FIBI FIRST INTERNATIONAL BANK OF ISRAEL

Financial Statements as of March 31,

2019

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REPORT OF THE BOARD OF DIRECTORS AND MANAGEMENT AS OF MARCH 31, 2019

The meeting of the Board of Directors held on May 28, 2019, resolved to approve and publish the unaudited consolidated financial statements of the First International Bank of Israel Ltd. (hereinafter - "the Bank") and its consolidated subsidiaries (hereinafter - "the Bank Group"), as of March 31, 2019.

GENERAL OVERVIEW, OBJECTIVES AND STRATEGY

Description of the Bank Group's activity

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

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

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

The Bank operates through three principal business divisions:

- The corporate division, which conducts all operations relating to corporate and middle-market customers, as well as business and institutional customers active on the capital market. Operating within this division is the business region, covering the operation of all business branches of the Bank.
- The banking division, which through the branches provides banking and mortgages services to all customers segments- households, private banking and small businesses. In this framework operate Ubank branches specializing in private banking and capital market operations and Otsar Hahayal branches (which was merged with and into the Bank on January 1, 2019- see below), specializing in providing services to retail and commercial customers with emphasis on the employees and retirees of the defence forces. In addition, the PAGI sub-division branches specialize in the religious and orthodox segment.
- The customer asset division centralizing the whole operation in the capital market, money market and foreign currency operation with private customers, business customers, institutional customers and capital market professionals. Within the division operating dealing rooms of securities, foreign currency and deposits as well as investment and pension advisement settings, investment center and the trust company and portfolio management company.

In addition to the Bank, the Group includes Massad Bank specializing in providing services to the teachers population in Israel.

A merger agreement was signed on September 20, 2018, between the Bank and Otsar Hahayal, according to which Otsar Hahayal would be merged with and into the Bank so that the assets and liabilities of Otsar Hahayal as of date of merger, shall pass to the Bank at no consideration, and Otsar Hahayal would be eliminated without liquidation and would be removed from the Register of Companies.

The merger, as stated above, was completed on January 1, 2019, following the fulfillment of all conditions precedent determined in the merger agreement.

Otsar Hahayal as an independent brand name as well as its operations and identity of its branches, would be maintained even after its legal merger into the Bank. Likewise, the expertise of Otsar Hahayal in the retail banking field and in providing services to the Israeli defense forces personnel.

FORWARD-LOOKING INFORMATION

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

Forward-looking information is notable for such words or expressions as: "forecast," "expected," "in the Bank's estimation" and "the Bank intends," as well as expressions such as "will be able," "might be" and "will be." These forward-looking expressions involve risks and uncertainty because they are based on the Management's assessments regarding future events that may not occur or that may occur in a different manner than expected as the result inter alia of the aforementioned factors or as the result of the materialization of one or more of the risk factors detailed in the table of risk factors presented in this report.

The information in this report is based, among other, on the publication of the Central Bureau of Statistics, the Treasury department and the data from the Bank of Israel, as well as on public information given by different factors operating and connected with the capital and money markets.

CONDENSED PRINCIPAL FINANCIAL INFORMATION AND PRINCIPAL EXECUTION INDICES

Principal financial ratios	For the three months ended		For the year ended
	2019	**2018**	**2018**
			in %
Execution indices			
Return on equity attributed to shareholders of the Bank[(1)]	**9.3%**	7.2%	9.3%
Return on average assets[(1)]	**0.5%**	0.4%	0.5%
Ratio of equity capital tier 1	**10.53%**	10.05%	10.51%
Leverage ratio	**5.71%**	5.56%	5.76%
Liquidity coverage ratio	**132%**	120%	122%
Ratio of total income to average assets[(1)]	**3.0%**	3.0%	3.1%
Efficiency ratio	**67.2%**	74.8%	68.4%
Credit quality indices			
Ratio of provision for credit losses to credit to the public	**1.02%**	1.02%	1.02%
Ratio of impaired debts or in arrears of 90 days or more to credit to the public	**0.92%**	0.91%	0.83%
Ratio of provision for credit losses to total impaired credit to the public	**156%**	162%	186%
Ratio of net write-offs to average total credit to the public [(1)]	**0.06%**	0.08%	0.16%
Ratio of expenses for credit losses to average total credit to the public [(1)]	**0.17%**	0.13%	0.20%

Principal data from the statement of income	For the three months ended	
	2019	**2018**
		NIS million
Net profit attributed to shareholders of the Bank	**183**	137
Interest Income, net	**635**	584
Expenses from credit losses	**36**	27
Total non-Interest income	**367**	401
Of which: Fees	**320**	338
Total operating and other expenses	**673**	737
Of which: Salaries and related expenses	**402**	446
Dismissals expenses	**18**	3
Primary net profit per share of NIS 0.05 par value (NIS)	**1.82**	1.37

Principal data from the balance sheet			As of
	31.3.19	**31.3.18**	**31.12.18**
			NIS million
Total assets	**136,983**	132,636	134,120
of which: Cash and deposits with banks	**34,108**	34,481	31,303
Securities	**11,338**	10,471	12,595
Credit to the public, net	**86,353**	81,904	84,292
Total liabilities	**128,445**	124,566	125,707
of which: Deposits from the public	**115,349**	111,913	111,697
Deposits from banks	**1,064**	359	1,150
Bonds and subordinated capital notes	**4,270**	4,980	4,989
Capital attributed to the shareholders of the Bank	**8,208**	7,772	8,093

Additional data			As of
	31.3.19	**31.3.18**	**31.12.18**
Share price (0.01 NIS)	**8,642**	7,390	7,860
Dividend per share (0.01 NIS)	**105**	95	355
Ratio of interest income, net to average assets (in %)[(1)]	**1.9%**	1.8%	1.9%
Ratio of fees to average assets (in %)[(1)]	**0.9%**	1.0%	1.0%

(1) Annualized.

Principal Risks to which the Bank is exposed

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

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

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

The main developing risks are: competitive-strategic/ business model risk, regulatory risk, cyber and nformation security risk, cross border risk and conduct risk. Additional information is detailed in the annual financial statements for the year 2018.

Objectives and Strategy

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

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

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

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

The Bank has a strategic plan for the years 2016-2018, which was approved by the Board of Directors in September 2015 and validated by it twice a year. The supreme goals of the plan are in terms of return on capital in excess of riskless interest rate and efficiency ratio. During 2019 the Bank will implement a strategic process at the end of which, the corporate strategy will be updated, in accordance with the latest changes in the Bank and its operating surroundings, and with looking forward on the banking world.

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

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

The Bank emphasises on providing added value to its customers by providing a comprehensive response modified to the needs of the customer, including in the digital area and technological answer; the Bank is to maintain the leadership of its subsidiary (Massad) and the merged banks (UBank, PAGI and Otzar Hahayal) in their unique operating niches, mostly in the retail and small business sectors. The Bank is to maintain leadership in the capital market; would conduct actions leading to efficiency in expenses, while improving its manpower position, improving procedures, continue efficiency measures in the branch layout and increase the use of online banking channels, and support performance directed culture and measurement in the Group.

In 2018, the Bank launched the digital strategy (approved at the end of 2017), the purpose of which is to support the business strategy of the Bank. As part of the digital strategy and with adequacy to the Bank's strategy "Investing in you", the Bank developes a digital answering adjusted and focuses on the customer's needs. The Bank emphasis is on solutions which can be combined in the interfaces with the customers and improving the Customer experience and providing added value in the various financial worlds, and specifically in the capital markets worlds.

In addition, the Bank promote innovation through implementation of products and technologies from start-up companies, this alongside the current activity of developing products and technologies in-house by the IT division of the Bank. For that, a specific department was build for holistic treatment in innovation and digital. In addition, the Bank recently formulated strategy in the computer architecture which will support coping with the challenges of the future.

EXPLENATION AND ANALYSIS OF RESULTS AND BUSINESS POSITION

EXPLENATION AND ANALYSIS OF RESULTS AND BUSINESS POSITION

TRENDS, EVENTS, DEVELOPMENTS AND MATERIAL CHANGES

PRINCIPAL ECONOMIC DEVELOPMENTS

Following are the principal economic developments, which impacted the economic environment in which the Israeli banking sector operated in the first quarter of 2019.

Growth

The latest published nonfinancial economic activity indicators, continue to be positive indicating that the economy continued to grow also in the first quarter of 2019, when estimates for the second half of 2018 indicated a growth of 2.4% in the GDP. The employment market continues to demonstrate vigor with relatively low unemployment rates and a high rate of employment security. Notwithstanding the above, over a period of time a trend of weakening growth is envisaged. The Bank of Israel's Composite State-of-the-Economy Index, rose during the first quarter of 2019 by 1.0%, in comparison to the growth rate of 0.8% in the corresponding period last year.

The review, made in April 2019, by the Research Division of Bank of Israel reduced the product growth forecast for 2019 to a level of 3.2%, while leaving the growth forecast for 2020 at a level of 3.5%.

State budget

A deficit of NIS 9.3 billion was measured in the first quarter of 2019 in the budgetary activity of the Government in comparison to a deficit of NIS 2.1 billion measured in the corresponding period last year. The planed deficit for the year 2019 amounts to NIS 40.2 billion, comprising 2.9% of the GDP. In the last twelve months (April 2018 to March 2019) the State's budgetary deficit was 3.4% of the GDP.

Fitch, the international credit rating agency, ratified in March 2019 the credit rating of the State of Israel at a level of A+ with a stable forecast.

Inflation

The inflationary environment in the economy is at an upwards trend, and this, following a rise in the Consumer Price Index (CPI) in the first three monts of 2019 of 0.5% (the Index "for the month"). The "known" Index fell by 0.3%. In the last twelve months (March 2018 in comparison with Match 2019) the CPI rose by 1.4%.

According to Bank of Israel estimates, the inflation rate in 2019 would reach 1.5%, in 2020 would reach 1.6%. As of April 2019, the inflationary expectations for the coming twelve months, derived from the capital market, indicate an inflation rate of 1.1%.

Housing market

Recent publications reflect an increase in housing prices. According to the Housing Price Index published in April 2019 by the Central Bureau of Statistics (hereinafter – "the CBS") prices of apartments recorded a rise of 0.6% in the months of January-February 2019, in comparison with transactions effected in the months of December 2018 to January 2019. Prices of transactions in the months of January-February 2019 rose by 0.1% in comparison with the corresponding months last year.

Labor market

The rate of unemployment is low with a downward trend, amounting to 3.9% in March 2019, in comparison with 4.3% in December 2018.

Exchange rate

The exchange rate of the shekel as against the US dollar and as against the Euro dropped in the first quarter of 2019 by 3.1% and by 5.0% respectively.

Bank of Israel interest rate

In November 2018, Bank of Israel raised the interest rate for the first time since February 2015, by 0.15 percentage points to a level of 0.25%. According to estimates of Bank of Israel Research Division, the interest rate is expected to rise in the third quarter of 2019 to a level of 0.5%, and continue rising twice in the course of 2020 to a level of 1.0%.

The global environment

The macro image of the global economy continues to indicate moderation in the growth rate and in inflation. The main risks envisaged are the possibility of intensification in the "trade war" (despite the progress made in the negotiations between the US and China) and concerns that Britain would exit the European Union without an agreement. Investment houses have once again updated downwards the growth forecasts for most of the economic zones and principally the Eurozone. The slowdown in global trading is intensifying and includes also the emerging markets. The financial markets have recorded an increase in share indices with a decrease in returns on government bonds, this on background of expectations that for the time being the process of global monetary contraction would be stopped.

Capital market

The principal equities indices of the domestic capital market recorded an increase in the first quarter of 2019: the TA-35 Index and the TA-125 Index rose by approximately 5.4% and 6.4%, respectively. The General Bond Index rose by 3.2%.

The trading turnover in equities on the local Stock Exchange recorded a decrease in volume during the first quarter of 2019.
The S&P-500 Index rose by 13.1% during the first quarter of 2019. In Europe, the Eurostocks-600 Index rose by 12.3% and the developing countries Index (the EM-MSCI Index) rose by 9.5%.

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

MATERIAL DEVELOPMENTS IN REVENUES, EXPENSES AND OTHER COMPREHENSIVE INCOME

PROFIT AND PROFITABILLITY

Net profit attributed to the shareholders of the Bank amounted to NIS 183 million in the first quarter of 2019, as compared to NIS 137 million in the same period last year, an increase of 33.6%.

The return of net profit to the capital attributed to the shareholders of the Bank (annualized) amounted to 9.3% in the period January-March 2019, as compared to 7.2% in the same period last year and 9.3% in 2018.

Condensed statement of income

	For the three months ended March 31,		
	2019	**2018**	**change**
		NIS million	%
Net financing earnings[1]	**681**	624	9.1
Expenses from credit losses	**36**	27	33.3
Net financing earnings after Expenses from credit losses	**645**	597	8.0
Fees	**320**	338	(5.3)
Other income	**1**	23	(95.7)
Operating and other expenses	**673**	737	(8.7)
Profit before taxes	**293**	221	32.6
Provision for taxes on profit	**111**	82	35.4
The bank's share in profit of equity-basis investee, after taxes	**10**	6	66.7
Net profit:			
Before attribution to non-controlling interests	**192**	145	32.4
Attributed to non-controlling interests	**(9)**	(8)	12.5
Attributed to shareholders of the Bank	**183**	137	33.6
Net return on equity attributed to the Bank's shareholders	**9.3%**	7.2%	

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

Profitability after elimination of certain components

	For the three months ended March 31,	
	2019	**2018**
		NIS million
Net profit attributed to the shareholders of the Bank - as reported	**183**	137
Less/- Eliminations [1]		
- Gain from sale of building in subsidiary company	**-**	(13)
- Provision for the claim of Bank employees for an award	**-**	29
- Provision for merger expenses of Otsar Hahayal	**4**	16
Net profit attributed to the shareholders of the Bank after elimination of the above items	**187**	169
Return on equity	**9.5%**	9.0%

(1) See below for details regarding the eliminated items.

Details regarding eliminated items

Gain from sale of building in subsidiary company - the transaction for the sale of the real estate asset owned by FIBI (Swiss) Ltd. was concluded on March 14, 2018. The gain on the sale, in the amount of NIS 19 million, was included in "other income" in the first quarter of 2018 (the effect on net earnings - NIS 13 million).

Provision for the claim of Bank employees for an award - in the same period last year, provision for the payment of an award was recorded, due to the implication of the verdict given regarding the claim of the managers committee for the payment of an award in the amount of NIS 45 million (the effect on net earnings- NIS 29 million).

Provision for expenses of the merger of Otsar Hahayal with and into the Bank - Expenses in respect of severance compensation payable under the merger terms, and which were recognized in the statement of profit and loss, amounted to NIS 24 million (the effect on net earnings - NIS 16 million).

DEVELOPMENT IN INCOME AND EXPENSES

The Net Financing earnings

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

Set out below is the composition of net financing earnings:

	2019				2018
	Q1	Q4	Q3	Q2	Q1
					NIS million
Interest income	**727**	772	756	819	654
Interest expenses	**92**	119	122	204	70
Net interest income	**635**	653	634	615	584
Non-interest financing income	**46**	36	108	47	40
Net financing earnings	**681**	689	742	662	624

Set out below is an analysis of net financing earnings:

	2019				2018
	Q1	Q4	Q3	Q2	Q1
					NIS million
Earnings from current activity	**675**	684	662	647	618
Reconciliations to fair value of derivative instruments	**(5)**	3	3	11	1
Income from realization and reconciliations to fair value of bonds	**4**	3	-	5	1
Earnings (losses) from investments in shares	**7**	(1)	77	(1)	4
Net financing earnings	**681**	689	742	662	624

Set out below are main data regarding interest income and expenses:

	For the three months ended March 31,	
	2019	**2018**
		in %
Income rate on asset bearing interest	**2.45**	2.23
Expense rate on liabilities bearing interest	**0.54**	0.40
Total interest spread	**1.91**	1.83
Ratio between net interest income and assets bearing interest balance	**2.14**	1.99

For details regarding the report on rates of interest income and expenses of the Bank and of its consolidated subsidiaries and the analysis of changes in interest income and expenses, see Appendix 1 to the Chapter "Corporate governance".

Expenses from credit losses amounted to NIS 36 million in the first three months of 2019 compared with NIS 27 million in the same period last year.

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

	For the three months ended March 31,	
	2019	**2018**
		NIS million
Individual expense in respect of credit losses	**64**	55
Decrease in individual expense in respect of credit losses and collection of debts written off in accounting	**(54)**	(54)
Individual expense, net in respect of credit losses	**10**	1
Collective expense in respect of credit losses	**26**	26
Total expenses in respect of credit losses	**36**	27
Of which:		
Expenses in respect of commercial credit	**18**	13
Expenses (income) in respect of housing credit	**(1)**	1
Expenses in respect of other private credit	**19**	13
Ratio of individual expense in respect of credit losses to average total credit to the public(1)	**0.05%**	-
Ratio of collective expense in respect of credit losses to average total credit to the public(1)	**0.12%**	0.13%
Ratio of total expenses in respect of credit losses to average total credit to the public(1)	**0.17%**	0.13%

(1) Annualized.

For additional information regarding expenses for credit loss, see Chapter "Review of Risks" below.

Fees totaled NIS 320 million in the first three months of 2019, compared with NIS 338 million in the same period last year, a decrease of 5.3%.

Set out below are details of fees income:

	For the three months ended		Change
	March 31, 2019	**March 31, 2018**	
		NIS million	in %
Account management	**57**	62	(8.1)
Credit cards	**25**	26	(3.8)
Transactions in the capital market	**153**	161	(5.0)
Conversion differentials	**35**	38	(7.9)
Fees from financing transactions	**22**	22	-
Other Fees	**28**	29	(3.4)
Total Fees	**320**	338	(5.3)

Other income totaled NIS 1 million in the first three months of 2019, compared with NIS 23 million in the same period last year, a decrease stemming from decrease in gain from realization of assets. On March 14, 2018 the transaction for the sale of the real estate asset owned by FIBI (Swiss) Ltd. was concluded. The gain on the sale, which was included in this item amounted to NIS 19 million, before tax effect.

Operating and other expenses totaled NIS 673 million in the first three months of 2019, compared with NIS 737 million in the same period last year, a decrease of 8.7%.
Set out below are details of operating and other expenses:

	For the three months ended	
	March 31, 2019	**March 31, 2018**
		NIS million
Salaries and related expenses	**402**	446
Maintenance and depreciation of premises and equipment	**92**	96
Amortization of intangible assets	**23**	23
Expenses in respect of the merger of Otsar Hahayal	**6**	24
Dismissals expenses	**18**	3
Other expenses except for dismissals and reductions	**132**	145
Total operating and other expenses	**673**	737

Salaries and related expenses totaled NIS 402 million in the first three months of 2019, compared with NIS 446 million in the same period last year, a decrease of 9.9% explained mainly by the provision in respect of the Bank's employees claim for the payment of an award due to the implications of a verdict given regarding the claim of the managers committee for the payment of an award and from decrease in payroll expenses due to the reduction inmanpower in the Group, which was partialy offset by the increase in salaries.

Other expenses totaled NIS 156 million in the first three months of 2019, compared with NIS 172 million in the same period last year, a decrease of 9.3% which was derived from a decrease in the amount of NIS 18 million in expenses in respect of the merger of Otsar Hahayal and from a decrease in provision in respect of legal claims. This decrease was partialy offset by an increase in dissmisal expenses in the amount of NIS 15 million.

The provision for taxes on operating earnings amounted to NIS 111 million compared with NIS 82 million in the same period last year. The effective tax rate as a proportion of earnings before taxes amounted to 37.9%, compared with the statutory tax rate of 34.2%.

The Bank's share in the operating earnings of investee company after the tax effect amounted to NIS 10 million, compared with NIS 6 million in the same period last year.

The total comprehensive profit attributed to the shareholders of the Bank amounted to NIS 220 million. This amount was affected by the net profit for the quarter attributed to the shareholders of the Bank of NIS 183 million and by adjustments in respect of available-for-sale securities in an amount of NIS 42 million.

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

The consolidated balance sheet as of March 31, 2019 amounted to NIS 136,983 million compared with NIS 132,636 million as of March 31, 2018 and NIS 134,120 million as of December 31, 2018.

