. Debts[(a)], credit to the public and outstanding provision for loan losses

	As at March 31 2018 (unaudited)					
	Loans to the public					
	Commercial	Housing	Private Other	Total loans to the public	Banks and governments	Total
	in NIS millions					
Recorded outstanding balance of debts[(a)]:						
Examined on specific basis	115,888	31	921	116,840	12,134	128,974
Examined on general basis[1]	43,541	78,152	36,344	158,037	1,353	159,390
[1]Of which: By extent of arrears	[(c)] 1,109	77,680	-	78,789	-	78,789
Less balances classified as held-for-sale assets and liabilities[(d)]	(604)	-	(7,662)	(8,266)	(32)	(8,298)
Total debts[(a)2]	158,825	78,183	29,603	266,611	13,455	280,066
[2]Of which:						
Debt restructuring	1,274	-	379	1,653	-	1,653
Other impaired debts	1,168	-	101	1,269	-	1,269
Total impaired debts	2,442	-	480	2,922	-	2,922
Debts in arrears of 90 days or more	100	758	8	866	-	866
Other problem debts	2,569	-	433	3,002	-	3,002
Less balances classified as held-for-sale assets and liabilities[(d)]	(2)	-	(366)	(368)	-	(368)
Total problem debts	5,109	758	555	6,422	-	6,422
Balance of loan loss provision for debts[(a)]:						
Examined on specific basis	1,635	7	222	1,864	1	1,865
Examined on general basis[3]	511	449	595	1,555	-	1,555
[3]Of which: By extent of arrears	-	[(b)] 448	-	448	-	448
Less balances classified as held-for-sale assets and liabilities[(d)]	(6)	-	(132)	(138)	-	(138)
Total loan loss provision[4]	2,140	456	685	3,281	1	3,282
[4]Of which: For impaired debts	462	-	168	630	-	630

Note 6 - Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

A. Debts[(a)], credit to the public and outstanding provision for loan losses (cont.)

(a) Loans to the public, to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
(b) Including an outstanding general provision that exceeds the amount required under the extent of arrears method, in the amount of NIS 334 million.
(c) Including outstanding housing loans extended to certain purchasing groups currently in the process of construction.
(d) For more information, please see Note 16.

	As at March 31 2017 (unaudited)					
	Loans to the public					
	Commercial	Housing	Private - Other [(e)]	Total loans to the public	Banks and governments	Total
	in NIS millions					
Recorded outstanding balance of debts[(a)]:						
Examined on specific basis	109,675	41	894	110,610	7,758	118,368
Examined on general basis[1]	40,677	78,420	38,465	157,562	3,357	160,919
[1]Of which: By extent of arrears	[(C)]979	77,978	-	78,957	-	78,957
Total debts[(a)2]	150,352	78,461	39,359	268,172	11,115	279,287
[2]Of which:						
Debt restructuring	1,777	-	413	2,190	-	2,190
Other impaired debts	1,497	-	73	1,570	-	1,570
Total impaired debts	3,274	-	486	3,760	-	3,760
Debts in arrears of 90 days or more	151	698	3	852	-	852
Other problem debts	2,621	-	351	2,972	-	2,972
Total problem debts	6,046	698	840	7,584	-	7,584
Balance of loan loss provision for debts[(a)]:						
Examined on specific basis	[(d)]1,786	6	[(d)]123	1,915	1	1,916
Examined on general basis[3]	419	464	620	1,503	-	1,503
[3]Of which: By extent of arrears	-	[(b)]459	-	459	-	459
Total loan loss provision[4]	2,205	470	743	3,418	1	3,419
[4]Of which: For impaired debts	[(d)]599	-	[(d)]77	676	-	676

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding debentures and securities borrowed or purchased under agreements to resell.
(b) Including an outstanding general provision that exceeds the amount required under the extent of arrears method, in the amount of NIS 290 million.
(c) Including outstanding housing loans extended to certain purchasing groups currently in the process of construction.
(d) Reclassified.
(e) Reclassified. For more information, please below.

Note 6 - Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

A. Debts(a), credit to the public and outstanding provision for loan losses (cont.)

	December 31 2017 (audited)					
	Loans to the public					
	Commercial	Housing	Private - Other	Total loans to the public	Banks and governments	Total
	in NIS millions					
Recorded outstanding balance of debts(a):						
Examined on specific basis	112,831	29	1,075	113,935	11,457	125,392
Examined on general basis[1]	41,511	77,928	37,842	157,281	1,122	158,403
[1]Of which: By extent of arrears	(c) 1,066	77,465	-	78,531	-	78,531
Total debts(a)[2]	154,342	77,957	38,917	271,216	12,579	283,795
[2]Of which:						
Debt restructuring	1,435	-	375	1,810	-	1,810
Other impaired debts	1,310	-	99	1,409	-	1,409
Total impaired debts	2,745	-	474	3,219	-	3,219
Debts in arrears of 90 days or more	111	722	12	845	-	845
Other problem debts	2,467	-	423	2,890	-	2,890
Total problem debts	5,323	722	909	6,954	-	6,954
Balance of loan loss provision for debts(a):						
Examined on specific basis	1,570	5	131	1,706	3	1,709
Examined on general basis[3]	486	445	627	1,558	-	1,558
[3]Of which: By extent of arrears	-	(b) 443	-	443	-	443
Total loan loss provision[4]	2,056	450	758	3,264	3	3,267
[4]Of which: For impaired debts	459	-	101	560	-	560

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding debentures and securities borrowed or purchased under agreements to resell.
(b) Including an outstanding general provision that exceeds the amount required under the extent of arrears method, in the amount of NIS 283 million.
(c) Including outstanding housing loans extended to certain purchasing groups currently in the process of construction.
(d) Reclassified. For more information, please see below.

Note 6 - Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

B. Change in balance of provision for loan losses

	For the three months ended March 31 2018 (unaudited)					
	Loan loss provision					
	Loans to the public					
	Commercial	Housing	Private Other	Total loans to the public	Banks and governments	Total
	in NIS millions					
Balance of loan loss provision as at the beginning of the reporting period	2,504	450	794	3,748	3	3,751
Expenses (income) in respect of loan losses	22	-	-	22	-	22
Balance as at January 1 2018	2,526	450	794	3,770	3	3,773
Income (expenses)Loan Loss	37	6	89	132	(2)	130
Write-offs	(161)	(1)	(115)	(277)	-	(277)
Collection of debts written off in previous years	176	-	85	261	-	261
Net write-offs	15	(1)	(30)	(16)	-	(16)
Adjustments from translation of financial statements	4	1	-	5	-	5
Less balances classified as held-for-sale assets and liabilities[(1)]	(6)	-	(147)	(153)	-	(153)
Balance of loan loss provision as at the end of the reporting period[1]	2,576	456	706	3,738	1	3,739
[1]Of which: For off-balance sheet credit instruments	436	-	21	457	-	457

	For the three months ended March 31 2017 (unaudited)					
	Loan loss provision					
	Loans to the public					
	Commercial	Housing	Private - Other	Total Public	Banks and governments	Total
	in NIS millions					
Balance of loan loss provision as at the beginning of the reporting period	(C)2,685	473	(C)823	3,981	1	3,982
Expenses (income) in respect of loan losses	(C)82	(2)	(C)21	101	-	101
Write-offs	(C)(182)	(2)	(172)	(356)	-	(356)
Collection of debts written off in previous years	106	-	109	215	-	215
Net write-offs	(76)	(2)	(63)	(141)	-	(141)
Adjustments from translation of financial statements	(10)	1	-	(9)	-	(9)
Balance of loan loss provision as at the end of the reporting period[1]	2,681	470	781	3,932	1	3,933
[1]Of which: For off-balance sheet credit instruments	476	-	38	514	-	514

(a) Effect of first-time application of IFRS 9 on foreign subsidiaries.
(b) For more information, please see Note 16.
(c) Reclassified.

Note 7 - Deposits by the Public

A. Types of deposits by location and type of depositor

	March 31		December 31
	2018	2017	2017
	Unaudited		Audited
	millions in NIS		
In Israel			
Demand deposits			
Non interest-bearing	**88,193**	77,277	84,686
Interest-bearing	**111,588**	101,935	117,740
Total demand deposits	**199,781**	179,212	202,426
Fixed deposits	**136,863**	137,052	134,753
(and liabilities(a Less balances classified as held-for-sale assets	**(89)**	-	-
[1]Total deposits in Israel	**336,555**	316,264	337,179
Outside Israel			
Demand deposits			
Non interest-bearing	**9,741**	9,458	9,420
Interest-bearing	**5,356**	4,851	4,687
Total demand deposits	**15,097**	14,309	14,107
Fixed deposits	**10,374**	11,090	11,192
Of which: Non interest-bearing	**13**	31	16
Total deposits outside Israel	**25,471**	25,399	25,299
Total deposits by the Public	**362,026**	341,663	362,478
:Of which[1]			
Deposits from individuals(b)	**132,783**	142,324	138,685
Deposits from institutionals(b)	**67,441**	56,732	70,496
Deposits from corporations and others	**136,331**	117,208	127,998

B. Deposits from the public by amount

	March 31		December 31
	2018	2017	2017
	Unaudited		Audited
Maximum deposit is NIS millions	millions in NIS		
Up to 1(b)	**99,110**	96,553	99,032
From 1 to 10	**91,170**	92,870	90,545
From 10 to 100	**62,516**	60,668	61,271
From 100 to 500	**35,887**	31,930	35,666
Over 500	**73,343**	59,642	75,964
Total	**362,026**	341,663	362,478

(a) For more information, please see Note 16.

(b) Excluding balances classified as held-for-sale liabilities in the amount of NIS 89 million

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Note 8 - Employee Benefits

A. Composition of benefits

1. Employee benefits

	As at March 31		As at December 31
	2018	2017	2017
	Unaudited		Audited
	in NIS millions		
Retirement benefits - pension and severance pay			
Liability amount	**17,443**	15,996	17,995
Fair value of plan assets	**6,377**	6,419	6,708
Excess of liability over plan assets (included in other liabilities)	**11,066**	9,577	11,287
Cumulative jubilee vacation leave			
Liability amount	**46**	82	47
Fair value of plan assets	**-**	-	-
Excess of liability over plan assets (included in other liabilities)	**46**	82	47
Other benefits			
Liability amount	**575**	562	567
Fair value of plan assets	**-**	-	-
Surplus of liability over plan assets (included in other liabilities)	**575**	562	567
Total[1]	**-**	-	-
Surplus of liability in respect of employee benefits over plan assets included in the "Other liabilities" line item	**11,687**	10,221	11,901
[1]Of which: In respect of benefits to employees abroad	**74**	109	74

Note 8 - Employee Benefits (cont.)

A. Composition of benefits (cont.)

2. Defined benefit plan

A. Obligation and funding status

1. Change in the obligation in respect of an expected benefit

	For the three months ended March 31		For the year ended December 31
	2018	2017	2017
	Unaudited		Audited
	in NIS millions		
Obligation in respect of expected benefit as at the beginning of the period	**17,995**	16,948	16,948
Cost of service	**40**	37	148
Cost of interest	**160**	177	696
Contributions by plan participants	**10**	11	46
Actuarial loss (gain)	**(198)**	(416)	1,560
Changes in foreign exchange rates	**13**	(19)	(20)
Paid benefits[(a)]	**(577)**	(742)	(1,383)
Obligation in respect of expected benefit as at the end of the reporting period	**17,443**	15,996	17,995
Obligation in respect of cumulative benefit as at the end of the reporting period	**16,577**	15,029	17,016

(a) Including immaterial amounts in respect of downsizing, redemptions according to original repayment schedules, special and contractual benefits in respect of dismissal.

Note 8 - Employee Benefits (cont.)

A. Composition of benefits (cont.)

2. Defined benefit plan

A. Obligation and funding status (cont.)

2. Change in the fair value of plan assets and plan's funding status

	For the three months ended March 31		For the year ended December 31
	2018	2017	2017
	Unaudited		Audited
	in NIS millions		
Fair value of plan assets as at the beginning of the period	**6,708**	6,819	6,819
Actual return on plan assets	**(9)**	84	399
Plan contributions by the banking corporation	**25**	28	131
Contributions by plan participants	**10**	11	46
Changes in foreign exchange rates	**11**	(16)	(17)
Paid benefits[(a)]	**(379)**	(507)	(691)
Other	**11**	-	21
Fair value of plan assets as at the end of the reporting period	**6,377**	6,419	6,708
Funding status - Net liability recognized at the end of the reporting period	**11,066**	9,577	11,287

(a) Including immaterial amounts in respect of downsizing, discharges, special and contractual benefits and severance pay.

Note 8 - Employee Benefits (cont.)

A. Composition of benefits (cont.)

2. Defined benefit plan

A. Obligation and funding status (cont.)

3. Amounts recognized in the consolidated balance sheet

	As at March 31		As at December 31
	2018	2017	2017
	Unaudited		Audited
	in NIS millions		
Amounts recognized in the "Other liabilities" line item	**11,066**	9,577	11,287
Net liability recognized at the end of the reporting period	**11,066**	9,577	11,287

4. Amounts recognized in Accumulated other comprehensive income (loss) before tax effect

	As at March 31		As at December 31
	2018	2017	2017
	Unaudited		Audited
	in NIS millions		
Net actuarial loss	**4,194**	2,747	4,408
Closing balance in other comprehensive income	**4,194**	2,747	4,408

B. **Expenditure for the period**

1. Components of the net benefit cost recognized in the income statement

	For the three months ended March 31		**For the year ended December 31**
	2018	**2017**	**2017**
	Unaudited		**Audited**
	in NIS millions		
Cost of service	**40**	37	148
Cost of interest	**160**	177	696
Expected return on plan assets	**(86)**	(92)	(364)
Amortization of unrecognized amounts - net actuarial loss	**100**	82	330
Total benefit cost, net	**214**	204	810
Total expense for defined contribution pension plan	**35**	37	192
Total expenses included in profit or loss	**249**	241	1,002

Note 8 - Employee Benefits (cont.)

A. Composition of benefits (cont.)

2. Defined benefit plan (cont.)

B. Expenditure for the period (cont.)

2. Changes in plan assets and obligation for benefit recognized in other comprehensive income before tax effect (cont.)

	For the three months ended March 31		For the year ended December 31
	2018	2017	2017
	Unaudited		Audited
	in NIS millions		
Net actuarial loss (gain) for the for the period	**(103)**	(408)	1,525
Amortization of unrecognized amounts - net actuarial loss	**(100)**	(82)	(330)
Changes in foreign exchange rates	**-**	(4)	(7)
Other	**(11)**	-	(21)
Total recognized in other comprehensive income	**(214)**	(494)	1,167
Total benefit cost, net	**214**	204	810
Total recognized in net benefit cost for the period and in other comprehensive income	**-**	(290)	1,977

3. Estimate of the amounts included in other comprehensive income that are expected to be deducted as a loss from accumulated other comprehensive income to the income statement in 2017, before the tax effect

	For the nine months ended December 31 2018
	Unaudited
	in NIS millions
Net actuarial loss	**287**
Total amount expected to be amortized from accumulated other comprehensive income	**287**

Note 8 - Employee Benefits (cont.)

A. Composition of benefits (cont.)

3. Assumptions[(a)]

A. **The assumptions, based on the weighted average, used for calculating the obligation for the benefit and measuring the benefit's net cost**

1. The main assumptions used for calculating the obligation for the benefit

	As at March 31		As at December 31
	2018	2017	2017
	Unaudited		Audited
	in %		
Capitalization rate	**2.09**	2.65	2.06
Rate of increase in the CPI	**1.55**	1.89	1.60
Departure rate	**0.1-3.7**	0.1-3.7	0.1-3.7
Rate of remuneration increase	**0-6.3**	0-6.3	0-6.3

2. The main assumptions used for calculating the cost of the net benefit for the period

	As at March 31		As at December 31
	2018	2017	2017
	Unaudited		Audited
	in %		
Discount rate	**2.06**	2.49	2.51
Expected long-term return on plan assets	**5.50**	5.50	5.50
Rate of remuneration increase	**0-6.3**	0-6.3	0-6.3

B. **The effect of a 1 percentage point change on the expected benefit obligation before the tax effect**

	Increase by 1 percentage point			Decrease by 1 percentage point		
	March 31		December 31	March 31		December 31
	2018	2017	2017	**2018**	2017	2017
	Unaudited		Audited	Unaudited		Audited
	in NIS millions					
Discount rate	**(2,327)**	(2,100)	(2,360)	**2,902**	2,622	2,943
Rate of increase in the CPI	**(1)**	(61)	(69)	**1**	61	69
Departure rate	**155**	216	159	**(151)**	(235)	(156)
Rate of remuneration increase	**633**	575	702	**(553)**	(507)	(610)

(a) The assumptions are only in respect of the Bank's data.

Note 8 - Employee Benefits (cont.)

A. Composition of benefits (cont.)

The employee benefit liability amount is affected by several key variables, which include market variables (interest capitalization rates for various periods) and actuarial variables, with some of the actuarial variables being employees' behavioral variables. There may be a correlation between changes in market variables and changes in the behavioral actuarial variables. For example, in case of a sharp interest rate hike in the Israeli economy, government bond yields may rise (lowering the pension liability amounts and causing the number of employees opting for the pension funds to decrease (a decision which will also decrease the Bank's pension liabilities amounts).

4. Plan assets

A. Composition of fair value of plan assets

	As at March 31		As at December 31
	2018	2017	2017
	Unaudited		Audited
	in NIS millions		
Cash and deposits with banks	**113**	256	175
Shares	**2,498**	2,434	2,596
Government bonds	**1,053**	1,362	1,274
Corporate bonds	**1,996**	1,927	1,912
Other	**717**	440	751
Total	**6,377**	6,419	6,708

B. Fair value of plan assets by type of asset and allocation target for 2018

	Allocation target	Percentage of plan assets		
		March 31		December 31
	2018	**2018**	2017	2017
	Unaudited			Audited
	in %			
Cash and deposits with banks	**2**	**2**	4	3
Shares	**38**	**39**	38	38
Government bonds	**19**	**17**	21	19
Corporate bonds	**31**	**31**	30	29
Other	**10**	**11**	7	11
Total	**100**	**100**	100	100

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Note 8 - Employee Benefits (cont.)

A. Composition of benefits (cont.)

5. Cash flows

A. Deposits

	Forecast[a]	For the three months ended March 31		For the year ended December 31
	2018	**2018**	2017	2017
	Unaudited			Audited
	in NIS millions			
Deposits	**105**	**35**	39	177

(a) The estimated deposits that the Bank expects to pay in respect of the defined benefit plan during 2018.

B. Benefits the Bank expects to pay in the future[a]

Years	in NIS millions
2018	526
2019	749
2020	672
2021	708
2022	722
2023-2027	4,336
2028 and onwards	11,488
Total	19,201

(a) In discounted values.

Note 9A - Capital

Changes in the Bank's capital

Under the Bank’s remuneration program, the precondition for the vesting the second third of the PSUs (which were allotted to the Chairman of the Board, to the President and CEO and to other officeholders of the Bank (hereinafter - the “**Bank’s Officeholders**”) as part of the approval of the performance-based annual bonus for half of the 2016 annual bonus) (hereinafter: the “**2016 PSUs**”) as well as for the vesting of the first third of the PSUs allotted to the Bank’s Officeholders as part of the approval of the performance-based annual bonus for half of the 2017 annual bonus (hereinafter: the “**2017 PSUs**”) has been met; therefore, the second third of the 2016 PSUs and the first third of the 2017 PSUs have vested. As a result, In March 2018, the Bank's Officeholders were allotted shares, according to the number of 2016 PSUs and 2017 PSUs vested as of that date.

For more information, please see Note 25A to the 2017 Annual Financial Statements.

Under the remuneration policy, the shares allotted following the vesting of the 2016 PSUs, 2017 PSUs were deposited with the trustee of the remuneration program, ESOP Management and Trust Services Ltd. (hereinafter: the “**Program Trustee**").

The shares allotted in respect of the 2016 PSUs, as detailed above, were restricted until March 14 2018, and the first of the three tranches of shares allotted in respect of the vesting of the 2017 PSUs, which vested as aforesaid, is restricted for an additional period of one year, until two years from the allotment of the 2017 PSUs will have passed, i.e. – until April 5 2019.

The vesting of the 2016 PSUs and 2017 PSUs at each of the vesting dates will be conditioned on the Bank having the required capital adequacy ratio pursuant to the Bank Supervision Department’s directives, in accordance with the most recent financial statements published by the Bank immediately prior to each vesting date. If the Bank does not comply with the aforesaid ratio, the tranche’s vesting will be postponed to the next date on which the Bank meets the required capital adequacy ratio, as stated, in accordance with the published financial statements.

For more information, please see Note 25A to the 2017 Annual Financial Statements.

The Bank's shelf prospectus, under which securities may be offered, is valid until May 27 2018. On May 23, the Bank's Board of Directors approved a shelf prospectus in accordance with a permit received by the Israel Securities Authority.

Dividend distribution policy

On March 29 2017, the Bank's Board of Directors approved a dividend distribution policy, effective as of the publication date of the financial statements for the first quarter of 2017. Pursuant to said policy, each quarter, the Bank will distribute a dividend constituting 20% of the Bank's net profit according to the Bank's financial statements for the previous quarter, and subject to, among other things, the Bank complying with its capital adequacy targets after the dividend distribution

On November 20 2017, the Bank’s Board of Directors approved a change in the dividend distribution policy, whereby each quarter, the Bank will distribute a dividend constituting 40% of the Bank's net income according to the Bank's financial statements for the previous quarter, and subject to, among other things, the Bank complying with its capital adequacy targets after the dividend distribution The actual dividend distribution is subject to the specific resolutions of the Board of Directors prior to each distribution, and to the provisions of the law which apply to dividend distribution, including the provisions of the Companies Law and directives of the Bank of Israel.

Under the revised policy, on May 23 2018, the Board of Directors approved, for the first quarter of 2018, a dividend of 40% of the net income of that quarter. The approved dividend amount was NIS 292 million, which constitutes 19.15 agorot per each share of NIS 1. Par value. The Board of Directors established June 5 2018 as the determining date for payment purposes and June 19 2018 as the payment date.

Details regarding paid dividend

Announcement date	Payment date	Dividend per share	Dividend paid in cash
		In agorot	In NIS millions
May 25 2017	June 22 2017	8.17	124
August 15 2017	September 11 2017	11.50	175
November 21 2017	December 21 2017	21.51	328
March 6 2018	March 28 2017	[1] 22.41	342

Bank's buyback plan

Pursuant to the immediate report dated March 6 2018 regarding the approval of a share buyback plan in the amount of up to NIS 700 million until March 31 2019, the Bank concluded its preparations for conducting the buyback plan according to the safe harbor mechanism prescribed by the Israel Securities Authority (Position Paper 199-8), subject to the terms and conditions outlined in the position paper. To carry out the buyback tranches, the Bank contracted a member of the Stock Exchange it is not affiliated with and with which it has no material business relationships. Initially, the Bank will transfer NIS 350 million to the Stock Exchange member to fund the buyback. This tranche will begin on May 24 2018 and will be in force until the earliest of any of the following: (a) August 2 2018; (b) Upon completion of the said buyback tranche; (c) A legal impediment to the continued validity of the agreement with the Stock Exchange member; (d) The Bank's announcement whereby it no longer meets the Bank of Israel's capital adequacy conditions for the buyback.

For more information, please see Note 9B.

[1] Update: The dividend amount increased following the vesting of PSUs and the issue of 497,781 new ordinary shares, as detailed in the immediate report dated March 6 2018.

Note 9B - Capital Adequacy, Leverage and Liquidity

Overview

In May 2013, the Banking Supervision Department amended Proper Conduct of Banking Business Directives No. 201 and 211 on capital measurement and adequacy in order to adjust them to the Basel III rules.

It should be noted that Basel III rules introduce significant changes in the calculation of regulatory capital requirements, inter alia, in relation to the following:

1. Regulatory capital components
2. Capital deduction and regulatory capital adjustments
3. Treatment of exposures to financial corporations
4. Treatment of exposures to credit risk for impaired debts
5. Capital allocation for CVA risk

The abovementioned amendments became effective on January 1 2014, and implementation is gradual pursuant to the transitional provisions set forth in Proper Conduct of Banking Business Directive No. 299, Measurement and Capital Adequacy – Regulatory Capital – Transitional Provisions.

According to the transitional provisions, the regulatory adjustments and deductions from capital, as well as minority interests - which do not qualify as regulatory capital - are to be gradually deducted from the capital at a rate of 20% per year, from January 1 2014 to January 1 2018. Capital instruments that no longer qualify as regulatory capital were recognized up to a maximum of 80% on January 1 2014 and in each subsequent year, the maximum is lowered by an additional 10% until January 1 2022. As of 2018, the maximum instrument amount qualifying as regulatory capital is 40%.

In addition, on August 29 2013, the Banking Supervision Department published a circular on Basel disclosure requirements, addressing the composition of capital and setting forth revised disclosure requirements for banks as part of the adoption of the Basel III rules.

Volatile capital components

The employee benefits standard, which was first applied in January 2015, has a material effect on Leumi's Common Equity Tier 1 capital, mainly due to the liability being measured in accordance with market interest rates which are at historical lows, and also due to the considerable volatility such measurement brought to the Bank's regulatory capital.

In this context, on July 12 2016, the Bank received individual approval from the Bank of Israel regarding the method of calculating the capitalized interest to be used for calculating the liability for employee benefits for the purpose of measuring regulatory capital. Pursuant to the approval, the calculation of the capitalized interest is based on a moving average of market yields for the eight-quarter period ended on the reporting date. The change is to be implemented from the financial statements for the period ended June 30 2016 to the financial statements as at December 31 2020 (inclusive). The method change significantly moderates the volatility resulting from changes in the capitalized interest rate.

On November 15 2016, the Bank's Board of Directors decided, based on the recommendation of the Audit Committee, to calculate the liabilities for employee pensions according to a fixed spread of AA-rated bonds.

For regulatory capital purposes, the pension liability amounts to NIS 34,327 million and the Common Equity Tier 1 Capital - to NIS 34,316 million, compared with a book value of NIS 32,964 million and Common Equity Tier 1 Capital of NIS 32,953 million.

Note 9B - Capital Adequacy, Leverage and Liquidity (cont.)

	March 31		December 31
	2018	2017	2017
	Unaudited		Audited
	in NIS millions		
A. Data			
Capital for the purpose of calculating the capital ratio			
CET1 capital, after regulatory capital deductions and adjustments[b]	**34,316**	32,965	34,653
Tier 2 capital, after deductions	**9,897**	[f]11,325	[f]10,811
Total capital	**44,213**	44,290	45,464
Balance of risk-weighted assets			
Credit risk[b]	**282,673**	272,108	277,344
Market risk	**4,343**	6,141	4,464
Operational risk	**21,801**	20,862	21,484
Total balance of risk-weighted assets	**308,817**	299,111	303,292
Capital-to-risk weighted assets ratio (CRAR)			
Ratio of CET1 capital to risk-weighted components	**11.11%**	11.02%	11.43%
Ratio of total capital to risk-weighted components	**14.32%**	14.81%[f]	14.99%[f]
Minimum CET 1 capital set by the Supervisor of Banks[a]	**10.25%**	10.26%	10.25%
Minimum total capital ratio set by the Supervisor of Banks[a]	**13.75%**	13.76%	13.75%
B. Major subsidiaries			
Leumi Card Ltd. [e]			
Ratio of CET1 capital to risk-weighted components	**15.60%**	15.76%	15.80%
Ratio of total capital to risk-weighted components	**16.70%**	16.76%	16.80%
Minimum CET 1 capital set by the Supervisor of Banks [d]	**8.00%**	8.00%	8.00%
Minimum total capital ratio set by the Supervisor of Banks[d]	**11.50%**	11.50%	11.50%
Bank Leumi USA			
Ratio of CET1 capital to risk-weighted components	**13.34%**	11.57%	11.51%
Ratio of total capital to risk-weighted components	**14.15%**	13.99%	13.82%
Minimum CET 1 capital set by the local authorities[c]	**6.38%**	5.25%	5.75%
Minimum total capital ratio set by the local authorities[c]	**9.88%**	9.25%	9.25%

(a) The minimum Common Equity Tier 1 capital ratio and minimum total capital ratio required from January 2015 to December 31 2016 are 9% and 12.5%, respectively and from January 1 2017 - 10% and 13.5%, respectively. As of January 2015, these ratios are compounded by a capital requirement representing 1% of the housing loans' outstanding balance as of the reporting date. Thus, the minimum Tier 1 capital ratio and the minimum total capital ratio required by the Banking Supervision Department as of March 31 2018, according to the data as at the reporting date, are 10.25% and 13.75%, respectively.

(b) These data include adjustments for the efficiency plans prescribed in the Supervisor of Banks' letter dated January 12 2016, titled Operational Efficiency of the Banking System in Israel (hereinafter: "Adjustments for the Efficiency Plan") are deducted gradually until June 30 2021 and June 30 2022, respectively. For more information regarding the effect of the transitional provisions and adjustments for the efficiency plans, please see Section d below. From total balances of risk-adjusted assets, NIS 192 million was added in respect of Adjustments for the Efficiency Plan (on December 31 2017 - NIS 94 million, and on March 31 2018 – a deduction of NIS 92 million).

Note 9B - Capital Adequacy, Leverage and Liquidity (cont.)

The minimum Common Equity Tier 1 capital ratio and the minimum total capital ratio are 4.5% and 8%, respectively. As of March 31 2018, these ratios are compounded by a 1.875% capital conservation buffer. The requirement will be implemented gradually until 2019, at which time the capital conservation buffer will be 2.5%.

On June 1 2016, Proper Conduct of Banking Business Directive No. 472, Clearing Houses and Clearing Transactions in Debit Cards, came into force, according to which the Common Equity Tier 1 capital ratio shall not fall below 8% and the total capital ratio shall not fall below 11.5%.

For more information, please see Note 16.

Restated. For more information, please see Note 6.

Note 9B - Capital Adequacy, Leverage and Liquidity (cont.)

C. Capital components for the calculation of capital ratios

	March 31		December 31
	2018	2017	2017
	Unaudited		Audited
	in NIS millions		
1. Common Equity Tier 1 capital			
Shareholders' equity	**33,564**	32,255	33,167
Differences between the equity attributable to the Bank's shareholders and Common Equity Tier 1 Capital - minority interests	**190**	212	229
Differences between the equity attributable to the Bank's shareholders and Common Equity Tier 1 Capital - for employee benefits	**-**	367	590
Adjustments in respect of the transition between the accounting yield curve and the 8-quarter average yield curve[(a)]	**507**	77	532
Total CET1 capital before regulatory adjustments and deductions	**34,261**	32,911	34,518
Regulatory adjustments and deductions:			
Goodwill and intangible assets	**(203)**	(258)	(203)
Deferred taxes receivable	**(363)**	(143)	(219)
Regulatory adjustments and other deductions - CET1 capital	**(18)**	(26)	(35)
Total regulatory adjustments and deductions - CET1 capital	**(584)**	(427)	(457)
Total adjustments in respect of the efficiency plan	**639**	481	592
Total CET1 capital, after regulatory adjustments and deductions	**34,316**	32,965	34,653
2. Tier 2 capital			
Tier 2 capital: Instruments before deductions	**6,778**	8,227	7,773
Tier 2 capital: Provisions before deductions	**3,119**	(b)3,098	(b)3,038
Total Tier 2 capital before deductions	**9,897**	11,325	10,811
Deductions:			
Total deductions - Tier 2 capital	**-**	-	-
Total Tier 2 capital	**9,897**	11,325	10,811
Total capital	**44,213**	44,290	45,464

(a) According to individual approval by the Banking Supervision Department.
(b) Restated. For more information, please see Note 6.

Note: The total capital ratio is calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, and 299 regarding capital measurement and capital adequacy, which became effective on January 1 2014.

Note 9B - Capital Adequacy, Leverage and Liquidity (cont.)

D. Effect of the transitional provisions and Adjustments for the Efficiency Plan on the Common Equity Tier 1 capital

	March 31		December 31
	2018	2017	2017
	Unaudited		Audited
	in %		
Capital-to-risk weighted assets ratio (CRAR)			
Ratio of CET1 capital to risk components prior to the implementation of the transitional provisions and before the effect of adjustments for the efficiency plan[(a)]	**10.91%**	10.70%	11.03%
Effect of the transitional provisions	**-**	0.16%	0.20%
Ratio of CET1 capital to risk components, before the effect of adjustments for the efficiency plan	**10.91%**	10.86%	11.23%
Adjustments in respect of the efficiency plan	**0.20%**	0.16%	0.20%
Ratio of CET1 capital to risk-weighted components	**11.11%**	11.02%	11.43%

(a) Including the effect of adopting US GAAP regarding employee rights.

(b) The data include adjustments in respect of the efficiency plans pursuant to the Supervisor of Banks' letter dated January 12 2016, entitled "Operational Efficiency of the Israeli Banking System." According to the letter, the reliefs provided for capital adequacy ratio purposes and leverage ratio in respect of the efficiency plans approved by the Board of Directors in June 2016 and July 2017, are amortized gradually until June 30 2021 and June 30 2022, respectively.

E. Leverage ratio pursuant to the Banking Supervision Department directives

On April 28 2015, the Banking Supervision Department issued Proper Conduct of Banking Business Directive No. 218 on leverage ratio. The directive sets a simple, transparent and non-risk based leverage ratio to serve as a supplementary and reliable measure for risk-based capital requirements, with the purpose of limiting excess leverage in banking corporations.

The leverage ratio is expressed as a percentage and is defined as the ratio between the capital measurement and exposure measurement. As defined in Proper Conduct of Banking Business Regulation No. 202, Tier 1 capital is used for calculating the leverage ratio, taking into account the transitional provisions. A bank's total exposure is the sum of the balance sheet exposures, exposure to derivatives, exposure to securities financing transactions and to off-balance-sheet items. Generally speaking, the measurement is consistent with the accounting values, and no risk-weighting is applied. In addition, unless specifically permitted to do so under the Directive, the Bank may not use physical or financial collateral, guarantees or other credit risk mitigation techniques to reduce the exposure measurement. Balance sheet assets deducted from Tier 1 capital (in accordance with Directive 202) are deducted from the exposure measurement. Pursuant to the Directive, the Bank calculates the exposure to derivatives according to Appendix C of Proper Conduct of Banking Business Directive No. 203, and exposures for off-balance sheet items - by converting the items' notional value by credit conversion coefficients, as stipulated in Proper Conduct of Banking Business Directive No. 203.

Pursuant to the Directive, banking corporations shall have a consolidated leverage ratio of no less than 5%. A banking corporation whose consolidated balance-sheet assets constitute at least 20% of the Israeli banking system's balance-sheet assets shall have a consolidated leverage ratio of no less than 6%. Thus, the Bank is required to have a minimum leverage ratio of 6%.

Note 9B - Capital Adequacy, Leverage and Liquidity (cont.)

Banking corporations are required to comply with the minimum leverage ratio as of January 1 2018. A banking corporation meeting its applicable minimum leverage ratio on the date of the Directive's publication shall not fall below the prescribed threshold. A banking corporation which fails to meet its applicable minimum leverage ratio on the date of the Directive's publication shall be required to increase its leverage ratio by regular quarterly rates until January 1 2018.

	As at March 31		As at December 31
	2018	2017	2017
	Unaudited		Audited
	In NIS millions		
A. Consolidated[(a)]			
Tier 1 capital	**34,316**	32,965	34,653
Total exposures	**498,316**	481,410	499,026
Leverage ratio			
Leverage ratio	**6.89%**	6.85%	6.94%
Minimum leverage ratio required by the Banking Supervision Department	**6.00%**	6.00%	6.00%
B. Major subsidiaries .			
Leumi Card Ltd.			
Leverage ratio	**11.10%**	10.95%	11.10%
Minimum leverage ratio required by the Banking Supervision Department	**5.00%**	5.00%	5.00%
Bank Leumi USA			
Leverage ratio	**11.17%**	9.22%	9.72%
Minimum leverage ratio required by the Banking Supervision Department	**5.00%**	5.00%	5.00%

(a) These data include adjustments for the efficiency plans prescribed in the Supervisor of Banks' letter dated January 12, 2016, Operational Efficiency of the Banking System in Israel. According to the said letter, the reliefs granted in respect of capital adequacy ratios and leverage ratio for the efficiency plans, which were approved by the Board of Directors in June 2016 and in July 2017, are being gradually withdrawn until June 30 2021 and June 30 2022, respectively. The effect on the leverage ratio of the relief for the efficiency plan was approximately 0.13% as at March 31 2018 (0.09% and 0.10% as at December 31 2017 and March 31 2017, respectively). For more information regarding the effect of the transitional provisions and adjustments for the efficiency plans, please see Section D above.
In addition, when calculating the leverage ratio, adjustments in respect of the implementation of the discount rate calculated over a moving average of the market yield for the eight quarters ended on the reporting date, in respect of certain actuarial liabilities, as outlined above were taken into account.

F. Liquidity coverage ratio pursuant to the Banking Supervision Department directives

On September 28 2014, a circular was published adding Proper Conduct of Banking Business Directive No. 221 on liquidity coverage ratio, applying the recommendations of the Basel Committee regarding liquidity coverage ratio to the banking system in Israel. The liquidity coverage ratio examines a time-horizon of 30 days under a stress scenario and is intended to ensure that a banking corporation has an inventory of high-quality liquid assets that is able to cover the corporation's liquidity requirements in this time horizon. The Directive prescribes the manner of calculating the liquidity coverage ratio, including the characteristics and operational requirements for an "inventory of high-quality liquid assets" (the numerator) and sufficient buffers for them; it also prescribes the net cash outflow expected under the stress scenario defined in the Directive for 30 calendar days (the denominator).

Note 9B - Capital Adequacy, Leverage and Liquidity (cont.)

The stress scenario set forth in the directive includes a shock scenario combining a corporation-specific shock and a systemic shock; in this context, standard withdrawal and deposit rates were defined for outflows and inflows, respectively, according to the various balance categories.

The liquidity coverage ratio became effective on April 1 2015.

Pursuant to the transitional provisions, as of April 1 2015, the minimum requirement was set at 60%, increasing to 80% on January 1 2016, and to 100% on January 1 2017 and thereafter. However, in a period of financial pressure, a banking corporation may fall below these minimum requirements.

In addition, on September 28 2014, a circular was published concerning a temporary order - implementation of disclosure requirements under the Basel Committee's Pillar 3 - disclosure of the liquidity coverage ratio (hereinafter: the "Circular"). The circular amended the Reporting to the Public Directives to incorporate the disclosure requirements the banks are required meet in adopting the liquidity coverage ratio.

As a result, inter alia, beginning on April 1 2015, the disclosure requirements for the liquidity coverage ratio - both for consolidated and solo reports (as applicable) - were added to the notes to the financial statements, with the amended title Capital Adequacy and Liquidity under the Banking Supervision Department's Directives.

The banking corporation's liquidity coverage ratio is based on an average of daily observations and the consolidated liquidity coverage ratio is based on an average of monthly observations.

	For the three months ended March 31 2018		For the year ended December 2017
	2018	2017	2017
	Unaudited		Audited
	In %	In %	
A. Consolidated			
Liquidity coverage ratio	**122**	131	122
Minimum liquidity ratio required by the Banking Supervision Department	**100**	100	100
B. Banking corporation			
Liquidity coverage ratio	**122**	131	122
Minimum liquidity ratio required by the Banking Supervision Department	**100**	100	100

Note: Leumi Card and Bank Leumi USA are not required to meet a liquidity coverage ratio.

Note 10 - Contingent Liabilities and Special Commitments

A. Contingent Liabilities and other Special Commitments

	March 31		December 31
	2018	2017	2017
	Unaudited		Audited
	in NIS millions		
(1) Long-term leases - Rent for buildings, equipment and vehicles, and maintenance fees due to commitments to pay over the coming years			
In first year	**221**	193	228
In second year	**203**	268	201
In third year	**146**	183	144
In fourth year	**131**	146	128
In fifth year	**116**	110	118
Over 5 years	**1,094**	1,140	1,109
Total long-term leases	[(a)]**1,911**	2,040	1,928
(2) Commitments to purchase securities	**703**	792	477
(3) Commitments to invest in buildings and equipment and their purchase	**(a)49**	79	37

(a) Including outstanding lease balances of NIS 451 and commitments to invest in buildings and equipment in the amount of NIS 33 million. For held-for-sale assets.

	March 31		December 31
	2018	2017	2017
	Unaudited		Audited
	in NIS millions		
(4) Loan sale activity			
Carrying amount of credit sold	-	-	87
Cash proceeds	-	-	96
Net income on sale of loans	-	-	9

B. Legal claims

During the regular course of business, legal claims have been filed against the Bank and certain consolidated companies, including class actions approval petitions.

Note 26 to the Bank's Annual Financial Statements as at December 31 2017 included information regarding all material legal claims as of the reporting date. The following note contains information regarding material legal claims filed during the reporting period and thereafter, if any, as well as changes that occurred in respect of material lawsuits filed in previous reporting periods; the note does not contain information regarding lawsuits reported in Note 26 to the Annual Report, in which no change has occurred.

Note 10 - Contingent Liabilities and Special Commitments (cont.)

In the opinion of the management of the Bank and the managements of the consolidated companies - which is based on legal opinions regarding the expected results of such claims, including petitions to approve class actions - the financial statements reflect adequate provisions, if needed, to cover any damages resulting from such claims.

In the opinion of the management of the Bank and the managements of the consolidated companies, the total additional exposure arising from legal claims filed against the Bank and the consolidated companies on various issues the amount of each of which exceeds NIS 2 million, and regarding which the chances of the claims succeeding are not remote, amounts to NIS 43 million.

1. As at the publication date of the financial statements, there have been no material changes with respect to the details of Note 26 to the Annual Report, except as detailed below:

   1.1. On September 7 2011, a petition to approve a class action lawsuit was filed against the Bank (in respect of Leumi Mortgage Bank Ltd.) and against other banks. The total jurisdictional amount against all the respondent banks was NIS 927 million (against Leumi - NIS 327 million). The petitioners claim that the respondent banks charged housing-loan borrowers “advance compound interest", contrary to law and to the loan agreements. On August 16 2015, the court rejected the petition for approval of claim as a class action due to lack of cause of action. On December 7 2015, the plaintiffs appealed the court's decision in the Supreme Court. On March 14 2018, the Supreme Court rejected the appeal. With this, the legal claim was concluded.

   1.2. On August 28 2013, a petition to approve a class action lawsuit was filed against the Bank and other banks. The Supervisor of Banks, Bank of Israel Governor and Antitrust Commissioner were included as formal respondents. The subject of the petition is the allegedly unlawful charging of commissions for conversion and transfer of foreign currency, without providing fair disclosure thereof. The petitioners claim that the damage caused to customers (according to an "abbreviated" petition filed by the petitioners) is about NIS 2.6 billion (the petitioners claim additional damages which have not been quantified).
   On January 20 2015, a court handling the proceedings of another class action approval petition concerning a similar matter - in the amount of NIS 200 million, also against the credit card companies (including against Leumi Card) - decided to transfer the case to the court handling the abovementioned petition.
   On March 21 2018, the Bank learned that the plaintiffs filed an appeal against the Tel Aviv District Court’s ruling of March 1 2018, which rejected the approval petition for a class action and required the petitioners to pay the respondents’ expenses.

   1.3. On April 21 2015, a petition to approve a class action lawsuit was filed against the Bank. The petitioner claims that the Bank did not fulfill its duty to make a reasonable effort to locate holders of dormant accounts, to notify them of the account’s existence and to pay them the funds “lying dormant", according to the petitioner, in these accounts. The petitioner raises additional claims regarding the charging of fees and commissions in these accounts, and the transfer of the funds to the account holders without CPI-linkage and interest. The total damage to all members of the group is unquantifiable. On February 26 2018, the court approved a settlement arrangement in this procedure, and the lawsuit was concluded.

   1.4. On December 8 2016, a petition to approve a class action lawsuit was filed against the Bank and against other banks. The petitioner claimed that the banks charge minimum fees for foreign currency transfers by size, rather than charging a single minimum fee, which - according to the petitioner - is required under banking regulations, and that this common violation of all the respondent banks is, in fact, a restrictive practice contrary to the Antitrust Law. The alleged damage was estimated by the petitioner, for all the respondents, to be approximately NIS 500

Note 10 - Contingent Liabilities and Special Commitments (cont.)

million. On March 13 2018, a ruling was issued approving the applicant's withdrawal from the proceeding. With this, the legal claim was concluded.

1.5. On May 15 2017, a petition was filed to approve a class action against the Bank (similar claims have been filed against other banks, including the Bank, on February 12 2017, which are still pending). The petitioners claim that the Bank does not classify businesses as "small businesses" and as a result, unlawfully charges them fees which do not apply to small businesses. The petitioner estimates the damage amount for all respondents to be NIS 462 million. On April 17 2018, the Tel Aviv District court decided to reject the petition for a class action suit filed on May 15 2017. According to the Court's decision, the petition for a class action filed on February 12 2017 – with claimed damages of NIS 100 million - will continue to be heard.

1.6. On September 11 2017, a petition to approve a class action lawsuit was filed against the Bank, in the amount of approximately NIS 150 million. The petitioner claims that the Bank opens accounts under the name of building committee members, rather than condominium-type accounts, as required by law. Moreover, it is claimed that the Bank unlawfully collects commissions from these accounts, does not meet the provisions of the Checks Without Cover Law regarding identification of customers, and does not allow apartment owners to access information pertaining to the bank account. On March 25 2018, a ruling was issued approving the applicant's withdrawal from the proceeding. With this, the legal claim was concluded.

1.7. On May 6 2018, a petition to approve a class action lawsuit was filed against the Bank. The petitioner claims that the Bank does not fulfil its duty to make a reasonable effort to locate inactive accounts with a balance exceeding the investment requirement under the Banking Ordinance (Inactive Accounts), 2000, and that it is insufficient that the Bank revalues the accounts according to the provisions or the Ordinance and that the Bank should revalue the accounts at higher amounts. According to the claimant, the total class damage amount is inestimable.

2. As at the publication date of the financial statements, there have been no material changes with respect to legal claims filed against the Bank's subsidiaries detailed in Note 26 to the Annual Report, except as detailed below:

On July 8 2014, a petition to approve a class action lawsuit was filed against several credit card companies, including Leumi Card. For more information regarding this petition, please see Section 1.2 above. On March 21 2018, the Bank learned that the plaintiffs filed an appeal against the Tel Aviv District Court's ruling of March 1 2018, which rejected the approval petition for a class action and required the petitioners to pay the respondents' expenses.

3. Also pending against the Bank and its subsidiaries are petitions to approve class actions for a material amount, which – according to the Bank's management and based on the opinion of the relevant subsidiary's management, which is based on legal opinions as to the odds of these petitions being accepted – it is impossible to estimate the odds at this stage. For this reason, no provisions were made in respect of these petitions.

4. On May 1 2018, a petition to approve a class action lawsuit against Leumi Card and another Credit card company was filed. The Bank was added as a respondent due to its stake in Leumi Card. According to the petitioner, the companies issuing credit cards do not issue their customers making credit transactions or delayed payment transactions, periodic or annual statements outlining their finance

expenses (total interest and expenses paid for credit transactions). According to the petitioner, failure to disclose this information to private customers is misleading, and as for business customers – the failure to disclose the information also prevents them for receiving tax credit for these expenses. The total claimed damage amount for all respondents is NIS 180 million.

C. Credit cards

On March 7 2012, the Antitrust Tribunal gave its judicial approval to an agreement submitted by LeumiCard, Isracard Ltd., Israel Credit Card Company Ltd. and the banks controlling each of the credit card companies with the Antitrust Commissioner regarding the rate of interchange fee which will be in effect between the clearing entities and credit card issuers Visa and MasterCard. According to the approved agreement, the rate of the interchange fee will decrease gradually until it reaches 0.7% from July 2014, according to the outline plan for the reduction of interchange fee set forth in the ruling. The arrangement between the Commissioner and the credit card companies is in force until the end of 2018. Following the notice published by the Bank of Israel on January 16 2018 regarding the intention of the Bank of Israel's governor to exercise her legal authority to announce the service provided by a clearer to a business in respect of clearing debit card transactions a regulated service in respect of interchange fees and the intention to reduce the interchange fee gradually over time, the Bank of Israel announced on February 2018 it has revised the outline published in its previous announcement, so that the interchange fee in deferred debit transactions is reduced according to the following outline:

From January 1 2019 (the date on which the current arrangement comes to an end) – a reduction from 0.7% to 0.6%;

From January 1 2020 – a reduction from 0.6% to 0.575%;

From January 1 2021 – a reduction from 0.575% to 0.55%;

From January 1 2022 – a reduction from 0.55% to 0.525%;

From January 1 2023 – a reduction from 0.525% to 0.5%;

In addition, the Bank of Israel also announced that the interchange fee on immediate debit transactions (which is currently 0.3%) will be reduced as follows:

From January 1 2021 – a reduction from 0.3% to 0.275%;

From January 1 2023 – a reduction from 0.275% to 0.25%;

In addition, on July 24 2017, the Ministry of Finance announced a reduction in merchant's fees charged by Diners and American Express. The reduction will be applied gradually, so that until December 31 2017 the maximum fee shall be 2.95%; until December 31 2018 - the maximum fee shall be 2.45%; until December 31 2019, the maximum fee shall be 2.10%; and on June 30 2020, the maximum fee for a merchant will be 1.99%. In addition, credit card companies will be prohibited from imposing alternative fees on merchants.

Pursuant to the Law on Minimizing Market Centralization and Promoting Economic Competition (Legislative Amendments), 2017, as of February 2019, the Bank shall be required to operate the issuance of new credit cards to the Bank's customers through at least two issuance operators, with any issuance operator's share reaching a maximum of 52% of the new cards issued by the Bank. Under this provision, the Bank negotiated with credit card companies regarding entering agreements to operate the issuance of new cards.

In March 2018, the Bank signed credit card issuance operation and issuance agreements with Isracard Ltd. and Europay (Eurocard) Israel Ltd. (of the Isracard Group), as well as a memorandum of understanding with Israel Credit Israel Ltd. and Diners Club Israel Ltd. (of the C.A.L. Group).

Note 10 - Contingent Liabilities and Special Commitments (cont.)

Under said agreements, the parties will issue debit cards as of February 2019, and the above companies will operate the issuance activity. The agreements establish the revenue sharing among the parties as well as their rights and obligations in respect of the issuance activity and operation. Following these agreements, the parties are working on more elaborate agreements. At the same time, the Bank is negotiating with Leumi Card towards signing an agreement for credit card issuance and operation which will replace the current agreement and under which the parties will issue debit cards as of January 2019.

During April 2018, various drafts and provisions on debit cards were published, including regarding clearing dates of debit card transactions. For more information, please see the section entitled "Legislation and regulation of the Banking System."

D. Contingent liabilities and miscellaneous commitments

Other proceedings

On November 2 2017, a scoping meeting was held with the Enforcement Division of the Financial Conduct Authority (FCA) for a proceeding at Bank Leumi UK (hereinafter: "BLUK"), regarding controls and systems for the implementation of anti-money laundering regulations.

The proceeding, which FCA is authorized to carry out, is at an initial stage, and therefore the length of the proceeding and which of the range of measures available to the FCA will be taken, if any, are unknown. However, during the reporting period, the FCA clarified that this constituted a mere regulatory procedure. According to the FCA publications regarding similar proceedings against banks similar to BLUK - in which violations were determined to have occurred - resulted in measures taken against those banks so that it may be assumed that BLUK's exposure to financial sanctions, if any, will be immaterial to Leumi Group.