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

	March 31, 2019	December 31, 2018	Change
		NIS million	%
Credit to the public, net	**86,353**	84,292	2.4
Securities	**11,338**	12,595	(10.0)
Cash and deposits with banks	**34,108**	31,303	9.0
Deposits from the public	**115,349**	111,697	3.3
Bonds and subordinated capital notes	**4,270**	4,989	(14.4)
Shareholders' equity	**8,208**	8,093	1.4

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

	March 31, 2019	December 31, 2018	Change
		NIS million	%
Off-balance sheet financial instruments excluding derivatives:			
Documentary credit	**461**	281	64.1
Guarantees and other liabilities	**7,896**	7,840	0.7
Unutilized credit lines for derivatives instruments	**2,369**	2,405	(1.5)
Unutilized revolving credit and other on-call credit facilities	**9,561**	9,568	(0.1)
Unutilized credit lines for credit card facilities and Facilities for the lending of securities	**7,873**	7,726	1.9
Irrevocable commitments to grant credit, not yet executed and commitments to issue guarantees	**6,043**	6,679	(9.5)
Total	**34,203**	34,499	(0.9)

Derivative financial instruments:

	March 31, 2019			December 31, 2018		
	Positive fair value	Negative fair value	Face value	Positive fair value	Negative fair value	Face value
						NIS million
Interest contracts	**246**	**308**	**25,578**	208	223	29,110
Currency contracts	**420**	**441**	**62,745**	540	422	60,101
Contracts in respect of shares	**275**	**275**	**38,095**	650	651	45,227
Commodities and other contracts	**-**	**-**	**39**	1	1	100
Total	**941**	**1,024**	**126,457**	1,399	1,297	134,538

Credit to the public, net as of March 31, 2019 amounted to NIS 86,353 million compared with NIS 84,292 million as of December 31, 2018, an increase of 2.4%.

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

	As of				Segment's share of credit to the public as of	
	March 31, 2019	December 31, 2018		Change	March 31, 2019	December 31, 2018
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**71,522**	69,600	1,922	2.8	**82.8**	82.5
- CPI-linked	**10,215**	10,073	142	1.4	**11.8**	12.0
Foreign currency (including f-c linked)	**4,145**	4,065	80	2.0	**4.8**	4.8
Non-monetary items	**471**	554	(83)	(15.0)	**0.6**	0.7
Total	**86,353**	84,292	2,061	2.4	**100.0**	100.0

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

			As of		Change
	March 31, 2019	March 31, 2018	December 31, 2018	March 31, 2018	December 31, 2018
			NIS million	%	
Large business segment	**18,465**	17,789	17,052	3.8	8.3
Medium business segment	**5,610**	5,694	5,816	(1.5)	(3.5)
Small and minute business segment	**16,216**	15,349	15,948	5.6	1.7
Household segment excluding housing loans	**21,332**	20,201	21,040	5.6	1.4
Housing loans	**24,468**	23,151	24,319	5.7	0.6
Private banking segment	**54**	52	51	3.8	5.9
Institutional entities	**1,101**	509	934	116.3	17.9
Total	**87,246**	82,745	85,160	5.4	2.4
Of which: consumer credit excluding housing loans and credit cards					
Household segment	**18,015**	16,894	17,720	6.6	1.7
Private banking segment	**22**	21	22	4.8	-
Total	**18,037**	16,915	17,742	6.6	1.7

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

Total credit risk to the public amounted to NIS 121,431 million on March 31, 2019 compared with NIS 120,495 million on December 31, 2018, an increase of 0.8%.

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

Sector	As of March 31, 2019		As of December 31, 2018		
	Total credit risk	Sector's share in total credit risk	Total credit risk	Sector's share in total credit risk	Change
	NIS million	%	NIS million	%	%
Financial services (including holding companies)	**14,979**	**12.3**	15,507	12.9	(3.4)
Construction and real estate	**15,936**	**13.1**	15,547	12.9	2.5
Industry	**10,146**	**8.4**	10,330	8.6	(1.8)
Commerce	**8,482**	**7.0**	7,981	6.6	6.3
Private customer, including housing loans	**59,439**	**48.9**	58,779	48.8	1.1
Others	**12,449**	**10.3**	12,351	10.2	0.8
Total	**121,431**	**100.0**	120,495	100.0	0.8

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

		As of March 31, 2019			
Borrower no.	Sector of the economy	Balance-sheet credit risk (*)	Off-balance-sheet credit risk	Aggregate credit risk	Aggregate credit risk after permitted deductions
					NIS million
1.	Financial services	**1,571**	**162**	**1,733**	**543**
2.	Industry	**243**	**604**	**847**	**846**
3.	Financial services	**836**	**5**	**841**	**32**
4.	Financial services	**714**	**-**	**714**	**714**
5.	Financial services	**600**	**6**	**606**	**606**
6.	Commerce	**250**	**350**	**600**	**600**

		As of December 31, 2018			
Borrower no.	Sector of the economy	Balance-sheet credit risk (*)	Off-balance-sheet credit risk	Aggregate credit risk	Aggregate credit risk after permitted deductions
					NIS million
1.	Financial services	1,999	224	2,223	763
2.	Financial services	900	6	906	906
3.	Industry	130	738	868	868
4.	Financial services	700	-	700	700
5.	Financial services	432	-	432	-
6.	Electricity and water supply	230	172	402	402

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

The investment in securities as of March 31, 2019 totaled NIS 11,338 million compared with NIS 12,595 million at the end of 2018, a decrease of 10.0%.

Set out below is the composition of the portfolio:

	As of		Share of total securities	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
		NIS million		%
Government bonds	**8,794**	9,742	**77.5**	77.4
Banks' bonds (1)	**530**	698	**4.7**	5.5
Other bonds (corporate and asset-backed)	**846**	803	**7.5**	6.4
Other bonds (corporate and asset-backed) guaranteed by governments	**939**	1,125	**8.3**	8.9
Shares (2)	**229**	227	**2.0**	1.8
Total	**11,338**	12,595	**100.0**	100.0

(1) The balance includes bonds that were issued by banks' issuing companies.
Of which: Banks' foreign-currency bonds guaranteed by foreign governments in the amount of NIS 409 million (December 31, 2018 - NIS 531 million).

(2) Investment in shares includes inter alia investment in private equity funds in the amount of NIS 123 million, investment in foreign currency shares of NIS 76 million and investment in shares traded on the Tel Aviv Stock Exchange amounting to NIS 23 million (31.12.18 - investment in private equity funds in the amount of NIS 123 million, investment in foreign currency shares of NIS 77 million and investment in shares traded on the Tel Aviv Stock Exchange amounting to NIS 19 million).

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

	As of				Segment's share of total securities	
	March 31, 2019	December 31, 2018		Change	March 31, 2019	December 31, 2018
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**3,596**	4,250	(654)	(15.4)	**31.7**	33.7
- CPI-linked	**608**	712	(104)	(14.6)	**5.4**	5.7
Foreign currency denominated & linked	**6,905**	7,406	(501)	(6.8)	**60.9**	58.8
Non-monetary items	**229**	227	2	0.9	**2.0**	1.8
Total	**11,338**	12,595	(1,257)	(10.0)	**100.0**	100.0

Set out below are the sources for the price quotations which the Bank used for determining the fair value of securities on March 31, 2019:

	Price quoted in active market	Indicative price*	Counter-party price**	Total
				NIS million
Shares and private investment funds	**93**	**16**	**120**	**229**
Local currency government bonds	**3,538**	**-**	**-**	**3,538**
Local currency corporate bonds	**400**	**266**	**-**	**666**
Non-asset backed foreign-currency and f-c linked bonds	**133**	**6,347**	**-**	**6,480**
MBS bonds	**-**	**425**	**-**	**425**
Total	**4,164**	**7,054**	**120**	**11,338**
% of portfolio	**36.7**	**62.2**	**1.1**	**100.0**

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

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

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

	As of	
	March 31, 2019	December 31, 2018
		NIS million
Israel (incl. Israel Government - 31.3.19 - NIS 3,264 million, 31.12.18 - NIS 3,364 million)	**3,402**	3,491
USA (incl. USA Government - 31.3.19 - NIS 1,890 million, 31.12.18 - NIS 1,944 million)	**1,972**	2,051
France	**247**	96
Canada	**134**	459
Germany (incl. Germany Government or guaranteed by it - 31.3.19 - NIS 507 million, 31.12.18 - NIS 547 million)	**507**	547
Europe - others (31.3.19 - 2 countries; 31.12.18 - 2 countries)	**38**	93
UK	**-**	29
Far East, New Zealand* and others (31.3.19 - 5 countries; 31.12.18 - 5 countries)	**180**	204
Total	**6,480**	6,970

It should be noted that there is no issuer (except the Israel Government and USA Government) whose bond balance exceeds 5% of the shareholders' equity of the Bank.

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

	As of	
	March 31, 2019	December 31, 2018
		NIS million
Financial services	**73**	72
Banks	**43**	68
Industry	**46**	46
Electricity and water	**138**	139
Construction and real estate	**172**	161
Communications and computer services	**8**	9
Commerce	**51**	50
Public and community services	**5**	5
Transportation	**103**	63
Hotels, hospitality and food services	**27**	23
Total	**666**	636

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

- **Non-asset-backed bonds denominated in or linked to foreign currency**-amounting to NIS 6,480 million (Dollar 1,784 million) (includes foreign corporations amounting to NIS 1,086 million, foreign currency denominated bonds of Israeli corporations, mostly traded abroad, amounting to NIS 138 million, foreign currency denominated Israel Government bonds amounting to NIS 3,264 million and foreign government bonds amounting to NIS 1,992 million). All of the foreign bonds are investment grade and rated A or higher; 1% of the exposure is to leading banking and financial institutions in OECD countries. This portfolio is diversified, in a manner whereby exposure to any single issuer does not exceed 4% of the total foreign currency bond portfolio (except Israel Government and USA Government). The duration (average term-to-maturity) of the foreign currency bond portfolio is 3.4 years. The balance of unrealized gross profits (included in shareholders' equity under reconciliations to fair value in respect of the presentation of securities available for sale) as of the report date in respect of this portfolio amounted to NIS 35 million (Dollar 10 million) compared with NIS 6 million (Dollar 2 million) on December 31, 2018.
- **Mortgage Backed Securities (MBS)** - amount to NIS 425 million (Dollar 117 million).

  Of these, NIS 422 million (Dollar 116 million) were issued by Ginnie Mae, which is wholly owned by the US government. The balance of NIS 3 million (Dollar 1 million) was issued by the US federal agencies Fannie Mae and Freddie Mac.

  Set out below is a sensitivity analysis as of March 31, 2019 of the effect of changes in the interest rate on the rate of early repayments and the fair value of the MBS portfolio (including economic hedging of interest rate swaps):

	Change in rate of early repayments	Change in fair value
	Percentage points	Dollar million
Increase of 200 base points	**(6.7)**	**(7.9)**
Increase of 100 base points	**(4.8)**	**(3.4)**
Decrease of 100 base points	**14.3**	**1.5**
Decrease of 200 base points	**42**	**1.4**

The balance of profits, net (before the tax effect), included in other cumulative comprehensive profit, in respect of the difference between the fair value of securities included in the available-for-sale portfolio and their amortized cost, as of March 31, 2019, amounted to NIS 45 million.

Cash and deposits at banks on March 31, 2019 totaled NIS 34,108 million compared with NIS 31,303 million at the end of 2018, an increase of 9.0%

Deposits from the public on March 31, 2019 totaled NIS 115,349 million compared with NIS 111,697 million at the end of 2018, an increase of 3.3%.

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

	As of		Change		Segment's share of total deposits from the public on	
	March 31, 2019	**December 31, 2018**		**Change**	**March 31, 2019**	**December 31, 2018**
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**88,649**	86,317	2,332	2.7	**76.9**	77.3
- CPI-linked	**5,857**	5,858	(1)	-	**5.1**	5.2
Foreign currency denominated & linked	**20,370**	18,968	1,402	7.4	**17.6**	17.0
Non-monetary items	**473**	554	(81)	(14.6)	**0.4**	0.5
Total	**115,349**	111,697	3,652	3.3	**100.0**	100.0

Deposits from the public by segment of activity

			As of		Change
	March 31, 2019	**March 31, 2018**	**December 31, 2018**	**March 31, 2018**	**December 31, 2018**
			NIS million		%
Large business segment	**9,104**	9,556	9,212	(4.7)	(1.2)
Medium business segment	**4,966**	5,219	5,167	(4.8)	(3.9)
Small and minute business segment	**17,694**	16,050	17,802	10.2	(0.6)
Household segment	**50,532**	47,268	50,300	6.9	0.5
Private banking segment	**7,843**	7,827	8,029	0.2	(2.3)
Institutional entities	**25,210**	25,993	21,187	(3.0)	19.0
Total	**115,349**	111,913	111,697	3.1	3.3

Securities portfolios belonging to customers of the Bank Group

The total of the securities portfolios of customers of the Bank Group as of March 31, 2019, amounted to NIS 312 billion, as compared to NIS 304 billion at the end of 2018.

Bonds and subordinated capital notes amounted at March 31, 2019 to NIS 4,270 million, as compared with NIS 4,989 million at December 31, 2018, a decrease of 14.4%.

CAPITAL AND CAPITAL ADEQUACY

The capital attributed to the shareholders of the Bank amounted on March 31, 2019 to NIS 8,208 million, as compared with NIS 8,093 million on December 31, 2018, an increase of 1.4%.
For detailes regarding the development of the other comprehensive profit, see the Chapter "Material developments in income, expenditure and in other comprehensive profit".

CAPITAL ADEQUACY

Minimum capital ratios

The Bank implement Proper Conduct of Banking Business Directives Nos. 201-211 in the metter of "Measurement and capital adequacy" as were amended in order to reconcile them with the Basel guidelines. The implementation was gradual in accordance to the transitional instructions in Proper Conduct of Banking Business Directive No. 299 "Measurement and capital adequacy- supervisory capital - transitional instructions". These instruction require that the ratio of Tier I equity capital to weighted average risk assets should be no less than 9% and the ratio of comprehensive capital to average risk assets should be no less than 12.5% for all banking corporations, the total consolidated stated assets of which does not exceeds 20% of total stated assets of the banking sector (including the Bank).

To these minimal capital ratios an additional capital requirement was added at a rate reflecting 1% of the outstanding balance of housing loans at the reporting date.
In consequence thereof, the minimum Tier I equity capital ratio and the minimum comprehensive capital ratio required on a consolidated basis by the Supervisor of Banks, based on data as of the reporting date, are 9.31% and 12.81%, respectively.

The internal capital goals as were set by the Board of Directors are as follows:
- In a regular business situation - Tier I equity capital will be no less than 9.31%, and the ratio of the comprehensive capital will be no less than 12.81%.
- In stress situations - the ratio of Tier I equity capital shall not be less than 6.50%, and the ratio of comprehensive capital shall not be less than 9.00%.

Basel 3 guidelines

According to the transitional instructions, the capital instruments no longer qualified as regulatory capital shall be recognized up to a maximum of 80% on January 1, 2014, this maximum level being reduced by an additional 10% until January 1, 2022. As from January 1, 2019 the maximum rate of instruments qualified as regulatory capital amounts to 30%.

Operational Efficiency

On January 12, 2016, Bank of Israel issued a letter, in the matter of "operational efficiency of the banking sector in Israel". In accordance with the letter, the board of directors of banking corporation has to outline a multi-annual program for the improvement of efficiency.
A banking corporation that conforms with the terms of the letter would be entitled to a relief, whereby it may spread, by the "straight line" method, over a period of five years, the effect of the cost of the program. On September 16, 2018 the Supervisor of Banks published a letter that extends the effectiveness of these guidelines until December 31, 2019.
- On November 17, 2016, the Board of Directors of the Bank approved the update of the strategic program of the Group concerning the efficiency measures aspect, the cost of which was estimated at NIS 207 million (before the tax effect). Were it not for the said relief, the implementation of the efficiency measures, as of March 31, 2019 would have reduced the capital adequacy ratios by 0.10%.
- In the course of 2018, the Board of Directors of the Bank resolved to introduce additional efficiency measures at Otsar Hahayal, a merger decision was taken in the third quarter of the year, and on January 1, 2019, Otsar Hahayal

was merged with and into the Bank. The said decisions as well as their expected implications have surpassed the original efficiency program of the Group from 2016. In respect of these actions the Group recorded a provision for increased severance compensation in the amount of NIS 82 million (net amount of NIS 53 million after the tax effect).

Were it not for the said relief, the implementation of the efficiency measures, as of March 31, 2019 would have reduced the capital adequacy ratios by 0.07%.

Implementation of the instructions

As stated above, in accordance with Bank of Israel instructions, the Bank implements the Basel instructions.

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

Pillar II - the Bank is required to conduct an internal process for the assessment of capital adequacy (the ICAAP process). This process is designed to ensure the maintenance of an adequate level of capital means supporting the overall risks inherent in the operations of the Bank. The ICAAP document relating to the data as of June 30, 2018, has been dully submitted to bank of Israel. The infrastructure for the capital adequacy, as approved by the Bank, serves as a basis for the internal process conducted at the banking subsidiary, subject to required adjustments, and on the basis of its specific risk profile.

			As of
		March 31, 2019	**December 31, 2018**
1.	**Capital for calculation of capital ratio, after deduction and supervisory adjustments**		
	Tier 1 capital, after deductions and supervisory adjustments	**8,434**	8,321
	Tier 2 capital	**2,603**	2,713
	Total capital	**11,037**	11,034
2.	**Weighted balances of risk assets**		
	Credit risk	**73,000**	71,847
	Market risk	**620**	889
	Operational risk	**6,504**	6,401
	Total weighted balances of risk assets	**80,124**	79,137
3.	**Ratio of capital to risk assets**		
	Ratio of tier 1 equity capital to risk assets	**10.53%**	10.51%
	Total ratio of capital to risk assets	**13.77%**	13.94%
	Minimal ratio of equity capital tier 1 required by the Supervisor of banks	**9.31%**	9.31%
	Minimal ratio of capital required by the Supervisor of Banks	**12.81%**	12.81%

The Tier I equity capital ratio as of March 31, 2019, amounted to 10.53% in comparison with 10.51% on December 31, 2018. The ratio of comprehensive capital to risk components as of March 31, 2019, amounted to 13.77%, in comparison with 13.94% on December 31, 2018.

The comprehensive capital as of March 31, 2019 amounted to NIS 11,037 million, in comparison with NIS 11,034 million on December 31, 2018.

The capital base was affected from earnings of NIS 183 million and from other comprehensive income in respect of presentation of available for sale securities at fair value in the amount of NIS 42 million. This increase was offset by dividend paid in the amount of NIS 105 million and a decrease in the amount of NIS 113 million in capital instruments issued by the Bank, which are qualified as regulatory capital.

The risk assets as of March 31, 2019 amounted to NIS 80,124 million as compared with NIS 79,137 million on December 31, 2018. The increase in risk assets derived mainly from an increase in credit to the public.

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

	March 31, 2019	December 31, 2018
		In percent
Bank Massad Ltd.		
Ratio of Tier 1 capital to risk assets	**13.22%**	13.04%
Ratio of overall capital to risk assets	**14.29%**	14.12%

Leverage ratio in accordance with instructions of the Supervisor of Banks - The Bank implements the Proper Conduct of Banking Business Directive No. 218 in the matter of Leverage ratio. The leverage ratio is expressed in percentages and is defined as the ratio between capital measurement and exposure measurement. Capital for the purpose of measuring the leverage ratio is the Tier I equity capital, as defined in Proper Conduct of Banking Business Directive No. 202, taking into consideration the prescribed transitional arrangements. In accordance with the Directive, a banking corporation should attain a leverage ratio of no less than 5% on a consolidated basis, for a banking corporation, the total consolidated stated assets of which is up to 20% of total stated assets of the banking sector as a whole (including the Bank). The minimum leverage ratio for a banking corporation applies as from January 1, 2018 and thereafter. The leverage ratio of the Bank as of March 31, 2019, amounts to 5.71%, compared to 5.76% as of December 31, 2018.