Note 11 - Derivative Instruments Activity - Scope, Credit Risks and Maturity Dates

A. Volume of consolidated activity

	As at March 31 2018 (unaudited)					
	Interest rate contracts					
	NIS-CPI	Other	Foreign exchange rate contracts	Stock contracts	Commo-dity and other contracts	Total
	in NIS millions					
(1) Notional amount of derivatives						
A) Hedging derivatives[(a)]						
Swaps	–	1,992	–	–	–	1,992
Total	–	1,992	–	–	–	1,992
Of which: Interest rate swaps for which the banking corporation has agreed to pay fixed interest	–	1,992	–	–	–	1,992
B) Derivatives ALM[(a)(b)]						
Future contacts	–	65,134	226	118,571	231	184,162
Forward contracts	16,199	4,800	211,408	746	14	233,167
Listed option contracts						
Written options	–	–	18,627	14,228	113	32,968
Call options	–	–	18,387	14,228	113	32,728
Other options						
Written options	–	6,364	22,449	3,532	443	32,788
Call options	–	1,053	21,470	3,022	443	25,988
Swaps	640	252,715	24,831	44,636	167	322,989
Total	16,839	330,066	317,398	198,963	1,524	864,790
Of which: Interest rate swaps for which the banking corporation has agreed to pay fixed interest	–	128,184	–	–	–	128,184
C) Other derivatives[(a)]	–	–	–	–	–	–
D) Credit derivatives and foreign exchange swaps						
Credit derivatives in which the banking corporation is a beneficiary	–	–	–	–	5	5
Foreign exchange swaps	–	–	12,659	–	–	12,659
Total	–	–	12,659	–	5	12,664
Grand total	16,839	332,058	330,057	198,963	1,529	879,446

(a) Excluding credit derivatives and foreign currency swaps.
(b) Derivatives which constitute part of the Bank's assets and liabilities management system that are not designated for hedging ratios.

Note 11- Derivative Instruments Activity - Scope, Credit Risks and Maturity Dates (cont.)

A. Volume of consolidated activity (cont.)

	As at March 31 2018 (unaudited)					
	Interest rate contracts					
	NIS-CPI	Other	Currency contracts	Stock contracts	Commodity and other contracts	Total
	in NIS millions					
(2) Gross fair value of derivatives						
A) Hedging derivatives[(a)]						
Gross positive fair value	–	61	–	–	–	61
Gross negative fair value	–	5	–	–	–	5
B) Derivatives ALM[(a)(b)]						
Gross positive fair value	284	4,367	3,465	3,587	48	11,751
Gross negative fair value	435	4,155	3,244	3,560	50	11,444
C) Other derivatives[(a)]	–	–	–	–	–	–
D) Credit derivatives						
Credit derivatives in which the banking corporation is a beneficiary						
Gross positive fair value	–	–	–	–	–	–
Gross negative fair value	–	–	–	–	[(d)]–	–
E) Total						
Gross positive fair value[(c)]	284	4,428	3,465	3,587	48	11,812
Fair value amounts netted in the balance sheet	–	–	–	–	–	–
Balance sheet balance of assets in respect of derivatives	284	4,428	3,465	3,587	48	11,812
Of which: Balance sheet balance of assets in respect of derivatives not under a netting or similar arrangement	50	41	138	168	6	403
Gross negative fair value[(c)]	435	4,160	3,244	3,560	50	11,449
Fair value amounts netted in the balance sheet	–	–	–	–	–	–
Balance sheet balance of liabilities in respect of derivatives	435	4,160	3,244	3,560	50	11,449
Of which: Balance sheet balance of liabilities in respect of derivatives not under a netting or similar arrangement	–	86	364	774	17	1,241

(a) Excluding credit derivatives and foreign currency swaps.
(b) Derivatives which constitute part of the Bank's assets and liabilities management system that are not designated for hedging ratios.
(c) Of which: NIS 9 million in positive gross fair value of assets in respect of embedded derivatives, NIS 32 million in gross negative fair value of liabilities in respect of embedded derivatives.
(d) Less than NIS 1 million.

Note 11 - Derivative Instruments Activity - Scope, Credit Risks and Maturity Dates (cont.)

A. Volume of consolidated activity (cont.)

	As at March 31 2017 (unaudited)					
	Interest rate contracts					
	NIS-CPI	Other	Currency contracts	Stock contracts	Commodity and other contracts	Total
	in NIS millions					
(1) Notional amount of derivatives						
A) Hedging derivatives[a]						
Swaps	–	2,682	–	–	–	2,682
Total	–	2,682	–	–	–	2,682
Of which: Interest rate swaps for which the banking corporation has agreed to pay a fixed interest rate	–	2,682	–	–	–	2,682
B) Derivatives ALM[a][b]						
Future contacts	–	47,773	77	61,143	574	109,567
Forward contracts	12,468	3,450	168,918	486	7	185,329
Listed option contracts						
Written options	–	680	17,412	13,369	24	31,485
Call options	–	680	17,025	13,438	24	31,167
Other options						
Written options	–	7,406	24,046	2,932	135	34,519
Call options	–	5,437	23,845	2,909	161	32,352
Swaps	572	265,614	26,712	28,527	193	321,618
Total	13,040	331,040	278,035	122,804	1,118	746,037
Of which: Interest rate swaps for which the banking corporation has agreed to pay a fixed interest rate	–	145,553	–	–	–	145,553
C) Other derivatives[a]	–	–	–	–	–	–
D) Credit derivatives and foreign exchange swaps						
Credit derivatives in which the banking corporation is a beneficiary	–	–	–	–	10	10
Foreign exchange swaps	–	–	10,605	–	–	10,605
Total	–	–	10,605	–	10	10,615
Grand total	13,040	333,722	288,640	122,804	1,128	759,334

(a) Excluding credit derivatives and foreign currency swaps.
(b) Derivatives which constitute part of the Bank's assets and liabilities management system that are not designated for hedging ratios.

Note 11 - Derivative Instruments Activity - Scope, Credit Risks and Maturity Dates (cont.)

A. Volume of consolidated activity (cont.)

	As at March 31 2017 (unaudited)					
	Interest rate contracts					
	NIS-CPI	Other	Currency contracts	Stock contracts	Commodity and other contracts	Total
	in NIS millions					
(2) Gross fair value of derivatives						
[a]A) Hedging derivatives						
Gross positive fair value	-	65	-	-	-	65
Gross negative fair value	-	13	-	-	-	13
[a][b] B) Derivatives ALM	-	-	-	-	-	-
Gross positive fair value	343	5,246	4,094	1,270	20	10,973
Gross negative fair value	413	4,815	4,828	1,242	20	11,318
[a]C) Other derivatives	-	-	-	-	-	-
D) Credit derivatives	-	-	-	-	-	-
corporation is a Credit derivatives in which the banking beneficiary	-	-	-	-	-	-
Gross positive fair value	-	-	-	-	-	-
Gross negative fair value	-	-	-	-	[d]-	-
E) Total	-	-	-	-	-	-
[c]Gross positive fair value	343	5,311	4,094	1,270	20	11,038
Fair value amounts netted in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets in respect of derivatives	343	5,311	4,094	1,270	20	11,038
Of which: Balance sheet balance of assets in respect of derivatives not under a netting or similar arrangement	48	27	145	219	3	442
[c]Gross negative fair value	413	4,828	4,828	1,242	20	11,331
Fair value amounts netted in the balance sheet	-	-	-	-	-	-
respect of Balance sheet balance of liabilities in derivatives	413	4,828	4,828	1,242	20	11,331
liabilities in respect Of which: Balance sheet balance of of derivatives not under a netting or similar arrangement	-	54	364	134	3	555

(a) Excluding credit derivatives and foreign currency swaps.
(b) Derivatives which constitute part of the Bank's assets and liabilities management system that are not designated for hedging ratios.
(c) Of which: NIS 6 million in positive gross fair value of assets in respect of embedded derivatives, NIS 59 million in gross negative fair value of liabilities in respect of embedded derivatives.
(d) Less than NIS 1 million.

Note 11 - Derivative Instruments Activity - Scope, Credit Risks and Maturity Dates (cont.)

A. Volume of consolidated activity (cont.)

	December 31 2017 (audited)					
	Interest rate contracts					
	NIS-CPI	Other	Currency contracts	Stock contracts	Commodity and other contracts	Total
	in NIS millions					
(1) Notional amount of derivatives						
A) Hedging derivatives[a]						
Swaps	–	1,742	–	–	–	1,742
Total	–	1,742	–	–	–	1,742
Of which: Interest rate swaps for which the banking corporation has agreed to pay a fixed interest rate	–	1,742	–	–	–	1,742
B) Derivatives ALM [a)(b']						
Future contacts	–	33,009	106	103,734	234	137,083
Forward contracts	16,209	800	170,863	863	21	188,756
Listed option contracts	–	–	–	–	–	–
Written options	–	–	15,950	36,351	11	52,312
Call options	–	–	15,672	36,351	11	52,034
Other options	–	–	–	–	–	–
Written options	–	5,529	18,673	2,742	209	27,153
Call options	–	2,367	19,090	2,586	209	24,252
Swaps	794	231,919	25,648	37,523	157	296,041
Total	17,003	273,624	266,002	220,150	852	777,631
Of which: Interest rate swaps for which the banking corporation has agreed to pay a fixed interest rate	–	121,703	–	–	–	121,703
C) Other derivatives[a]	–	–	–	–	–	–
D) Credit derivatives and foreign exchange swaps						
Credit derivatives in which the banking corporation is a beneficiary	–	–	–	–	5	5
Foreign exchange swaps	–	–	12,163	–	–	12,163
Total	–	–	12,163	–	5	12,168
Grand total	17,003	275,366	278,165	220,150	857	791,541

(a) Excluding credit derivatives and foreign currency swaps.
(b) Derivatives which constitute part of the Bank's assets and liabilities management system that are not designated for hedging ratios.

Note 11 - Derivative Instruments Activity - Scope, Credit Risks and Maturity Dates (cont.)

A. Volume of consolidated activity (cont.)

	December 31 2017 (audited)					
	Interest rate contracts					
	NIS-CPI	Other	Currency contracts	Stock contracts	Commodity and other contracts	Total
	in NIS millions					
(2) Gross fair value of derivatives						
A) Hedging derivatives[a]						
Gross positive fair value	-	30	-	-	-	30
Gross negative fair value	-	8	-	-	-	8
B) Derivatives ALM[a][b]	-	-	-	-	-	-
Gross positive fair value	315	4,125	3,018	2,060	32	9,550
Gross negative fair value	431	3,825	3,471	2,041	25	9,793
C) Other derivatives[a]	-	-	-	-	-	-
D) Credit derivatives	-	-	-	-	-	-
Credit derivatives in which the banking corporation is a beneficiary	-	-	-	-	-	-
Gross positive fair value	-	-	-	-	-	-
Gross negative fair value	-	-	-	-	[d]-	-
E) Total	-	-	-	-	-	-
Gross positive fair value[c]	315	4,155	3,018	2,060	32	9,580
Fair value amounts netted in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets in respect of derivatives	315	4,155	3,018	2,060	32	9,580
Of which: Balance sheet balance of assets in respect of derivatives not under a netting or similar arrangement	51	52	98	289	6	496
Gross negative fair value[c]	431	3,833	3,471	2,041	25	9,801
Fair value amounts netted in the balance sheet	-	-	-	-	-	-
Balance sheet balance of liabilities in respect of derivatives	431	3,833	3,471	2,041	25	9,801
Of which: Balance sheet balance of liabilities in respect of derivatives not under a netting or similar arrangement	-	26	394	60	13	493

(a) Excluding credit derivatives and foreign currency swaps.
(b) Derivatives which constitute part of the Bank's assets and liabilities management system that are not designated for hedging ratios.
(c) Of which: NIS 7 million in positive gross fair value of assets in respect of embedded derivatives, NIS 61 million in gross negative fair value of liabilities in respect of embedded derivatives.
(d) Less than NIS 1 million.

Note 11 - Derivatives Activity - Scope, Credit Risks & Maturity Dates (cont.)

B. Credit risk and for derivatives by contract counterparty

	As at March 31 2018 (unaudited)					
	Stock exchanges	Banks	Dealers/ brokers	Governments & central banks	Other	Total
	in NIS millions					
Balance sheet balance of assets in respect of derivatives[a][b]	177	4,835	1,645	69	5,086	11,812
Gross amounts not netted on the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	3,901	1,595	11	651	6,158
Credit risk mitigation in respect of cash collateral received	-	754	15	56	3,090	3,915
Net amount of assets in respect of derivatives	177	180	35	2	1,345	1,739
Off-balance-sheet credit risk for derivatives[d][e]	362	7,686	1,860	36	6,742	16,686
Mitigation of off balance-sheet credit risk	-	3,309	1,074	4	1,000	5,387
Net off balance-sheet credit risk for derivatives	362	4,377	786	32	5,742	11,299
Total credit risk in respect of derivatives	539	4,557	821	34	7,087	13,038
Balance sheet balance of liabilities in respect of derivatives(a)[c]	152	7,162	1,855	11	2,269	11,449
Gross amounts not netted on the balance sheet:						
Financial instruments	-	3,901	1,595	11	651	6,158
Pledged cash collateral	-	640	239	-	452	1,331
Net amount of liabilities in respect of derivatives	152	2,621	21	-	1,166	3,960

	As at March 31 2017 (unaudited)					
	Stock exchanges	Banks	Dealers/ brokers	Governments & central banks	Other	Total
	in NIS millions					
Balance sheet balance of assets in respect of derivatives[a][b]	164	6,996	1,734	86	2,058	11,038
Gross amounts not netted on the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	4,625	1,585	1	666	6,877
Credit risk mitigation in respect of cash collateral received	-	1,997	145	85	50	2,277
Net amount of assets in respect of derivatives	164	374	4	-	1,342	1,884
Off-balance-sheet credit risk for derivatives[d][e]	-	5,707	1,378	73	4,441	11,599
Mitigation of off balance-sheet credit risk	-	1,521	747	-	1,405	3,673
Net off balance-sheet credit risk for derivatives	-	4,186	631	73	3,036	7,926
Total credit risk and for derivatives	164	4,560	635	73	4,378	9,810
Balance sheet balance of liabilities in respect of derivatives[a][c]	183	5,282	1,700	1	4,165	11,331
Gross amounts not netted on the balance sheet:						
Financial instruments	-	4,625	1,585	1	666	6,877
Pledged cash collateral	-	327	86	-	1,829	2,242
Net amount of liabilities in respect of derivatives	183	330	29	-	1,670	2,212

See notes below.

Note 11 - Derivative Instruments Activity - Scope, Credit Risks and Maturity Dates (cont.)

B. Credit risk and for derivatives by contract counterparty (cont.)

	December 31 2017 (audited)					
	Stock exchanges	Banks	Dealers/ brokers	Governments and central banks	Other	Total
	in NIS millions					
Balance sheet balance of assets in respect of derivatives[(a)(b)]	218	5,634	1,883	87	1,758	9,580
Gross amounts not netted on the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	3,621	1,448	42	738	5,849
Credit risk mitigation in respect of cash collateral received	-	1,537	423	41	121	2,122
Net amount of assets in respect of derivatives	218	476	12	4	899	1,609
Off-balance-sheet credit risk for derivatives[(d)(e)]	743	7,349	1,571	65	6,192	15,920
Mitigation of off balance-sheet credit risk	-	2,286	731	19	2,548	5,584
Net off balance-sheet credit risk for derivatives	743	5,063	840	46	3,644	10,336
Total credit risk and for derivatives	961	5,539	852	50	4,543	11,945
Balance sheet balance of liabilities in respect of derivatives[(a)(c)]	191	4,248	1,597	42	3,723	9,801
Gross amounts not netted on the balance sheet:						
Financial instruments	-	3,621	1,448	42	738	5,849
Pledged cash collateral	-	287	131	-	1,497	1,915
Net amount of liabilities in respect of derivatives	191	340	18	-	1,488	2,037

(a) The Bank did not offset netting agreements.
(b) Of which outstanding balance-sheet standalone assets in respect of derivatives totaling NIS 11,803 million (as at March 31 2017 - NIS 11,032 million; as at December 31 2017 - NIS 9,573 million).
(c) Of which outstanding balance-sheet standalone liabilities in respect of derivatives totaling NIS 11,417 million (as at March 31 2017 - NIS 11,272 million; as at December 31 2017 - NIS 9,740 million).
(d) Off-balance sheet credit risk for derivative instruments (including derivatives with negative fair value) before credit risk deduction, as calculated for the purpose of borrower credit limitations.
(e) The difference, if positive, between all total amounts for derivative instruments (including derivatives with negative fair value) included in the borrower's indebtedness, as calculated for the purpose of borrower credit limitations, before deducting credit risk, and the outstanding balance-sheet assets for the borrower's derivatives.

Note:
No credit losses were recorded in respect of derivative instruments in the three-month period ended March 31 2018, in the corresponding period last year and in December 2017.

Note 11 - Derivative Instruments Activity - Scope, Credit Risks and Maturity Dates (cont.)

C. Breakdown of maturity dates - par value: outstanding

	As at March 31 2018 (unaudited)				
	Up to 3 months	Over three months to a year	More than one year and up to 5 years	Over five years	Total
	in NIS millions				
Interest rate contracts:					
NIS-CPI	2,050	3,158	9,777	1,854	16,839
Other	34,582	72,248	146,857	78,371	332,058
Foreign exchange rate contracts	180,777	121,161	22,751	5,368	330,057
Stock contracts	161,640	36,477	846	-	198,963
Commodity and other contracts	593	484	452	-	1,529
Total	379,642	233,528	180,683	85,593	879,446
Total as at March 31 2017 (unaudited)	315,259	183,826	163,063	97,186	759,334
Total as at December 31 2017 (audited)	373,851	164,836	168,173	84,681	791,541

Note 12A - Regulatory Operating Segments

Overview

Information regarding regulatory operating segments was included in Note 29A to the financial statements as at December 31 2016.

Customer classification

According to the Operating Segments Circular, customers should be classified by operating segments according to their turnovers or characteristics (private customers and other individuals). When a banking corporation has no information regarding the total income of a business customer which has no indebtedness towards the banking corporation (including credit lines, etc.), the banking corporation may classify them into the relevant regulatory segment according to their total financial assets multiplied by a factor of 10. In addition, when the Bank believes that the total income does not represent the customer's activity volume, the customer should be classified as follows: A customer whose indebtedness is less than NIS 100 million - according to the business’s total balance-sheet assets, as stated in the FAQ file, and a customer whose indebtedness exceeds NIS 100 - into the large business segment.
During the period, measures were taken to complete missing information, mainly regarding business customers’ turnovers. In cases where the information has not yet been completed, customers were classified using estimates and other information in the Bank’s possession. The Bank continues to collect additional information.

Note 12A - Regulatory Operating Segments (cont.)

Information on regulatory operating segments - consolidated

	For the three months ended March 31 2018			
	Unaudited			
	Activity Israel			
	Households			
	Total	Of which: Housing loans	Of which: Credit cards	Private banking
	in NIS millions			
Interest income from external	782	348	82	1
Interest expense from external	64	-	-	30
Interest income (expense), net:				
From external	718	348	82	(29)
Inter-segmental	(56)	(160)	-	54
Total interest income, net	662	188	82	25
Total non-interest income	438	12	230	41
Total income	1,100	200	312	66
Expenses (income) in respect of loan losses	95	6	25	-
Operating and other expenses:				
For external	864	59	203	28
Inter-segmental	10	-	10	-
Total operating and other expenses	874	59	213	28
Profit (loss) before taxes	131	135	74	38
Provision for income taxes (benefit)	37	46	18	13
Profit (loss) after taxes	94	89	56	25
The Bank's share in associates' profits				
Net income (loss) before amount attributable to non-controlling interests	94	89	56	25
Net income (loss) attributable to non-controlling interests	12	-	12	-
Net income (loss) attributable to the Bank's shareholders	82	89	44	25
Average balance of assets[(a)]	104,983	68,264	12,240	558
Of which: Investments in associates[(a)]	-	-	-	-
Average outstanding balance of loans to the public[(a)(d)]	105,855	68,726	12,275	553
Outstanding balance of loans to the public as at end of the reporting period	104,877	68,467	12,295	448
Outstanding balance of impaired debts	444	-	38	-
Outstanding balance of debts in arrears for over 90 days	766	758	-	-
Average balance of liabilities[(a)]	106,917	24	108	27,058
Of which: Average balance of deposits from the public[(a)(e)]	106,783	-	68	27,055
Balance of deposits from the public as at the end of the reporting period	107,360	-	89	25,512
Average balance of risk-weighted assets[(a)(b)]	78,661	45,308	11,357	861
Balance of risk-weighted assets as at the end of the reporting period [(b)]	76,410	44,072	11,627	815
Average balance of assets under management[(a)(c)]	77,093	-	-	52,090
Breakdown of interest income, net:				
Margin from credit granting activities	583	188	82	1
Margin from deposit taking activities	79	-	-	24
Other	-	-	-	-
Total interest income, net	662	188	82	25

Note 12A - Regulatory Operating Segments (cont.)

Information on regulatory operating segments – consolidated (cont.)

(a) Average balance calculations are based on daily balances, as at the beginning of the quarter or the beginning of each month.
(b) Risk-weighted assets - as calculated for capital adequacy purpose.
(c) Assets under management - including customers' provident assets, provident funds, study funds, mutual funds and securities.
(d) Including housing loans granted to business customers.
(e) Including the average balance of assets classified as held for sale totaling NIS 7,985 million.
(f) Including the average balance of liabilities classified as held for sale totaling NIS 68 million.

Note 12A - Regulatory Operating Segments (cont.)

Information on regulatory operating segments – consolidated (cont.)

							Foreign operations	
Small and micro-businesses	Medium-sized businesses	Large-sized busi-nesses	Institutionals	Financial management	Other segment	Total activity in Israel	Total activity outside Israel	Total
549	188	396	8	184	-	2,108	313	2,421
22	29	52	86	81	-	364	51	415
-	-	-	-	-	-	-	-	-
527	159	344	(78)	103	-	1,744	262	2,006
(19)	20	(32)	102	(63)	-	6	(6)	-
508	179	312	24	40	-	1,750	256	2,006
207	82	156	52	53	20	1,049	65	1,114
715	261	468	76	93	20	2,799	321	3,120
73	(10)	(43)	(2)	6	-	119	11	130
-	-	-	-	-	-	-	-	-
368	123	116	63	49	179	1,790	208	1,998
-	-	-	-	(15)	4	(1)	1	-
368	123	116	63	34	183	1,789	209	1,998
274	148	395	15	53	(163)	891	101	992
93	51	133	5	(11)	(85)	236	26	262
181	97	262	10	64	(78)	655	75	730
-	-	-	-	10	-	10	-	10
181	97	262	10	74	(78)	665	75	740
-	-	-	-	(1)	(1)	10	-	10
181	97	262	10	75	(77)	655	75	730
55,133	25,745	56,192	1,726	161,279	9,703	415,319	32,768	448,087
-	-	-	-	808	-	808	-	808
55,758	26,004	57,964	1,735	-	-	247,869	23,504	271,373
58,911	27,100	58,228	761	-	-	250,325	24,552	274,877
490	213	1,069	-	-	4	2,220	702	2,922
100	-	-	-	-	-	866	-	866
49,597	35,322	48,181	72,032	37,592	11,563	388,262	26,300	414,562
47,432	34,579	47,287	70,251	-	-	333,387	25,299	358,686
50,553	35,689	50,089	67,441	-	-	336,644	25,471	362,115
49,410	28,730	75,125	1,185	21,417	16,825	272,214	31,078	303,292
52,520	29,349	77,343	900	20,421	18,361	276,119	32,698	308,817
39,378	21,230	73,453	668,645	39,567	-	971,456	19,282	990,738
-	-	-	-	-	-	-	-	-
473	150	286	5	429	-	1,927	270	2,197
35	29	26	19	(478)	-	(266)	(49)	(315)
-	-	-	-	89	-	89	35	124
508	179	312	24	40	-	1,750	256	2,006

Note 12A - Regulatory Operating Segments (cont.)

Information on regulatory operating segments - consolidated (cont.)

	For the three months ended March 31 2017[e]			
	Unaudited			
	Activity Israel			
	Households			
	Total	Of which: Housing loans	Of which: Credit cards	Private banking
	in NIS millions			
Interest income from external	810	375	66	2
Interest expense from external	81	-	-	34
Interest income, net				
From external	729	375	66	(32)
Inter-segmental	(89)	(190)	-	52
Total interest income, net	640	185	66	20
Total non-interest income	429	10	220	44
Total income	1,069	195	286	64
Expenses (income) in respect of loan losses	19	(1)	12	1
Operating and other expenses:				
For external	921	71	185	33
Inter-segmental	8	-	8	-
Total operating and other expenses	929	71	193	33
Profit (loss) before taxes	121	125	81	30
Provision for income taxes (benefit)	38	44	24	10
Profit (loss) after taxes	83	81	57	20
The Bank's share in associates' profits				
Net income (loss) before amount attributable to non-controlling interests	83	81	57	20
Net income (loss) attributable to non-controlling interests	9	-	9	-
Net income (loss) attributable to the Bank's shareholders	74	81	48	20
Average balance of assets[a]	106,528	69,474	11,207	461
Of which: Investments in associates[a]				
Average outstanding balance of loans to the public[a]	107,547	69,942	11,241	456
Outstanding balance of loans to the public as at the end of the reporting period	110,330	71,907	11,967	513
Outstanding balance of impaired debts	[f]441	-	21	-
Outstanding balance of debts in arrears for over 90 days	[f]701	698	-	-
Average balance of liabilities[a]	111,184	20	98	29,913
Of which: Average balance of deposits from the public[a]	110,830	-	65	29,905
Balance of deposits from the public as at the end of the reporting period	111,912	-	93	30,412
Average balance of risk-weighted assets[a][b]	80,056	46,062	11,023	755
Balance of risk-weighted assets as at the end of the reporting period[b]	79,969	46,012	11,011	873
Average balance of assets under management[a][c]	76,011	-	-	50,109
Breakdown of interest income, net:				
Margin from credit granting activities	581	185	67	2
Margin from deposit taking activities	59	-	(1)	18
Other	-	-	-	-
Total interest income, net	640	185	66	20

(a) Average balance calculations will be based on daily balances, as at the beginning of the quarter or the beginning of each month.
(b) Risk assets - as calculated for capital adequacy purpose.
(c) Assets under management - including customers' provident assets, provident funds, study funds, mutual funds and securities.
(d) Including housing loans granted to business customers.
(e) Reclassified.