DIVIDEND DISTRIBUTION POLICY

According to the updated dividend distribution policy as was approved by the Board of Directors of the Bank (as was updated on June 9, 2015 and August 14, 2017), the Bank will distribute annual dividends of up to 50% of its distributable annual net earnings, subject to the Bank's ratio of capital to risk elements being no less than the target specified by the Bank's Board of Directors from time to time. Such distributions will be made subject to legislative provisions and to Proper Conduct of Banking Business Regulations, providing that no adverse changes occur in the Bank's earnings and/or business and/or financial position and/or the overall state of the economy and/or the legal environment. It should be clarified, that as from the year 2017, the net annual earnings refer to the annual net earnings of the current year.

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

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

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

Following are details regarding dividends distributed by the Bank, as from the year 2016:

Declaration date	Payment date	Total dividend paid	Dividend per share
		NIS million	NIS
17 November 2016	5 December 2016	200	1.99
15 March 2017	2 April 2017	70	0.70
23 May 2017	14 June 2017	70	0.70
14 August 2017	31 August 2017	70	0.70
14 November 2017	3 December 2017	100	1.00
5 March 2018	21 March 2018	95	0.95
28 May 2018	5 June 2018	60	0.60
14 August 2018	2 September 2018	100	1.00
20 November 2018	9 December 2018	100	1.00
12 March 2019	20 March 2019	105	1.05

Subsequent to balance sheet date, on May 28, 2019, the Board of directors of the Bank resolved to distribute a dividend in cash to shareholders of the Bank in a total amount of NIS 85 million. The determining date for the distribution of the dividend is June 6 2019, and the date of payment is June 17 2019. The amount of the dividend is before any taxes, including the tax that the Bank has to withhold in terms of the law.

SUPERVISORY SEGMENTS OF OPERATIONS

The reporting on segments of activity is in accordance with the format and classification set in the Directive of the Reporting to the Public of the Supervisor of Banks. This reporting is materialy defferent from the segments of activity used by the Bank according to Management approach, which are detailed in Note 11A to the financial statements. The supervisory segements of activity are reported in a uniform format that was set by the Supervision of Banks to the entire banking system, and they are based on the customers characteristics, such as: the volume of assets protfolio- for private customers, or the business turnover- for business customers.
For the definitions of the supervisory segements of activity and for details regarding main instructions, estimates and principals of reporting, see Note 11 to the financial statements.
For details regarding segments of activity according to management's approach, see Note 11A to the financial statements.

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

a. Total income*

	For the three months ended March 31,			Segment's share of total income	
	2019	**2018**	**Change**	**31.3.19**	**31.3.18**
		NIS million	%		%
Large business	**97**	106	(8.5)	**9.7**	10.8
Medium business	**62**	60	3.3	**6.2**	6.1
Small and minute business	**238**	232	2.6	**23.7**	23.6
Household	**445**	420	6.0	**44.4**	42.6
Private banking	**27**	24	12.5	**2.7**	2.4
Institutional entities	**68**	60	13.3	**6.8**	6.1
Financial management	**65**	83	(21.7)	**6.5**	8.4
Total	**1,002**	985	1.7	**100.0**	100.0

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

	For the three months ended March 31,	
	2019	**2018**
		NIS million
Large business	**41**	38
Medium business	**7**	17
Small and minute business	**43**	22
Household	**31**	(2)
Private banking	**6**	5
Institutional entities	**13**	11
Financial management	**42**	46
Total	**183**	137

* Including net interest income and non-interest income.

c. Average balance sheet balances*

	Total assets				
	For the three months ended March 31,			% of total assets	
	2019	2018	Change	31.3.19	31.3.18
		NIS million	%	%	%
Large business	**18,088**	17,107	5.7	**21.3**	21.2
Medium business	**5,532**	5,597	(1.2)	**6.4**	6.9
Small and minute business	**15,804**	14,883	6.2	**18.6**	18.4
Household	**44,708**	42,491	5.2	**52.5**	52.6
Private banking	**45**	53	(15.1)	**0.1**	0.1
Institutional entities	**908**	624	45.5	**1.1**	0.8
Total	**85,085**	80,755	5.7	**100.0**	100.0

	Total liabilities				
	For the three months ended March 31,			% of total liabilities	
	2019	2018	Change	31.3.19	31.3.18
		NIS million	%	%	%
Large business	**8,325**	10,454	(20.4)	**7.4**	9.3
Medium business	**4,873**	5,055	(3.6)	**4.3**	4.5
Small and minute business	**17,790**	16,024	11.0	**15.8**	14.3
Household	**50,066**	46,778	7.0	**44.4**	41.6
Private banking	**7,787**	7,719	0.9	**6.9**	6.9
Institutional entities	**23,887**	26,257	(9.0)	**21.2**	23.4
Total	**112,728**	112,287	0.4	**100.0**	100.0

* Average balances are calculated on the basis of balances at the beginning of quarter or the beginning of month.

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

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

	For the three months ended March 31, 2019				For the three months ended March 31, 2018			
	Small and minute business	Medium business	Large business	Total	Small and minute business	Medium business	Large business	Total
								NIS million
Net interest income	**161**	**43**	**69**	**273**	148	42	74	264
Non-interest income	**77**	**19**	**28**	**124**	84	18	32	134
Total income	**238**	**62**	**97**	**397**	232	60	106	398
Expenses (income) from credit losses	**12**	**21**	**(17)**	**16**	19	1	(7)	13
Operating and other expenses	**157**	**29**	**42**	**228**	176	30	52	258
Net profit attributed to the shareholders of the Bank	**43**	**7**	**41**	**91**	22	17	38	77
Average balance of assets	**15,804**	**5,532**	**18,088**	**39,424**	14,883	5,597	17,107	37,587
Balance of credit to the public at the end of the reported period	**16,216**	**5,610**	**18,465**	**40,291**	15,349	5,694	17,789	38,832
Average balance of liabilities	**17,790**	**4,873**	**8,325**	**30,988**	16,024	5,055	10,454	31,533
Balance of deposits from the public at the end of the reported period	**17,694**	**4,966**	**9,104**	**31,764**	16,050	5,219	9,556	30,825

Main changes in the result of activity in the first three months of 2019 compared with the same period last year

Total net interest income amounted to NIS 273 million, compared with NIS 264 million in the same period last year, an increase of 3.4%, which maily derived from an increase in the volume of activity and from an increase from the deposit taking activity, due to the increase in the interest rate.

The operating and other expenses amounted to NIS 228 million, compared to NIS 258 million in the corresponding period last year, a decrease of 11.6%, derived mainly from expenses recorded in the same period last year in respect of provision from the Bank's employees for bonus payment, from expenses in respect of the merger of Otsar Hahayal and from reduction in the payroll expenses due to a decrease in manpower in the Group. This decrease was partialy offset by an increase in dismissal expenses and an increase in salaries.

The net profit attributed to the shareholders of the Bank in respect of the business segments, amounted to NIS 91 million, in comparison with NIS 77 million in the same period last year, an increase of 18.2%.

Average balance of credit to the public amounted to NIS 39,424 million, in comparison with NIS 37,587 million in the same period last year, an increase of 4.9%.

Credit to the public as of March 31, 2019 amounted to NIS 40,291 million, in comparison with NIS 38,832 million on March 31, 2018, an increase of 3.8%.

Average balance of deposits from the public amounted to NIS 30,988 million, in comparison with NIS 31,533 million in the same period last year, a decrease of 1.7%.

Deposits from the public as of March 31, 2019 amounted to NIS 31,764 million, in comparison with NIS 30,825 million on March 31, 2018, an increase of 3.0%.

PRIVATE INDIVIDUALS SEGMENTS - HOUSEHOLDS AND PRIVATE BANKING

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

	For the three months ended March 31, 2019			For the three months ended March 31, 2018		
	household	private banking	Total	household	private banking	Total
						NIS million
Net interest income	**308**	**10**	**318**	274	8	282
Non-interest income	**137**	**17**	**154**	146	16	162
Total income	**445**	**27**	**472**	420	24	444
Expenses from credit losses	**18**	**-**	**18**	14	-	14
Operating and other expenses	**370**	**17**	**387**	402	16	418
Net profit (loss) attributed to the shareholders of the Bank	**31**	**6**	**37**	(2)	5	3
Average balance of assets	**44,708**	**45**	**44,753**	42,491	53	42,544
Balance of credit to the public at the end of the reported period	**45,800**	**54**	**45,854**	43,352	52	43,404
Average balance of liabilities	**50,066**	**7,787**	**57,853**	46,778	7,719	54,497
Balance of deposits from the public at the end of the reported period	**50,532**	**7,843**	**58,375**	47,268	7,827	55,095

Main changes in the result of activity in the first three months of 2019 compared with the same period last year

Total net interest income amounted to NIS 318 million, as compared with NIS 282 million in the corresponding period last year, an increase of 12.8%, which maily derived from an increase in the volume of activity and from an increase from the deposit taking activity, due to the increase in the interest rate.

Non-interest income amounted to NIS 154 million, in comparison with NIS 162 million in the corresponding period last year, a decrease of 4.9%.

Operating and other expenses amounted to NIS 387 million, as compared to NIS 418 million in the corresponding period last year, a decrease of 7.4%. derived mainly from expenses recorded in the same period last year in respect of provision from the Bank's employees for bonus payment, from expenses in respect of the merger of Otsar Hahayal and from reduction in the payroll expenses due to a decrease in manpower in the Group. This decrease was partialy offset by an increase in dismissal expenses and an increase in salaries.

The net profit attributed to the shareholders of the Bank in respect of the private individuals segment, which includes households and private banking, amounted to NIS 37 million, compared with NIS 3 million in the corresponding period last year.

Average balance of credit to the public amounted to NIS 44,753 million, in comparison with NIS 42,544 million in the same period last year, an increase of 5.2%.

Credit to the public as of March 31, 2019 amounted to NIS 45,854 million, in comparison with NIS 43,404 million on March 31, 2018, an increase of 5.6%.

Average balance of deposits from the public amounted to NIS 57,853 million, in comparison with NIS 54,497 million in the same period last year, an increase of 6.2%.

Deposits from the public as of March 31, 2019 amounted to NIS 58,375 million, in comparison with NIS 55,095 million on March 31, 2018, an increase of 6.0%.

FINANCIAL MANAGEMENT SEGMENT

Total income attributed to this segment amounted to NIS 65 million compared with NIS 83 million in the corresponding period last year.

The net earnings of the Financial Management Segment amounted to NIS 42 million compared with NIS 46 million in the corresponding period last year.

The decrease in net profit, is explained mainly by a decrease in capital gains from the sale of buidings and equipments, which amounted to NIS 19 million in the same period last year. In the first quarter of the year, no gain from sale of buildings and equipment was recorded. This decrease was partialy offset by an increase in profit from investment in bonds and shares in an amount of NIS 6 million and an increase in the Bank's share in the profit of ICC in an amount of NIS 4 million.

PRINCIPAL INVESTEE COMPANIES

Bank Massad Ltd. (hereinafter - "Massad") - in which the Bank owns 51.0% of share capital, is a commercial bank which operates a network of 23 branches and sub-branches.

The Bank's investment in Massad amounted to NIS 344 million on March 31, 2019.

Total assets of Massad on March 31, 2019 amounted to NIS 8,445 million compared with NIS 8,255 million on December 31, 2018, an increase of 2.3%.

Shareholders' equity of Massad on March 31, 2019, totaled NIS 674 million compared with NIS 653 million on December 31, 2018, an increase of 3.2%.

Net earnings of Massad totaled NIS 18.6 million compared with NIS 16.0 million in the same period last year, an increase of 16.2%. The change in profits is mostly explained by the increase in interest income, stemming mainly from the growth in volume of credit to the public.

The Bank's share in Massad's operating results amounted to NIS 9.5 million compared with NIS 6.0 million in the same period last year.

Net return on equity amounted to 11.7% compared with 11.2% in the same period last year. The ratio of capital to risk assets amounted to 14.29%, compared with 14.12% at the end of 2018. The Tier 1 capital ratio amounted to 13.22% compare with 13.04% at the end of 2018.

In the framework of the ICAAP process for the data of December 31, 2017 the minimal capital targets were set: tier 1 equity capital ratio will not be less than 10.5% until December 31, 2020 and the comprehensive capital ratio will be no less than 12.65% until December 31, 2020.

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

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

The Bank's investment in ICC amounted to NIS 617 million on March 31, 2019.

The ratio of capital to risk assets on March 31, 2019 amounted to 15.4%, compared with 15.9% at the end of 2018.

The Bank's share in the net earnings of ICC before the tax effect amounted to NIS 11.3 million compared with NIS 7.0 million in the same period last year, an increase of 61.4%. The increase in profit is mainly explained from an increase in income from transactions in credit cards stemming from an increase in the volume of transactions.

In May 2019 ICC distributed a dividend in an amount of NIS 150 million. The Bank's share in the dividend amounted to NIS 42 million.

See note 9 regarding motions for approval of class actions against ICC and the assessments issued by the Value Added Tax director to ICC.

REVIEW OF RISKS

REVIEW OF RISKS

This chapter was written in great detail in the financial statements for 2018. Therefore, it should be read together with the chapter of the risk review published in the annual reports for 2018. Additional information about the risks can be found on the report on risks and additional supervisory reporting in the Bank's internet website.

General

a. The Group's activity is accompanied by exposure to risks, the most significant of which are: credit risk (including concentration of economy segments and borrowers), market risk, for which the main risk is the interest risk, liquidity risk, operational risks, including Cyber and information security risks, compliance risk and AML risk, strategy risk, legal risk and reputation risk.

   Members of the Board of Management or senior officers are responsible for management of these risks. With respect to credit risk, market risk and operational risk, a regulatory requirement for capital adequacy in accordance with the Pillar 1 Basel directives exists. Within the ICAAP process, the Group performs an in-depth process of identifying additional risks focal and challenging the risks focal identified in the first pillar. If needed the Group makes an additional capital allocation in respect of Pillar 1 risks and other risks.

b. The Group's risk management policy is directed at achieving the strategic and business objectives defined by the Group and at increasing its earnings expectancy by developing areas of specialization at the Group, exploiting economies of diversity and scale, keeping to the levels of risk which have been approved, and by operating suitable management, control and reporting mechanisms.

c. The overall risk perceptive of the Group is in line with the regulatory framework set by the Supervisor of Banks and in line with the Sound Practices of the Basel Committee, based on the principal that every banking activity involving risk, the following will be defined and characterized: risk policy and appetite, limitations for bordering and defining the volume of exposure, control and auditing circles, reporting arrangement and earnings estimation mechanism, its measurement and reporting according to acceptable standard.

d. Risk management and control at the Group are implemented by means of a suitable infrastructure of control, supervision, review and auditing mechanisms, and are applied via three lines of defense: The first line of defense consists of those responsible for the creation and management of risk, including the legal sub-division and the chief accountant division, in the relevant areas. The second line is maintained by units of the Risk Management Division, Chief Accountant and legal sub-division, by means of independent control. The third line consists of the internal and external auditing functions.

e. Chief Risk Manager and member of Management in charge of the risk management division and across the organization risk management infrastructure- Mr. Bentzi Adiri CPA.

f. Those responsible for risk management are:

   Mr. Ilan Batzri CPA, Head of the Business Division-serves as Credit Risk Manager;

   Mr. Avi Sterenshous- head of the financial sub-division- serves as financial risk manager;

   Mr. Amir Birenboim- compliance manager, including, among other things AML, internal enforcement and cross border risks. Also appointed as Responsible Officer in-charge of implementation of the FATCA directives and QI agreement. Up to March 31, 2019 Mr. Yaacov Konortov served in these offices, which retired from the Bank;

   Mr. Yossi Levi- head of resources division- Strategic risk manager;

   Mr. Ron Grisaro- the CEO of MATAF -IT risk manager.

   Mr. Yehoshua Peleg, manager of cyber defense and information security- cyber risks manager;

   Adv. Haviva Dahan, head of the legal sub-division -Legal Risk Manager;

   Mr. Nachman Nitzan, CPA- head of the chief accounting division- reputation risk manager;

   Mr. Bentzi Adiri CPA- operational risk manager, supervisor of the internal enforcement and manager of business continuity. In addition, the cyber risks manager is subordinated to him.

g. Additional risks to which the Bank is exposed- regulatory and legislative risks - are managed and supervised as part of overall business management by members of the Board of Management and department heads in the areas for which they are responsible.

h. Risk management is carried out at each subsidiary in the Group separately, in accordance with the policy determined by the subsidiary's board of directors on the basis of Group policy, and on the basis of Group risk management methodology with an emphasis on the special nature of each subsidiary's activity. A Chief Risk Manager was appointed at the banking subsidiary, subordinate to the subsidiary's CEO and guided professionally by the Bank's Chief Risk Manager.

i. Every quarter, the Risk Management Division, which is independent of the risk-taking units, compiles a risks document which is presented to the Management of the Bank, the Risk Management Committee and the Board of Directors of the Bank.

j. The risks document contains an examination of all the risks to which the Bank Group is exposed in the course of its activity, with details of the findings at the specific risk level as well as the results of stress scenarios that were conducted.

   Presented in the document is the Chief Risk Manager's review of the risk management situation at the group and of the effectiveness and the quality of the risk management. Also reviewed in the document are developments in the business environment and in the financial markets, and the measures taken by the division with respect to the main process involved with the different types of risks and special action which the division took during the relevant quarter.

k. The Bank applies stress scenarios for reviewing capital adequacy. In this respect, the Bank examines the effect of the materialization of risk on the capital base and the ratio of capital to risk assets. The scenarios which the Bank operates are forward looking and are used as an additional tool for risk management and for indication for the capital required for loss absorbent in case of major crisis. The importance of the stress scenarios come into effect in the planning of capital.

For discussion of the risk appetite and risk management principles, see reference in the description of principal risks, presented in the financial statements for the year 2018.

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

CREDIT RISK

Credit risk is the risk borrowers' inability or counterparty's inability to fulfill their obligations to the Bank.
The Group implements the standard approach, within the implementation of the Basel Directives, with respect to the exposure to credit risk. Within Pillar 2 the capital allocation of Pillar 1 is challenged, and if required, a complementary capital allocation is carried in respect of the credit risks.

Significant exposures to borrower groups

As of March 31, 2019 there is no borrower group which its indebtness on consolidated basis, after deductions of permissible deduction according to section 5 of directive 313, exceeds 15% of the bank's capital, calculated according to directive of Proper Conduct of Banking Business regulation concerning measurement and capital adequacy.

Credit quality and problematic credit risk

Problematic credit risk, including off-balance-sheet components, totaled NIS 1,854 million compared with NIS 1,820 million at the end of 2018, an increase of 1.9%
The ratio of problematic credit risk to total credit risk at the group amounted to 1.5% at the end of march 2019, similar to the end of 2018. 21.7% of problematic credit risk at the group are attributed to the manufacturing sector, 14.3% to the real estate sector, 20.9% to the commerce sector, and 31.6% to the private customers including housing loans. The ratio of problematic credit risk to total credit to the public amounted to 1.9%, similar to the end of 2018.

1. Problematic credit risk

	March 31, 2019			March 31, 2018			December 31, 2018		
	Balance-sheet	Off-balance-sheet	Total	Balance-sheet	Off-balance-sheet	Total	Balance-sheet	Off-balance-sheet	Total
									NIS million
Impaired credit risk	**579**	**116**	**695**	524	105	629	472	104	576
Inferior credit risk	**154**	**5**	**159**	155	5	160	161	4	165
Credit under special supervision risk	**892**	**108**	**1,000**	718	106	824	978	101	1,079
Total problematic credit risk*	**1,625**	**229**	**1,854**	1,397	216	1,613	1,611	209	1,820
* Of which: Non-impaired debts in arrears of 90 days or more	**226**	**-**	**226**	231	-	231	243	-	243

	Balance on March 31, 2019	Balance on March 31, 2018	Balance on December 31, 2018
			NIS million
2. Non-performing assets			
Impaired credit to the public not accruing interest income:	**528**	477	418
3. Performing impaired assets			
Impaired debts undergoing problematic debts restructuring and accruing interest income	**46**	42	49
Impaired bonds accruing interest income	**5**	5	5
Total performing impaired assets	**51**	47	54

	For the three months ended March 31, 2019			For the three months ended March 31, 2018			For the year ended December 31, 2018		
	Commercial	Private	Total	Commercial	Private	Total	Commercial	Private	Total
			NIS million			NIS million			NIS million
4. Changes in impaired debts in respect of credit to the public**									
Balance of impaired debts at beginning of year	**367**	**100**	**467**	447	95	542	447	95	542
Classified as impaired during the period	**156**	**27**	**183**	70	15	85	145	67	212
Removed from impaired classification	**-**	**-**	**-**	(8)	-	(8)	(4)	-	(4)
Accounting write-offs	**(25)**	**(4)**	**(29)**	(29)	(3)	(32)	(89)	(26)	(115)
Collection of debts	**(37)**	**(10)**	**(47)**	(57)	(11)	(68)	(132)	(36)	(168)
Balance of impaired debts at end of year	**461**	**113**	**574**	423	96	519	367	100	467
** **Of which: movement in problematic restructured debts**									
Balance of restructured debts at beginning of the year	**150**	**83**	**233**	189	74	263	189	74	263
Debts restructured during the period	**28**	**18**	**46**	18	10	28	77	54	131
Accounting write-offs of restructured debts	**(2)**	**(4)**	**(6)**	(6)	(4)	(10)	(44)	(21)	(65)
Collection of restructured debts	**(12)**	**(7)**	**(19)**	(12)	(7)	(19)	(72)	(24)	(96)
Balance of problematic restructured debts	**164**	**90**	**254**	189	73	262	150	83	233
Changes in provision for credit losses in respect of impaired debts									
Balance of provision for credit losses at the beginning of the year	**121**	**23**	**144**	136	26	162	136	26	162
Increase in provisions	**37**	**5**	**42**	27	4	31	80	18	98
Collection and write-offs	**(18)**	**(3)**	**(21)**	(22)	(5)	(27)	(95)	(21)	(116)
Balance of provision for credit losses at the end of the year	**140**	**25**	**165**	141	25	166	121	23	144

	For the three months ended March 31		For the year ended December 31
	2019	2018	2018
5. Risk Indices			
Ratio of impaired credit to the public or in arrears of 90 days + to total credit to the public	**0.92%**	0.91%	0.83%
Of which:			
Ratio of impaired credit to the public to total credit to the public	**0.66%**	0.63%	0.55%
Ratio of non-impaired credit to the public in arrears of 90 days+ to total credit to the public	**0.26%**	0.28%	0.28%
Ratio of problematic credit risk in respect of the public to overall credit risk in respect of the public	**1.53%**	1.36%	1.51%
Ratio of expenses for credit losses to average total credit to the public*	**0.17%**	0.13%	0.20%
Ratio of net write-offs in respect of credit to the public to average total credit to the public*	**0.06%**	0.08%	0.16%
Ratio of provision for credit losses in respect of credit to the public to credit to the public	**1.02%**	1.02%	1.02%
Ratio of provision for credit losses in respect of credit to the public to total impaired credit to the public	**155.6%**	162.0%	185.9%
Ratio of provision for credit losses in respect of credit to the public to impaired credit to the public plus credit to the public in arrears of 90 days or more	**111.6%**	112.1%	122.3%
Ratio of net write-offs in respect of credit to the public to provision for credit losses in respect of credit to the public*	**6.0%**	7.8%	15.3%

* Annualized.

Total credit risk according to economic sectors
(NIS million)

					as at March 31, 2019		
					Credit losses (2)		
	Total credit risk(1)	Of which: Credit execution rating (3)	Of which: Problematic credit risk (4)	Of which: Impaired credit risk	Expenses (income) for credit losses	Net accounting write-offs	Provision for Credit losses
In respect of borrowers in Israel							
Public-Commercial:							
Industry	**10,082**	**9,359**	**403**	**214**	**(10)**	**(1)**	**169**
Construction and Real estate - construction (5)	**10,023**	**9,599**	**176**	**55**	**7**	**4**	**79**
Construction and Real estate - real estate activities	**5,913**	**5,632**	**90**	**78**	**1**	**-**	**23**
Commerce	**8,482**	**7,840**	**387**	**138**	**40**	**20**	**183**
Financial services	**13,935**	**13,793**	**14**	**2**	**(4)**	**(4)**	**25**
Other business services	**12,148**	**11,317**	**192**	**88**	**7**	**3**	**81**
Total commercial (6)	**60,583**	**57,540**	**1,262**	**575**	**41**	**22**	**560**
Private individuals - housing loans	**26,148**	**25,606**	**198**	**10**	**(1)**	**-**	**118**
Private individuals - others	**33,291**	**31,669**	**387**	**103**	**19**	**14**	**276**
Total public - activity in Israel	**120,022**	**114,815**	**1,847**	**688**	**59**	**36**	**954**
Banks and Israeli government in Israel	**9,307**	**9,307**	**-**	**-**	**-**	**-**	**-**
Total activity in Israel	**129,329**	**124,122**	**1,847**	**688**	**59**	**36**	**954**
In respect of borrowers abroad							
Total public - activity abroad	**1,409**	**1,401**	**7**	**7**	**(23)**	**(23)**	**1**
Banks and foreign governments abroad	**4,291**	**4,291**	**-**	**-**	**-**	**-**	**-**
Total activity abroad	**5,700**	**5,692**	**7**	**7**	**(23)**	**(23)**	**1**
Total	**135,029**	**129,814**	**1,854**	**695**	**36**	**13**	**955**

NOTES:
(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts (2), bonds, securities borrowed, assets in respect of 90,143, 11,109, 664, 941 and 32,172 million, respectively.
(2) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").
(3) Credit risk wherein the credit rating at the date of the report, congruent with the credit rating for the execution of new credit, according to the policy of the Bank.
(4) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which a provision based on the extent of arrears exists, and housing loans for which a provision based on the extent of arrears does not exist, which are in arrears of 90 days or more.
(5) Including balance sheet credit risk amounting to NIS 312 million and non-utilized credit facilities amounting to NIS 143 million, in respect of loans extended to certain purchasing groups currently in the process of construction.
(6) The balance of commercial debts includes housing loans in the amount of NIS 2,809 million, combined in the transaction and collateral position of commercial borrowers or those extended to certain purchasing groups currently in the process of constructions.

Total credit risk according to economic sectors

(NIS million)

	as at March 31, 2018*						
					Credit losses (2)		
	Total credit risk(1)	Of which: Credit execution rating (3)	Of which: Problematic credit risk (4)	Of which: Impaired credit risk	Expenses (income) for credit losses	Net accounting write-offs	Provision for Credit losses
In respect of borrowers in Israel							
Public-Commercial:							
Industry	10,162	9,594	269	141	(4)	3	134
Construction and Real estate - construction (5)	9,974	9,686	114	52	8	4	78
Construction and Real estate - real estate activities	5,614	5,376	94	91	-	-	24
Commerce	8,423	7,760	380	153	10	-	191
Financial services	12,179	12,135	23	1	(1)	-	23
Other business services	11,576	10,697	199	86	2	1	74
Total commercial (6)	57,928	55,248	1,079	524	15	8	524
Private individuals - housing loans	24,733	24,191	169	10	1	-	116
Private individuals - others	31,372	29,738	357	87	13	10	268
Total public - activity in Israel	114,033	109,177	1,605	621	29	18	908
Banks and Israeli government in Israel	8,169	8,169	-	-	-	-	-
Total activity in Israel	122,202	117,346	1,605	621	29	18	908
In respect of borrowers abroad							
Total public - activity abroad	2,154	2,145	8	8	(2)	(2)	2
Banks and foreign governments abroad	3,576	3,576	-	-	-	-	-
Total activity abroad	5,730	5,721	8	8	(2)	(2)	2
Total	127,932	123,067	1,613	629	27	16	910

* Reclassified.

NOTES:

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts (2), bonds, securities borrowed, assets in respect of 85,060, 10,233, 637, 1,189 and 30,813 million, respectively.

(2) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").

(3) Credit risk wherein the credit rating at the date of the report, congruent with the credit rating for the execution of new credit, according to the policy of the Bank.

(4) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which a provision based on the extent of arrears exists, and housing loans for which a provision based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(5) Including balance sheet credit risk amounting to NIS 302 million and non-utilized credit facilities amounting to NIS 198 million, in respect of loans extended to certain purchasing groups currently in the process of construction.

(6) The balance of commercial debts includes housing loans in the amount of NIS 2,772 million, combined in the transaction and collateral position of commercial borrowers or those extended to certain purchasing groups currently in the process of constructions.

							as at December 31, 2018
					Credit losses (2)		
	Total credit risk(1)	Of which: Credit execution rating (3)	Of which: Problematic credit risk (4)	Of which: Impaired credit risk	Expenses (income) for credit losses	Net accounting write-offs	Provision for Credit losses
In respect of borrowers in Israel							
Public-Commercial:							
Industry	10,253	9,576	458	136	34	(3)	178
Construction and Real estate - construction (5)	9,797	9,491	121	55	1	-	76
Construction and Real estate - real estate activities	5,750	5,565	76	73	-	1	21
Commerce	7,981	7,242	371	113	50	68	161
Financial services	14,452	14,282	21	1	1	-	25
Other business services	11,850	11,067	192	89	18	13	81
Total commercial (6)	60,083	57,223	1,239	467	104	79	542
Private individuals - housing loans	25,629	25,043	198	6	4	-	119
Private individuals - others	33,150	31,424	375	95	63	57	271
Total public - activity in Israel	118,862	113,690	1,812	568	171	136	932
Banks and Israeli government in Israel	10,726	10,725	-	-	-	-	-
Total activity in Israel	129,588	124,415	1,812	568	171	136	932
In respect of borrowers abroad							
Total public - activity abroad	1,633	1,625	8	8	(5)	(3)	-
Banks and foreign governments abroad	4,840	4,839	-	-	-	-	-
Total activity abroad	6,473	6,464	8	8	(5)	(3)	-
Total	136,061	130,879	1,820	576	166	133	932

NOTES:

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts (2), bonds, securities borrowed, assets in respect of 88,776, 12,368, 863, 1,399 and 32,655 million, respectively.

(2) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").

(3) Credit risk wherein the credit rating at the date of the report, congruent with the credit rating for the execution of new credit, according to the policy of the Bank.

(4) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which a provision based on the extent of arrears exists, and housing loans for which a provision based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(5) Including balance sheet credit risk amounting to NIS 309 million and non-utilized credit facilities amounting to NIS 95 million, in respect of loans extended to certain purchasing groups currently in the process of construction.

(6) The balance of commercial debts includes housing loans in the amount of NIS 2,875 million, combined in the transaction and collateral position of commercial borrowers or those extended to certain purchasing groups currently in the process of constructions.

Counter-party credit risk management

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

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

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

External credit rating	As of March 31, 2019			As of December 31, 2018		
	Balance-sheet credit risk(2)	Current Off-balance-sheet credit risk(3)	Aggregate credit risk	Balance-sheet credit risk(2)	Current Off-balance-sheet credit risk(3)	Aggregate credit risk
			NIS million			NIS million
AAA to AA-	**551**	**1**	**552**	596	1	597
A+ to A-	**1,482**	**23**	**1,505**	1,714	15	1,729
BBB+ to BBB-	**62**	**24**	**86**	44	12	56
BB+ to B-	**44**	**-**	**44**	51	-	51
Unrated	**-**	**2**	**2**	-	2	2
Total credit exposure to foreign financial institutions	**2,139**	**50**	**2,189**	2,405	30	2,435
Of which: Balance of problem loans (4)	**-**	**-**	**-**	-	-	-

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

GENERAL NOTES:
a. Credit positions and problematic loans balances are presented after deduction of the provision for credit losses.
b. The credit positions do not include exposures to financial institutions that have an explicit and full government guarantee, and do not include investments in asset-backed securities.
c. For further information regarding the composition of credit positions in respect of derivative instruments against banks and (local and foreign) dealers/brokers, see Note 10 to the financial statements. Off-balance-sheet credit risk in respect of transactions in derivative financial instruments which were conducted with foreign financial institutions as calculated for the purpose of borrower indebtedness restrictions totaled NIS 293 million on March 31, 2019 (December 31, 2018 - NIS 327 million).

The conservative risk appetite defined by the Board of Directors of the Bank is reflected by the distribution of the exposure of credit to financial institutions that are almost entirely graded at high ratings.

Most of the Group's present credit exposure (94%) is attributed to leading financial institutions in OECD countries, which are graded AAA to A-, and 25% of the total exposure is rated in the range between AAA to AA-.

The Group's balance-sheet credit exposure to foreign financial institutions includes an NIS 78 million investment in foreign currency bonds. All these bonds are investment grade bonds, and are rated A- or higher. The average duration of the portfolio is 1.6 years.
In addition, balance-sheet credit risk includes NIS 1.7 billion of deposits placed with foreign banks, mainly for a short period of a day to a week.

As of March 31, 2019 there is no country in which the credit exposure to sovereigns of the Bank group exceeding 15% of the Bank's equity capital, which amounted to NIS 1,655 million (as defined in Proper Conduct of Banking Business Regulation No. 202 concerning capital components).

Exposure to foreign countries

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

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

Main exposures to foreign countries**(1) (NIS million)

	As at March 31, 2019			As at December 31, 2018		
	Balance sheet exposure(2)	**Off Balance sheet exposure(2)(3)**	**Total**	**Balance sheet exposure(2)**	**Off Balance sheet exposure(2)(3)**	**Total**
United States	**3,579**	**88**	**3,667**	3,877	121	3,998
Other	**3,212**	**405**	**3,617**	3,583	453	4,036
Total exposure to foreign countries	**6,791**	**493**	**7,284**	7,460	574	8,034
Off which: Total exposure to PIGS countries (Portugal, Italy, Greece and Spain)	**26**	**19**	**45**	15	18	33
Off which: Total exposure to LDC countries	**187**	**52**	**239**	254	96	350
Off which: Total exposure to countries with liquidity problems	**4**	**1**	**5**	4	2	6

* Including countries, the exposure to which exceeds 1% of total assets of the Bank on consolidated basis or 20% of capital, the lower of them.

(1) On the basis of final risk, after effect of guarantees, liquid collateral and credit derivatives.

(2) Balance sheet and off-balance sheet credit risk are presented before the effect of provision for credit losses and before the effect of deductible collateral for the purpose of indebtedness of borrower and group of borrowers.

(3) Off-balance sheet credit risk as calculated for the purpose of the limits on indebtedness of borrower.

Risks in the Housing loans portfolio

Mortgage activity at the Bank Group

Exclusive of refinancing transactions, the Bank extended mortgages to the public at an overall amount of NIS 987 million in the first three months of 2019 compared with NIS 1,008 million in the same period last year, a decrease of 2.1%. These data include housing loans from the Bank's own sources (excluding credit from Treasury funds) in the amount of NIS 980 million compared with NIS 1,004 million in the same period last year, a decrease of 2.4%. Rollovers deriving from early repayments in the first three months of 2019, totaled NIS 77 million compared with NIS 86 million in the same period last year, a decrease of 10.5%.

Housing loans portfolio at the Bank alone amounted to NIS 24,645 million as of March 31, 2019 compared with NIS 23,041 million as of March 31, 2018, an increase of 7.0%.

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

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

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

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

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

Loan to value

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

The portfolio of housing loans extended from the Bank's sources on March 31, 2019 included 70% of credit granted at an LTV of up to 60% compared to 72% on March 31, 2018. 93% of total loans were granted at an LTV of up to 75%, compared with 95% in the same period last year.

Housing loan extensions from the Bank's sources in the first three months of 2019 included 70% of credit granted at an LTV of up to 60%, compared with 74% in the same period last year. 93% of the loan extensions were granted at an LTV of up to 75%, compared with 100% in the same period last year.

Debt-income ratio

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

The portfolio of housing loans extended from the Bank's sources as of March 31, 2019 included 85% of credit granted at a debt-income ratio of up to 35%, compared with 83% in the same period last year. 94% of the credit was extended to borrowers on the basis of a debt-income ratio of up to 50%, compared with 93% in the same period last year.

Housing loan extensions from the Bank's sources in the first three months of 2019 included 80% of credit granted at a debt-income ratio of up to 35% compared with 81% in the same period last year. 88% of the credit was extended to borrowers on the basis of a debt-income ratio of up to 50% compared to 89% in the same period last year.

Floating-rate loans

The portfolio of housing loans from the Bank's sources as of March 31, 2019 includes 62% of credit that was granted at floating-rate interest and amounts to NIS 15,255 million.

Housing loan extensions from the Bank's sources in the first three months of 2019 include NIS 356 million of credit granted at floating-rate interest of up to five years constituting 36% of extentions. An amount of NIS 224 million is floating-rate credit five years, constituting 23% of extentions .

Long-term loans

The portfolio of housing loans from the Bank's sources as of March 31, 2019 includes 60% of credit whose redemption period as of the report date is up to 20 years and amounts to NIS 14,873 million.

Housing loan extensions from the Bank's sources in the first three months of 2019 include 50% of credit whose redemption period as of the report date is up to 20 years and amounts to NIS 494 million.

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

	For residential purposes											Secured by a residential apartment	Total
	Unlinked segment				CPI-linked segment				Foreign-currency linked segment		Total		
	Fixed-rate		Floating rate		Fixed-rate		Floating rate		Floating rate				
	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Balance	Balance
	NIS million	%	NIS million	%	NIS million	%	NIS million	%	NIS million	%	NIS million	NIS million	NIS million
31.3.19	**6,055**	**25.5**	**10,563**	**44.4**	**3,150**	**13.3**	**3,963**	**16.7**	**30**	**0.1**	**23,761**	**884**	**24,645**
31.12.18	5,885	25.4	10,246	44.1	3,132	13.5	3,925	16.9	34	0.1	23,222	916	24,138

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

	Three months 2019	Three months 2018	2018	2017	2016	2015
Total housing loan extensions (NIS million)	**980**	1,004	4,149	3,756	4,337	4,796
Rate of change in housing loan extensions compared with previous year	**(2.4%)**	2.3%	10.5%	(13.4%)	(9.6%)	29.4%
Rate of expense (income) on credit losses relative to mortgages at the Bank's risk	**(0.03%)**	0.01%	-	(0.01%)	0.01%	0.01%
Cumulative rate of allowance for credit losses relative to mortgages at the Bank's risk	**0.50%**	0.50%	0.50%	0.51%	0.55%	0.60%

Private individuals credit risk (excluding housing loans)

General

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

The banks in the Group grant consumer credit to a variety of households, made up mainly of individuals in employee positions, part of whom in the education system and part in the defense system.

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

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

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

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

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

Teaching personnel loan tender are loans repaid by the direct withholding from salary. Most of the customers in the households segments and Otsar Hahayal branches are salaried employees, large part of them are former employees of the defense forces. Loans to Ministry of Defense personnel are granted within the framework of different tender, reflect the capitalization of rights for interim periods and are characterized by large amounts and long periods. Moreover, within the framework of the terms of the tender, the responsibility of the Ministry of Defense for the repayment of the credit in default cases is determined, thus reducing to a minimum the risk of credit granted to Ministry of Defense personnel within this framework.

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

77% of the balance of the credit risk to private individuals is in respect of customers with fixed income credited to the account in an amount exceeding NIS 10 thousands.