Note 12A - Regulatory Operating Segments (cont.)

Information on regulatory operating segments - consolidated (cont.)

							Foreign operations	
Small- and micro-businesses	Medium-sized businesses	Large-sized businesses	Institutionals	Financial management	Other segment	Total activity in Israel	Total activity outside Israel	Total
498	175	383	7	167	–	2,042	277	2,319
17	17	36	90	139	–	414	32	446
–	–	–	–	–	–	–	–	–
481	158	347	(83)	28	–	1,628	245	1,873
(31)	1	(70)	100	44	1	8	(8)	–
450	159	277	17	72	1	1,636	237	1,873
184	79	172	45	258	16	1,227	60	1,287
634	238	449	62	330	17	2,863	297	3,160
76	(5)	17	–	(11)	–	97	4	101
–	–	–	–	–	–	–	–	–
344	125	131	67	53	176	1,850	200	2,050
–	–	–	–	(12)	4	–	–	–
344	125	131	67	41	180	1,850	200	2,050
214	118	301	(5)	300	(163)	916	93	1,009
74	41	106	(2)	116	(23)	360	28	388
140	77	195	(3)	184	(140)	556	65	621
–	–	–	–	10	–	10	–	10
140	77	195	(3)	194	(140)	566	65	631
–	–	–	–	–	–	9	–	9
140	77	195	(3)	194	(140)	557	65	622
50,049	24,123	52,219	4,260	150,278	9,342	397,260	37,879	435,139
–	–	–	–	907	–	907	–	907
50,609	24,379	54,283	4,285	–	–	241,559	23,946	265,505
52,452	24,624	54,624	2,292	–	–	244,835	23,337	268,172
497	330	1,867	–	–	–	3,135	625	3,760
96	1	4	–	–	–	802	50	852
41,671	31,449	48,666	58,363	42,134	11,818	375,198	28,223	403,421
39,046	30,348	48,765	56,069	–	–	314,963	26,731	341,694
39,182	31,414	46,612	56,732	–	–	316,264	25,399	341,663
45,773	27,295	71,497	1,097	18,305	15,909	260,687	31,478	292,165
46,879	27,883	73,809	804	20,763	17,261	268,241	30,870	299,111
29,064	16,444	78,160	526,855	34,463	–	811,106	19,244	830,350
–	–	–	–	–	–	–	–	–
431	143	261	4	452	1	1,875	229	2,104
19	16	15	12	(384)	–	(245)	(33)	(278)
–	–	1	1	4	–	6	41	47
450	159	277	17	72	1	1,636	237	1,873

Note 12A - Regulatory Operating Segments (cont.)

Information on regulatory operating segments - consolidated (cont.)

	For the year ended December 31 2017			
	Audited			
	Activity Israel			
	Households			
	Total	Of which: Housing loans	Of which: Credit cards	Private banking
	in NIS millions			
Interest income from external	3,578	1,825	281	9
Interest expense from external	378	-	-	140
Interest income, net	-	-	-	-
From external	3,200	1,825	281	(131)
Inter-segmental	(593)	(1,083)	(4)	227
Total interest income, net	2,607	742	277	96
Total non-interest income	1,768	50	929	171
Total income	4,375	792	1,206	267
Expenses (income) in respect of loan losses	178	(10)	62	1
Operating and other expenses:	-	-	-	-
For external	3,850	280	816	130
Inter-segmental	40	1	39	-
Total operating and other expenses	3,890	281	855	130
Profit (loss) before taxes	307	521	289	136
Provision for income taxes (benefit)	84	180	80	48
Profit (loss) after taxes	223	341	209	88
The Bank's share in associates' profits, after tax				
Net income (loss) before amount attributable to non-controlling interests	223	341	209	88
Net income (loss) attributable to non-controlling interests	31	-	31	-
Net income (loss) attributable to the Bank's shareholders	192	341	178	88
Average balance of assets[(a)]	107,017	68,988	12,078	493
Of which: Investments in associates[(a)]				
Average outstanding balance of loans to the public[(a)]	107,978	69,452	12,107	489
Outstanding balance of loans to the public as at the end of the reporting period	108,550	70,520	12,513	540
Outstanding balance of impaired debts	[(e)]440	-	29	-
Outstanding balance of debts in arrears for over 90 days	[(e)]734	722	-	-
Average balance of liabilities[(a)]	110,711	22	197	29,136
Of which: Average balance of deposits from the public[(a)]	110,558	-	75	29,128
Balance of deposits from the public as at the end of the reporting period	109,672	-	65	29,013
Average balance of risk-weighted assets[(a)(b)]	79,451	45,951	10,976	790
Balance of risk-weighted assets as at the end of the reporting period[(b)]	78,661	45,308	11,357	861
Average balance of assets under management[(a)(c)]	77,586	-	-	51,187
Breakdown of interest income, net:				
Margin from credit granting activities	2,323	742	277	5
Margin from deposit taking activities	284	-	-	91
Other	-	-	-	-
Total interest income (expense), net	2,607	742	277	96

(a) Average balances calculated according to daily balances, as at the beginning of the quarter or beginning of the month.

(b) Risk-weighted assets - as calculated for capital adequacy purpose.

(c) Assets under management - including customers' provident assets, provident funds, study funds, mutual funds and securities.

(d) Including housing loans granted to business customers.

(e) Reclassified. For more information, please see Note 6.

Note 12A - Regulatory Operating Segments (cont.)

Information on regulatory operating segments - consolidated (cont.)

							Foreign operations	
Small- and micro-businesses[(d)]	Medium-sized businesses[(d)]	Large-sized businesses[(d)]	Institutionals	Financial management	Other segment	Total activity in Israel	Total activity outside Israel	Total
2,153	758	1,697	27	713	–	8,935	1,134	10,069
83	89	199	426	566	–	1,881	142	2,023
2,070	669	1,498	(399)	147	–	7,054	992	8,046
(155)	8	(326)	471	392	–	24	(24)	–
1,915	677	1,172	72	539	–	7,078	968	8,046
747	322	672	179	926	370	5,155	273	5,428
2,662	999	1,844	251	1,465	370	12,233	1,241	13,474
255	(20)	(298)	2	–	–	118	54	172
1,444	518	540	262	240	685	7,669	832	8,501
–	–	1	2	(60)	14	(3)	3	–
1,444	518	541	264	180	699	7,666	835	8,501
963	501	1,601	(15)	1,285	(329)	4,449	352	4,801
336	177	558	(4)	432	(90)	1,541	151	1,692
627	324	1,043	(11)	853	(239)	2,908	201	3,109
–	–	–	–	92	–	92	–	92
627	324	1,043	(11)	945	(239)	3,000	201	3,201
1	–	1	–	–	(3)	30	(1)	29
626	324	1,042	(11)	945	(236)	2,970	202	3,172
51,850	24,635	54,257	3,310	153,359	9,290	404,211	34,254	438,465
–	–	–	–	138	–	138	–	138
52,426	24,876	54,649	3,322	–	–	243,740	23,283	267,023
54,309	25,728	56,495	2,087	–	–	247,709	23,507	271,216
510	284	1,311	–	–	–	2,545	674	3,219
75	–	24	–	–	–	833	12	845
43,382	32,169	52,180	62,245	37,988	11,598	379,409	26,597	406,006
40,628	30,893	48,877	60,213	–	–	320,297	25,269	345,566
40,761	32,371	54,866	70,496	–	–	337,179	25,299	362,478
47,838	28,032	72,992	1,021	20,660	16,261	267,045	30,786	297,831
49,410	28,730	75,125	1,185	21,417	16,825	272,214	31,078	303,292
31,602	16,957	78,344	585,606	36,183	–	877,465	18,930	896,395
–	–	–	–	–	–	–	–	–
1,810	585	1,093	14	2,402	–	8,232	967	9,199
105	90	79	56	(1,892)	–	(1,187)	(142)	(1,329)
–	2	–	2	29	–	33	143	176
1,915	677	1,172	72	539	–	7,078	968	8,046

Note 12B - Operating Segments, Management's Approach

Overview

Operating segments reporting according to management's approach presents the Bank's results by business line, in accordance with the Bank's organizational structure.

The Bank's business lines specialize in providing services to customer segments with similar characteristics and needs.

Information regarding operating segments - management's approach was included in Note 29B to the financial statements as at December 31 2017.

Following is a summary of financial performance according to management's approach:

	For the three months ended March 31 2018											
	in NIS millions											
	Bank									Subsidiaries in Israel	Foreign subsidiaries	Total
	Retail, premium and private banking	Small businesses	Mortgages	Total banking	Commercial	Business	Real estate	Capital markets	Other and adjustments			
Interest income, net	485	333	219	1,037	272	141	123	76	-	92	265	2,006
Non-interest income (expenses)	339	127	1	467	101	54	76	(24)	(63)	278	225	1,114
Total income	824	460	220	1,504	373	195	199	52	(63)	370	490	3,120
Expenses (income) in respect of loan losses	84	48	6	138	35	(18)	(72)	13	(9)	29	14	130
Total operating and other expenses	671	257	64	992	174	62	29	69	225	237	210	1,998
Profit before taxes	69	155	150	374	164	151	242	(30)	(279)	104	266	992
Tax expenses (benefit)	24	53	51	128	56	52	83	(10)	(100)	26	27	262
Net income (loss) attributable to the Bank's shareholders	45	102	99	246	108	99	159	(18)	(179)	76	239	730
Balances as at March 31 2017												
Loans to the public, net[(a)]	29,969	27,061	78,879	135,909	37,264	33,938	21,354	4,080	5,922	[(a)]639	24,224	263,330
Deposits from the public	155,226	35,607	-	190,833	44,642	22,904	5,688	72,371	118	[(b)]-	25,470	362,026
Assets under management[(b)]	173,581	19,948	-	193,529	23,641	19,990	1,177	450,769	23,310	276,305	17,706	1,006,427

(a) Excluding balances classified as held for sale assets totaling NIS 8,128 million.

(b) Excluding balances classified as held for sale liabilities totaling NIS 89 million.

Note 12B - Operating Segments, Management's Approach

Overview (cont.)

For the three months ended March 31 2017, in NIS millions

	Bank									Subsi-diaries in Israel	Foreign subsi-diaries	Total
	Retail, premium and private banking	Small busine-sses	Mortga-ges	Total banking	Comm-ercial	Busin-ess	Real estate	Capital markets	Other and adjust-ments			
Interest income, net	454	314	201	969	235	141	108	117	(1)	61	243	1,873
Non-interest income (expenses)	330	123	(2)	451	102	59	84	264	79	293	(45)	1,287
Total income	784	437	199	1,420	337	200	192	381	78	354	198	3,160
Expenses (income) in respect of loan losses	24	67	2	93	4	(7)	15	(15)	(7)	17	1	101
Total operating and other expenses	743	250	74	1,067	171	67	34	73	207	232	199	2,050
Profit before taxes	17	120	123	260	162	140	143	323	(122)	105	(2)	1,009
Tax expenses (benefit)	6	42	43	91	57	49	50	113	(29)	29	28	388
Net income (loss) attributable to the Bank's shareholders	11	78	80	169	105	91	93	211	(93)	76	(30)	622
Balances as at March 31 2017												
Loans to the public, net[(a)]	31,141	27,400	78,834	137,375	34,515	32,902	18,801	4,474	5,765	7,945	22,977	264,754
Deposits from the public	155,026	34,968	-	189,994	40,741	20,476	5,779	59,132	49	93	25,399	341,663
Assets under management[(b)]	164,260	17,134	-	181,394	25,918	18,255	1,991	372,418	26,422	226,640	18,992	872,030

(a) Reclassified.
(b) Restated.

Note 12B - Operating Segments, Management's Approach (cont.)

Summary of financial performance according to management's approach (cont.)

For the year ended December 31 2017

Audited

in NIS millions

	Bank									Subsidiaries in Israel	Foreign subsidiaries	Total
	Retail premium and private banking	Small businesses	Mortgages	Total banking	Commercial	Business	Real estate	Capital markets	Other and adjustments			
Interest income (expense), net	1,923	1,308	843	4,074	1,014	581	461	632	(1)	294	991	8,046
Non-interest income	1,320	492	5	1,817	407	227	325	812	399	1,176	265	5,428
Total income	3,243	1,800	848	5,891	1,421	808	786	1,444	398	1,470	1,256	13,474
Expenses (income) in respect of loan losses	157	273	13	443	26	(72)	(316)	(13)	(23)	75	52	172
Total operating and other expenses	2,984	1,060	296	4,340	725	280	132	306	864	1,021	833	8,501
Profit before taxes	102	467	539	1,108	670	600	970	1,151	(443)	374	371	4,801
Tax expenses	36	163	189	388	235	210	340	404	(123)	89	149	1,692
Net income (loss) attributable to the Bank's shareholders	66	304	350	720	435	390	630	750	(320)	345	222	3,172

Balances as at December 31 2017												
Loans to the public, net	30,214	27,438	78,626	136,278	35,712	33,152	20,684	4,437	5,712	8,773	23,204	267,952
Deposits from the public	154,063	35,369	-	189,432	43,484	21,614	6,425	76,065	93	65	25,300	362,478
Assets under management	173,036	19,750	-	192,786	24,432	21,228	1,293	432,806	22,448	260,155	19,282	974,430

Note 13 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision

A. Debts(a) and off-balance sheet credit instruments

1. Movement in outstanding provision for credit losses

	For the three months ended March 31 2018 (unaudited)					
	Loan loss provision					
	Loans to the public					
	Commercial	Housing	Other private	Total loans to the public	Banks and governments	Total
	in NIS millions					
Balance of loan loss provision as at the beginning of the reporting period	2,504	450	794	3,748	3	3,751
Changes stated in equity(b),(c)	22	-	-	22	-	22
Balance as at January 1 2018	2,526	450	794	3,770	3	3,773
Expenses (income) in respect of loan losses	37	6	89	132	(2)	130
Write-offs	(161)	(1)	(115)	(277)	-	(277)
Collection of debts written off in previous years	176	-	85	261	-	261
Net write-offs	15	(1)	(30)	(16)	-	(16)
Adjustments from translation of financial statements	4	1	-	5	-	5
Less balances classified as held-for-sale assets and liabilities(b)	(6)	-	(147)	(153)	-	(153)
Balance of loan loss provision as at the end of the reporting period[1]	2,576	456	706	3,738	1	3,739
[1]Of which: For off-balance sheet credit instruments	436	-	21	457	-	457

Note 13 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

A. Debts[(a)] and off-balance sheet credit instruments (cont.)

1. Movement in outstanding provision for credit losses (cont.)

	For the three months ended March 31 2017 (unaudited)					
	Loan loss provision					
	Loans to the public					
	Commercial	Housing	Private Other	Total loans to the public	Banks and governments	Total
	in NIS millions					
Balance of loan loss provision as at the beginning of the reporting period	(d)2,685	473	(d)823	3,981	1	3,982
Expenses (income) in respect of loan losses	(d)82	(2)	(d)21	101	-	101
Write-offs	(d)(182)	(2)	(172)	(356)	-	(356)
Collection of debts written off in previous years	106	-	109	215	-	215
Net write-offs	(76)	(2)	(63)	(141)	-	(141)
Adjustments from translation of financial statements	(10)	1	-	(9)	-	(9)
Balance of loan loss provision as at the end of the reporting period[1]	2,681	470	781	3,932	1	3,933
[1]Of which: For off-balance sheet credit instruments	476	-	38	514	-	514

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding debentures and securities borrowed or purchased under agreements to resell.
(b) The effect of first-time application of IFRS 9 to foreign subsidiaries.
(c) For more information, please see Note 16.
(d) Reclassified.

Note 13 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

A. Debts[(a)] and off-balance sheet credit instruments (cont.)

2. Additional information on calculating the loan loss provision for debts(a) and for the debts for which it was calculated(a)

	As at March 31 2018 (unaudited)					
	Loans to the public					
	Commercial	Housing	Other private	Total loans to the public	Banks and governments	Total
	in NIS millions					
Recorded outstanding balance of debts[(a)]:						
Examined on specific basis	115,888	31	921	116,840	12,134	128,974
Examined on general basis[1]	43,541	78,152	36,344	158,037	1,353	159,390
[1]Of which: The provision for which was calculated by extent of arrears	[(c)]1,109	77,680	–	78,789	–	78,789
Less balances classified as held-for-sale assets and liabilities[(d)]	(604)	–	(7,662)	(8,266)	(32)	(8,298)
Total debts[(a)]	158,825	78,183	29,603	266,611	13,455	280,066
Balance of loan loss provision for debts[(a)]:						
Examined on specific basis	1,635	7	222	1,864	1	1,865
Examined on general basis[1]	511	449	595	1,555	–	1,555
[2]Of which: The provision for which was calculated by extent of arrears	–	[(b)]448	–	448	–	448
Less balances classified as held-for-sale assets and liabilities[(d)]	(6)	–	(132)	(138)	–	(138)
Total loan loss provision[3]	2,140	456	685	3,281	1	3,282
[3]Of which: For impaired debts	462	–	168	630	–	630

	As at March 31 2017 (unaudited)					
	Loans to the public					
	Commercial	Housing	Private Other	Total loans to the public	Banks and governments	Total
	in NIS millions					
Recorded outstanding balance of debts[(a)]:						
Examined on specific basis	109,675	41	894	110,610	7,758	118,368
Examined on general basis[1]	40,677	78,420	38,465	157,562	3,357	160,919
[1]Of which: The provision for which was calculated by extent of arrears	[(c)]979	77,978	–	78,957	–	78,957
Total debts[(a)]	150,352	78,461	39,359	268,172	11,115	279,287
Balance of loan loss provision for debts[(a)]:						
Examined on specific basis	[(e)]1,786	6	[(e)]123	1,915	1	1,916
Examined on general basis[2]	419	464	620	1,503	–	1,503
[2]Of which: The provision for which was calculated by extent of arrears	–	[(b)]459	–	459	–	459
Total loan loss provision[3]	2,205	470	743	3,418	1	3,419
[3]Of which: For impaired debts	[(e)]599	–	[(e)]77	676	–	676

Note 13 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

A. Debts[(a)] and off-balance sheet credit instruments (cont.)

2. Additional information on calculating the loan loss provision for debts[(a)] and for the debts for which it was calculated[(a)] (cont.)

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
(b) Including an outstanding general provision that exceeds the amount required under the extent of arrears method, in the amount of NIS 334 million on March 31 2018 (March 31 2017 - NIS 290 million).
(c) Including outstanding housing loans extended to certain purchasing groups currently in the process of construction.
(d) For more information, please see Note 16.
(e) Reclassified.
(f) Reclassified. For more information, please see Note 6.

Note 13 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

A. Debts[(a)] and off-balance sheet credit instruments (cont.)

2. Additional information on calculating the loan loss provision for debts(a) and for the debts for which it was calculated[(a)] (cont.)

	December 31 2017 (audited)					
	Loans to the public					
	Commercial	Housing	Private Other[(d)]	Total loans to the public	Banks and governments	Total
	in NIS millions					
Recorded outstanding balance of debts[(a)]:						
Examined on specific basis	112,831	29	1,075	113,935	11,457	125,392
Examined on general basis[1]	41,511	77,928	37,842	157,281	1,122	158,403
[1]Of which: The provision for which was calculated by extent of arrears	(c) 1,066	77,465	-	78,531	-	78,531
Total debts[(a)]	154,342	77,957	38,917	271,216	12,579	283,795
Balance of loan loss provision for debts[(a)]:						
Examined on specific basis	1,570	5	131	1,706	3	1,709
Examined on general basis[2]	486	445	627	1,558	-	1,558
[2]Of which: The provision for which was calculated by extent of arrears	-	(b) 443	-	443	-	443
Total loan loss provision[3]	2,056	450	758	3,264	3	3,267
[3]Of which: For impaired debts	459	-	101	560	-	560

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding debentures and securities borrowed or purchased under agreements to resell.
(b) Including an outstanding general provision that exceeds the amount required under the extent of arrears method, in the amount of NIS 283 million.
(c) Including outstanding housing loans extended to certain purchasing groups currently in the process of construction.
(d) Reclassified. For more information, please see Note 6.

Note 13 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

B. Debts[a]

1. Credit quality and delinquency

	As at March 31 2018 (unaudited)					
		Problem debts[b]			Non-impaired debts - additional information	
	Non-problem	Non-impaired	Impaired[c]	Total	In arrears of 90 days or more[d][h]	In arrears of 30-89 days[e]
	in NIS millions					
Borrower activity in Israel						
Public - commercial						
Construction & real estate – Construction[g]	19,579	193	236	20,008	13	33
Construction & real estate - Real estate[g]	24,313	158	315	24,786	22	21
Financial services	10,995	8	4	11,007	1	20
Commercial - Other	70,684	1,531	1,196	73,411	64	191
Commercial - total	125,571	1,890	1,751	129,212	100	265
Individuals - Housing loans	76,906	[f]758	-	77,664	758	549
Individuals - Other	35,835	441	444	36,720	8	114
Less balances classified as held-for-sale assets and liabilities[d]	(7,898)	(330)	(38)	(8,266)	-	(6)
Total loans to the public - in Israel	230,414	2,759	2,157	235,330	866	922
Banks in Israel	873	-	-	873	-	-
Government of Israel	76	-	-	76	-	-
Less balances classified as held-for-sale assets and liabilities[i]	(31)	-	-	(31)	-	-
Total activity in Israel	231,332	2,759	2,157	236,248	866	922
Borrower activity outside Israel						
Public - commercial						
Construction & real estate	10,069	14	161	10,244	-	13
Commercial - Other	18,678	765	530	19,973	-	71
Commercial - total	28,747	779	691	30,217	-	84
Individuals	1,028	-	36	1,064	-	13
Public, total - outside Israel	29,775	779	727	31,281	-	97
Foreign banks	11,891	-	-	11,891	-	-
Foreign governments	647	-	-	647	-	-
Less balances classified as held-for-sale assets and liabilities[i]	(1)	-	-	(1)	-	-
Total foreign activity	42,312	779	727	43,818	-	97
Total - public	260,189	3,538	2,884	266,611	866	1,019
Total –banks[j]	12,732	-	-	12,732	-	-
Total governments	723	-	-	723	-	-
Total	273,644	3,538	2,884	280,066	866	1,019

Note 13 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

B. Debts[a] (cont.)

1. Credit quality and delinquency (cont.)

	As at March 31 2017 (unaudited)					
		Problem debts[b]			Non-impaired debts - additional information	
	Non-problem	Unimpaired	Impaired[c]	Total	In arrears of more than 90 days[d]	In arrears of 30 days to 89 days[e]
	in NIS millions					
Borrower activity in Israel						
Public - commercial						
Construction & real estate - Construction	15,448	249	254	15,951	17	48
Construction & real estate - Real estate activities	23,381	343	602	24,326	25	10
Financial services	11,319	3	334	11,656	1	8
Commercial - Other	66,879	1,673	1,479	70,031	58	172
Commercial - total	117,027	2,268	2,669	121,964	101	238
Individuals - Housing loans	77,270	[f]698	-	77,968	698	480
Individuals - Other	38,002	354	441	38,797	3	129
Total loans to the public - Activity in Israel	232,299	3,320	3,110	238,729	802	847
Banks in Israel	742	-	-	742	-	-
Government of Israel	234	-	-	234	-	-
Total activity in Israel	233,275	3,320	3,110	239,705	802	847
Borrower activity outside Israel						
Public - commercial						
Construction & real estate	9,185	53	284	9,522	15	51
Commercial - Other	18,094	451	321	18,866	35	308
Commercial - Total	27,279	504	605	28,388	50	359
Individuals	1,010	-	45	1,055	-	2
Total loans to the public - Activity overseas	28,289	504	650	29,443	50	361
Foreign banks	9,753	-	-	9,753	-	-
Foreign governments	386	-	-	386	-	-
Total activity outside Israel	38,428	504	650	39,582	50	361
Total - Public	260,588	3,824	3,760	268,172	852	1,208
Total - Banks	10,495	-	-	10,495	-	-
Total governments	620	-	-	620	-	-
Total	271,703	3,824	3,760	279,287	852	1,208

Note 13 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

B. Debts[(a)] (cont.)

1. Credit quality and delinquency (cont.)

	December 31 2017 (audited)					
		Problem debts[(b)]			Non-impaired debts - additional information	
	Non-problem	Non-impaired	Impaired[(c)]	Total	In arrears of 90 days or more[(d)]	In arrears of 30-89 days[(e)]
	in NIS millions					
Borrower activity in Israel						
Public - commercial						
Construction & real estate - Construction	18,489	210	237	18,936	15	62
Construction & real estate - Real estate activities	23,833	120	491	24,444	12	45
Financial services	11,181	5	3	11,189	2	7
Commercial - Other	67,754	1,477	1,349	70,580	70	174
Commercial - Total	121,257	1,812	2,080	125,149	99	288
Individuals - Housing loans	76,726	[(f)]722	-	77,448	722	516
Individuals - Other	37,521	434	440	38,395	12	145
Total loans to the public - Activity in Israel	235,504	2,968	2,520	240,992	833	949
Banks in Israel	1,650	-	-	1,650	-	-
Government of Israel	129	-	-	129	-	-
Total activity in Israel	237,283	2,968	2,520	242,771	833	949
Borrower activity outside Israel						
Public - commercial						
Construction & real estate	9,564	14	170	9,748	-	-
Commercial - Other	18,198	752	495	19,445	12	7
Commercial - Total	27,762	766	665	29,193	12	7
Individuals	996	1	34	1,031	-	1
Total loans to the public - Activity overseas	28,758	767	699	30,224	12	8
Foreign banks	10,214	-	-	10,214	-	-
Foreign governments	586	-	-	586	-	-
Total activity outside Israel	39,558	767	699	41,024	12	8
Total - Public	264,262	3,735	3,219	271,216	845	957
Total - Banks	11,864	-	-	11,864	-	-
Total governments	715	-	-	715	-	-
Total	276,841	3,735	3,219	283,795	845	957

Note 13 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

1. Credit quality and delinquency (cont.)

Notes:

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding debentures and securities borrowed or purchased under agreements to resell.