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

	As of			Change	
	31.3.19	**31.3.18**	**31.12.18**	**31.3.18**	**31.12.18**
			NIS million		%
Current account and utilized balances of credit cards	**5,088**	5,016	5,136	1.4	(0.9)
Other loans	**15,986**	14,935	15,646	7.0	2.2
Total balance credit risk	**21,074**	19,951	20,782	5.6	1.4
Unutilized current account credit lines	**4,200**	4,156	4,147	1.1	1.3
Unutilized credit lines in credit cards	**6,636**	6,328	6,658	4.9	(0.3)
Other off-balance credit risks	**1,361**	909	1,542	49.7	(11.7)
Total off-balance credit risk	**12,197**	11,393	12,347	7.1	(1.2)
Total credit risk	**33,271**	31,344	33,129	6.1	0.4
Average volume of credit, including overdrafts, credit cards and loans	**21,394**	19,568	20,228	9.3	5.8

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

	As of			Change	
	31.3.19	**31.3.18**	**31.12.18**	**31.3.18**	**31.12.18**
			NIS million		%
Impaired credit risks	**103**	87	95	18.4	8.4
Unimpaired problematic credit risk	**284**	270	280	5.2	1.4
Non-problematic credit risk	**32,884**	30,987	32,754	6.1	0.4
Total credit risk	**33,271**	31,344	33,129	6.1	0.4
Of which: unimpaired debts in arrears of 90 days or more	**29**	43	30	(32.6)	(3.3)
Balance of restructured debts out of the problematic credit	**90**	73	83	23.3	8.4
Expense rate of credit losses out of total credit to the public	**0.36%**	0.26%	0.30%		

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

				March 31, 2019
Fixed income credited to the account*	**Total financial assets** lower than NIS 50 K**	**Total financial assets** higher than NIS 50 K**	**Balance sheet Credit risk**	**Off-balance sheet credit risk**
NIS thousands				NIS million
No fixed income	320	27	347	158
Up to 10	4,449	584	5,033	2,558
From 10 to 20	4,859	1,392	6,251	3,423
Over 20	5,671	3,773	9,443	6,058
Total	15,299	5,776	21,074	12,197

				March 31, 2018
Fixed income credited to the account*	**Total financial assets** lower than NIS 50 K**	**Total financial assets** higher than NIS 50 K**	**Balance sheet Credit risk**	**Off-balance sheet credit risk**
NIS thousands				NIS million
No fixed income	372	39	411	202
Up to 10	4,051	471	4,522	2,255
From 10 to 20	4,730	1,247	5,977	3,421
Over 20	5,275	3,767	9,041	5,515
Total	14,428	5,524	19,951	11,393

				December 31, 2018
Fixed income credited to the account*	**Total financial assets** lower than NIS 50 K**	**Total financial assets** higher than NIS 50 K**	**Balance sheet Credit risk**	**Off-balance sheet credit risk**
NIS thousands				NIS million
No fixed income	313	28	341	169
Up to 10	4,209	522	4,731	2,462
From 10 to 20	4,886	1,271	6,158	3,478
Over 20	5,816	3,738	9,552	6,238
Total	15,224	5,559	20,782	12,347

* Fixed income credited to the account as defined in the reporting instruction to the Supervisor of Banks No.836 (which includes actual salary in average calculation of the last 12 months, total annuities, cash deposits and check deposits).

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

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

			Balance sheet credit risk
	March 31, 2019	**March 31, 2018**	**December 31, 2018**
Period to redemption			NIS million
Up to one year	**5,297**	5,571	5,678
From one to three years	**2,997**	2,866	2,974
From three to five years	**4,579**	4,310	4,457
From five to seven years	**2,827**	2,479	2,761
Over seven years	**5,374**	4,725	4,912
Total	**21,074**	19,951	20,782

Distribution by size of credit to the borrower*

	March 31, 2019			March 31, 2018			December 31, 2018		
Credit range to the borrower	**Balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk****	**Balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk****	**Balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk****
NIS thousands			NIS million			NIS million			NIS million
Up to 10	**254**	**609**	**863**	255	641	896	261	608	869
From 10 to 20	**385**	**768**	**1,153**	393	787	1,180	388	815	1,203
From 20 to 40	**1,094**	**1,748**	**2,842**	1,092	1,662	2,754	1,095	1,862	2,957
From 40 to 80	**2,977**	**2,929**	**5,906**	2,893	2,771	5,664	2,957	3,136	6,093
From 80 to 150	**5,669**	**2,894**	**8,563**	5,377	2,769	8,146	5,644	3,083	8,727
From 150 to 300	**6,540**	**2,081**	**8,621**	6,169	2,060	8,229	6,475	2,157	8,632
Over 300	**4,155**	**1,168**	**5,323**	3,772	703	4,475	3,962	686	4,648
Total	**21,074**	**12,197**	**33,271**	19,951	11,393	31,344	20,782	12,347	33,129

* Definition of borrower - in accordance with the definition included in Proper Conduct of Banking Business Directive No. 313.
** Total credit risk - excluding indebtedness in respect of derivatives and excluding residential loans.

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

	March 31, 2019	March 31, 2018	December 31, 2018
	Balance sheet credit risk	**Balance sheet credit risk**	**Balance sheet credit risk**
Type of credit	NIS million	NIS million	NIS million
Current account	**1,739**	1,678	1,787
Credit card	**3,349**	3,338	3,349
Credit carrying variable interest	**15,272**	14,322	15,068
Credit carrying fixed interest	**714**	613	578
Total	**21,074**	19,951	20,782

Collateral

	March 31, 2019			March 31, 2018			December 31, 2018		
Credit range to the borrower	**Balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**
			NIS million			NIS million			NIS million
Total credit secured by collateral*	**4,203**	**1,199**	**5,402**	3,802	828	4,630	4,059	1,381	5,440
* Of which:									
Non-liquid collateral	**3,484**	**957**	**4,441**	3,025	576	3,601	3,324	1,141	4,465
Liquid collateral	**719**	**242**	**961**	777	252	1,029	735	240	975

Description of operations

A. The underwriting of credit to private individuals

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

The banks in the Group offer credit to their customers in an initiated fashion on the basis of monitoring the risk characteristics of the borrower and identifying his needs. As part of the underwriting process, several criteria that form a decision supporting tool are examined, inter alia, general information regarding the customer (his identity, financial stability, conduct of his account and any additional information which might assist in the underwriting process), the object of the credit, the volume of activity of the customer with the Bank in relation to the pricing of the transaction, repayment ability, the total credit mix in the account and the modification thereof to the customer's needs. This process is based upon values of fairness and transparency towards the customer.

B. The manner of supervising and monitoring risk characteristics

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

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

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

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

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

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

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

Construction and real estate sector risks

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

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

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

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

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

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

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

		March 31,	December 31,
	2019	**2018**	**2018**
			NIS million
Overall credit risk(1)			
Projects not yet completed			
Of which: Open land	**2,002**	1,516	1,846
Property under construction	**4,527**	5,156	4,484
Completed building projects	**4,332**	4,179	4,253
Other(2)	**5,075**	4,873	4,964
Total	**15,936**	15,724	15,547

(1) Of which: credit secured by housing property in the amount of NIS 5,201 million, Credit secured by industrial property in the amount of NIS 503 million and credit secured by commercial property in the amount of 5,157 million (31.3.18 - NIS 5,282 million, NIS 420 million and NIS 5,149 million, 31.12.18 - NIS 5,638 million, NIS 430 million and NIS 4,515 million respectively).

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

Leveraged Finance

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

The criteria according to which the Bank defines credit as leveraged finance were set in a conservative manner.

As of March 31, 2019 total aggregate balances (balance sheet credit and off-balance sheet credit net of provisions for credit losses and deductible collateral) considered as leveraged finance, amounted to NIS 703 million, compared to NIS 1,425 million on March 31, 2018 and NIS 708 million at the end of 2018.

MARKET RISK

Market risk (financial risk) is the actual or future existence of a risk to a loss or impairment derived from a change in the economic value of financial instrument, certain portfolio or a group of portfolios and on an aggregate level, due to changes in prices, rates and margins in the financial markets. Including: interest rates, exchange rates, inflation, securities prices, volatility in these parameters.

Methodology for the estimation of exposure to market risk

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

Interest exposure

Interest risk is the actual or future existence of a risk to the Group's income or capital deriving from movement in interest rates, effecting the Bank's earnings by changes in net income, and the value of the Bank's assets, liabilities and off-balance-sheet instruments, since the fair value of future cash-flows (and in certain cases the cash-flows themselves) changes when the interest rates are changing. The main shapes of the interest risk to which the Bank is exposued to are: risk of repricing, yield curve risk, basis risk and option risk. Interest risks in respect of the entire portfolio are the dominant risks to which the Bank is exposed in all matters relating to their effect on the fair value of assets and liabilities and its effect on earnings. The Bank manages the interest risks in accordance with the Bank of Israel directive 333, a specific directive in the area of interest risk management with emphasis on the banking portfolio. The Bank implemented policy for the management of interest risk, in accordance with the regulations.

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

		% actual exposure
	March 31, 2019	**December 31, 2018**
Non-linked local currency(*)	**0.57**	0.06
CPI-linked local currency	**(2.09)**	(1.73)
Foreign currency and foreign-currency linked	**(0.42)**	(0.46)

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

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

Following are the details of the effect of changes in the interest rate on the fair value of the asset surplus in the segment, on net interest income and non-interest income:

1. Fair value of financial instruments of the Bank and consolidated subsidiaries, excluding non-financial items (before the effect of potential changes in the interest rates):

	March 31, 2019			March 31, 2018			December 31, 2018		
	NIS	Foreign currency	Total	NIS	Foreign currency	Total	NIS	Foreign currency	Total
			NIS million			NIS million			NIS million
Adjusted fair value, net (1)	**7,253**	**(41)**	**7,212**	5,746	66	5,812	6,577	(138)	6,439
Of which: banking portfolio	**6,897**	**129**	**7,026**	5,918	(617)	5,301	6,890	(1,064)	5,826

(1) Additional details as to the assumptions used to calculate the adjusted fair value of the financial instruments, see note 14A to the financial statements.

2. Effect of scenarios of changes in interest rate on the adjusted fair value(1) of the Bank and its consolidated subsidiaries:

	March 31, 2019			March 31, 2018			December 31, 2018		
	NIS(5)	Foreign currency	Total	NIS(5)	Foreign currency	Total	NIS(5)	Foreign currency	Total
			NIS million			NIS million			NIS million
Parallel changes									
Parallel increase of 1%	**(90)**	**(21)**	**(111)**	72	(32)	40	(81)	(25)	(106)
Of which: banking portfolio	**(91)**	**(19)**	**(110)**	82	(32)	50	(83)	(15)	(98)
Parallel decrease of 1%	**120**	**12**	**132**	33	28	61	109	21	130
Of which: banking portfolio	**123**	**8**	**131**	20	26	46	110	14	124
Non-parallel changes									
Steeping(2)	**(233)**	**14**	**(219)**	(132)	3	(129)	(190)	1	(189)
Flattening(3)	**152**	**13**	**165**	172	(12)	160	152	(11)	141
Interest increase in short term	**93**	**3**	**96**	176	(23)	153	57	(17)	40
Interest decrease in short term	**(108)**	**28**	**(80)**	(86)	21	(65)	(35)	5	(30)

The table presents the adjusted net fair value of all financial instruments, with the assumption that the change in interest occurred in all interest rate and in all linkage segments

3. Effect of scenarios of changes in interest rate on interest income, net and non-interest income:

	March 31, 2019			March 31, 2018			December 31, 2018		
	Interest income	Non-interest income	Total(4)	Interest income	Non-interest income	Total(4)	Interest income	Non-interest income	Total(4)
			NIS million			NIS million			NIS million
Parallel changes									
Parallel increase of 1%	**293**	**11**	**304**	297	6	303	290	10	300
Of which: banking portfolio	**292**	**-**	**292**	295	1	296	288	-	288
Parallel decrease of 1%	**(557)**	**(11)**	**(568)**	(507)	(6)	(513)	(545)	(10)	(555)
Of which: banking portfolio	**(557)**	**-**	**(557)**	(506)	(1)	(507)	(543)	-	(543)

(1) Fair value of financial instruments, excluding non-financial items and after the effect of liability in respect to employees' rights and attribution of demand deposits to periods.
(2) Steeping- decline of interest in the short term and increase in interest in the long term.
(3) Flattening- Increase in interest in short term and decline in interest in the long term.
(4) After offsetting effects.
(5) In scenarios of interest decline in the linked to the CPI segment the calculation is made on the basis of negative interest environment.
(6) In interest decline scenarios reflecting negative interest, the effect of the scenario on interest income, net was calculated according to deferent assumptions.

Basis exposure

Actual basis exposure

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

	Exposure of Active Capital		% of active capital	
	As of March 31, 2019	As of December 31, 2018	As of March 31, 2019	As of December 31, 2018
Non-linked local currency	**4,946**	5,504	**76**	87
CPI-linked local currency	**1,640**	1,045	**26**	16
Foreign currency and f-C linked	**(97)**	(199)	**(2)**	(3)

Sensitivity of capital to changes in the exchange rate

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

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

Set out below is the sensitivity of the Bank’s capital to theoretical changes in the exchange rates of the principal currencies as of March 31, 2019 (NIS millions).

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

Percentage change in exchange rate	Dollar	Euro
5% decrease	**4**	**6**
10% decrease	**14**	**12**
5% increase	**-**	**4**
10% increase	**4**	**13**

NOTES:
(1) This effect is calculated in accordance with the expected change in the economic positions managed in different currencies, given the scenarios that were determined by the Supervisor of Banks.
(2) An increase implies a strengthening of the currency in question against the shekel.
(3) The data express the effects of changes in exchange rates on fair value after the tax effect.
(4) Changes in the exchange rates of other currencies have a negligible effect on the Bank’s earnings.

Sensitivity of capital to changes in the CPI

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

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

Set out below is the sensitivity of the Bank's capital to theoretical changes in the CPI as of March 31, 2019 (NIS millions). The measurement refers to the effect of changes on capital and includes activity in balance-sheet and off-balance-sheet instruments:

Percentage change in CPI	
3% decrease	**(67)**
3% increase	**51**

Management of risks in derivative financial instruments

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

	As of December 31,			As of March 31,		
	Derivatives not for trading	**Derivatives for trading**	**Total**	**Derivatives not for trading**	**Derivatives for trading**	**Total**
Hedging transactions:						
Interest rate contracts	**3,136**	**-**	**3,136**	3,209	-	3,209
Other transactions:						
Interest rate contracts	**1,037**	**21,405**	**22,442**	900	25,001	25,901
Foreign currency contracts	**13,664**	**49,081**	**62,745**	8,851	51,250	60,101
Contracts on shares, share indexes, commodities and other contracts	**-**	**38,134**	**38,134**	37	45,290	45,327
Total derivative financial instruments	**17,837**	**108,620**	**126,457**	12,997	121,541	134,538

LIQUIDITY RISK

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

Liquidity coverage ratio of the Bank Group for the three months ended March 31, 2019 is 132%, compared with 122% for the three months ended December 31, 2018. The minimal Liquidity Coverage Ratio required by the Supervisor of Banks is 100%.

For information regarding liquidity coverage ratio (LCR) see note 8 to the financial statements.

Liquidity position and the composition of assets and liabilities

The liquidity assets at the group, which includes cash, deposits at the Bank of Israel, deposits at banks and liquid securities, amounted to NIS 44.7 billion on March 31, 2019, compared with NIS 42.9 billion at the end of 2018. Of this amount, the balance of cash, deposits with the Bank of Israel and deposits with banks accounted for NIS 31.9 billion, and NIS 12.8 billion were invested in securities, principally Israel government bonds.

The ratio of deposits from the public to credit to the public on March 31, 2019 amounted to 133.6% compared with 132.5% on December 31, 2018.

At the end of March 2019, deposits from the public, bonds and subordinated notes totaled NIS 119.6 billion compared with NIS 116.7 billion at the end of 2018.

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

The Bank has sources in a short-medium contructual duration, which the Bank anticipates that they will be held for a long time.The uses are both for short term and medium- long term.

In general the exposures in the foreign currency segment are low (see the chapter on market risk).

The CPI exposure of the Bank's group amounted to NIS 1,640 million as of March 31, 2019.

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

	As of March 31, 2019	As of December 31, 2018
		NIS million
1	**2,462**	2,017
2	**2,366**	1,758
3	**2,282**	1,672

OTHER RISKS

For information regarding other risks, among others, the operational risks and the way they are managed (including business continuity, data security and cyber events), compliance risk, anti money laundering and terror finance risk (including cross border risks), finance risk, legal risk, reputation risk and strategy risk- see the chapter on risk review in the annual financial statements of the Bank for 2018 and the risk report on the Bank's website.

DISCUSSION OF RISK FACTORS

For discussion in risk factors see the chapter of risk review in the annual financial statements of the Bank for 2018.
No change occurred in the level of risk factors during the first quarter of 2019 compared with the table published in the annual financial statements for 2018, except for:

- Cyber and information security risk- is part of the operational risk. However, in this quarter it was presented separated from the operational risk, and was assessed "medium", in light of its importance and the multiplicity of events in Israel and in the world in general, and in the banking system in particular, and in light the expanding of the digital activity.
- The assessment of the labor relation risk was lowered to "medium", and the risk is presented as part of the operational risk, in light of the improvement in the labor relations.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES, CONTROLS AND PROCEDURES

General

The estimates and assessments regarding critical accounting policy matters were made in accordance with the best knowledge and judgment of the professional entities engaged in their preparation, and that they were applied in an appropriate manner in the financial statements of the Bank.
A review of the significant areas, which in the opinion of the Bank Management consist critical accounting policies, are detailed in the Director's report for the annaual financial statements for 2018 and no change has occurred.

CONTROLS AND PROCEDURES

ASSESSMENT OF CONTROLS AND PROCEDURES CONCERNING DISCLOSURE IN THE FINANCIAL REPORT

In accordance with the Supervisor of Banks' directives for reporting to the public and the guidelines of Proper Conduct of Banking Business Regulation 309 that was issued in September 2008, the Bank has for a number of years maintained controls and procedures regarding disclosure, and has deployed an internal control network for financial reporting which was first applied in the financial report for the year ending December 31, 2008.
The directives, which concern Management's responsibility on the internal control of financial reporting and the external auditor's statement of opinion regarding the audit of the internal control of financial reporting, were compiled in accordance with the provisions of Sections 302 and 404 of the law known as the Sarbanes-Oxley Act of 2002 that was enacted in the USA, and directives and guidelines that were determined in the USA, including those determined by the PCAOB.
Enclosed with the financial statements are declarations by the CEO of the Bank and the Chief Accountant, each one separately, concerning the assessment of controls and procedures in the matter of disclosure.
The Management of the Bank, in cooperation with the CEO of the Bank and the Chief Accountant, assessed for March 31, 2019 the effectiveness of the controls and procedures in the matter of disclosure by the Bank. On the basis of this assessment, the CEO of the Bank and the Chief Accountant concluded that as at the end of this report period, the controls and procedures in the matter of disclosure by the Bank were effective for the purpose of recording, processing, summarizing and reporting the information which the Bank is required to disclose in the report in accordance with the Supervisor of Banks' directives for reporting to the public, and at the time determined in those directives.
During the first quarter ending on March 31, 2019, no change occurred in the Bank's internal control over financial reporting which exerted a material effect, or which can reasonably be expected to exert a material effect on the Bank's internal control over financial reporting.

Irit Izakson
Chairperson of the Board of Directors

Smadar Barber-Tsadik
Chief Executive Officer

Nachman Nitzan
Executive Vice President,
Chief Accountant

Tel Aviv, May 28, 2019

CERTIFICATION

I, Smadar Barber-Tsadik, declare that:

1. I have reviewed the quarterly report of the First International Bank of Israel Ltd. (hereinafter: “the Bank”) for the quarter ended March 31, 2019 (hereinafter: “the Report”).
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included on the Report correctly reflect the financial condition, results of operations, changes in shareholders' equity, and cash flows of the Bank, in all material aspects, for the dates and periods covered in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure (1) and internal control of financial reporting (1). furthermore:
   - A. We have established such controls and procedures or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report.
   - B. We have established such internal controls of financial reporting or caused such internal control of financial reporting to be established under our supervision, intended to provide a reasonable degree of confidence with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks.
   - C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure, as at the end of the period covered in the Report, based on our assessment; and
   - D. We have disclosed in the Report any change in the internal control of financial reporting at the Bank that occurred during the fourth quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditor, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control of financial reporting;
   - A. Any significant deficiencies or material weaknesses in the establishment or application of internal control of financial reporting that can reasonably be expected to impair the Bank's ability to record, process, summarize, or report financial information; and
   - B. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have significant role in the internal control of financial reporting at the Bank.

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

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

Tel-Aviv, May 28, 2019

Smadar Barber-Tsadik
Chief Executive Officer

CERTIFICATION

I, Nachman Nitzan, declare that:

1. I have reviewed the quarterly report of the First International Bank of Israel Ltd. (hereinafter: "the Bank") for the quarter ended March 31, 2019 (hereinafter: "the Report").
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included on the Report correctly reflect the financial condition, results of operations, changes in shareholders' equity, and cash flows of the Bank, in all material aspects, for the dates and periods covered in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure (1) and internal control of financial reporting (1). furthermore:
   - A. We have established such controls and procedures or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report.
   - B. We have established such internal controls of financial reporting or caused such internal control of financial reporting to be established under our supervision, intended to provide a reasonable degree of confidence with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks.
   - C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure, as at the end of the period covered in the Report, based on our assessment; and
   - D. We have disclosed in the Report any change in the internal control of financial reporting at the Bank that occurred during the fourth quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditor, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control of financial reporting;
   - A. Any significant deficiencies or material weaknesses in the establishment or application of internal control of financial reporting that can reasonably be expected to impair the Bank's ability to record, process, summarize, or report financial information; and
   - B. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have significant role in the internal control of financial reporting at the Bank.