(b) Credit risk that is impaired, substandard or under special supervision, including housing loans for which there is allowance according to the extent of arrears and housing loans for which there is no allowance based on the delinquency period which are in arrears of 90 days or more.

(c) Impaired debts do not accrue interest income. For information regarding certain impaired debts restructured as part of problem debt restructuring, please see Note 13B.2.C. below.

(d) Classified as non-impaired problem debt. Accrue interest income.

(e) Accrue interest income. Delinquent debt for 30 to 89 days totaling NIS 705 million (as at March 31 2017 - NIS 580 million; as at December 31 2017 - NIS 642 million) were classified as non-impaired problem debt.

(f) Including outstanding housing loans in the amount of NIS 93 million (March 31 2017 - NIS 111 million, December 31 2017 - NIS 94 million) with a provision for the extent of arrears, for which an agreement was signed for the borrower to repay the overdue balance, which involves changes in the repayment schedule of outstanding future payments.

(g) 2.6% of the credit granted to rental properties through the Bank's Construction and Real Estate Department features LTV rates in excess of 85%.

(h) Outstanding non-impaired debts in arrears of at least 90 days as at March 31 2018, in the amount of NIS 926 million constitutes credit granted by the Bank, of which NIS 168 million is for non-housing loans and NIS 758 million - for housing loans, of which a total of NIS 170 million is in arrears of up to 149 days, NIS 103 million is in arrears of 150-249 days and the remaining debt is in arrears of 250 days or more.

(i) For more information, please see Note 16.

(j) Less balances for banks classified as held-for-sale assets.

(k) Reclassified. For more information, please see Note 6.

Credit quality - debt delinquency

Regularly monitored, the extent of arrears constitutes one of the main indications for credit quality. The extent of arrears is determined according to the actual days of arrears when a debt is handled as non-performing (not accruing interest income) after 90 days of arrears; or in case of any debt restructured as problem debt and which is once again accruing interest but is in arrears of one day under the new repayment terms. For general debts, the extent of arrears affects the debt classification (the greater the extent of arrears - the more severe the debt classification); usually, after 150 days of arrears, the Bank writes off the debt. For housing loans, except loans without quarterly or monthly payments, the Bank sets a provision using the extent of arrears method.

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Note 13 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

B. Debts[(a)] (cont.)

2. Additional information on impaired debt

A. Impaired debts and specific provision

	As at March 31 2018 (unaudited)				
	Outstanding balance[(b)] of impaired debts in respect of which there is a specific provision[(c)]	Balance of specific provision[(c)]	Outstanding balance[(b)] of impaired debts in respect of which there is no specific provision[(c)]	Total outstan-ding balance[(b)] of impaired debts	Outstanding balance of contractual principal in respect of impaired debt
	in NIS millions				
Borrower activity in Israel					
Public - commercial					
Construction & real estate - Construction	46	23	190	236	723
Construction & real estate - Real estate activities	55	54	260	315	1,233
Financial services	2	1	2	4	464
Commercial - Other	645	269	551	1,196	4,174
Commercial - Total	748	347	1,003	1,751	6,594
Individuals - Housing loans	-	-	-	-	-
Individuals - Other	397	161	47	444	2,610
Less balances classified as held-for-sale assets and liabilities[(d)]	(10)	(2)	(28)	(38)	(38)
Total loans to the public - Activity in Israel	1,135	506	1,022	2,157	9,166
Borrower activity outside Israel					
Public - commercial					
Construction & real estate	138	66	23	161	308
Commercial - Other	172	49	358	530	958
Commercial - Total	310	115	381	691	1,266
Individuals	15	9	21	36	87
Total loans to the public - Activity overseas	325	124	402	727	1,353
Total - Public	1,460	630	1,424	2,884	10,519
Of which:					
Measured according to the present value of cash flows	1,280	565	948	2,228	-
Debt restructuring of problem debt	692	296	952	1,644	-

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding debentures and securities borrowed or purchased under agreements to resell.
(b) Recorded outstanding debt.
(c) Specific loan loss provision.
(d) For more information, please see Note 16.

Note 13 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

B. Debts[a] (cont.)

2. Additional information on impaired debt (cont.)

A. Impaired debts and specific provision (cont.)

	As at March 31 2017 (unaudited)				
	Outstanding balance[b] of impaired debts in respect of which there is a specific provision[c]	Balance of specific provision[c]	Outstanding balance[b] of impaired debts in respect of which there is no specific provision[c]	Total outstanding balance[b] of impaired debts	Outstanding balance of contractual principal in respect of impaired debt
	in NIS millions				
Borrower activity in Israel					
Public - commercial					
Construction & real estate - Construction	42	[e]21	212	254	774
Construction & real estate - Real estate activities	114	[e]63	488	602	1,725
Financial services	5	[e][d]-	329	334	809
Commercial - Other	612	[e]351	867	1,479	4,585
Commercial - Total	773	435	1,896	2,669	7,893
Individuals - Housing loans	-	-	-	-	-
Individuals – Other[f]	338	68	103	441	2,599
Total loans to the public - Activity in Israel	1,111	503	1,999	3,110	10,492
Borrower activity outside Israel					
Public - commercial					
Construction & real estate	187	96	97	284	431
Commercial - Other	219	68	102	321	634
Commercial - Total	406	164	199	605	1,065
Individuals	28	9	17	45	106
Total loans to the public - Activity overseas	434	173	216	650	1,171
Total - Public	1,545	676	2,215	3,760	11,663
Of which:					
Measured according to the present value of cash flows[e]	1,208	475	1,384	2,592	
Debt restructuring of problem debt[e]	537	170	1,653	2,190	

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding debentures and securities borrowed or purchased under agreements to resell.
(b) Recorded outstanding debt.
(c) Specific loan loss provision.
(d) Less than NIS 1 million.
(e) Reclassified.
(f) Reclassified. For more information, please see Note 6.

Note 13 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

B. Debts[a] (cont.)

2. Additional Information on impaired debt (cont.)

A. Impaired debts and specific provision (cont.)

	December 31 2017 (audited)				
	Outstanding balance[b] of impaired debts in respect of which there is a specific provision[c]	Balance of specific provision[c]	Outstanding balance[b] of impaired debts in respect of which there is no specific provision[c]	Total outstanding balance[b] of impaired debts	Outstanding balance of contractual principal in respect of impaired debt
	in NIS millions				
Borrower activity in Israel					
Public - commercial					
Construction & real estate - Construction	35	18	202	237	735
Construction & real estate - Real estate activities	72	52	419	491	1,412
Financial services	2	1	1	3	460
Commercial - Other	742	273	607	1,349	4,348
Commercial - Total	851	344	1,229	2,080	6,955
Individuals - Housing loans	-	-	-	-	-
Individuals - Other	387	93	53	440	2,678
Total loans to the public - Activity in Israel	1,238	437	1,282	2,520	9,633
Borrower activity outside Israel	-	-	-	-	-
Public - commercial	-	-	-	-	-
Construction & real estate	144	71	26	170	316
Commercial - Other	76	44	419	495	910
Commercial - Total	220	115	445	665	1,226
Individuals	14	8	20	34	86
Total loans to the public - Activity overseas	234	123	465	699	1,312
Total - Public	1,472	560	1,747	3,219	10,945
Of which:					
Measured according to the present value of cash flows	1,372	493	1,065	2,437	-
Debt restructuring of problem debt	665	230	1,145	1,810	-

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding debentures and securities borrowed or purchased under agreements to resell.
(b) Recorded outstanding debt.
(c) Specific loan loss provision.
(d) Reclassified. For more information, please see below.

Note 13 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

B. Debts[a] (cont.)

2. Additional information on impaired debt (cont.)

B. Average balance and interest income

	For the three months ended March 31					
	2018			2017		
	Average balance[b] of impaired debts	Recorded interest income[c]	Of which: Recorded on a cash basis	Average balance[b] of impaired debts	Recorded interest income[c]	Of which: Recorded on a cash basis
	Unaudited					
	in NIS millions					
Borrower activity in Israel						
Public - commercial						
Construction & real estate - Construction	237	-	-	259	-	-
Construction & real estate - Real estate activities	403	-	-	608	2	1
Financial services	3	-	-	396	-	-
Commercial - Other	1,272	4	1	1,514	6	2
Commercial - Total	1,915	4	1	2,777	8	3
Individuals - Housing loans	-	-	-	-	-	-
Individuals - Other	442	1	-	[f]425	2	1
Less balances classified as held-for-sale assets and liabilities[e]	(34)	-	-	-	-	-
Total loans to the public - Activity in Israel	2,323	5	1	3,202	10	4
Borrower activity outside Israel						
Public - commercial						
Construction & real estate	170	1	1	303	1	1
Commercial - Other	530	1	1	319	1	1
Commercial - Total	700	2	2	622	2	2
Individuals	21	-	-	33	-	-
Total loans to the public - Activity overseas	721	2	2	655	2	2
Less balances classified as held-for-sale assets and liabilities[e]						
Total - Public	3,044	[d]7	3	3,857	[d]12	6

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding debentures and securities borrowed or purchased under agreements to resell.
(b) Recorded average outstanding balance of impaired debts in the reported period.
(c) Interest income recorded for the reported period in respect of the average balance of outstanding impaired debts during the period in which the debts were classified as impaired.
(d) Were the impaired debts to accrue interest according to the original terms, interest income in the amount of NIS 61 million (March 31 2017 - NIS 85 million) would be recorded for the three months ended March 31 2018.
(e) For more information, please see Note 16.
(f) Reclassified. For more information, please see p. Note 6.

Note 13 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

B. Debts[(a)] (cont.)

2. Additional information on impaired debt (cont.)

C. Restructured problem debt[(d)]

	As at March 31 2018				As at March 31 2017			
	Non-accrual loan	Accrual loan, in arears of 30-89 day[(b)]	Non-delinquent accrual loan[(b)]	Total[(c)]	Non-accrual loan	Accrual loan, in arears of 30-89 day[(b)]	Non-delinquent accrual loan[(b)]	Total[(c)]
	Unaudited							
	In NIS millions							
Borrower activity in Israel								
Public - commercial								
Construction & real estate - Construction	169	1	3	173	177	-	12	189
Construction & real estate - Real estate activities	166	-	6	172	331	-	44	375
Financial services	1	-	-	1	324	-	-	324
Commercial - Other	415	1	193	609	345	1	262	608
Commercial - Total	751	2	202	955	1,177	1	318	1,496
Individuals - Housing loans	-	-	-	-	-	-	-	-
Individuals - Other	204	16	149	369	220	[(f)] 17	[(f)] 166	403
Total Less balances classified as held-for-sale assets and liabilities[(e)]	(9)	-	-	(9)	-	-	-	-
loans to the public - Activity in Israel	946	18	351	1,315	1,397	18	484	1,899
Borrower activity outside Israel								
Public - commercial								
Construction & real estate	61	-	44	105	124	-	73	197
Commercial - Other	27	-	187	214	47	-	37	84
Commercial - Total	88	-	231	319	171	-	110	281
Individuals	5	-	5	10	5	-	5	10
Total loans to the public - Activity overseas	93	-	236	329	176	-	115	291
Less balances classified as held-for-sale assets and liabilities[(e)]	1,039	18	587	1,644	1,573	18	599	2,190

Note 13 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

C. Debts[a] (cont.)

3. Additional information on impaired debt (cont.)

C. Restructured problem debt[d] (cont.)

	As at March 31 2018				As at March 31 2017			
	Non-accrual loan	Accrual loan, in arrears of 30-89 day[b]	Non-delinquent accrual loan[b]	Total[c]	Non-accrual loan	Accrual loan, in arrears of 30-89 day[b]	Non-delinquent accrual loan[b]	Total[c]
	Unaudited							
-	in NIS millions							
Borrower activity in Israel								
Public - commercial								
real estate - Construction & Construction	169	1	3	173	177	-	12	189
real estate - Real estate activities & Construction	166	-	6	172	331	-	44	375
Financial services	1	-	-	1	324	-	-	324
Commercial - Other	415	1	193	609	345	1	262	608
Commercial - Total	751	2	202	955	1,177	1	318	1,496
Individuals - Housing loans	-	-	-	-	-	-	-	-
Individuals - Other	204	16	149	369	(f)220	(f)17	(f)166	f)403
Less balances classified as held-for-sale assets and liabilities[e]	(9)	-	-	(9)	-	-	-	-
Total loans to the public - Activity in Israel	**946**	18	351	1,315	1,397	18	484	1,899
Borrower activity outside Israel								
Public - commercial								
real estate & Construction	-	-	-	-	-	-	-	-
Commercial - Other	61	-	44	105	124	-	73	197
Commercial - Total	27	-	187	214	47	-	37	84
Individuals	88	-	231	319	171	-	110	281
loans to the public - Activity overseas Total	5	-	5	10	5	-	5	10
Less balances classified as held-for-sale assets and [e]liabilities	93	-	236	329	176	-	115	291
Total - Public	1,039	18	587	1,644	1,573	18	599	2,190

Note 13 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

D. Debts[a] (cont.)

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding debentures and securities borrowed or purchased under agreements to resell.
(b) Accrues interest income.
(c) Included in impaired debt.
(d) For more information regarding first-time application of the Banking Supervision Department's revised directives regarding problem debt restructuring, please see Note 1.H. to the 2017 Annual Financial Statements.
(e) For more information, please see Note 16.
(f) Reclassified. For more information, please see Note 6.

Commitments for granting additional loan to borrowers for whom problem debts were restructured and in which the credit terms were amended amounted to NIS 18 million as at March 31 2018 (as at March 31 2017 - NIS 16 million).

Note 13 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

E. Debts[(a)] (cont.)

2. Additional information on impaired debt (cont.)

C. Restructured problem debt[(d)] (cont.)

	December 31 2017			
	Non-accrual loan	Accrual loan, in arrears of 30 days to 89 days[(b)]	Non-delinquent accrual loan[(b)]	Total[(c)]
	Audited			
	in NIS millions			
Borrower activity in Israel				
Public - commercial				
Construction & real estate - Construction	167	-	8	175
Construction & real estate - Real estate activities	148	-	170	318
Financial services	-	-	-	-
Commercial - Other	395	-	214	609
Commercial - Total	710	-	392	1,102
Individuals - Housing loans	-	-	-	-
Individuals - Other[e]	197	15	154	366
Total loans to the public - Activity in Israel	907	15	546	1,468
Borrower activity outside Israel				
Public - commercial				
Construction & real estate	61	-	56	117
Commercial - Other	26	-	190	216
Commercial - Total	87	-	246	333
Individuals	4	-	5	9
Total loans to the public - Activity overseas	91	-	251	342
Total - Public	998	15	797	1,810

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding debentures and securities borrowed or purchased under agreements to resell.
(b) Accrues interest income.
(c) Included in impaired debt.
(d) For more information regarding first-time application of the Banking Supervision Department's revised directives regarding problem debt restructuring, please see Note 1.H. to the 2017 Annual Financial Statements.
(e) Reclassified. For more information, please see p. Note 6.
(f) Commitments for granting additional loan to borrowers for whom problem debts were restructured and in which the credit terms were amended amounted to NIS 15 million as at December 31 2017.

Note 13 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

B. Debts[(a)] (cont.)

2. Additional information on impaired debt (cont.)

C. Restructured problem debt[(b)] (cont.)

1. Debt restructurings

	For the three months ended March 31					
	2018			2017		
	No. of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	No. of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
	Unaudited					
		in NIS millions			in NIS millions	
Borrower activity in Israel						
Public - commercial						
Construction & real estate - Construction	**65**	**5**	**5**	82	5	5
Construction & real estate - Real estate activities	**19**	**9**	**9**	9	2	2
Financial services	**7**	**1**	**1**	7	-	-
Commercial - Other	**254**	**28**	**27**	231	19	18
Commercial - Total	**345**	**43**	**42**	329	26	25
Individuals - Housing loans	-	-	-	-	-	-
Individuals - Other[d]	**2,550**	**58**	**57**	2,660	50	50
Less balances classified as held-for-sale assets and liabilities[(c)]	**(690)**	**(7)**	**(7)**	-	-	-
Total loans to the public - Activity in Israel	**2,205**	**94**	**92**	2,989	76	75
Borrower activity outside Israel						
Public - commercial[e]						
Construction & real estate	**1**	-	-	1	9	9
Commercial - Other	**1**	**2**	**2**	5	1	1
Commercial - Total	**2**	**2**	**2**	6	10	10
Individuals	-	-	-	1	-	-
Total loans to the public - Activity overseas	**2**	**2**	**2**	7	10	10
Total - Public	**2,207**	**96**	**94**	2,996	86	85

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding debentures and securities borrowed or purchased under agreements to resell.
(b) For more information regarding first-time application of the Banking Supervision Department's revised directives regarding problem debt restructuring, please see Note 1.H. to the 2017 Annual Financial Statements.
(c) For more information, please see Note 16.
(d) Reclassified. For more information, please see Note 6.
(e) Restated.

Note 13 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

B. Debts[(a)] (cont.)

2. Additional information on impaired debt (cont.)

C. Restructured problem debt[(b)] (cont.)

2. Failed debt restructurings[(c)]

	For the three months ended March 31			
	2018		2017	
	No. of contracts	Recorded debt balance[(d)]	No. of contracts	Recorded debt balance[(d)]
		in NIS millions		in NIS millions
Borrower activity in Israel				
Public - commercial				
Construction & real estate - Construction	83	4	66	2
Construction & real estate - Real estate activities	18	1	3	1
Financial services	5	-	4	-
Commercial - Other	359	16	199	6
Commercial - Total	465	21	272	9
Individuals - Housing loans	-	-	-	-
Individuals - Other	2,351	23	[(f)]1,595	[(f)]22
Less balances classified as held-for-sale assets and liabilities[(e)]	(641)	(3)	-	-
Total loans to the public - Activity in Israel	2,175	41	1,867	31
Borrower activity outside Israel				
Public - commercial				
Construction & real estate	2	4	1	2
Commercial - Other	7	6	1	-
Commercial - Total	9	10	2	2
Total loans to the public - Foreign operations	9	10	2	2
Total - Public	2,184	51	1,869	33

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding debentures and securities borrowed or purchased under agreements to resell.
(b) For more information regarding first-time application of the Banking Supervision Department's revised directives regarding problem debt restructuring, please see Note 1.H. to the 2017 Annual Financial Statements .
(c) Debts which were in arrears of at least 30 days during the reporting year, which were restructured as part of the restructuring of problem debt during the 12 months preceding the date on which they became delinquent.
(d) The outstanding debt recorded as at the end of the quarter in which the failure occurred.
(e) For more information, please see Note 16.
(f) Reclassified. For more information, please see Note 6.

Note 13 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

B. Debts[(a)] (cont.)

3. Additional information on housing loans

Outstanding end of period balances by loan-to-value (LTV)[(b)], type of repayment and interest

		As at March 31 2018 (unaudited)			
		Outstanding balance of housing loans			
		Total[1]	[1]Of which: Bullet and balloon loans	[1]Of which: Variable interest	Off balance-sheet credit risk Total
		in NIS millions			
First lien: loan to value	Up to 60%	**50,193**	**2,272**	**33,048**	**1,229**
	More than 60%	**27,953**	**837**	**19,440**	**295**
Unpledged secondary lien		**37**	**2**	**34**	**-**
Total		**78,183**	**3,111**	**52,522**	**1,524**

		As at March 31 2017 (unaudited)			
		Outstanding balance of housing loans			
		Total[1]	[1]Of which: Bullet and balloon loans	[1]Of which: Variable interest	Off balance sheet credit risk Total
		in NIS millions			
First lien: loan to value	Up to 60%	50,127	2,680	33,114	1,607
	More than 60%	28,293	838	19,986	152
Unpledged secondary lien		41	2	35	21
Total		78,461	3,520	53,135	1,780

		December 31 2017 (audited)[c]			
		Outstanding balance of housing loans			
		Total[1]	Of which: Bullet and balloon loans	Of which: Variable interest	Total off-balance-sheet credit risk
		in NIS millions			
First lien: loan to value	Up to 60%	50,126	2,214	32,946	1,416
	More than 60%	27,794	788	19,308	170
Unpledged secondary lien		37	2	33	-
Total		77,957	3,004	52,287	1,586

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding debentures and securities borrowed or purchased under agreements to resell.

(b) The ratio between the approved credit line on the date granted and the value of the asset, as approved by the Bank when granting the credit line.

Note 13 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

C. Debts[a] (cont.)

4. Additional information on housing loans (cont.)

Outstanding end of period balances by loan-to-value (LTV)[b], type of repayment and interest (cont.)

(a) The LTV ratio provides an additional indication of the Bank's risk assessment of a customer on granting a credit line. Each quarter, as required under the Bank of Israel directives, the minimum 0.35% general provision is examined against the 0.75% provision required for loans with an LTV ratio of more than 60%. Note that the general provision is higher than the one required for the LTV ratio.

(b) Reclassified.

Note 13 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

c. Off balance sheet financial instruments

	March 31				December 31	
	2018		2017		2017	
	Outstanding loan contracts[(a)]	Balance of loan loss provision	Outstanding loan contracts[(a)]	Balance of loan loss provision	Outstanding loan contracts[(a)]	Balance of loan loss provision
	Unaudited				Audited	
	in NIS millions					
A. Off balance sheet financial instruments						
The balance of the loan contracts or their notional value as at the end of the period - transactions in which the outstanding balance embodies credit risk:						
Documentary credit	**1,594**	**4**	1,369	1	1,205	3
Loan guarantees	**5,519**	**83**	5,538	108	5,480	80
Guarantees for apartment buyers	**19,261**	**15**	19,648	19	19,313	16
Guarantees and other commitments[(b)]	**15,586**	**242**	15,023	251	15,959	257
Unutilized credit card credit facilities:	**[(C)]25,802**	**[(C)]27**	25,850	26	26,731	28
Unutilized overdraft facilities and other credit facilities in demand accounts	**12,166**	**24**	12,523	25	12,234	25
Irrevocable loan commitments approved but not yet granted[1]	**23,144**	**60**	24,164	64	23,159	58
Commitments to issue guarantees	**15,979**	**17**	14,669	20	16,065	17
Unutilized credit facilities for derivatives activity	**2,108**	**-**	2,961	-	1,955	-
Approval in principle to maintain interest rate	**3,751**	**-**	3,838	-	3,246	-

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1. Of which: Credit exposures in respect of an unutilized obligation to provide liquidity to securitization entities under the auspices of others in the amount of NIS 211 million (March 31 2017 - NIS 218 million, December 31 2017 - NIS 208 million); the obligations constitute a relatively small portion of the securitization entities' obligations.

(a) The balance of the contracts or their par value as at the end of the period, before the effect of the loan loss provision.
(b) Including the Bank's liabilities for its share in the risk reserve of the MAOF Clearing House in the amount of NIS 93 million (as at March 31 2017 and December 31 2017, NIS 106 million and NIS 86 million, respectively).
(c) Including a contract balance of NIS 11,708 million and a NIS 15 million loan loss provision balance in respect of held-for-sale assets.

D. Information about resold loans

No loans were resold in the first three months ended March 31 2018 and March 31 2017.

Note 14 - Assets and Liabilities by Linkage Basis

	As at March 31 2018 (unaudited)						
	In NIS		In foreign currency[a]				
	Non-linked	CPI-linked	In US dollars	In Euro	In other currencies	Non-monetary items[b]	Total
	in NIS millions						
Assets							
Cash and deposits with banks	60,398	–	10,137	895	1,734	212	73,376
Securities	37,479	3,503	26,461	6,714	2,647	3,257	80,061
Securities borrowed or purchased under agreements to resell	776	–	35	47	20	–	878
Loans to the public, net[c]	183,534	41,239	28,410	4,650	5,339	158	263,330
Loans to governments	25	50	609	39	–	–	723
Investments in investee companies1	–	–	–	–	–	831	831
Buildings and equipment	–	–	–	–	–	2,762	2,762
Assets for derivatives	4,530	108	2,372	800	454	3,539	11,803
Intangible assets and goodwill	–	–	–	–	–	16	16
Other assets	5,955	4	696	3	30	1,586	8,274
Held-for-sale assets[e]	8,210	12	55	–	1	235	8,513
Total assets	300,907	44,916	68,775	13,148	10,225	12,596	450,567
Liabilities							
Deposits from the public	229,183	18,698	95,272	12,075	6,354	444	362,026
Deposits from banks	697	10	1,807	385	178	–	3,077
Deposits from governments	703	–	258	7	–	–	968
Securities loaned or sold under agreements to repurchase	396	–	38	5	24	32	495
Bonds, promissory notes and subordinated notes	4,056	11,547	–	–	–	–	15,603
Liabilities in respect of derivatives	4,663	177	1,999	620	482	3,476	11,417
Other liabilities	2,869	11,595	415	21	139	1,522	16,561
Held-for-sale liabilities[e]	6,343	11	98	4	–	14	6,470
Total liabilities	248,910	42,038	99,887	13,117	7,177	5,488	416,617
Difference[d]	51,997	2,878	(31,112)	31	3,048	7,108	33,950
Derivative instruments (excluding options)							
In the money options, net (according to underlying asset)	(19,128)	(4,741)	29,094	(1,593)	(3,862)	230	–
Out of the money options, net (according to underlying asset)	(1,326)	–	332	812	62	120	–
Grand total	(337)	–	(332)	454	26	189	–
In the money options, net (discounted nominal value)	31,206	(1,863)	(2,018)	(296)	(726)	7,647	33,950
Out of the money options, net (discounted nominal value)	(2,774)	–	1,325	1,196	29	224	–
Derivative instruments (excluding options)	1,151	–	(2,339)	894	69	225	–

Note 14 - Assets and Liabilities by Linkage Basis

(a) Including those linked to foreign currency.
(b) Including derivatives whose underlying asset relates to a non-monetary item.
(c) After deduction of loan loss provisions attributed to the linkage basis according to the linkage of the credit for which it was created in the amount of NIS 3,281 million.
(d) Shareholders' equity, including non-controlling interests.
(e) For more information, please see Note 16.