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

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

Tel-Aviv, May 28, 2019

Nachman Nitzan
Executive Vice President,
Chief Accountant

FINANCIAL STATMENTS

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006, Israel
+972 3 684 8000

AUDITORS' REVIEW TO THE SHAREHOLDERS' OF THE FIRST INTERNATIONAL BANK OF ISRAEL LTD.

Introduction

We have reviewed the accompanying financial information of The First International Bank of Israel Ltd. and its subsidiaries (hereinafter- "the Bank"), comprising of the condensed consolidated interim balance sheet as of March 31, 2019 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three months period then ended. The Board of directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for interim accounting and in accordance with the directives and guidelines of the Supervisor of Banks. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel and a review standard applied in the review of banking institutions according to the directives and guidelines of the Supervisor of Banks. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respect, in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for interim accounting and in accordance with the directives and guidelines of the Supervisor of Banks.

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

Somekh Chaikin
Certified Public Accountants (Isr.)

May 28, 2019

CONSOLIDATED STATEMENT OF INCOME

(NIS million)

	NOTE	For the three months ended March 31 2019 (unaudited)	For the three months ended March 31 2018 (unaudited)	For the year ended December 31 2018 (audited)
Interest Income	2	**727**	654	3,001
Interest Expenses	2	**92**	70	515
Interest Income, net		**635**	584	2,486
Expenses from credit losses	6,12	**36**	27	166
Net Interest Income after expenses from credit losses		**599**	557	2,320
Non- Interest Income				
Non-Interest Financing income	3	**46**	40	231
Fees		**320**	338	1,325
Other income		**1**	23	81
Total non- Interest income		**367**	401	1,637
Operating and other expenses				
Salaries and related expenses		**402**	446	1,696
Maintenance and depreciation of premises and equipment		**92**	96	376
Amortizations and impairment of intangible assets		**23**	23	91
Other expenses		**156**	172	656
Total operating and other expenses		**673**	737	2,819
Profit before taxes		**293**	221	1,138
Provision for taxes on profit		**111**	82	408
Profit after taxes		**182**	139	730
The bank's share in profit of equity-basis investee, after taxes		**10**	6	37
Net profit:				
Before attribution to non-controlling interests		**192**	145	767
Attributed to non-controlling interests		**(9)**	(8)	(34)
Attributed to shareholders of the Bank		**183**	137	733
				NIS
Primary profit per share attributed to the shareholders of the Bank				
Net profit per share of NIS 0.05 par value		**1.82**	1.37	7.31

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

Irit Izakson
Chairperson of the Board of Directors

Smadar Barber-Tsadik
Chief Executive Officer

Nachman Nitzan
Executive Vice President,
Chief Accountant

Tel-Aviv, 28 May, 2019

STATEMENT OF COMPREHENSIVE INCOME(1)

(NIS million)

	For the three months ended March 31		For the year ended December 31
	2019	**2018**	**2018**
	(unaudited)	(unaudited)	(audited)
Net profit before attribution to non-controlling interests	**192**	145	767
Net profit attributed to non-controlling interests	**(9)**	(8)	(34)
Net profit attributed to the shareholders of the Bank	**183**	137	733
Other comprehensive income (loss) before taxes:			
Adjustments of available for sale bonds (2018 - securities) to fair value, net	**66**	(42)	(102)
Adjustments of liabilities in respect of employee benefits(2)	**(8)**	7	37
Other comprehensive income (loss) before taxes	**58**	(35)	(65)
Related tax effect	**(20)**	11	22
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	**38**	(24)	(43)
Less other comprehensive income (loss) attributed to non-controlling interests	**1**	-	(4)
Other comprehensive income (loss) attributed to the shareholders of the Bank, after taxes	**37**	(24)	(39)
Comprehensive income before attribution to non-controlling interests	**230**	121	724
Comprehensive income attributed to non-controlling interests	**(10)**	(8)	(30)
Comprehensive income attributed to the shareholders of the Bank	**220**	113	694

(1) See note 4.

(2) Mostly reflects adjustments in respect of actuarial assessments as of the end of the period regarding defined benefits pension plans, of amounts recorded in the past in other comprehensive profit.

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

CONSOLIDATED BALANCE SHEET
(NIS million)

	NOTE	31.3.19 (unaudited)	31.3.18 (unaudited)	31.12.18 (audited)
Assets				
Cash and deposits with banks		**34,108**	34,481	31,303
Securities[4]	5	**11,338**	10,471	12,595
Securities which were borrowed		**664**	637	863
Credit to the public	6,12	**87,246**	82,745	85,160
Provision for Credit losses	6,12	**(893)**	(841)	(868)
Credit to the public, net		**86,353**	81,904	84,292
Credit to the government		**676**	677	700
Investments in investee company		**617**	571	606
Premises and equipment		**1,011**	1,046	1,023
Intangible assets		**231**	228	239
Assets in respect of derivative instruments	10	**941**	1,189	1,399
Other assets[2]		**1,044**	1,397	1,100
Assets held for sale		**-**	35	-
Total assets		**136,983**	132,636	134,120
Liabilities and Shareholders' Equity				
Deposits from the public	7	**115,349**	111,913	111,697
Deposits from banks		**1,064**	359	1,150
Deposits from the Government		**779**	749	982
Bonds and subordinated capital notes		**4,270**	4,980	4,989
Liabilities in respect of derivative instruments	10	**1,021**	967	1,294
Other liabilities[1][3]		**5,962**	5,598	5,595
Total liabilities		**128,445**	124,566	125,707
Capital attributed to the shareholders of the Bank		**8,208**	7,772	8,093
Non-controlling interests		**330**	298	320
Total equity		**8,538**	8,070	8,413
Total liabilities and shareholders' equity		**136,983**	132,636	134,120

(1) Of which: provision for credit losses in respect of off-balance sheet credit instruments in the amount of NIS 62 million and NIS 69 million and NIS 64 million at 31.3.19, 31.3.18 and 31.12.18, respectively.
(2) Of which: other assets measured at fair value in the amount of NIS 312 million and NIS 298 million and NIS 426 million at 31.3.19, 31.3.18 and 31.12.18, respectively.
(3) Of which: other liabilities measured at fair value in the amount of NIS 536 million and NIS 603 million and NIS 586 million at 31.3.19, 31.3.18 and 31.12.18, respectively.
(4) Regarding amounts measured at fair value, see note 14B.

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

STATEMENT OF CHANGES IN EQUITY

(NIS million)

	For the three months ended March 31, 2019 (unaudited)					
	Share capital and premium (1)	Accumulated other comprehensive income (loss)	Retained earnings (2)	Total	Non-controlling interests	Total equity
Balance as at December 31, 2018 (audited)	**927**	**(159)**	**7,325**	**8,093**	**320**	**8,413**
Cumulative effect of the initial implementation of US accepted accounting principals(3)	**-**	**8**	**(8)**	**-**	**-**	**-**
Adjusted balance as at January 1, 2019 after the initial implementation	**927**	**(151)**	**7,317**	**8,093**	**320**	**8,413**
Net profit for the period	**-**	**-**	**183**	**183**	**9**	**192**
Dividend	**-**	**-**	**(105)**	**(105)**	**-**	**(105)**
Other comprehensive income, net after tax effect	**-**	**37**	**-**	**37**	**1**	**38**
Balance as at March 31, 2019	**927**	**(114)**	**7,395**	**8,208**	**330**	**8,538**

	For the three months ended March 31, 2018 (unaudited)					
	Share capital and premium (1)	Accumulated other comprehensive loss	Retained earnings (2)	Total	Non-controlling interests	Total equity
Balance as at December 31, 2017 (audited)	927	(120)	6,949	7,756	290	8,046
Net profit for the period	-	-	137	137	8	145
Dividend	-	-	(95)	(95)	-	(95)
Other comprehensive loss, after tax effect	-	(24)	-	(24)	-	(24)
Temporary equity – non-controlling interest.	-	-	(2)	(2)	-	(2)
Balance as at March 31, 2018	927	(144)	6,989	7,772	298	8,070

	For the year ended December 31, 2018 (audited)					
	Share capital and premium (1)	Accumulated other comprehensive loss	Retained earnings (2)	Total	Non-controlling interests	Total equity
Balance as at December 31, 2017	927	(120)	6,949	7,756	290	8,046
Net profit for the year	-	-	733	733	34	767
Dividend	-	-	(355)	(355)	-	(355)
Other comprehensive loss, after tax effect	-	(39)	-	(39)	(4)	(43)
Temporary equity – non-controlling interest.	-	-	(2)	(2)	-	(2)
Balance as at December 31, 2018	927	(159)	7,325	8,093	320	8,413

(1) Including share premium of NIS 313 million (as from 1992 onwards).

(2) Including an amount of NIS 2,391 million which cannot be distributed as dividend.

(3) Cumulative effect of the initial implementation regarding financial instruments of US accepted accounting standards at banks in respect of financial instruments (ASU 2016-01). See also Note 1.D.(1).

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

STATEMENT OF CASH FLOWS

(NIS million)

	For the three months ended March 31,		For the year ended December 31
	2019	2018	2018
	(unaudited)	(unaudited)	(audited)
Cash flows from operating activities:			
Net profit for the period	**192**	145	767
Adjustments to reconcile cash provided by operating activities:			
The Bank's share in profit of equity-basis investee	**(10)**	(6)	(37)
Depreciation of premises and equipment	**18**	20	75
Amortization of intangible assets	**23**	23	91
Gain on sale of premises and equipment	**-**	(19)	(69)
Expenses from credit losses	**36**	27	166
Gain from sale of available for sale bonds and not for trading shares (2018- available for sale securities)	**(8)**	(3)	(77)
Realized and non-realized loss (gains) from adjustment to fair value of trading securities	**3**	3	(1)
Realized and non-realized gain from adjustment to fair value of not for trading shares	**(6)**	-	-
Deferred taxes, net	**(6)**	(40)	(24)
Defined benefit of pension and severance pay plans	**37**	39	157
Adjustments of exchange rate differences	**(189)**	121	439
Net change in current assets:			
Trading securities	**308**	148	(6)
Other assets	**61**	(159)	109
Assets in respect of derivative instruments	**403**	172	(74)
Net change in current liabilities:			
Other liabilities	**1,206**	405	1,243
Liabilities in respect of derivative instruments	**(273)**	(351)	(24)
Accumulation differences included in investing and financing activities	**(46)**	14	122
Net cash from operating activity	**1,749**	539	2,857
Cash flows from (for) investing activity			
Change in Deposits in banks	**(44)**	(30)	146
Change in Securities borrowed	**199**	176	(50)
Change in Credit to the public	**(2,060)**	(1,884)	(3,897)
Change in credit to the public held for sale	**-**	2	-
Change in Credit to the government	**24**	(2)	(25)
Purchase of available for sale bonds and not for trading shares (2018- available for sale securities)	**(1,376)**	(2,260)	(7,530)
Proceeds from redemption of bonds held to maturity	**77**	218	305
Proceeds from sale of available for sale bonds and not for trading shares (2018- available for sale securities)	**808**	203	1,009
Redemption of available for sale securities	**1,349**	1,501	4,232
Acquisition of premises and equipment	**(6)**	(6)	(47)
Proceeds of sale of premises, equipment and other assets	**-**	21	113
Investment in intangible assets	**(15)**	(16)	(95)
Net cash for investing activity	**(1,044)**	(2,077)	(5,839)

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

STATEMENT OF CASH FLOWS (CONT'D)

(NIS million)

	For the three months ended March 31,		For the year ended December 31
	2019	**2018**	**2018**
	(unaudited)	(unaudited)	(audited)
Cash flows from (for) financing activity			
Change in Deposits from the public	**3,789**	(1,972)	(3,923)
Change in Deposits from banks	**(53)**	(791)	(39)
Change in Deposits from the government	**(830)**	195	53
Additional acquisition of shares in consolidated company	**-**	(340)	(340)
Issue of bonds and subordinate debt notes	**-**	-	252
Redemption of bonds and subordinate debt notes	**(662)**	(245)	(559)
Dividend paid to shareholders	**(105)**	(95)	(355)
Net cash from (for) financing activity	**2,139**	(3,248)	(4,911)
Increase (decrease) in cash	**2,844**	(4,786)	(7,893)
Cash balances at beginning of period	**31,126**	38,863	38,863
Effect of changes in exchange rates on cash balances	**(83)**	51	156
Cash balances at end of period	**33,887**	34,128	31,126
Interest and taxes paid and/or received:			
Interest received	**841**	705	3,137
Interest paid	**(178)**	(184)	(657)
Dividends received	**2**	5	19
Income tax paid	**(72)**	(108)	(487)
Income tax received	**42**	57	70

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - PRINCIPAL ACCOUNTING POLICIES

A. General

The first International bank of Israel Ltd. (hereinafter - "the Bank") is an Israeli corporation. The condensed consolidated interim financial statements of the Bank as of March 31, 2019 include those of the Bank and of its subsidiary companies and an affiliated company (hereinafter - "the Group"). The condensed consolidated interim financial statements are prepared in accordance with accounting principles accepted in Israel (Israeli GAAP) as well as in accordance with directives and guidelines of the Supervisor of Banks, and do not include all the information required in full annual financial statements. The condensed statements should be read together with the financial statements as of and for the year ended December 31, 2018 (hereinafter - "the Annual Report").

The accounting policy of the Group applied in these condensed consolidated interim financial statements, is the same policy applied in the Annual Report, with the exception of that stated in subsection "D" below.

In accordance with the guidelines of the Supervisor of Banks, publication of condensed financial statements is made on the basis of consolidated financial statements only. The condensed consolidated interim financial statements were approved for publication by the Board of Directors on May 28, 2019.

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

B. Financial reporting principles

The financial statements of the Bank are prepared in accordance with accepted accounting principles in Israel (Israeli GAAP) and in accordance with the public reporting instructions and guidelines of the Supervisor of Banks. In most matters, these directives are based on accounting principles accepted by US banks. In other matters, which are less material, the directives are based on international financial reporting standards (IFRS) and on accepted accounting principles in Israel (Israeli GAAP). Where the international financial reporting standards (IFRS) allow several alternatives, or do not include specific reference to a certain situation, these instructions set specific implementation guidelines, based mainly on accounting principles accepted by US banks.

C. Use of estimates

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

Upon the formation of accounting estimates used in the preparation of the financial statements of the Bank, Management is required to make assumptions as to circumstances and events which involve significant uncertainty. The assessments as well as the assumptions supporting them are consistent with those used in the formation of the annual financial statements.

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

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

Starting with the periods beginning on January 1, 2019, the Bank implements new accounting standards and instructions regarding the matters detailed below:

1. Reporting by banks and credit card companies in Israel in accordance with US accepted accounting principles in the matter of derivative instruments and hedging, classification and measurement of financial instruments, cash flow statement and additional issues.
2. Amendment No. 2017-08 of the Codification of the FASB regarding debtors – irrecoverable loans and other costs.

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

1. Reporting by banks and credit card companies in Israel in accordance with US accepted accounting principles in the matter of derivative instruments and hedging, classification and measurement of financial instriments, cash flow statement and additional issues

A circular letter was published on August 30, 2018, in the matter of reporting by banks and credit card companies in Israel in accordance with US accepted accounting principles in the matter of derivative instruments and hedging, classification and measurement of financial instruments, cash flow statement and additional issues.

Derivative instruments and hedging

The US Accounting Standards Board (FASB) published in August 2017 ASU 2017-12, which updates Item 815 of the Codification with respect to derivative instruments and hedge accounting. The update includes changes in the guidelines regarding the measurement and purpose of qualified hedge relations, and regarding the presentation requirements respecting hedge results. The update enlarges the ability of banking corporations to hedge risk components, and creates a match between the recognition and presentation of the hedge instruments and the hedged items in the financial statements. The update cancels the need to relate separately to the "noneffective part" in hedge relations, in cases where amounts are eliminated from the assessment of the hedge effectiveness. The update allows deferral of these amounts to other comprehensive profit, though when recognized in profit and loss, they will be presented in the same line presenting the effect of the hedged instrument. Furthermore, the amendments included in the update simplify the implementation of the accounting guidelines in the matter of hedging by easing the assessment of hedge effectiveness and the documentation requirements. The amendments to the instructions adopt in the public reporting instructions the accounting principles accepted by US banks, as determined in the update. Moreover, the disclosure format was modified to agree with that presented in financial statements of US banks.
The Bank has adopted the new instructions as from January 1, 2019. The new instructions had no effect upon the financial statements save for the changes in disclosure required in the financial statements.

Classification and measurement of financial instruments

Included in the said letter are amendments to instructions that adopt in the public reporting instructions the accounting principles accepted by US banks, as stated in update ASU 2016-01 and in update ASU 2018-03. Most of the changes in the public reporting instructions in the matter of classification and measurement of financial instruments relate to: changes in the fair value of yet unrealized investments in available-for-sale shares that have an available fair value, which are to be recognized on a current basis in the statement of profit and loss instead of in other comprehensive profit; investments in shares that do not have an available fair value, which at present are presented at cost (net of impairment), would, as a general rule, be presented at cost (net of impairment) adjusted for changes in observable prices of shares of that same issuer.
The new instructions have been applied since January 1, 2019, by way of retroactive application recognizing the cumulative effect thereof in the opening balance of retained earnings at date of initial application. The instructions

regarding investment in capital instruments having no available fair value, have been applied by way of "from now onwards". Changes in disclosure required in the financial statements have been applied as from now onwards.
Implementation of the new instructions regarding classification and measurement of financial instruments as from January 1, 2019, resulted in the reclassification of unrealized net losses in the amount of NIS 8 million, previously recognized in other comprehensive profit, from cumulative other comprehensive profit to retained earnings.

2. Amendment No. 2017-08 to the Codification of the FASB in the matter of debtors – irrecoverable loans and other costs

The FASB published in March 2017 an update regarding the amortization of the premium on purchased debt instruments having an early repayment option, comprising an amendment to Item 310-20 of the Codification in the matter of debtors – nonrecoverable commissions and other costs (hereinafter – "the amendment).
In accordance with the amendment, the period of amortization of the premium on debt instruments having an early repayment option by the issuer, shall be shortened and calculated in accordance with the earliest repayment date.
The instruction of the amendment have been applied as from January 1, 2019, by way of retroactive application, with the cumulative effect thereof being recognized in the opening balance of retained earnings at date of initial application.
Application of the instructions had no material effect on the financial statements.

E. New accounting standards and new directives of the Supervisor of Banks in the period prior to the implementation thereof

(1) Reporting by banking corporations and credit card companies in Israel in accordance with US accepted accounting principles in the matter of leasing

The Supervisor of Banks issued a letter on July 1, 2018, in the matter of reporting by banking corporations and credit card companies in Israel in accordance with US accepted accounting principles with respect to leasing, which adopts the accounting principles accepted by US banks in the matter of leasing, and inter alia, the presentation, measurement and disclosure rules determined by Item 842 of the Codification with respect to "leasing".
A summary of the principal changes expected in the accounting treatment in financial statements of banking corporations following the application of Item 842 of the Codification, as stated in the letter states, inter alia, as follows: banking corporations that lease assets for periods exceeding twelve months shall recognize them in the balance sheet, even where the lease is classified as an operating lease; in the case of an operating lease, a "right of use asset" shall be recorded in the balance sheet reflecting the right of a bank to use the leased asset, while on the other hand a liability in respect of an operating lease will be recorded; moreover, a sale and lease-back transaction of an asset made by a bank may in certain cases be considered as an accounting sale transaction, subject to the existence of certain terms detailed in Item 842. This standard is to be applied as from January 1, 2020 and thereafter.
The Bank plans to apply the new instructions in the matter of leasing by way of retroactive application, recognizing the cumulative effect thereof in retained earning at date of initial application. Moreover, the Bank intends to adopt at the initial date of application, certain reliefs granted by the transitional instructions, including maintaining the assumptions regarding the existence of a lease and its classification as an operating or a financial lease, as well as maintaining the assumptions regarding qualification for the capitalization of primary direct expenses, which had been determined in the period prior to the date of initial application, in accordance with the provisions of the present standards.
It has further been clarified that the Bank is required to include quantitative disclosure as to the expected effect of updating the accounting treatment of leases, no later than the financial report for the second quarter of 2019.
The Bank is preparing for the implementation of the letter.
In addition, the letter includes a transitional instruction guiding a banking corporation not to include the exchange differences in respect of available-for-sale bonds as part of the adjustments to fair value of such bonds, but to continue

treating them as required by the public reporting instructions prior to the adoption of Item 830 of the Codification as regards "foreign currency", and this until January 1, 2021.

(2) Adoption of updates to accounting principles accepted by US banks – provisions for credit losses and additional instructions

The Supervisor of Banks issued a letter on March 28, 2018, in the matter of "Adoption of updates to accounting principles accepted by US banks – provisions for credit losses and additional instructions". The letter requires the implementation of the accounting principles accepted by US banks with respect to provisions for credit losses, financial instruments, including derivatives and hedge activity as well as leases. The initial implementation shall be in accordance with the transitional instructions determined in the US rules.

The letter adopts the US accepted accounting principles in the matter of provisions for expected credit losses, published within the framework of updating standard ASU 2016-13. The aim of the new rules is to improve the quality of reporting the financial condition of a banking corporation by means of advance recognition of provisions for credit losses, in a manner that strengthens the counter-recurrence in the conduct of the provisions for credit losses, supporting a quicker response by the banks to the deterioration in the quality of credit to borrowers, and the reinforcement of the bond between credit risk management and the way in which such risks are being reflected in financial statements, while basing it on existing methods and processes.

The principal changes expected in the accounting treatment in financial statements of banking corporations, following the implementation of these rules, are, inter alia, as follows: the provision for credit losses shall be calculated according to the loss expected over the life of the credit, instead of assessing the loss caused but not yet identified; in assessing the provision for credit losses, significant use should be made of forward -looking information reflecting reasonable forecasts as to future economic events; providing wider disclosure of the impact of the date of extending the credit on the quality of credit of the credit portfolio; changes in the manner of recording impairment of bonds classified as available-for-sale; also, the new rules for the calculation of the provision for credit loss shall apply to credit (including residential loans), bonds held to redemption and to exposure to certain off-balance sheet credit.

The standard is to be applied as from January 1, 2021 and thereafter. As a general rule, the new rules are to be applied by way of recognition in retained earnings of the cumulative effect of the rules at date of their initial application.

The Bank is preparing for the implementation of the letter. Preparations made by the Bank include, inter alia, mapping of the new instructions and their possible implications on the Bank; review of the practices applying at present to the management of credit risk and to the assessment of the provision for credit losses, in order to identify processes that might be used for the purpose of the application of the new rules. Identification of the challenges and the ways to be used in order to face such challenges, as well as examination of the changes required for the modification of the models used for assessing credit losses.

(3) Amendment of Standard ASU 2018-14 in the matter of changes in disclosure requirements regarding defined benefit plans

On August 28, 2018, the US Financial Accounting Standard Board ("FASB") published Amendment ASU 2018-14 regarding the disclosure framework - changes in disclosure requirements regarding defined benefit plans, comprising an update of Item 715-20 of the Codification in the matter of compensation-retirement benefits-defined benefits plans-general (hereinafter - "the Amendment"). The aim of the Amendment is to improve the effectiveness of disclosure provided in notes to financial statements, as well as reduce the costs involved in the preparation of the required notes.

The changes contained in the Amendment abolish disclosures that are useless, clarify specific disclosure requirements, as well as add disclosure requirements identified as relevant.

The principal changes are, inter alia, as follows: it is no longer required to present an assessment of the amounts included in other comprehensive income expected to be removed from other cumulative comprehensive income in the following year and charged to profit and loss as an expense; it is no longer required to present the amount of the future annual benefits that are covered by insurance contracts, including pension contracts, as well as any significant transactions between the entity, or related parties and the plan; a new requirement is added for the provision of details regarding the reasons for material profits or losses related to changes during the period in the liability regarding defined benefit; also clarified are the disclosure requirements in respect of entities having two or more plans.

The provisions of the Amendment apply to public entities in the United States starting with annual periods beginning after December 15, 2020. Earlier adoption of the rules is permitted also for interim periods. Upon initial application it is required to implement the changes by way of retroactive application.

The Bank is studying the effect of the new rules upon its financial statements.

(4) Update ASU 2018-13 of the standard in the matter of changes in the disclosure requirements regarding the measurement of fair value

The US Financial Accounting Standard Board ("FASB") published on August 28, 2018, ASU 2018-13 in the matter of disclosure framework – changes in the disclosure requirements regarding the measurement of fair value, comprising an update of Item 820 of the Codification regarding measurement of fair value (hereinafter – "the update"). The purpose of the update is to improve the effectiveness of disclosure in notes to financial statements as well as reduce the cost involved in the preparation of the required notes.

The amendments included in the update, eliminate disclosure that is useless, clarify specific disclosure requirements and add disclosure requirements found as relevant.

The principal amendments are, inter alia, as follows: the requirement for presentation of the amounts and reasons for the transfers between levels 1 and 2 of the fair value hierarchy has been eliminated; also eliminated is the requirement for information regarding the policy of the entity determining when transfers between levels are considered as effected; also eliminated is the requirement to present a description of the process of measurement of the fair value at level 3; within the framework of the requirement to provide a verbal description of the sensitivity to changes in unobservable data for recurring measurements of fair value classified at level 3 in the fair value scale; the term "sensitivity" has been changed to "uncertainty" in order to emphasize that the required information relates to uncertainty; a requirement has been added for the presentation of the unrealized changes in other comprehensive income during the reported period in respect of assets held at the end of that period.

The instructions contained in the update apply to US public entities beginning with annual periods beginning after December 15, 2019. Prior adoption is permissible also for interim periods. Upon initial application it is required to apply the instructions by way of retroactive application, with the exception of the additional disclosure requirements and the updated disclosure requirement regarding uncertainty in the measurement of fair value at level 3, the application thereof would be from now onwards.

The Bank is studying the effect of the new instructions on its financial statements.

NOTE 2 - INTEREST INCOME AND EXPENSES

(NIS million)

		For the three months ended March 31 (unaudited)	
		2019	**2018**
A.	**Interest income (expenses)** [1]		
	From credit to the public	**653**	611
	From credit to the Government	**(2)**	-
	From deposits with banks	**7**	3
	From deposits with Bank of Israel and cash	**16**	7
	From bonds[2]	**53**	33
	Total interest income	**727**	654
B.	**Interest expenses**		
	On deposits from the public	**74**	47
	On deposits from the Government	**1**	1
	On deposits from banks	**1**	1
	On bonds and subordinated capital notes	**15**	20
	On other liabilities	**1**	1
	Total interest expenses	**92**	70
	Total interest income, net	**635**	584
C.	**Details on net effect of hedging derivative instruments on interest income and expenses**		
	Interest expenses [3]	**(1)**	(1)
D.	**Details of interest income from bonds on cumulative basis**		
	Held to maturity	**7**	6
	Available for sale	**46**	26
	Held for trading	**-**	1
	Total included in interest income	**53**	33

(1) Including effect of hedging relation (2018- including effective component in hedging relations).

(2) Including Interest income on mortgage-backed bond (MBS) in the amount of NIS 2 million (31.3.2018 - NIS 2 million).

(3) Details of effect of hedging derivative instruments on subsection A.

NOTE 3 - NON-INTEREST FINANCING INCOME

(NIS million)

	For the three months ended March 31 (unaudited)	
	2019	**2018**
A. Non-interest financing income (expenses) in respect of non-trading activities		
1. From activity in derivative instruments[1]		
Total from activity in derivative instruments	**(153)**	153
2. From investments in bonds		
Profits from sale of bonds available for sale[2]	**7**	3
Total from investment in bonds	**7**	3
3. Net exchange differences	**189**	(121)
4. Gains from investment in shares		
Gains from sale of shares not for trading (2018- available for sale shares)	**1**	-
Dividend from shares not for trading (2018- available for sale shares)	**-**	5
Unrealized gains[3]	**6**	-
Total from investment in shares	**7**	5
Total non-interest financing income in respect of non-trading activities	**50**	40

(1) Excluding effect of hedging relation (2018- excluding effective component in hedging relations).
(2) Reclassified from cumulative other comprehensive income.
(3) Including profits and losses from measurement according to fair value of shares in respect of which fair value exist and adjustment of shares in respect of which fair value does not exist.

	For the three months ended March 31 (unaudited)	
	2019	**2018**
B. Net income (expenses) in respect of non-interest financing activity for trading[3]		
Net income (expenses) in respect of other derivative instruments	**(1)**	3
Net realized and unrealized losses from adjustments to fair value of bonds held for trading[1]	**(3)**	(2)
Net realized and unrealized losses from adjustments to fair value of shares held for trading[2]	**-**	(1)
Total non-interest financing income (expenses) from trading activities[4]	**(4)**	-
Total non-interest financing income	**46**	40
Details on non-interest financing income (expenses) in respect of trading activities, by risk exposure		
Interest rate exposure	**5**	(2)
Exposure to shares	**2**	2
Foreign currency exposure	**(11)**	-
Total	**(4)**	-

(1) Of which losses in respect of trading bonds held at balance sheet date in the amount of NIS 1 million for the three months ended March 31, 2019 (31.3.18 - losses in the amount of NIS 1 million).
(2) No gains/losses exist in respect of trading shares on hand at balance sheet date.
(3) Including exchange differences arising from trading activity.
(4) See Note 2 for details on income from investment in trading bonds.
(5) See Note 2 for disclosure of the net effect of hedge derivative instruments on interest income and expenses.

NOTE 4 - CUMULATIVE OTHER COMPREHENSIVE INCOME (LOSS)

(NIS million)

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

	Other comprehensive income (loss) before attribution to non-controlling interests				
	Adjustment in respect of reporting available for sale bonds (2018 - securities) in fair value	Adjustments in respect of employee benefits	Total	Other comprehensive income (loss) attributed to non-controlling interests	Other comprehensive income (loss) attributed to the Bank's shareholders
Balance as of December 31, 2018 (audited)	**(22)**	**(150)**	**(172)**	**(13)**	**(159)**
Cumulative effect in respect of initial application of US accepted accounting standards*	**8**	**-**	**8**	**-**	**8**
Adjusted balance as of January 1, 2019 after initial application	**(14)**	**(150)**	**(164)**	**(13)**	**(151)**
Net change during the period	**43**	**(5)**	**38**	**1**	**37**
Balance as of March 31, 2019 (unaudited)	**29**	**(155)**	**(126)**	**(12)**	**(114)**
Balance as of December 31, 2017 (audited)	45	(174)	(129)	(9)	(120)
Net change during the period	(28)	4	(24)	-	(24)
Balance as of March 31, 2018 (unaudited)	17	(170)	(153)	(9)	(144)
Balance as of December 31, 2017 (audited)	45	(174)	(129)	(9)	(120)
Net change during 2018	(67)	24	(43)	(4)	(39)
Balance as of December 31, 2018 (audited)	(22)	(150)	(172)	(13)	(159)

* Cumulative effect in respect of initial application of US accepted accounting standards for banks in respect of financial instruments (ASU 2016-01), see also note 1.D.(1).

NOTE 4 - CUMULATIVE OTHER COMPREHENSIVE INCOME (LOSS) (CONT'D)

(NIS million)

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

	For the three months ended March 31 (unaudited)						For the year ended December 31, 2018 (audited)		
	2019			2018					
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Changes in the components of cumulative other comprehensive income (loss) before attribution to minority interests									
Adjustments in respect of presentation of available for sale bonds according to fair value (2018- securities)									
Unrealized net gains (losses) from adjustments to fair value	**126**	**(43)**	**83**	(63)	22	(41)	(92)	32	(60)
Losses (Gains) in respect of available for sale Bonds (2018 - securities) reclassified to income statement (1)	**(60)**	**20**	**(40)**	21	(8)	13	(10)	3	(7)
Net change during the period	**66**	**(23)**	**43**	(42)	14	(28)	(102)	35	(67)
Employee benefits:									
Net actuarial loss for the period	**(30)**	**10**	**(20)**	-	-	-	(10)	3	(7)
Net losses reclassified to the statement of profit and loss (2)	**22**	**(7)**	**15**	7	(3)	4	47	(16)	31
Net change during the period	**(8)**	**3**	**(5)**	7	(3)	4	37	(13)	24
Changes in the components of cumulative other comprehensive income (loss) attributed to minority interests									
Total change during the period	**2**	**(1)**	**1**	-	-	-	(6)	2	(4)
Changes in the components of cumulative other comprehensive income (loss) attributed to the Bank's shareholders									
Total change during the period	**56**	**(19)**	**37**	(35)	11	(24)	(59)	20	(39)

(1) The amount before tax is reported in the statement of income in the item non-interest financing income. For additional details see note 3.

(2) The amount before tax is reported in the statement of income in the item employee benefits, see note 7A.

NOTE 5 - SECURITIES

(NIS million)

	March 31, 2019 (unaudited)				
A. Debentures held to maturity	**Book value**	**Amortized cost**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value (1)**
Of Israeli government	1,427	1,427	41	-	1,468
Of financial institutions in Israel	52	52	1	-	53
Of others in Israel	249	249	31	-	280
Total debentures held to maturity	1,728	1,728	73	-	1,801

B. Bonds available for sale	**Book value**	**Amortized cost**	**Cumulative other comprehensive income**		**Fair value (1)**
			Profits	**Losses**	
Of Israeli government	5,201	5,159	45	3	5,201
Of foreign governments	1,992	1,992	-	-	1,992
Of financial institutions in Israel	49	50	-	1	49
Of foreign financial institutions	(6)483	483	-	-	483
Mortgage backed (MBS) securities	(5)425	427	3	5	425
Of others in Israel	(7)411	407	6	2	411
Of foreign others	599	597	2	-	599
Total bonds available for sale	9,160	9,115	(2)56	(2)11	9,160

C. Investment in not for trading shares	**Book value**	**cost**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value (1) (4)**
Not for trading shares	223	217	(3)6	(3)-	223
Of which: shares, the fair value of which is not ready determinable	136	136	-	-	136
Total not for trading securities	9,383	9,332	62	11	9,383

D. Securities held for trading	**Book value**	**Amortized cost (in shares cost)**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value (1)**
Bonds -					
Of Israeli government	174	174	-	-	174
Of financial institutions in Israel	35	35	-	-	35
Of foreign financial institutions	4	4	-	-	4
Of others in Israel	8	8	-	-	8
Total trading debentures and bonds	221	221	-	-	221
Shares -	6	6	-	-	6
Total trading securities	227	227	(3)-	(3)-	227
Total securities	11,338	11,287	135	11	11,411

Notes: Details of results of investment activity in bonds and in shares - see note 2 and note 3.

(1) The fair value of securities is generally based on market price, which does not necessarily reflect the price obtained in the event of sale of securities in large volumes.

(2) Included in equity in the item "Adjustments in respect of presentation of available-for-sale securities at fair value".

(3) Recorded in the Statement of Income.

(4) Including investments in shares and private equity funds having no available fair value presented at cost of NIS 135 million (of which - investments in private equity funds in amount of NIS 123 million).

(5) Securities issued by GNMA and guaranteed by US government in the amount of NIS 422 million and securities issued by FNMA & FHLMC in amount of NIS 3 million.

(6) Including securities owned by a government in the amount of NIS 243 million securities owned by a government and have specified government guarantee in the amount of NIS 166 million.

(7) Including impaired bonds accruing interest income in amount of NIS 5 million.

NOTE 5 - SECURITIES (CON'T)
(NIS million)

	March 31, 2018 (unaudited)				
A. Debentures held to maturity	Book value	Amortized cost	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1)
Of Israeli government	947	947	37	-	984
Of financial institutions in Israel	35	35	3	-	38
Of others in Israel	257	257	34	-	291
Total debentures held to maturity	1,239	1,239	74	-	1,313

			Cumulative other comprehensive income		
B. Securities available for sale	Book value	Amortized cost (in shares cost)	Profits	Losses	Fair value (1)
Bonds -					
Of Israeli government	5,094	5,052	46	4	5,094
Of foreign governments	1,347	1,349	-	2	1,347
Of financial institutions in Israel	93	94	-	1	93
Of foreign financial institutions	(6)461	462	-	1	461
Mortgage backed (MBS) securities	(5)297	307	-	10	297
Of others in Israel	(7)379	377	5	3	379
Of foreign others	948	950	1	3	948
Total debentures and bonds available for sale	8,619	8,591	52	24	8,619
Shares -	(4)232	234	3	5	232
Total securities available for sale	8,851	8,825	(2)55	(2)29	8,851

C. Securities held for trading	Book value	Amortized cost (in shares cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1)
Bonds -					
Of Israeli government	265	265	-	-	265
Of foreign financial institutions	63	63	-	-	63
Of others in Israel	47	47	-	-	47
Total trading debentures and bonds	375	375	-	-	375
Shares -	6	6	-	-	6
Total trading securities	381	381	(3)-	(3)-	381
Total securities	10,471	10,445	129	29	10,545

Notes: Details of results of investment activity in bonds and in shares - see note 2 and note 3.

(1) The fair value of securities is generally based on market price, which does not necessarily reflect the price obtained in the event of sale of securities in large volumes.

(2) Included in equity in the item "Adjustments in respect of presentation of available-for-sale securities at fair value".

(3) Recorded in the Statement of Income.

(4) Including investments in shares and private equity funds having no available fair value presented at cost of NIS 125 million (of which - investments in private equity funds in amount of NIS 105 million).

(5) Securities issued by GNMA and guaranteed by US government in the amount of NIS 293 million and securities issued by FNMA & FHLMC in amount of NIS 4 million.

(6) Including securities owned and have specified government guarantee in the amount of NIS 399 million.

(7) Including impaired bonds accruing interest income in amount of NIS 5 million.

NOTE 5 - SECURITIES (CON'T)

(NIS million)

	December 31, 2018 (audited)				
A. Debentures held to maturity	**Book value**	**Amortized cost**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value (1)**
Of Israeli government	1,495	1,495	11	4	1,502
Of financial institutions in Israel	52	52	-	-	52
Of others in Israel	252	252	25	-	277
Total debentures held to maturity	1,799	1,799	36	4	1,831

			Cumulative other comprehensive income		
B. Securities available for sale	**Book value**	**Amortized cost (in shares cost)**	**Profits**	**Losses**	**Fair value (1)**
Bonds -					
Of Israeli government	5,778	5,785	23	30	5,778
Of foreign governments	2,050	2,051	-	1	2,050
Of financial institutions in Israel	49	52	-	3	49
Of foreign financial institutions	(6)597	597	-	-	597
Mortgage backed (MBS) securities	(5)436	442	2	8	436
Of others in Israel	(7)348	351	3	6	348
Of foreign others	777	777	-	-	777
Total debentures and bonds available for sale	10,035	10,055	28	48	10,035
Shares -	(4)224	237	1	14	224
Total securities available for sale	10,259	10,292	(2)29	(2)62	10,259

C. Securities held for trading	**Book value**	**Amortized cost (in shares cost)**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value (1)**
Bonds -					
Of Israeli government	419	419	-	-	419
Of financial institutions in Israel	58	58	-	-	58
Of foreign financial institutions	33	34	-	1	33
Of others in Israel	2	2	-	-	2
Of foreign others	22	22	-	-	22
Total trading debentures and bonds	534	535	-	1	534
Shares -	3	3	-	-	3
Total trading securities	537	538	(3)-	(3)1	537
Total securities	12,595	12,629	65	67	12,627

Notes: Details of results of investment activity in bonds and in shares - see note 2 and note 3.

(1) The fair value of securities is generally based on market price, which does not necessarily reflect the price obtained in the event of sale of securities in large volumes.

(2) Included in equity in the item "Adjustments in respect of presentation of available-for-sale securities at fair value".

(3) Recorded in the Statement of Income.

(4) Including investments in shares and private equity funds having no available fair value presented at cost of NIS 135 million. Of which: investments in private equity funds in amount of NIS 123 million.

(5) Securities issued by GNMA and guaranteed by US government in the amount of NIS 432 million and securities issued by FNMA & FHLMC in amount of NIS 4 million.