Note 14 - Assets and Liabilities by Linkage Basis (cont.)

	As at March 31 2017 (unaudited)						
	In NIS		In foreign currency[a]				
	Non-linked	CPI-linked	In US dollars	In Euro	In other currencies	Non-monetary items[b]	Total
	in NIS millions						
Assets							
Cash and deposits with banks	58,082	-	7,035	921	2,024	213	68,275
Securities	36,836	3,539	27,233	5,209	2,749	2,393	77,959
Securities borrowed or purchased under agreements to resell	903	-	-	-	-	-	903
Loans to the public, net[c]	[e]183,422	43,721	29,398	3,615	4,383	215	264,754
Loans to governments	57	98	420	45	-	-	620
Investments in investee companies	-	-	-	-	-	878	878
Buildings and equipment	-	-	-	-	-	3,016	3,016
Assets for derivatives	7,601	140	1,822	99	176	1,194	11,032
Intangible assets and goodwill	-	-	-	-	-	17	17
Other assets	[e]5,925	10	722	4	55	1,128	7,844
Total assets	292,826	47,508	66,630	9,893	9,387	9,054	435,298
Liabilities							
Deposits from the public	216,837	19,588	85,830	12,281	6,627	500	341,663
Deposits from banks	1,035	18	2,597	795	48	-	4,493
Deposits from governments	77	-	689	4	-	-	770
Securities loaned or sold under agreements to repurchase	462	-	4	-	-	15	481
Bonds, promissory notes and subordinated notes	6,305	16,384	-	-	-	-	22,689
Liabilities in respect of derivative instruments	8,104	281	1,555	131	97	1,104	11,272
Other liabilities	9,126	10,279	598	23	156	1,127	21,309
Total liabilities	241,946	46,550	91,273	13,234	6,928	2,746	402,677
Difference[d]	50,880	958	(24,643)	(3,341)	2,459	6,308	32,621
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding options)	(24,145)	(1,567)	24,502	3,570	(2,789)	429	-
In the money options, net (according to underlying asset)	2,145	-	(1,670)	(526)	(22)	73	-
Out of the money options, net (according to underlying asset)	132	-	(67)	(100)	35	-	-
Grand total	29,012	(609)	(1,878)	(397)	(317)	6,810	32,621
In the money options, net (discounted nominal value)	2,801	-	(2,375)	(601)	(8)	183	-
Out of the money options, net (discounted nominal value)	4,160	-	(2,797)	(1,275)	130	(218)	-

(a) Including those linked to foreign currency.
(b) Including derivatives whose underlying asset relates to a non-monetary item.
(c) After deducting loan loss provisions attributed to a linkage basis, according to the linkage of the underlying credit, in the amount of NIS 3,418 million.
(d) Shareholders' equity includes non-controlling interests.
(e) Reclassified.

Note 14 - Assets and Liabilities by Linkage Basis (cont.)

	December 31 2017 (audited)						
	In NIS		In foreign currency[a]				
	Non-linked	CPI-linked	In US dollars	In Euro	In other curren-cies	Non-mone-tary items[b]	Total
	in NIS millions						
Assets							
Cash and deposits with banks	71,674	-	6,449	1,503	2,335	106	82,067
Securities	34,508	3,132	29,732	4,490	1,203	4,234	77,299
Securities borrowed or purchased under agreements to resell	1,080	-	27	42	12	-	1,161
Loans to the public, net[c]	187,327	41,928	29,444	4,132	4,831	290	267,952
Loans to governments	27	102	543	43	-	-	715
Investments in investee companies[1]	-	-	-	-	-	807	807
Buildings and equipment	-	-	-	-	-	2,986	2,986
Assets for derivatives	5,795	113	924	574	202	1,965	9,573
Intangible assets and goodwill	-	-	-	-	-	16	16
Other assets	6,193	4	648	2	26	1,389	8,262
Total assets	306,604	45,279	67,767	10,786	8,609	11,793	450,838
Liabilities	-	-	-	-	-	-	-
Deposits from the public	234,431	18,955	90,620	11,799	6,170	503	362,478
Deposits from banks	1,398	10	2,636	999	113	-	5,156
Deposits from governments	61	-	383	8	-	-	452
Securities loaned or sold under agreements to repurchase	509	-	2	3	-	44	558
Bonds, promissory notes and subordinated notes	4,039	11,538	-	-	-	-	15,577
Liabilities in respect of derivative instruments	6,024	211	822	521	276	1,886	9,740
Other liabilities	9,141	12,003	572	20	130	1,458	23,324
Total liabilities	255,603	42,717	95,035	13,350	6,689	3,891	417,285
Difference[d]	51,001	2,562	(27,268)	(2,564)	1,920	7,902	33,553
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding options)	(19,443)	(5,014)	26,775	1,094	(2,558)	(854)	-
In the money options, net (according to underlying asset)	1,426	-	(2,174)	598	(31)	181	-
Out of the money options, net (according to underlying asset)	(1,264)	-	721	520	11	12	-
Grand total	31,720	(2,452)	(1,946)	(352)	(658)	7,241	33,553
In the money options, net (discounted nominal value)	1,587	-	(2,676)	845	(64)	308	-
Out of the money options, net (discounted nominal value)	(41)	-	(468)	392	62	55	-

(a) Including those linked to foreign currency.
(b) Including derivatives whose underlying asset relates to a non-monetary item.
(c) After deducting loan loss provisions attributed to a linkage basis, according to the linkage of the underlying credit, in the amount of NIS 3,264 million.
(d) Shareholders' equity includes non-controlling interests.

Note 15A - Balances and Fair Value Estimates of Financial Instruments

	As at March 31 2018 (unaudited)				
	Balance sheet balance	Fair value			
		Level 1[(a)]	Level 2[(a)]	Level 3[(a)]	Total
	in NIS millions				
Financial assets					
Cash and deposits with banks	73,376	61,919	9,822	1,580	73,321
Securities[(b)]	80,061	46,795	30,618	2,623	80,036
Securities borrowed or purchased under agreements to resell	878	878	–	–	878
Loans to the public, net	263,330	2,632	79,893	179,977	262,502
Loans to governments	723	–	10	749	759
Assets for derivatives	11,803	2,827	7,561	1,415	11,803
Other financial assets, including deduction of balances classified as held-for-sale assets and liabilities[(e)]	10,185	1,210	32	8,937	10,179
Total financial assets	[(C)]440,356	116,261	127,936	195,281	439,478
Financial liabilities					
Deposits from the public	362,026	2,287	259,985	100,424	362,696
Deposits from banks	3,077	–	3,063	17	3,080
Deposits from governments	968	–	248	722	970
Securities loaned or sold under agreements to repurchase	495	495	–	–	495
Bonds, promissory notes and subordinated notes	15,603	11,784	–	4,948	16,732
Liabilities in respect of derivative instruments	11,417	2,808	8,190	419	11,417
Other financial liabilities, including deduction of balances classified as held-for-sale assets and liabilities[(e)]	8,627	1,584	5,725	1,318	8,627
Total financial liabilities	[(C)]402,213	18,958	277,211	107,848	404,017
Off balance-sheet financial instruments					
Transactions in which the outstanding balance embodies credit risk	360	–	–	360	360
In addition, liabilities in respect of employee benefits, gross - Pension and severance pay[(d)]	17,443	–	191	17,252	17,443

(a) Level 1 - fair value measurements using prices quoted in an active market.
(b) Level 2 - fair value measurements using other significant observable inputs.
(c) Level 3 - Fair value measurements using significant unobservable inputs.
(d) For more information regarding balance of outstanding balance sheet securities and fair value of securities, please see Note 5-Securities.
(e) Of which: Assets and liabilities in the amount of NIS 121,892 million and NIS 179,172 million, respectively, the outstanding balance-sheet amount of which is equal to their fair value (instruments presented in the balance sheet at fair value) or approximates their fair value (instruments for an original period of up to 3 months for which the outstanding balance sheet amount is used as an approximation of the fair value). For more information on instruments measured at fair value on recurring and non-recurring bases, please see 15B and 15D.
(f) The liability is presented on a gross basis and does not take into account plan assets managed against it.
(g) For more information, please see Note 16.

Note 15A - Balances and Fair Value Estimates of Financial Instruments (cont.)

	As at March 31 2017 (unaudited)				
	Balance sheet balance	Fair value			
		Level 1[a]	Level 2[a]	Level 3[a]	Total
	in NIS millions				
Financial assets					
Cash and deposits with banks	68,275	59,295	7,481	1,506	68,282
Securities[b]	77,959	47,136	28,476	2,321	77,933
Securities borrowed or purchased under agreements to resell	903	903	-	-	903
Loans to the public, net	(e)264,754	2,495	73,888	(e)186,509	262,892
Loans to governments	620	-	31	618	649
Assets for derivatives	11,032	698	8,759	1,575	11,032
Other financial assets	(e)1,553	799	-	(e)754	1,553
Total financial assets	(c)425,096	111,326	118,635	193,283	423,244
Financial liabilities					
Deposits from the public	341,663	2,396	230,747	109,937	343,080
Deposits from banks	4,493	-	4,648	56	4,704
Deposits from governments	770	-	702	85	787
Securities loaned or sold under agreements to repurchase	481	481	-	-	481
Bonds, promissory notes and subordinated notes	22,689	17,912	-	6,065	23,977
Liabilities in respect of derivative instruments	11,272	694	10,153	425	11,272
Other financial liabilities	8,122	1,178	5,550	1,395	8,123
Total financial liabilities	(c)389,490	22,661	251,800	117,963	392,424
Off balance-sheet financial instruments					
Transactions in which the outstanding balance embodies credit risk	373	-	-	373	373
In addition, liabilities in respect of employee benefits, gross - Pension and severance pay[d]	15,996	-	175	15,821	15,996

(a) Level 1 - fair value measurements using prices quoted in an active market.
(b) Level 2 - fair value measurements using other significant observable inputs.
(c) Level 3 - Fair value measurements using significant unobservable inputs.
(d) For more information regarding balance of outstanding balance sheet securities and fair value of securities, please see Note 5- Securities.
(e) Of which: Assets and liabilities in the amount of NIS 127,690 million and NIS 158,906 million, respectively, the outstanding balance-sheet amount of which is equal to their fair value (instruments presented in the balance sheet at fair value) or approximates their fair value (instruments for an original period of up to 3 months for which the outstanding balance sheet amount is used as an approximation of the fair value). For more information on instruments measured at fair value on recurring and non-recurring bases, please see 15B and 15D.
(f) The liability is presented on a gross basis and does not take into account plan assets managed against it.
(g) Reclassified.

Note 15A - Balances and Fair Value Estimates of Financial Instruments (cont.)

	December 31 2017 (audited)				
	Balance sheet balance	Fair value			
		Level 1[(a)]	Level 2[(a)]	Level 3[(a)]	Total
	in NIS millions	-	-	-	
Financial assets					
Cash and deposits with banks	82,067	72,384	8,456	1,294	82,134
Securities[(b)]	77,299	48,697	26,244	2,360	77,301
Securities borrowed or purchased under agreements to resell	1,161	1,161	-	-	1,161
Loans to the public, net	267,952	2,324	77,657	186,463	266,444
Loans to governments	715	-	8	741	749
Assets for derivatives	9,573	1,113	7,346	1,114	9,573
Other financial assets	1,844	1,155	-	690	1,845
Total financial assets	[(C)]440,611	126,834	119,711	192,662	439,207
Financial liabilities	-	-	-	-	-
Deposits from the public	362,478	2,139	253,897	107,457	363,493
Deposits from banks	5,156	-	5,164	96	5,260
Deposits from governments	452	-	395	72	467
Securities loaned or sold under agreements to repurchase	558	555	-	3	558
Bonds, promissory notes and subordinated notes	15,577	11,802	-	4,982	16,784
Liabilities in respect of derivative instruments	9,740	1,090	8,211	439	9,740
Other financial liabilities	8,761	1,721	5,523	1,517	8,761
Total financial liabilities	[(C)]402,722	17,307	273,190	114,566	405,063
Off balance-sheet financial instruments					
Transactions in which the outstanding balance embodies credit risk	364	-	-	364	364
In addition, liabilities in respect of employee benefits, gross - Pension and severance pay[(d)]	17,995	-	181	17,814	17,995

(a) Level 1 - fair value measurements using prices quoted in an active market.
(b) Level 2 - fair value measurements using other significant observable inputs.
(c) Level 3 - Fair value measurements using significant unobservable inputs.
(d) For more information regarding balance of outstanding balance sheet securities and fair value of securities, please see Note 5-Securities.
(e) Of which: Assets and liabilities in the amount of NIS 118,402 million and NIS 180,345 million, respectively, the outstanding balance-sheet amount of which is equal to their fair value (instruments presented in the balance sheet at fair value) or approximates their fair value (instruments for an original period of up to 3 months for which the outstanding balance sheet amount is used as an approximation of the fair value). For more information on instruments measured at fair value on recurring and non-recurring bases, please see 15B and 15D.
(f) The liability is presented on a gross basis and does not take into account plan assets managed against it.

Note 15B – Items Measured at Fair Value

A. Items measured at fair value on a recurring basis

	As at March 31 2018 (unaudited)			
	Fair value measurements using			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	in NIS millions			
Assets				
Available-for-sale securities:				
Israeli government bonds	35,870	2,639	-	38,509
Foreign governments' bonds	3,412	7,357	-	10,769
Bonds of Israeli financial institutions	-	11	-	11
Bonds of foreign financial institutions	25	9,313	-	9,338
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	6,637	1,631	8,268
Other Israeli bonds	92	70	-	162
Other foreign bonds	-	2,758	-	2,758
Available-for-sale shares and mutual funds	2,196	-	-	2,196
Total available-for-sale securities:	41,595	28,785	1,631	72,011
Held-for-trading securities:				
Government of Israel bonds	4,501	-	-	4,501
Foreign governments' bonds	78	-	-	78
Bonds of Israeli financial institutions	172	-	-	172
Bonds of foreign financial institutions	-	256	-	256
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	293	-	293
Other Israeli bonds	178	-	-	178
Other foreign bonds	-	251	-	251
Held-for-trading shares and mutual funds	69	-	-	69
Total held-for-trading securities	4,998	800	-	5,798
Assets in respect of derivative instruments:				
NIS-CPI contacts	-	132	152	284
Interest rate contracts	130	4,021	268	4,419
Foreign exchange rate contracts	1	2,492	820	3,313
Stock contracts	2,359	881	166	3,406
Commodity and other contracts	4	35	9	48
MAOF (Israeli financial instruments and futures) market activity	333	-	-	333
Total assets in respect of derivatives	2,827	7,561	1,415	11,803
Other:				
Credit and deposits for loaned securities	2,781	9	-	2,790
Securities borrowed or purchased under agreements to resell	878	-	-	878
Other	1,210	-	-	1,210
Total - Other	4,869	9	-	4,878
Total assets	54,289	37,155	3,046	94,490

Note 15B - Items Measured at Fair Value (cont.)

A. Items measured at fair value on a recurring basis (cont.)

	As at March 31 2018 (unaudited)			
	Fair value measurements using			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total Fair value
	in NIS millions			
Liabilities				
Liabilities in respect of derivative instruments:				
NIS-CPI contacts	-	182	253	435
Interest rate contracts	130	4,030	-	4,160
Foreign exchange rate contracts	1	2,887	166	3,054
Stock contracts	2,359	1,045	-	3,404
Commodity and other contracts	4	46	-	50
MAOF (Israeli financial instruments and futures) market activity	314	-	-	314
Total liabilities in respect of derivative instruments	2,808	8,190	419	11,417
Other:				
Deposits in respect of loaned securities	2,364	31	2	2,397
Securities loaned or sold under agreements to repurchase	495	-	-	495
Other	1,584	-	-	1,584
Total - Other	4,443	31	2	4,476
Total liabilities	7,251	8,221	421	15,893

Note 15B - Items Measured at Fair Value (cont.)

A. Items measured at fair value on a recurring basis (cont.)

	As at March 31 2017 (unaudited)			
	Fair value measurements using			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total Fair value
	in NIS millions			
Assets				
Available-for-sale securities:				
Israeli government bonds	34,805	1,976	-	36,781
Foreign governments' bonds	5,425	[(a)] 4,749	-	10,174
Bonds of Israeli financial institutions	-	23	-	23
Bonds of foreign financial institutions	42	8,345	-	8,387
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	7,015	1,409	8,424
Other Israeli bonds	68	224	-	292
Other foreign bonds	-	[(a)]2,393	-	2,393
Available-for-sale shares and mutual funds	1,481	-	-	1,481
Total available-for-sale securities:	41,821	24,725	1,409	67,955
Held-for-trading securities:				
Israeli government bonds	4,958	80	-	5,038
Foreign governments' bonds	1	1,629	-	1,630
Bonds of Israeli financial institutions	211	-	-	211
Bonds of foreign financial institutions	-	414	-	414
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	260	-	260
Other Israeli bonds	145	-	-	145
Other foreign bonds	-	539	-	539
Held-for-trading shares and mutual funds	-	-	-	-
Total held-for-trading securities	5,315	2,922	-	8,237
Assets in respect of derivative instruments:				
NIS-CPI contacts	-	126	217	343
Interest rate contracts	22	5,154	129	5,305
Foreign exchange rate contracts	-	2,772	1,125	3,897
Stock contracts	324	693	101	1,118
Commodity and other contracts	3	14	3	20
MAOF (Israeli financial instruments and futures) market activity	349	-	-	349
Total assets in respect of derivatives	698	8,759	1,575	11,032
Other:				
Credit and deposits for loaned securities	2,495	6	-	2,501
Securities borrowed or purchased under agreements to resell	903	-	-	903
Other	800	-	-	800
Total - Other	4,198	6	-	4,204
Total assets	52,032	36,412	2,984	91,428

(a) Reclassified

Note 15B - Items Measured at Fair Value (cont.)

A. Items measured at fair value on a recurring basis (cont.)

	As at March 31 2017 (unaudited)			
	Fair value measurements using			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total Fair value
	in NIS millions			
Liabilities				
Liabilities in respect of derivative instruments:				
NIS-CPI contacts	-	251	162	413
Interest rate contracts	21	4,807	-	4,828
Foreign exchange rate contracts	-	4,354	263	4,617
Stock contracts	323	724	-	1,047
Commodity and other contracts	3	17	-	20
MAOF (Israeli financial instruments and futures) market activity	347	-	-	347
Total liabilities in respect of derivative instruments	694	10,153	425	11,272
Other:				
Deposits in respect of loaned securities	2,229	9	50	2,288
Securities loaned or sold under agreements to repurchase	481	-	-	481
Other	1,178	-	-	1,178
Total - Other	3,888	9	50	3,947
Total liabilities	4,582	10,162	475	15,219

Note 15B - Items Measured at Fair Value (cont.)

A. Items measured at fair value on a recurring basis (cont.)

	December 31 2017 (audited)			
	Fair value measurements using			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total Fair value
	in NIS millions			
Assets				
Available-for-sale securities:				
Government of Israel bonds	34,246	2,387	-	36,633
Foreign governments' bonds	7,700	3,055	-	10,755
Bonds of Israeli financial institutions	-	11	-	11
Bonds of foreign financial institutions	44	9,609	-	9,653
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	7,160	1,369	8,529
Other Israeli bonds	3	67	-	70
Other foreign bonds	-	2,352	-	2,352
Available-for-sale shares and mutual funds	1,936	-	-	1,936
Total available-for-sale securities:	43,929	24,641	1,369	69,939
Held-for-trading securities:				
Government of Israel bonds	3,178	26	-	3,204
Foreign governments' bonds	82	-	-	82
Bonds of Israeli financial institutions	90	-	-	90
Bonds of foreign financial institutions	-	142	-	142
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	268	-	268
Other Israeli bonds	111	-	-	111
Other foreign bonds	-	299	-	299
Held-for-trading shares and mutual funds	1,307	-	-	1,307
Total held-for-trading securities	4,768	735	-	5,503
Assets in respect of derivative instruments:				
NIS-CPI contacts	-	149	166	315
Interest rate contracts	30	3,852	266	4,148
Foreign exchange rate contracts	-	2,206	616	2,822
Stock contracts	669	1,113	63	1,845
Commodity and other contracts	3	26	3	32
MAOF (Israeli financial instruments and futures) market activity	411	-	-	411
Total assets in respect of derivatives	1,113	7,346	1,114	9,573
Other:				
Credit and deposits for loaned securities	2,473	7	-	2,480
Securities borrowed or purchased under agreements to resell	1,161	-	-	1,161
Other	1,155	-	-	1,155
Total - Other	4,789	7	-	4,796
Total assets	54,599	32,729	2,483	89,811

Note 15B - Items Measured at Fair Value (cont.)

A. Items measured at fair value on a recurring basis (cont.)

	December 31 2017 (audited)			
	Fair value measurements using			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total Fair value
	in NIS millions			
Liabilities				
Liabilities in respect of derivative instruments:				
NIS-CPI contacts	-	176	255	431
Interest rate contracts	29	3,804	-	3,833
Foreign exchange rate contracts	-	3,030	184	3,214
Stock contracts	663	1,179	-	1,842
Commodity and other contracts	3	22	-	25
MAOF (Israeli financial instruments and futures) market activity	395	-	-	395
Total liabilities in respect of derivative instruments	1,090	8,211	439	9,740
Other:				
Deposits in respect of loaned securities	2,219	14	44	2,277
Securities loaned or sold under agreements to repurchase	555	-	3	558
Other	1,721	-	-	1,721
Total - Other	4,495	14	47	4,556
Total liabilities	5,585	8,225	486	14,296

Note 15B - Items Measured at Fair Value (cont.)

B. Items measured at fair value on a non-recurring basis

	As at March 31 2018 (unaudited)				
	Fair value measurements using				
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total Fair value	Total profit (loss) from changes in value during the period
	in NIS millions				
Impaired credit whose collection is subject to collateral	-	-	589	589	85
Held-to-maturity bonds	202	1,033	-	1,235	(25)
Total	202	1,033	589	1,824	60

	As at March 31 2017 (unaudited)				
	Fair value measurements using				
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total Fair value	Total profit (loss) from changes in value during the period
	in NIS millions				
Impaired credit whose collection is subject to collateral	-	-	968	968	18
Held-to-maturity bonds	-	829	-	829	(26)
Total	-	829	968	1,797	(8)

	December 31 2017 (audited)				
	Fair value measurements using				
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total Fair value	Total profit (loss) from changes in value during the period
	in NIS millions				
Impaired credit whose collection is subject to collateral	-	-	728	728	344
Held-to-maturity bonds	-	868	-	868	2
Total	-	868	728	1,596	346

Note 15C – Changes in Items Measured at Fair Value on a Recurring Basis and Included in Level 3

For the three months ended March 31 2018 (unaudited)

	Fair value as at the beginning of the year	Net realized/unrealized gains (losses) including: In the income statement[(a)]	In other comprehensive income[(b)]	Acquisitions and issues	Sales	Redemptions according to original repayment schedule	Adjustments from translation of financial statements	Transfers to Level 3[(c)]	Transfers from Level 3[(c)]	Fair value as at March 31 2018	Unrealized gain (losses) in respect of instruments held as at March 31 2018
	in NIS millions										
Assets											
Available-for-sale securities:											
MBS/ABS	1,369	22	(1)	–	–	(85)	–	326	–	1,631	–
Assets in respect of derivative instruments:											
NIS-CPI contacts	166	(25)	–	–	–	–	–	11	–	152	(61)
Interest rate contracts	266	41	–	–	–	(39)	–	–	–	268	13
Foreign exchange rate contracts	616	121	–	83	–	–	–	–	–	820	313
Stock contracts	63	103	–	–	–	–	–	–	–	166	155
Commodity and other contracts	3	6	–	–	–	–	–	–	–	9	7
Total assets in respect of derivatives	1,114	246	–	83	–	(39)	–	11	–	1,415	427
Total assets	2,483	268	(1)	83	–	(124)	–	337	–	3,046	427
Liabilities											
Liabilities in respect of derivative instruments:											
NIS-CPI contacts	**255**	**2**	**-**	**-**	**-**	**-**	**-**	**25**	**(92)**	**253**	**29**
Stock contracts	184	(18)	–	–	–	–	–	–	–	166	(56)
Total liabilities in respect of derivative instruments	439	(16)	–	–	–	–	–	25	(92)	419	(27)
Total - Other	47	(45)	–	–	–	–	–	–	–	2	–
Total liabilities	486	(61)	–	–	–	–	–	25	(92)	421	(27)

(a) Realized gains (losses) reported in the income statement under the non-interest finance income item.
(b) Unrealized losses included in the statement of changes in equity under accumulated other comprehensive income (loss).
(c) Transfers from Level 2 to Level 3 – forward contracts for a period of more than one year and less than 5 years were transferred from Level 2 to Level 3 when the term to maturity was less than one year. In addition, SBA-type transactions were transferred following reallocation of the unpaid reserve balance.
(d) Transfers from Level 3 to Level 2 – index forwards for a period of over 5 years were transferred from Level 3 to Level 2 when the term to maturity was more than one year and less than five years.

Note 15C – Changes in Items Measured at Fair Value on a Recurring Basis and Included in Level 3 (cont.)

	For the year ended March 31 2017 (audited)										
		Net realized/unrealized gains (losses) including:									
	Fair value as at the beginning of the year	In the income statement[(a)]	In other comprehensive income[(b)]	- Acquisitions and issues	- Sales	- Redemptions according to original repayment schedule	Adjustments from translation of financial statements	Transfers to Level 3[(c)]	Transfers from Level 3[(c)]	As at December 31 2017	Unrealized gain (losses) in respect of instruments held as at March 31 2017
	in NIS millions										
Assets											
Available-for-sale securities:											
MBS/ABS	1,426	(71)	(6)	887	–	(873)	–	–	–	1,369	(1)
Assets in respect of derivative instruments:											
NIS-CPI contacts	202	(25)	–	–	–	–	–	20	(31)	166	10
Interest rate contracts	130	329	–	–	–	(193)	–	–	–	266	154
Foreign exchange rate contracts	575	(532)	–	573	–	–	–	–	–	616	505
Stock contracts	57	6	–	–	–	–	–	–	–	63	43
Commodity and other contracts	3	–	–	–	–	–	–	–	–	3	3
Total assets in respect of derivatives	967	(222)	–	573	–	(193)	–	20	(31)	1,114	715
Total assets	2,393	(283)	(10)	1,460	–	(1,066)	–	20	(31)	2,483	714
Liabilities											
Liabilities in respect of derivative instruments:											
NIS-CPI contacts	162	73	–	–	–	–	–	52	(32)	255	114
Stock contracts	245	(61)	–	–	–	–	–	–	–	184	(26)
Total liabilities in respect of derivative instruments	407	12	–	–	–	–	–	52	(32)	439	88
Total - Other	34	13	–	–	–	–	–	–	–	47	27
Total liabilities	441	25	–	–	–	–	–	52	(32)	486	115

(a) Realized gains (losses) reported in the income statement under the non-interest finance income item.
(b) Unrealized gains included in the statement of changes in equity under accumulated other comprehensive income (loss).

Note 15C – Changes in Items Measured at Fair Value on a Recurring Basis and Included in Level 3

(a) Transfers from Level 2 to Level 3 – forward contracts for a period of more than one year and less than 5 years were transferred from Level 2 to Level 3 when the term to maturity was less than one year.
(b) Transfers from Level 3 to Level 2 – index forwards for a period of over 5 years were transferred from Level 3 to Level 2 when the term to maturity was more than one year and less than 5 years.
(c) Reclassified.

Note 15C - Changes in Items Measured at Fair Value on a Recurring Basis and Included in Level 3 (cont.)

	For the year ended March 31 2017 (audited)										
		Net realized/unrealized gains (losses) including:									
	Fair value as at the beginning of the year	In the income statement[(a)]	In other comprehensive income[(b)]	Acquisitions and issues	Sales	Redemptions according to original repayment schedule	Adjustments from translation of financial statements	Transfers to Level 3[(c)]	Transfers from Level 3[(c)]	As at December 31 2017	Unrealized gain (losses) in respect of instruments held as at March 31 2017
	in NIS millions										
Assets											
Available-for-sale securities:											
MBS/ABS	1,426	(61)	(10)	887	–	(873)	–	–	–	1,369	(1)
Assets in respect of derivative instruments:											
NIS-CPI contacts	202	(25)	–	–	–	–	–	20	(31)	166	10
Interest rate contracts	130	329	–	–	–	(193)	–	–	–	266	154
Foreign exchange rate contracts	575	(532)	–	573	–	–	–	–	–	616	505
Stock contracts	57	6	–	–	–	–	–	–	–	63	43
Commodity and other contracts	3	–	–	–	–	–	–	–	–	3	3
Total assets in respect of derivatives	967	(222)	–	573	–	(193)	–	20	(31)	1,114	715
Total assets	2,393	(283)	(10)	1,460	–	(1,066)	–	20	(31)	2,483	714
Liabilities											
Liabilities in respect of derivative instruments:											
NIS-CPI contacts	162	73	–	–	–	–	–	52	(32)	255	114
Stock contracts	245	(61)	–	–	–	–	–	–	–	184	(26)
Total liabilities in respect of derivative instruments	407	12	–	–	–	–	–	52	(32)	439	88
Total - Other	34	13	–	–	–	–	–	–	–	47	27
Total liabilities	441	25	–	–	–	–	–	52	(32)	486	115

(a) Realized gains (losses) reported in the income statement under the non-interest finance income item.
(b) Unrealized gains included in the statement of changes in equity under accumulated other comprehensive income (loss).

Note 15D - Quantitative Information on Items Measured at Fair Value which were Included in Level 3

(c) Transfers from Level 2 to Level 3 – forward contracts for a period of more than one year and less than 5 years were transferred when the term to maturity was less than one year.

(d) Transfers from Level 3 to Level 2 – index forwards for a period of over 5 years were transferred when the term to maturity was more than one year and less than five years.

Quantitative Information on Fair Value Measurement in Level 3

	As at March 31 2018 (unaudited)				
	Fair value	Evaluation technique	Unobservable inputs	Average range[3]	
	in NIS millions				
A. Items measured at fair value on a recurring basis				-	-
Assets					
Available-for-sale securities[1]		-	-	-	-
Asset-backed securities (ABS) or mortgage-backed securities(MBS)	1,631	Discounted cash flow	Spread	110-215 bp	163 bp
			Probability of failure	3.8%-2%	2.90%
			Early repayment rate	20%	20%
			% of loss	30%	30%
Assets in respect of derivative instruments[2]				-	
NIS-CPI interest contracts	116	Discounted cash flow	Expected inflation	0.27%-0.5%	0.39%
	36	Discounted cash flow	Counterparty risk	0.49%-100%(*)	0.90%
Interest rate contracts	268	Discounted cash flow	Counterparty risk	0.49%-100%(*)	0.90%
Foreign exchange rate contracts	88	Discounted cash flow	Expected inflation	0.27%-0.5%	0.39%
	732	Discounted cash flow	Counterparty risk	0.49%-100%(*)	0.90%
Stock contracts	166	Discounted cash flow	Counterparty risk	0.49%-100%(*)	0.90%
Commodity contracts	9	Discounted cash flow	Counterparty risk	0.49%-100%(*)	0.90%
Liabilities					
Liabilities in respect of derivative instruments[2]					
NIS-CPI interest contracts	253	Discounted cash flow	Expected inflation	0.27%-0.5%	0.39%
Foreign exchange rate contracts	166	Discounted cash flow	Expected inflation	0.27%-0.5%	0.39%
B. Items measured at fair value on a non-recurring basis					
Impaired credit whose collection is subject to collateral	589	Collateral's fair value			

* In respect of a defaulted counterparty.

Note 15D - Quantitative Information on Items Measured at Fair Value which were Included in Level 3

Qualitative information on fair value measurement in Level 3 (cont.)

1. The following unobservable inputs were used to measure the fair value of asset-backed or mortgage-backed securities: Spread, probability of default, early repayment rate, and severity of loss in the event of a default.
   A significant increase/decrease in the unobservable inputs will be reflected in a significantly lower/higher fair value, respectively.
2. The following unobservable inputs were used to measure the derivatives' fair value: Counterparty credit risk and expected inflation rate. The higher/lower a counterparty's credit risk, the lower/higher the contract's fair value, respectively.
   A change in the expected inflation rate will affect contracts' fair value in accordance with the Bank's CPI-linked position on these contracts. The higher (lower) the expected inflation rate with the Bank committed to paying the index-linked amount, the lower (higher) the contracts' fair value, respectively. The higher (lower) the expected inflation rate with the counterparty committed to paying the Bank the CPI-linked amount, the higher (lower) the contracts' fair value, respectively.
3. The average figure for unobserved input "Contract's counter-party risk" reflects a weighted average.

Note 15D - Quantitative Information on Items Measured at Fair Value which were Included in Level 3 (cont.)

Quantitative Information on Fair Value Measurement in Level 3 (cont.)

	As at March 31 2017 (unaudited)				
	Fair value	Evaluation technique	Unobservable inputs	Range	Average[3]
	in NIS millions				
A. Items measured at fair value on a recurring basis				-	-
Assets					
Available-for-sale securities[1]					
Asset-backed securities (ABS)	1,409	Discounted cash flow	Spread	125-190 bp	157 bp
or mortgage-backed securities(MBS)			Probability of failure	3.8%-2.5%	3.15%
			Early repayment rate	20%	20%
			% of loss	30%	30%
Assets in respect of derivative instruments[2]					0.00%
NIS-CPI interest contracts	173	Discounted cash flow	Expected inflation	-0.22%	0.11%
	44	Discounted cash flow	Counterparty risk	-0.095% (*)100%	2.17%
Interest rate contracts	129	Discounted cash flow	Counterparty risk	-0.095% (*)100%	2.17%
Foreign exchange rate contracts	122	Discounted cash flow	Expected inflation	-0.22%	0.11%
	1,003	Discounted cash flow	Counterparty risk	-0.095% (*)100%	2.17%
Stock contracts	101	Discounted cash flow	Counterparty risk	-0.095% (*)100%	2.17%
Commodity contracts	3	Discounted cash flow	Counterparty risk	-0.095% (*)100%	2.17%
Liabilities					
Liabilities in respect of derivative instruments[2]					
NIS-CPI interest contracts	162	Discounted cash flow	Expected inflation	-0.22%	0.11%
Foreign exchange rate contracts	263	Discounted cash flow	Expected inflation	-0.22%	0.11%
B. Items measured at fair value on a non-recurring basis					
Impaired credit whose collection is subject to collateral	968	Collateral's fair value			

* In respect of a defaulted counterparty.

Qualitative information on fair value measurement in Level 3

1. The following unobservable inputs were used to measure the fair value of asset-backed or mortgage-backed securities: Spread, probability of default, early repayment rate, and severity of loss in the event of a default. A significant increase/decrease in the unobservable inputs will be reflected in a significantly lower/higher fair value, respectively.

Note 15D - Quantitative Information on Items Measured at Fair Value which were Included in Level 3

Qualitative information on fair value measurement in Level 3 (cont.)

2. The following unobservable inputs were used to measure the derivatives' fair value: Counterparty credit risk and expected inflation rate. The higher/lower a counterparty's credit risk, the lower/higher the contract's fair value, respectively.
   A change in the expected inflation rate will affect contracts' fair value in accordance with the Bank's CPI-linked position on these contracts. The higher (lower) the expected inflation rate with the Bank committed to paying the index-linked amount, the lower (higher) the contracts' fair value, respectively. The higher (lower) the expected inflation rate with the counterparty committed to paying the Bank the CPI-linked amount, the higher (lower) the contracts' fair value, respectively.
3. The average figure for unobserved input "Contract's counter-party risk" reflects a weighted average.

Note 15D - Quantitative Information on Items Measured at Fair Value which were Included in Level 3 (cont.)

Quantitative Information on Fair Value Measurement in Level 3 (cont.)

	December 31 2017 (audited)				
	Fair value	Evaluation technique	Unobservable inputs	Range	Average (3)
	in NIS millions				
A. Items measured at fair value on a recurring basis					
Assets					
Available-for-sale securities(1)					
(securities (ABS Asset-backed	1,369	Discounted cash flow	Spread	110-215 bp	163 bp
(mortgage-backed securities(MBS or			Probability of failure	3.8%-2%	2.90%
			Early repayment rate	20%	20%
			of loss %	30%	30%
Assets in respect of derivative instruments(2)					
NIS-CPI interest contracts	110	Discounted cash flow	Expected inflation	-0.07% 0.51%	0.29%
	56	Discounted cash flow	Counterparty risk	-0.50% (*)100%	1.44%
Interest rate contracts	266	Discounted cash flow	Counterparty risk	-0.50% (*)100%	1.44%
Foreign exchange rate contracts	93	Discounted cash flow	Expected inflation	-0.07% 0.51%	0.29%
	523	Discounted cash flow	Counterparty risk	-0.50% (*)100%	1.44%
Stock contracts	63	Discounted cash flow	Counterparty risk	-0.50% (*)100%	1.44%
Commodity contracts	3	Discounted cash flow	Counterparty risk	-0.50% (*)100%	1.44%
Liabilities					
Liabilities in respect of derivative instruments(2)					0.00%
NIS-CPI interest contracts	255	Discounted cash flow	Expected inflation	-0.07% 0.51%	0.29%
Foreign exchange rate contracts	184	Discounted cash flow	Expected inflation	-0.07% 0.51%	0.29%
B. Items measured at fair value on a non-recurring basis					
Impaired credit whose collection is subject to collateral	728	Collateral's fair value			

* In respect of a defaulted counterparty.

Qualitative information on fair value measurement in Level 3

1. The following unobservable inputs were used to measure the fair value of asset-backed or mortgage-backed securities: Spread, probability of default, early repayment rate, and severity of loss in the event of a default. A significant increase/decrease in the unobservable inputs will be reflected in a significantly lower/higher fair value, respectively.

Note 15D - Quantitative Information on Items Measured at Fair Value which were Included in Level 3 (cont.)

Quantitative Information on Fair Value Measurement in Level 3 (cont.)

2. The following unobservable inputs were used to measure the derivatives' fair value: Counterparty credit risk and expected inflation rate. The higher/lower a counterparty's credit risk, the lower/higher the contract's fair value, respectively.
   A change in the expected inflation rate will affect contracts' fair value in accordance with the Bank's CPI-linked position on these contracts. The higher (lower) the expected inflation rate with the Bank committed to paying the index-linked amount, the lower (higher) the contracts' fair value, respectively. The higher (lower) the expected inflation rate with the counterparty committed to paying the Bank the CPI-linked amount, the higher (lower) the contracts' fair value, respectively.

3. The average figure for unobserved input "Contract's counter-party risk" reflects a weighted average.

Note 16 - Other Topics

1. Restructuring of the Tel Aviv Stock Exchange - Amendment 63 to the Securities Law, 2017

On April 6 2017, the above amendment was published, with the primary objective of turning the Stock Exchange into a for-profit corporation, with an ownership structure that is separate from access to trading, and which will be a significant competitor for global stock exchanges and alternative trading platforms in Israel and abroad. For this purpose, the Stock Exchange is to undergo a court-sanctioned restructuring process, at the end of which it will turn from a limited liability company to a company with a share capital, which will be divided among the members of the Stock Exchange.

The court approved the restructuring arrangement on September 7, 2017.

Pursuant to the provisions of the law, the Bank will be required to sell its stake in the Stock Exchange in excess of 5%, according to the outline and schedule prescribed by the law.

On January 18, 2018, the Bank filed with the Stock Exchange an offer to sell and transfer its entire stake in the Stock Exchange (the "Offered Shares"), following the Exchange's request on December 28 2017 to buy the shareholders' stock.

On April 16 2018, the Exchange informed the Bank it had accepted the Bank's offer (the "Acceptance Notice"). Pursuant to the Acceptance Notice, all the Offered Shares will be sold and transferred to a transferee or several transferees. The Acceptance Notice clarified that the remuneration for the Offered Shares will exceed the price in the Bank's offer, but the difference between the actual remuneration and the total price quoted by the Bank for the Offered Shares will be transferred to the Exchange as required under the above legal provisions. According to the Acceptance Notice, the transaction is subject to regulatory approval and closing.

According to the Acceptance Notice, the determining date for closing the transaction was set for June 19 2018, subject to an option to postpone the date with the parties' consent (the "Determining Date"). If the required approvals are not obtained until the Determining Date or the deal has not been closed, the transaction will be revoked.

2. Bank Leumi USA

On January 22 2018, the Bank entered into an agreement to bring in strategic partners to Bank Leumi USA (BLUSA). Under the terms and conditions of the agreement, each of the partners acquired 7.5% of the share capital of Bank Leumi Corporation, an American corporation through which the Bank holds a controlling interest in BLUSA. On May 22 2018, the deal was finalized, after several preconditions set in the agreement were met. In accordance with the terms and conditions of the agreement, the consideration paid for the sold shares was NIS 141 million. The transaction will be treated as a capital transaction and the difference between the consideration and the minority's share in the capital will be stated directly in capital.

3. Bank Leumi of Israel Trust Company Ltd.

On April 17 2018, the deal between the Bank and Hermetic for the sale of the Bank's controlling interest in the Trust Fund was finalized. The transaction is not expected to have a material effect on the financial results.

4. Leumi Partners Ltd.

On May 13 2018, Leumi Partners Ltd. (hereinafter: "Leumi Partners") signed an agreement (the "Agreement") with Indorama Ventures Spain S.L. – a privately held company incorporated in Spain (hereinafter: the "Acquirer") to sell Leumi Partners' entire interests in Avgol Industries 1953 Ltd. (hereinafter: the "Company"), which comprise 14.96% of the Company's share capital and voting rights. Leumi Partners entered into the agreement at the same time as HFH International B.V., the Company's controlling shareholder, entered into an agreement with the Acquirer for the sale of its entire interests in

Note 16 - Other Topics

the Company (hereinafter: the "HFH Agreement"). The finalization of the Agreement and HFH Agreement are contingent upon each other and shall be executed simultaneously.

The sale transaction will be completed subject to meeting several preconditions as outlined in the immediate report dated May 13 2018. As of this date, there is no certainty regarding the completion of the abovementioned Agreement.

If the transaction is completed, the Bank is expected to record a pretax gain of NIS 118 million in respect of the investment in the Company and the abovementioned transaction.

5. Maalot Insurance Agency Ltd.

On May 15 2018, Maalot Insurance Agency Ltd. – which is wholly-owned by the Bank (hereinafter: the "Agency") – signed an agreement with Harel Insurance Company Ltd. (hereinafter: "Harel") and with Standard Insurance Ltd. of the Harel Group (hereinafter: "Standard"), according to which as of September 2 2018, the Agency shall receive outsourcing services from Standard and will continue to engage in insurance brokering with Harel as a sole insurer of new policies marketed during the agreement period, all in accordance with the manner and terms and conditions prescribed by the signed agreement. Following the agreement, the General Organization of Workers in Israel (Histadrut) announced a labor dispute in Maalot. Maalot's management is holding negotiations with the employees and representatives of the Histadrut. .

6. Held-for-sale assets and liabilities

According to the provisions of the Law on Minimizing Market Centralization and Promoting Economic Competition (Legislative Amendments), 2017, the Bank is required to sell its interest in subsidiary Leumi card Ltd. (hereinafter: Leumi Card), within the period prescribed by the Law. As part of its preparations to execute the above, the Bank is exploring several options.

As a result, Leumi Card is presented as a held-for-sale disposal group. Balance sheet balances of Leumi Card are presented as a single figure under assets and liabilities. There is no change in the presentation format in the income statement.

Assets classified as held-for-sale – for the purpose of Leumi Group's consolidated financial statements

	March 31 2018 (unaudited)
	In NIS millions
Cash and deposits with banks	32
Loans to the public, gross	8,266
Loan loss provision	(138)
Loans to the public, net	8,128
Buildings and equipment	175
Investments in associates	7
Other assets	171
Total held-for-sale assets	8,513

Note 16 - Other Topics

Liabilities classified as held-for-sale – for the purpose of Leumi Group's consolidated financial statements

	March 31 2018 (unaudited)
	In NIS millions
Deposits from the public	89
Other liabilities	6,381
Total held-for-sale liabilities	6,470

7. Recognized income and expenses

The Group has no income and expenses directly recognized in other comprehensive income which relate to held for sale assets and disposal groups.

BANK LEUMI OF ISRAEL LTD. AND ITS INVESTEE COMPANIES

Corporate Governance, Additional Details and Appendices

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Changes in the Board of Directors

As of the date of this report and its publication date, the Board of Directors has 13 directors. During the first quarter of 2018, there were no changes in the composition of the Board of Directors.

For more information regarding updates to Proper Conduct of Banking Business Directive No. 301 of the Banking Supervision Department on the Board of Directors, please see under “Changes in the Board of Directors” in the 2017 Annual Financial Statements.

For more information about the publication of the Bank's immediate report on the intention to convene an annual general shareholders’ meeting and an immediate report regarding receipt of notices regarding candidates for the Bank’s Board of Directors for election at the Bank's annual general meeting for 2018, please see under "Annual General Meeting" below.

Internal Auditor

Details regarding the Group's internal auditing, including the professional standards pursuant to which the Internal Audit Division operates, the annual and multi-year work plans and considerations in formulating the work plans, as well as the Auditor’s Annual Report were included in the 2017 Annual Financial Statements.

The Internal Auditor's Report for 2017 was submitted to the Audit Committee on March 19 2018, discussed by the Committee on March 22 2018 and submitted to the Board of Directors on March 25 2018.

Control of the Bank

As of March 24 2012, Leumi is defined by law as a banking corporation without a controlling core, and no shareholder meets the definition of a controlling shareholder of the Bank.

For updated information regarding interested parties’ holdings in the Bank as at March 31 2018, please see the immediate report on the status of holdings of interested parties and senior officers dated April 10, 2018 (reference no.: 2018-01-036208). See also the report on the list of holders of significant means of control as at March 31 2018, dated April 10 2018 (reference no: 2018-01-036136).

General annual meeting

Following the decision of the Bank’s Board of Directors on March 25 2018, an immediate report was issued on March 26 2018 regarding the intention to convene an annual general shareholders’ meeting, the agenda of which is expected to include the following: (1) Discussion of annual financial statements; (2) Appointment of independent auditors and authorization to set their fees; (3) Appointment of two external directors in accordance with the Banking Supervision Department’s Proper Conduct of Banking Business Directive No. 301 (hereinafter: “External Directors”, “Directive 301”); and (4) Appointment of two external directors in accordance with the Companies Law, 5759-1999 (hereinafter: “EDs”, the “Companies Law”).

For more information, please see the amended immediate report dated March 26 2018 regarding the early notice about the intention to convene an annual general shareholders’ meeting and its agenda, which includes several topics, such as the appointment of directors (ref. 2018-01-029917).

Pursuant to the aforesaid early notice published by the Bank and Subsections 11D(A)(1), (2) and (3) to the Banking Ordinance, 1941, the Bank received the following:

A. A notice from the Committee for the Appointment of Directors in Banking Corporations in accordance with Section 36A of the Banking (Licensing) Law, 5741-1981, which includes a list of candidates to serve as the Bank’s directors for election in the Bank’s 2018 annual general meeting, as follows:

   D. Three candidates for an external director position in accordance with the Companies Law: Mr. Yoram Gabbai; Ms. Tamar Gottlieb and Mr. Yair Kaplan.

   E. Three candidates for the position of external director pursuant to Directive 301: Mr. Shmuel Nir Ben Zvi; Mr. Yoram Turbowicz and Mr. Ohad Marani.

B. 2. A notice from Altshuler Shaham Group, a shareholder which holds - to the best of the Bank's knowledge, as at the date of filing the notice with the Bank - 76,797,152 of the Bank’s shares, which constitute 5.04% of the Bank's issued share capital and voting rights, whereby it offered Mr. Avi Zigelman as a candidate to serve as external director on the Bank's Board of Directors, pursuant to the Companies Law.

More information about the candidates will be provided in the summons to the annual meeting to be published by the Bank according to law.

For more information, please see the immediate report regarding notices of candidates to serve as the Bank's directors published on April 30 2018 (Ref.: 2018-01-042874).

Appointments and Retirements

Appointments

Mr. **Shmulik Arbel**, Head of the Commercial Banking Division and a member of the Bank's management, will be appointed Head of the Business Commercial Division as of June 1 2018, replacing Mr. Kobi Haber (subject to the approval of the Bank of Israel).

Retirements

Mr. **Kobi Haber**, Head of the Commercial Banking Division and LeumiTech's Chairman of the Board, announced his retirement from the Bank; he will leave office in 2018, after 10 years of working at Leumi.

Organizational Structure

Operational Division

As part of the strategic assessment made by the Bank towards centralizing its various operational units, a single operational division will be established during 2019, and later on - an operational department in the Banking Division. As a result, operational units from the Bank's various divisions will report to Mr. Danny Cohen, Head of the Banking Division, who will also be responsible for building the Operational Division. The purpose is to centralize all operational activities, in order to provide better service to customers by improving effectiveness, mitigating risk and streamlining.

Investment Advice Department

The department will report to the Strategy and Regulation Division.

Special Credit Department

The department will report to the Risk Management Division.

LeumiTech

Following the substantial growth in activity involving the high-tech industry in the Bank, all units engaged in this activity will work under LeumiTech, reporting to the Business Commercial Division.

Material Agreements

1. Following negotiations with Union Bank regarding the termination of the agreement between the Bank and Union Bank of Israel Ltd. for the provision of computing services to Union Bank, following the acquisition of Union Bank by Mizrahi Tefahot Ltd., on March 29 2018 Union Bank's Board of Directors approved Bank Leumi's offer to extend the separation period by up to 18 additional months, i.e., to no later than June 30 2021, provided that, if Union Bank wishes to terminate the agreement earlier than that date, Bank Leumi shall be given an early notice of at least 24 months. In case of a regulatory restriction on extending the separation period, Union Bank shall not be exempt from its duty to pay Bank Leumi for 24 months of service from the notice date. The extension of the engagement is subject to the approval of the Antitrust Commissioner and the Supervisor of Banks.
2. On May 15 2018, Maalot Insurance Agency Ltd. – which is wholly-owned by the Bank (hereinafter: the "Agency") – signed an agreement with Harel Insurance Company Ltd. (hereinafter: "Harel") and with Standard Insurance Ltd. of the Harel Group (hereinafter: "Standard"), according to which as of September 2 2018, the Agency shall receive outsourcing services from Standard and will continue to engage in insurance brokering with Harel as a sole insurer of new policies marketed during the agreement period, all in accordance with the manner and terms and conditions prescribed by the signed agreement. Following the agreement, the General Organization of Workers in Israel (Histadrut) announced a labor dispute in Maalot. Maalot's management is holding negotiations with the employees and representatives of the Histadrut.

Laws and Regulations Governing the Banking System

Some of the information in this chapter constitutes “forward-looking information.” For the meaning of this term and its implications - please see the section entitled Forward Looking Information.

For more information, please see the 2017 Annual Report.

During the reporting period, several proposals for regulatory amendments and changes in various legal provisions were published, which could have an impact on the characteristics, scope and profitability of some of the Group's activities and on the credit, operating and legal risks to which it is exposed. Most of the proposals are at various stages of discussion and, consequently, it is impossible to assess whether they will be issued as binding directives and, if issued, what the ultimate provisions will be. As a result, at this stage, it is impossible to assess the impact of these provisions on the Group's overall activity, if any. The following section provides detailed information on newly enacted legislation, which came into effect during the reporting period and provisions expected to come into force, which are expected to have a significant effect on the Bank.

Legislation

Insolvency and Economic Rehabilitation Law, 2018

The law was published in the Official Gazette on March 15 2018. The law introduces a reform in insolvency proceedings of individuals and corporations. The law includes provisions for all types of debtors, as well as provisions addressing unique aspects of various types of debtors - individuals and corporations. According to the law, inter alia, a creditor secured by a floating charge will be entitled to repay his secured debt out of the floating charge only up to an amount equal to 75% of the value of the pledged assets. The remaining pledged assets will be used to pay the general debts. This provision is intended to impair the Bank’s floating charges.

The Law shall come into effect 18 months after its publication date and shall apply to relevant proceedings commencing on the effective date and thereafter.

Law for Reducing the Use of Cash, 2018

The law was published in the Official Gazette on March 18 2018. The law prescribes restrictions on the use of cash and marketable checks in order to reduce black money and help fight criminal activity, including serious crimes, tax evasion, money laundering and financing of terrorism. The law reflects the recommendations of the inter-ministerial Committee to Examine the Issue of Reducing the Use of Cash (the Locker Committee).

The law also limits the use of cash to specific amounts, distinguishing between payers and payees who are "dealers" and payers and payees who are “non-dealers", and various types of transactions (such as salaries, donations, gifts and loans).

In addition, the law restricts the use and assignment of checks, including restrictions that apply to banks cashing the checks.

The law will come into force on January 1 2019; the provisions applicable to the banks will become effective on July 1 2019.

The Bank needs to prepare for all aspects of the law’s implementation.

Securities Law (Amendment No. 63), 2017 – Restructuring of the Tel Aviv Stock Exchange

On April 6 2017, the above amendment was published, with the primary objective of turning the Stock Exchange into a for-profit corporation, with an ownership structure that is separate from access to trading, and which will be a significant competitor for global stock exchanges and alternative trading platforms in Israel and abroad. For this purpose, the Stock Exchange is to undergo a court-sanctioned restructuring process, at the end of which it will turn from a limited liability company to a company with a share capital, which will be divided among the members of the Stock Exchange.

The court approved the restructuring arrangement on September 7, 2017.

Following are the main points of the law:

- Access to trading will not be conditioned on having ownership interests in the Stock Exchange, but will rather be based on a contractual engagement between the Stock Exchange and members therein.
- On approval of the restructuring by the court, the current ownership interests of Stock Exchange members over 5% will be rendered dormant, and shall not confer on the members any right; they shall be required to sell any stake in excess of 5% within five years of the approval of the above arrangement, or until the Stock Exchange's IPO and its listing, the earlier of the two
- The current Stock Exchange members shall be entitled to compensation for selling their said interests from the Stock Exchange's share capital only. Current Stock Exchange members who sell their interests will transfer to the Stock Exchange the full difference between the proceeds of the sale and the value of the interests sold by them, in accordance with the Stock Exchange's share capital, pursuant to its 2015 financial statements.
- No person shall hold a means of control in the Stock Exchange of 5% or more, unless he has received a holding permit by the Israel Securities Authority. In addition, no person shall control the Stock Exchange unless under a permit granted by the Authority. In any case, a banking corporation and member of the Stock Exchange shall not be entitled to obtain a holding permit or control of the Stock Exchange.
- The Stock Exchange may distribute dividends to its shareholders.
- Corporate governance – most directors will be independent. As long as the members of the Stock Exchange (the banks) hold more than 50%, the majority of the independent directors will be appointed by an external committee (the Candidate Search Committee).
- The Finance Minister will be authorized to grant and suspend Stock Exchange licenses. Offering securities trading services through a securities trading system is prohibited unless managed by the Stock Exchange.
- The Stock Exchange will publish the fees and commissions Stock Exchange members charge their customers using a comparative format, and Stock Exchange members shall be required to report these fees and commissions and any change therein to the Stock Exchange.

Pursuant to the provisions of the law, the Bank will be required to sell its stake in the Stock Exchange in excess of 5%, according to the outline and schedule prescribed by the law.

On January 18, 2018, the Bank filed with the Stock Exchange an offer to sell and transfer its entire stake in the Stock Exchange (the "Offered Shares"), following the Exchange's request on December 28 2017 to buy the shareholders' stock.

On April 16 2018, the Exchange informed the Bank it had accepted the Bank's offer (the "Acceptance Notice"). Pursuant to the Acceptance Notice, all the Offered Shares will be sold and transferred to a transferee or several transferees. The Acceptance Notice clarified that the remuneration for the Offered Shares will exceed the price in the Bank's offer, but the difference between the actual remuneration and the total price quoted by the Bank for the Offered Shares will be transferred to the Exchange as required under the above legal provisions. According to the Acceptance Notice, the transaction is subject to regulatory approval and closing.

According to the Acceptance Notice, the determining date for closing the transaction was set for June 19 2018, subject to an option to postpone the date with the parties' consent (the "Determining Date"). If the required approvals are not obtained until the Determining Date or the deal has not been closed, the transaction will be revoked.

Directives issued by the Banking Supervision Department

Amendment to Proper Conduct of Banking Business Directives Nos. 367 and 420 on e-banking

On March 22 2018, amendments to the aforesaid provisions – including various easements - were published. Under the amendments, an additional alternative to identifying a customer opening an e-banking account was provided - using remote visual identification and verification technology. Using this technology will enable the Bank, among other things, to open online accounts for minors aged 16 and customers without a preexisting account. In addition, subject to conducting an adequate risk assessment, the Bank may now use unencrypted e-mail.

The various easements provided in the directive will enable the Bank to advance and expand the use of digital banking to further enhance customer experience, improve management of operational risks, advance its streamlining activity, and reduce costs.

Draft Proper Conduct of Banking Business Directive regarding outsourcing and Proper Conduct of Banking Business Directive No. 363 regarding management of cybersecurity risks in the supply chain

On March 26 2018, the draft Directive on outsourcing was published. The purpose of the draft is to enable banking corporations to use outsourcing, with the aim of increasing accessibility and availability for customers, continue streamlining processes and increase competition in the banking and payments domains, while prescribing the principles banking corporations are follow in order to reduce their exposure to potential risks embodied in outsourcing.

Among other things, the directive defines outsourcing, lists activities that may not be outsourced, requires due diligence to be performed on service providers and prescribes how it should be performed, and also requires banks to report to the Supervisor of Banks regarding outsourcing certain activities. In addition, the draft directive allows banking corporations to have outsourcers refer households to them for the purpose of securing loans, allowing outsourcers (for example, car agencies) to offer customers to contact a bank when buying a product, subject to the terms prescribed by the draft directive.

In addition, on April 24 2018, the Banking Supervision Department published a directive on managing cybersecurity risks in the supply chain. The aim of the directive is to establish a banking corporation's responsibility to ensure cybersecurity when working with material suppliers and its duty to manage cybersecurity risks adequately when such outsources work on its premises – both on the banking corporation's premises and when using the outsourcers' interfaces with the corporation, inter alia: A requirement to set principles for obligations of material suppliers in respect of cybersecurity risks; duty to set individual requirements in respect of cybersecurity risks in contracts with material suppliers in accordance with the risk assessment and a duty to ensure that the supplier meets these principles; as well as conducting various regular reviews to ensure the suppliers’ compliance with the banking corporation’s requirements.

The Directive’s effective date shall be no later than 6 months after its publication date. The directive will be incorporated into a directive on outsourcing at a later stage.

The Bank is assessing the possible effect of the provisions and their application.

Directives regarding credit cards

Draft Amendment Proper Conduct of Banking Business following the Law for Minimizing Market Centralization and Promoting Economic Competition in the Israeli Banking Market (the “Shtrum Law”):

On April 22 2018, the Bank of Israel published draft amendments to Proper Conduct of Banking Business, with the objective of granting the credit companies relief following their split from the banks.

Following are the main points of the amendment:

1. Proper Conduct of Banking Business Directive No. 203 (Measurement and Capital Adequacy - Credit Risk - The Standard Approach):

   For measurement and capital adequacy purposes, the banks are to weight the credit they extend to the credit card companies similarly to credit extended to banks.

2. Proper Conduct of Banking Business Directive No. 313 (Restrictions on the Indebtedness of a Borrower or Group of Borrowers):

   The exposure of a bank’s exposure to a “credit card company type group of borrowers” shall not exceed 15% of the banking corporation’s share capital, similarly to the restriction applicable to the exposure to a “banking borrower group.” The Directive will become effective gradually, within 3 years of a credit company’s split from the banking corporation.

3. Proper Conduct of Banking Business Directive No. 221 (Liquidity Coverage Ratio):

   A regulatory requirement provides relief in respect of liquidity risk management, so that credit companies will be required to manage their liquidity risk according to an internal model, but will not be required to comply with the regulatory liquidity ratio.

4. Proper Conduct of Banking Business Directive No. 470 (Debit Cards):

   - The proceeds of all debit card transactions of a bank-issuer shall be transferred from the bank-issuer to the issuing operator on the date on which the issuing operator is required to transfer the funds to the clearing house, regardless of the customer's charge date and the clearing house. The arrangement will become effective on February 11 2019.

   - New operating agreements between a bank-issuer (a large bank) and an issuing operator signed until January 31 2022 require the Supervisor of Banks' approval.

The decision of the Antitrust Authority regarding the cross-clearing arrangement

On April 25 2018, the Antitrust Authority published its decision regarding exemption from cartel clearance in respect of the cross-clearing arrangement. According to the decision, among other things, the funds are to be transferred from an issuer to a clearing house for lump-sum transactions no later than one day after the transaction's transmission by the merchant. The arrangement will become effective on July 1 2021.

The above directives on debit cards will affect the Bank's preparations for applying the Law for Minimizing Market Centralization and Promoting Economic Competition in the Israeli Banking Market; they are expected to impact the debit card market in the coming years.

Additional topics

Legislative initiatives for increasing competition in the retail credit market

Recently, special emphasis has been placed on legislation to encourage competition, mainly in the retail credit market. This trend is reflected in various legislative provisions and initiatives which are intended to ease the entry of new players into the market, inter alia, by increasing the resources available to them, providing regulatory easements, and granting reliefs for connecting to the payment and clearing systems.

Following are several examples of provisions aimed at encouraging such competition:

- The Law for Minimizing Market Centralization and Promoting Economic Competition (Legislative Amendments), 2017 prescribes the following: It requires large banks (Leumi and Poalim) to sell their credit card companies within a certain period of time; prohibits these banks from operating, issuing or clearing credit card transactions and holding means of control in corporations engaged in such activities; requires the Bank, during a defined transition period, to conduct credit card issuance through external operators; establishes various restrictions which apply to large banks regarding contacting a customer for the purpose of "credit card renewal"; and also requires the banks, during a defined period, to reduce their customers' credit lines. As a result of the aforementioned law, the Bank is required to sell subsidiary Leumi Card Ltd. within a certain period of time, as determined by the law.

- The Supervision of Financial Services (Regulated Financial Services) Law, 2016, which came into force on June 1 2017, provides a comprehensive framework for the regulation of the non-banking and non-institutional credit market in Israel;

- Regulating the policy of banking corporations' conduct vis-à-vis customers providing regulated financial services and offering platforms;

- The Antitrust Authority's decision to make the communications protocol used for executing debit card transactions available to all market players;

- Regulating the status and activities of a hosted clearing entity;

- Setting general criteria for an applicant for a permit to control and hold means of control in a clearer or credit card company;

- Amendment to the Securities Regulation regarding offering of securities through an offering platform, in order to enable corporations to conduct crowdfunding without having to issue a prospectus (Peer to Business Lending (Peer to Business Lending - P2B);

- Proposal to revise investment rules applicable to financial institutions;

- Amendment No. 27 to the Banking (Customer Service) Law, published on March 22 2018 as part of the Economic Plan (Legislative Amendments for Implementing the Economic Policy for the Budget Year 2019) Law. The amendment states that a bank will allow a customer who wishes to transfer his account from one bank to another to do so online, in a convenient, reliable, and secure manner - and without being charged for the procedure, within seven business days from the date on which the original bank received the approval of the bank to which the customer wishes to transfer his/her account, or within another period as determined by the Governor with the approval of the Minister of Finance.

  The Governor may, with the consent of the Minister of Finance, determine that the aforesaid shall not apply to small banks (the value of whose assets does not exceed 5% of the value of the assets of all banks in Israel) or a digital bank, or only after a certain period at the Governor's discretion. The Banking Supervision Department will issue guidelines for implementing the account transfer requirement.

  This amendment shall come into force three years from the date of its publication. The Minister of Finance, with the consent of the Governor and approval of the Knesset's Economic Affairs Committee, may postpone the said date by two additional periods no longer than six months each.

These amendments, along with initiatives led by the Bank of Israel - such as building a central credit register, encouraging the banking system to improve efficiency and promoting regulation that supports the transition to direct e-banking - are expected to affect the Israeli banking market in the coming years.

Automated Banking Services Ltd. (ABS) – Exemption from Restrictive Arrangement Approval – Decision of the Antitrust Authority dated September 24 2017

On September 24 2017, the Antitrust Authority granted an exemption, under certain conditions, from a restrictive arrangement approval between ABS and its shareholders, including Bank Leumi. The exemption stipulated the following:

- At the beginning of 2018 and at no consideration, ABS shall transfer all of its rights to the EMV Credit Protocol to an association, to be established by ABS and other users, who will join the association as members. As of the date of transferring its rights to the Protocol, ABS will cease to deal with the Protocol (except for providing operating services for a limited period of time).

- The requirements for joining the ABS systems will be equitable. ABS will not refuse a request by any entity to connect to its systems, provided it meets the connection requirements.

- A restriction on the distribution of dividends to ABS's shareholders was revoked. As of the end of 2019 or the date on which ABS ceases to provide any services to the association, whichever is earlier, ABS is entitled to distribute a dividend to its shareholders, if the following conditions are met: ABS's rights to the Protocol have been transferred to the association and no shareholder is in possession of more than 10% of the means of control in ABS. The decision stipulates a special arrangement with regard to the distribution of retained earnings accrued in ABS as of the resolution date, which shall be transferred to the existing shareholders.

- Pursuant to the aforesaid, and subject to the special arrangement stipulated in the Antitrust Authority's decision regarding the distribution of the retained earnings, on March 28 2018, ABS distributed dividends to its shareholders. The Bank received a NIS 71.5 million in dividend, of which NIS 64.5 million is held in trust in accordance with the terms of the Antitrust Authority's approval.

International Regulation

General Data Protection Regulation – the European privacy protection regulation.

The General Data Protection Regulation (GDPR) is a privacy protection regulation replacing Directive 95/46/EC on data protection, which was used until now by European Union member states as a basis for enacting information protection laws.

The GDPR is a comprehensive regulation on privacy, which covers obligations and conditions for processing personal information, rights of information carriers, etc. The regulation will become effective on May 25 2018.

Bank Leumi is preparing for the regulation's coming into force, weighing the implication of the GDPR for the Bank.

Credit Ratings

Following are the credit ratings of the State of Israel and the Bank as at May 13 2018:

	Rating agency	Long term	Outlook	Short-term
State of Israel	Moody's	A1	stable	P-1
	S&P	A+	positive	A-1
	Fitch	A+	stable	F1+
Bank Leumi: Foreign currency	Moody's	A2	stable	P-1
	S&P	A-	positive	A-2
	Fitch	A	stable	F1
Local ratings (in Israel)	S&P Maalot	AAA	stable	-
	Midroog	Aaa	stable	P-1

On January 3 2018, credit rating agency S&P reiterated the Bank's rating and rating outlook.

On February 7 2018, credit rating agency Fitch reiterated the Bank's rating and rating outlook.

On April 17 2018, credit rating agency Fitch reiterated the State of Israel's rating and rating outlook.

On April 26 2018, credit rating agency Fitch reiterated the Bank's rating and rating outlook.

Appendix 1 - Income and Expense Rates[a] and Analysis of Changes in Interest Income and Expenses

Part A - Average balances and interest rates – Assets

	For the three months ended March 31					
	2018			2017		
	Average balance[b]	Interest income	% of income	Average balance[b]	Interest income	% of income
	In NIS millions		In %	In NIS millions		In %
Interest bearing assets						
Loans to the public[c]						
In Israel	**241,180**	**1,925**	**3.23**	234,730	1,876	3.24
Outside Israel	**23,440**	**272**	**4.72**	23,872	228	3.88
Total[i]	**264,620**	**2,197**	**3.36**	258,602	2,104	3.29
Loans to governments						
In Israel	**722**	**7**	**3.93**	628	5	3.22
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**722**	**7**	**3.93**	628	5	3.22
Deposits with banks						
In Israel	**7,250**	**26**	**1.44**	4,902	28	2.30
Outside Israel	**295**	**1**	**1.36**	665	1	0.60
Total	**7,545**	**27**	**1.44**	5,567	29	2.10
Deposits with central banks						
In Israel	**52,298**	**13**	**0.10**	45,276	12	0.11
Outside Israel	**2,875**	**6**	**0.84**	6,196	1	0.06
Total	**55,173**	**19**	**0.14**	51,472	13	0.10
Securities borrowed or purchased under agreements to resell						
In Israel	**1,220**	**-**	**-**	1,099	-	-
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**1,220**	**-**	**-**	1,099	-	-
Bonds - held-to-redemption and available-for-sale[d]						
In Israel	**63,855**	**131**	**0.82**	62,127	122	0.79
Outside Israel	**5,164**	**36**	**2.82**	6,010	35	2.35
Total	**69,019**	**167**	**0.97**	68,137	157	0.92
Bonds - held-for-trading[d]						
In Israel	**4,984**	**3**	**0.24**	9,301	9	0.39
Outside Israel	**80**	**1**	**5.09**	139	2	5.88
Total	**5,064**	**4**	**0.32**	9,440	11	0.47
Total interest-bearing assets	**403,363**	**2,421**	**2.42**	394,945	2,319	2.37
Noninterest bearing receivables in respect of credit cards	**6,401**			6,134		
Other non-interest bearing assets[e]	**38,323**			34,060		
Total assets[j]	**448,087**	**2,421**		435,139	2,319	
Total interest-bearing assets attributed to foreign offices Outside Israel	**31,854**	**316**	**4.03**	36,882	267	2.93

Part B - Average balances and interest rates - Liabilities and capital

	For the three months ended March 31					
	2018			2017		
	Average balance(b)	Interest expenses	% of expense	Average balance(b)	Interest expenses	% of expense
	In NIS millions		In %	In NIS millions		In %
Interest bearing liabilities						
Deposits from the public						
In Israel	**249,006**	**(265)**	**(0.43)**	238,330	(246)	(0.41)
Demand deposits	**112,645**	**(11)**	**(0.04)**	97,052	(7)	(0.03)
Fixed deposits	**136,361**	**(254)**	**(0.75)**	141,278	(239)	(0.68)
Outside Israel	**15,863**	**(50)**	**(1.27)**	16,921	(32)	(0.76)
Demand deposits	**4,670**	**(10)**	**(0.86)**	4,845	(5)	(0.41)
Fixed deposits	**11,193**	**(40)**	**(1.44)**	12,076	(27)	(0.90)
Total	**264,869**	**(315)**	**(0.48)**	255,251	(278)	(0.44)
Deposits from governments						
In Israel	**166**	**(1)**	**(2.43)**	179	(1)	(2.25)
Outside Israel	**305**	**-**	**-**	722	-	-
Total	**471**	**(1)**	**(0.85)**	901	(1)	(0.44)
Deposits from central banks						
In Israel	**61**	**-**	**-**	15	-	-
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**61**	**-**	**-**	15	-	-
Deposits from banks						
In Israel	**5,305**	**(6)**	**(0.45)**	4,369	(4)	(0.37)
Outside Israel	**37**	**-**	**-**	3	-	-
Total	**5,342**	**(6)**	**(0.45)**	4,372	(4)	(0.37)
Securities borrowed or sold under agreements to resell						
In Israel	**539**	**-**	**-**	381	-	-
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**539**	**-**	**-**	381	-	-
Bonds						
In Israel	**15,580**	**(93)**	**(2.41)**	22,646	(163)	(2.91)
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**15,580**	**(93)**	**(2.41)**	22,646	(163)	(2.91)
Total interest bearing liabilities	**286,862**	**(415)**	**(0.58)**	283,566	(446)	(0.63)
Noninterest bearing deposits from the public	**93,817**			86,443		
Noninterest bearing payables in respect of credit cards	**6,079**			5,721		
Other non-interest bearing liabilities	**27,804**			27,691		
Total liabilities(k)	**414,562**	**(415)**		403,421	(446)	
Total capital resources	**33,525**			31,718		
Total commitments and capital resources	**448,087**	**(415)**		435,139	(446)	
Interest rate spread		**2,006**	**1.84**		1,873	1.74
Net return(g) on interest-bearing assets						
In Israel	**371,509**	**1,740**	**1.89**	358,063	1,638	1.84
Outside Israel	**31,854**	**266**	**3.38**	36,882	235	2.57
Total	**403,363**	**2,006**	**2.00**	394,945	1,873	1.91
Total interest-bearing liabilities attributed to operations outside Israel	**16,205**	**(50)**	**(1.24)**	17,646	(32)	(0.73)

Part C - Average balances and interest rates - Additional information on interest-bearing assets and liabilities attributed to Israeli operations

	For the three months ended March 31					
	2018			2017		
	Average balance(b)	Interest (income) expenses	% of income (expense)	Average balance(b)	Interest (income) expenses	% of income (expense)
	In NIS millions		In %	In NIS millions		In %
CPI-linked NIS						
Total interest bearing assets	**45,463**	**224**	**1.99**	48,510	285	2.37
Total interest bearing liabilities	**30,818**	**(124)**	**(1.62)**	36,674	(186)	(2.04)
Interest rate spread			**0.37**			0.33
Non-linked NIS						
Total interest bearing assets	**273,654**	**1,604**	**2.37**	260,680	1,533	2.37
Total interest bearing liabilities	**199,136**	**(108)**	**(0.22)**	189,575	(147)	(0.31)
Interest rate spread			**2.15**			2.06
Foreign currency						
Total interest bearing assets	**52,392**	**277**	**2.13**	48,873	234	1.93
Total interest bearing liabilities	**40,703**	**(133)**	**(1.31)**	39,671	(81)	(0.82)
Interest rate spread			**0.82**			1.11
Total activity in Israel						
Total interest bearing assets	**371,509**	**2,105**	**2.29**	358,063	2,052	2.31
Total interest bearing liabilities	**270,657**	**(365)**	**(0.54)**	265,920	(414)	(0.62)
Interest rate spread			**1.75**			1.69

Part D - Analysis of the Changes in Interest Income and Expenses

	2018 vs. 2017		
	For the three months ended March 31		
	Slight increase (decrease) in respect of change[h]		Net change
	Amount	Price	
Interest bearing assets			
Loans to the public			
In Israel	**51**	**(2)**	**49**
Outside Israel	**(5)**	**49**	**44**
Total	**46**	**47**	**93**
Other interest-bearing assets			
In Israel	**10**	**(6)**	**4**
Outside Israel	**(24)**	**29**	**5**
Total	**(14)**	**23**	**9**
Total interest income	**32**	**70**	**102**
Interest bearing liabilities			
Deposits from the public			
In Israel	**11**	**8**	**19**
Outside Israel	**(3)**	**21**	**18**
Total	**8**	**29**	**37**
Other interest bearing liabilities			
In Israel	**(27)**	**(41)**	**(68)**
Outside Israel	**-**	**-**	**-**
Total	**(27)**	**(41)**	**(68)**
Total interest expenses	**(19)**	**(12)**	**(31)**
Total - net	**51**	**82**	**133**

Notes:

(a) The data in the above tables are stated after the effect of hedging derivatives.

(b) Based on monthly opening balances, except for the unlinked Israeli currency segment where the average balance is calculated according to daily inputs, and before deducting the average book balance of loan loss provisions; foreign subsidiaries - based on quarterly opening balances.

(c) Before deducting the average balance of loan loss provisions. Including impaired debts not accruing interest income.

(d) The average balance of unrealized gains/losses from fair value adjustments of held-for-trading bonds were deducted/added from the average balance of held-for-trading bonds and available -for-sale bonds, as were gains/losses in respect of available-for-trading bonds included in shareholder's equity under other comprehensive income, in the "Adjustments in respect of presentation of available-for-sale securities at fair value" item in respect of bonds transferred from the available-for-sale portfolio, in the amount of NIS 120 million (March 31 2017 – NIS (154) million).

(e) Including book balances of derivative instruments, other non-interest accruing assets, non-monetary assets, less loan loss provision.

(f) Including book balances of derivative instruments and non-monetary liabilities.

(g) Net yield – net interest income divided by total interest-bearing assets.

(h) The change attributed to the quantity change was calculated by multiplying the new price by the change in quantity. The change attributed to the change in price was calculated by multiplying the old quantity by the price change.

(i) Fees and commissions for the three-month period in an amount of NIS 93 million were included in interest income from credit to the public (March 31 2017 - NIS 103 million).

(j) Of which: Held-for-sale assets - NIS 8,417 million.

(k) Of which: Held-for-sale liabilities - NIS 6,289 million.