(6) Including securities owned by government in the amount of NIS 74 million and securities owned and have specified government guarantee in the amount of NIS 457 million.

(7) Including impaired bonds accruing interest income in amount of NIS 5 million.

NOTE 5 - SECURITIES (CON'T)
(NIS million)

E. Fair value and unrealized losses, according to period and rate of impairment of bonds held to maturity and of available-for-sale securities being in an unrealized loss position

	March 31, 2019 (unaudited)							
	Less than 12 months(1)				12 months and above(2)			
	Fair Value	Unrealized losses 0-20%(3)	20-40%(4)	Total	Fair Value	Unrealized losses 0-20%(3)	20-40%(4)	Total
Available for-sale Bonds								
Of Israeli government	**604**	**3**	**-**	**3**	**-**	**-**	**-**	**-**
Of Israeli financial institutions	**-**	**-**	**-**	**-**	**20**	**1**	**-**	**1**
Mortgage backed (MBS) securities	**-**	**-**	**-**	**-**	**252**	**5**	**-**	**5**
Of others in Israel	**44**	**1**	**-**	**1**	**68**	**1**	**-**	**1**
Total securities available for sale	**648**	**4**	**-**	**4**	**340**	**7**	**-**	**7**

	March 31, 2018 (unaudited)							
	Less than 12 months				12 months and above			
	Fair Value	Unrealized losses 0-20%(3)	20-40%(4)	Total	Fair Value	Unrealized losses 0-20%(3)	20-40%(4)	Total
Available for-sale Securities								
Bonds								
Of Israeli government	566	4	-	4	-	-	-	-
Of foreign government	1,347	2	-	2	-	-	-	-
Of Israeli financial institutions	21	1	-	1	-	-	-	-
Of foreign financial institutions	303	1	-	1	-	-	-	-
Mortgage backed (MBS) securities	62	1	-	1	233	9	-	9
Of others in Israel	161	3	-	3	-	-	-	-
Of foreign others	785	3	-	3	-	-	-	-
Shares	35	1	3	4	24	1	-	1
Total securities available for sale	3,280	16	3	19	257	10	-	10

	December 31, 2018 (audited)							
	Less than 12 months(1)				12 months and above(2)			
	Fair Value	Unrealized losses 0-20%(3)	20-40%(4)	Total	Fair Value	Unrealized losses 0-20%(3)	20-40%(4)	Total
Bonds of Israeli Government held for redemption	619	4	-	4	-	-	-	-
Available for-sale Securities								
Bonds								
Of Israeli government	3,342	30	-	30	-	-	-	-
Of foreign governments	1,759	1	-	1	-	-	-	-
Of foreign financial institutions	21	1	-	1	19	2	-	2
Mortgage backed (MBS) securities	-	-	-	-	259	8	-	8
Of foreign others	222	5	-	5	12	1	-	1
Shares	62	5	5	10	21	4	-	4
Total securities available for sale	5,406	42	5	47	311	15	-	15

(1) Investments in an unrealized loss position less than 12 months.
(2) Investments in an unrealized loss position more than 12 months.
(3) Investments which their unrealized loss constitutes up to 20% of their amortized cost.
(4) Investments which their unrealized loss constitutes between 20% to 40% of their amortized cost.
(5) Amortized cost of bonds held for redemption amounts to NIS 623 million.

NOTE 6 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES

(NIS million)

1. Debts(1), credit to the public and provision for credit losses

	March 31, 2019 (unaudited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Recorded balance:						
Debts examined on an individual basis	**36,260**	**-**	**316**	**36,576**	**2,897**	**39,473**
Debts examined on a collective basis	**5,444**	**24,468**	**20,758**	**50,670**	**-**	**50,670**
Of which: according to the extent of arrears	**297**	**24,459**	**-**	**24,756**	**-**	**24,756**
Total	**41,704**	**24,468**	**21,074**	**87,246**	**2,897**	**90,143**
Of which:						
Debts restructuring	**164**	**-**	**90**	**254**	**-**	**254**
Other impaired debts	**297**	**10**	**13**	**320**	**-**	**320**
Total impaired debts	**461**	**10**	**103**	**574**	**-**	**574**
Debts in arrears of 90 days or more	**28**	**169**	**29**	**226**	**-**	**226**
Other problematic debts	**563**	**19**	**238**	**820**	**-**	**820**
Total problematic debts	**1,052**	**198**	**370**	**1,620**	**-**	**1,620**
Provision for credit losses:						
In respect of debts examined on an individual basis	**443**	**-**	**33**	**476**	**-**	**476**
In respect of debts examined on a collective basis	**67**	**118**	**232**	**417**	**-**	**417**
Of which: according to the extent of arrears	**2**	**118**	**-**	**120**	**-**	**120**
Total	**510**	**118**	**265**	**893**	**-**	**893**
Of which: in respect of impaired debts	**140**	**-**	**25**	**165**	**-**	**165**

	March 31, 2018 (unaudited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Recorded balance:						
Debts examined on an individual basis	34,419	-	237	34,656	2,315	36,971
Debts examined on a collective basis	5,224	23,151	19,714	48,089	-	48,089
Of which: according to the extent of arrears	302	23,137	-	23,439	-	23,439
Total	39,643	23,151	19,951	82,745	2,315	85,060
Of which:						
Debts restructuring	189	-	73	262	-	262
Other impaired debts	234	10	13	257	-	257
Total impaired debts	423	10	86	519	-	519
Debts in arrears of 90 days or more	34	154	43	231	-	231
Other problematic debts	428	5	208	641	-	641
Total problematic debts	885	169	337	1,391	-	1,391
Provision for credit losses:						
In respect of debts examined on an individual basis	412	-	32	444	-	444
In respect of debts examined on a collective basis	58	116	223	397	-	397
Of which: according to the extent of arrears	1	116	-	117	-	117
Total	470	116	255	841	-	841
Of which: in respect of impaired debts	141	-	25	166	-	166

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

NOTE 6 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

	December 31, 2018 (audited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Recorded balance:						
Debts examined on an individual basis	34,961	-	306	35,267	3,616	38,883
Debts examined on a collective basis	5,098	24,319	20,476	49,893	-	49,893
Of which: according to the extent of arrears	309	24,312	-	24,621	-	24,621
Total	40,059	24,319	20,782	85,160	3,616	88,776
Of which:						
Debts restructuring	150	-	83	233	-	233
Other impaired debts	217	6	11	234	-	234
Total impaired debts	367	6	94	467	-	467
Debts in arrears of 90 days or more	28	185	30	243	-	243
Other problematic debts	652	7	237	896	-	896
Total problematic debts	1,047	198	361	1,606	-	1,606
Provision for credit losses:						
In respect of debts examined on an individual basis	420	-	30	450	-	450
In respect of debts examined on a collective basis	69	119	230	418	-	418
Of which: according to the extent of arrears	2	119	-	121	-	121
Total	489	119	260	868	-	868
Of which: in respect of impaired debts	121	-	23	144	-	144

NOTE 6 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

2. Change in provision for credit losses

	For the three months ended March 31, 2019 (unaudited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of the year (audited)	**489**	**119**	**260**	**868**	**-**	**868**
Expenses in respect of credit losses	**20**	**(1)**	**19**	**38**	**-**	**38**
Accounting write-offs	**(54)**	**(1)**	**(28)**	**(83)**	**-**	**(83)**
Collection of debts written off in accounting in previous years	**55**	**1**	**14**	**70**	**-**	**70**
Net accounting write-offs	**1**	**-**	**(14)**	**(13)**	**-**	**(13)**
Provision for credit losses at end of the period	**510**	**118**	**265**	**893**	**-**	**893**
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of the year (audited)	**53**	**-**	**11**	**64**	**-**	**64**
Decrease in the provision	**(2)**	**-**	**-**	**(2)**	**-**	**(2)**
Provision in respect of off-balance sheet credit instruments at end of the period	**51**	**-**	**11**	**62**	**-**	**62**
Total provision for credit losses - debts and off-balance sheet credit instruments	**561**	**118**	**276**	**955**	**-**	**955**

	For the three months ended March 31, 2018 (unaudited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of the year (audited)	471	115	252	838	-	838
Expenses in respect of credit losses	5	1	13	19	-	19
Accounting write-offs	(37)	-	(29)	(66)	-	(66)
Collection of debts written off in accounting in previous years	31	-	19	50	-	50
Net accounting write-offs	(6)	-	(10)	(16)	-	(16)
Provision for credit losses at end of the period	470	116	255	841	-	841
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of the year (audited)	48	-	13	61	-	61
Increase in the provision	8	-	-	8	-	8
Provision in respect of off-balance sheet credit instruments at end of the period	56	-	13	69	-	69
Total provision for credit losses - debts and off-balance sheet credit instruments	526	116	268	910	-	910

NOTE 7 - DEPOSITS FROM THE PUBLIC
(NIS million)

A. Classes of deposits by place of origin and type of depositor In Israel

	March 31, 2019	March 31, 2018	December 31, 2018
		(unaudited)	(audited)
Demand			
- Non- bearing interest	**46,716**	45,757	48,901
- Bearing interest	**7,477**	6,161	5,217
Total demand	**54,193**	51,918	54,118
Fixed-term	**61,156**	59,995	57,579
Total deposits in Israel*	**115,349**	111,913	111,697
*Of which:			
Deposits of private individuals	**58,375**	55,095	58,329
Deposits of institutional entities	**25,210**	25,993	21,187
Deposits of corporates and others	**31,764**	30,825	32,181

B. Deposits of the public by size

	March 31, 2019	March 31, 2018	December 31, 2018
Maximum amount of deposit		(unaudited)	(audited)
Up to 1	**45,381**	42,991	44,859
From 1 to 10	**27,165**	25,722	27,755
From 10 to 100	**14,311**	14,442	14,498
From 100 to 500	**6,582**	5,291	6,221
Over 500	**21,910**	23,467	18,364
Total	**115,349**	111,913	111,697

NOTE 7A - EMPLOTYEE RIGHTS

(NIS million)

A. SIGNIFICANT BENEFITS

1. Pension and Severance Pay

A part of the Group's liabilities for severance pay and pensions is covered by current deposits, in the name of the employees, with provident and pension funds or by the purchase of insurance policies. The liability for severance pay and pension included in the balance sheet represents the portion of the liabilities which is not covered by deposits and/or insurance policies, as stated above. This liability is measured on an actuarial basis, using actuarial and other assumptions, including the discounting rate, the rate of increase in wages, increased severance pay, mortality and retirement rates. Additional provision for severance pay in respect of additional efficiency measures (such as structural changes) were recorded as an expense on non-actuarial basis.

2. Staff Long-Service Awards

Employees of consolidated subsidiaries are entitled to a special seniority award ("jubilee award") after having completed a defined period of employment at the Group. This liability is measured on an actuarial basis using actuarial and other assumptions, including the discounting rate, the rate of increase in salaries, mortality and retirements rates.

3. Benefit in respect of nonutilized sick leave

Employees of the Bank are entitled to a benefit in respect of nonutilized accumulated sick leave. Towards the retirement date, this benefit is convertible into vacation days to be actually utilized, based on a determined convertion formula. This liability is measured on an actuarial basis using actuarial and other assumptions, including the discounting rate, the rate of increase in salaries, mortality and retirements rates.

4. Other post-employment benefits

Certain senior officers are entitled upon their retirement for a non-competition award.

5. Other post-retirement benefits

Employees of the group are entitled to certain post-retirement benefits. These benefits include: holiday gifts, newspapers, vacations, etc. Employees of a consolidated subsidiary are entiltled to an award upon reaching retirement age in respect of unutilized sick leave. These liabilities are measured on an actuarial basis using actuarial and other assumptions, including the discounting rate, mortality and retirement rates.

6. Vacation pay

Employees of the Bank are entitled by law and by labor agreements to paid annual vacation. The provision for vacation pay is calculated on the basis of the most recent salary amounts of employees and the vacation days accumulated in their favor, with the addition of the required related expenses.

B. See note 33.F. to the annual financial statements for 2018 as to the employment agreements of the Bank's CEO and the Chairman of the Board of Directors.

NOTE 7A - EMPLOTYEE RIGHTS (CON'T)
(NIS million)

C. Defined benefits severance pay and pension schemes

(1) Liabilities and financing situation

		For the three months ended March 31,		For the year ended December 31,
		2019	2018	2018
			(unaudited)	(audited)
				(NIS million)
A.	**Change in liability regarding anticipated benefits**			
	Liability regarding anticipated benefit at beginning of period	**1,109**	1,166	1,166
	Cost of service	**5**	6	24
	Cost of interest	**8**	9	34
	Actuarial (profit) loss	**37**	(3)	(11)
	Benefits paid	**(119)**	(18)	(182)
	Other, including loss from reduction and structural changes	**6**	24	78
	Liability regarding anticipated benefit at end of period	**1,046**	1,184	1,109
	Liability regarding accumulated benefit at end of period	**988**	1,058	1,051
B.	**Change in fair value of assets of the scheme and the financing situation of the scheme**			
	Fair value of assets of the scheme at beginning of period	**655**	732	732
	Actual return on assets of the scheme	**24**	-	(8)
	Deposits in the scheme by the Bank	**3**	3	10
	Benefits paid	**(124)**	(15)	(79)
	Fair value of assets of the scheme at end of period	**558**	720	655
	Financing situation - net liability recognized at end of period*	**488**	464	454

* Included in the item "other liabilities".

		March 31,	March 31,	December 31,
		2019	2018	2018
			(unaudited)	(audited)
				(NIS million)
C.	**Amounts recognized in the consolidated balance sheet**			
	Amounts recognized in the item "other liabilities"	**488**	464	454
	Net liability recognized at end of period	**488**	464	454
D.	**Amounts recognized in other cumulative comprehensive loss, before the tax effect**			
	Actuarial loss, net	**175**	183	181
	Liability net, in respect of transition*	**-**	22	-
	Closing balance in other cumulative comprehensive profit	**175**	205	181

* Actuarial loss deriving from the gap between the discounting rates as of January 1, 2013 deducted by actuarial profits deriving from current changes in discounting rates offsetting the said loss.

NOTE 7A - EMPLOTYEE RIGHTS (CON'T)

(NIS million)

(2) Expense for the period

		For the three months ended March 31,		For the year ended December 31,
		2019	**2018**	**2018**
			(unaudited)	(audited)
				(NIS million)
A.	**Cost components of net benefit recognized in profit and loss**			
	Cost of service	**5**	6	24
	Cost of interest	**8**	9	34
	Anticipated return on assets of the scheme	**(3)**	(5)	(21)
	Amortization of non-recognized amounts:			
	Net actuarial loss	**4**	3	10
	Other, including loss from reduction or dismissal and structural changes	**24**	27	113
	Capitalization of software costs	**(1)**	(1)	(3)
	Total cost of benefits, net	**37**	39	157
B.	**Changes in assets of the scheme and in liability for benefits recognized in other comprehensive (profit) loss, before the tax effect**			
	Net actuarial loss for the period	**16**	2	18
	Amortization of actuarial loss	**(4)**	(3)	(10)
	Dismissal	**(18)**	(3)	(35)
	Total recognized in other comprehensive profit	**(6)**	(4)	(27)
	Total net cost of benefit	**37**	39	157
	Total net cost of benefit for the period recognized in other comprehensive profit	**31**	35	130

		(NIS million)
C.	**Assessment of amounts included in other cumulative comprehensive profit expected to be amortized from other cumulative comprehensive profit to the statement of profit and loss as an expense in 2019, before the tax effect**	
	Net actuarial loss	**60**
	Total amount expected to be amortized from other cumulative comprehensive profit	**60**

NOTE 7A - EMPLOTYEE RIGHTS (CON'T)
(NIS million)

(3) Assumptions

A. Assumptions on the basis of weighted average used to determine the liability in respect of the benefits and for the measurement of the net cost of benefits

		March 31,	December 31,
	2019	2018	2018
		(unaudited)	(audited)
			percent
1. Principal guidelines used to determine the liability for benefits			
Discounting rate	**1.3**	1.3	1.9

	For the three months ended March 31,		For the year ended December 31,
	2019	2018	2018
		(unaudited)	(audited)
			percent
2. Principal guidelines used to measure the net cost of benefits for the period			
Discounting rate	**1.9**	1.1	1.1-1.5

B. Effect of a one percentage point change on the liability in respect of the anticipated benefit, before the tax effect

	One percentage point growth			One percentage point decline		
		March 31,	December 31,		March 31,	December 31,
	2019	2018	2018	2019	2018	2018
		(unaudited)	(audited)		(unaudited)	(audited)
			(NIS million)			(NIS million)
Discounting rate	**(57)**	(66)	(53)	**69**	79	64

C. Cash flows

(1) Deposits

	Forecast	Actual deposits		
		For the three months ended March 31,		For the year ended December 31,
	*2019	2019	2018	2018
	(unaudited)		(unaudited)	(audited)
	(NIS million)			(NIS million)
Deposits	10	**3**	3	10

* Assessment of amounts which the Bank expects to deposit with a defined benefit pension scheme during 2019.

NOTE 8 - CAPITAL ADEQUACY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS

A. CAPITAL ADEQUACY

The bank implements Proper Banking Management Directives Nos. 201-211 in the matter of measurement and capital adequacy, as updated, in order to modify them to the Basel guidelines.

The instructions were implemented in a gradual manner, in accordance with the transitional instructions stated in Proper Banking Management Directive No, 299 in the matter of measurement and capital adequacy - regulatory capital - transitional instructions, this in order to allow compliance with the new instructions of the regulatory capital within the framework of the implementation of Basel, and determine a transitional period until their implementation in full. Among other things, the transitional instructions relate to the regulatory adjustments and the deductions from capital, as well as to capital instruments that are not qualified for inclusion in the regulatory capital in accordance with the new criteria determined in the Basel instructions. In particular, according to the transitional instructions, the capital instruments no longer qualified as regulatory capital shall be recognized up to a maximum of 80% on January 1, 2014, this maximum level being reduced by an additional 10% until January 1, 2022. As from January 1, 2018, the transitional instructions regarding deductions from the regulatory capital are no longer in effect and the deductions amount to 100%. As from January 1, 2019, the maximum rate of instruments qualified as regulatory capital amounts to 30%.

(1) Capital adequacy objectives

In accordance with the letter of the Supervisor of Banks regarding the minimum capital ratios, the Bank, the total assets of which on a consolidated basis is up to 20% of total assets of the banking sector in Israel, is required to attain a minimum Tier I equity capital ratio of 9%, and a minimum comprehensive capital ratio of 12.5%, and this as from January 1, 2017. In addition, as from January 1, 2015, a new capital demand was added to the minimum capital ratios, at a rate reflecting 1% of the outstanding balance of residential loans at date of reporting. This requirement was gradually applied over eight quarters until January 1, 2017.

In consequence thereof, the minimum Tier I equity capital ratio and the minimum comprehensive capital ratio required on a consolidated basis by the Supervisor of Banks, based on data as of the reporting date, are 9.31% and 12.81%, respectively.

For the outstanding balance of residential loans, see Note 12.B.3.

The Group has capital targets approved by the Board of Director and reflect suitable capital level when taking into consideration the risk profile and risk apetite.

The internal capital goals, as determined by the Board of Directors, and which are not lower than the regulatory requirements, are as follows:

- In the ordinary course of business - Tier I equity capital ratio of not lower than 9.31% and comprehensive capital ratio of not lower than 12.81%.
- In stress situations - Tier I equity capital ratio of not lower than 6.50% and comprehensive capital ratio of not lower than 9.00%.

NOTE 8 - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(NIS million)

(2) Following are details regarding risk assets, the regulatory capital and capital ratios calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, regarding "measurement and capital adequacy", and in accordance with Directive 299 regarding the "regulatory capital - transitional instructions":

	March 31, 2019	March 31, 2018	December 31, 2018
	(unaudited)	(unaudited)	(audited)
a. Consolidated			
1. Capital for calculation of capital ratio			
Tier 1 capital, after supervisory adjustments and deductions	**8,434**	7,958	8,321
Tier 2 capital after deductions	**2,603**	2,599	2,713
Total overall capital	**11,037**	10,557	11,034
2. Weighted balances of risk assets			
Credit risk	(2)**73,000**	*(2)72,316	(2)71,847
Market risk	**620**	662	889
Operational risk	**6,504**	*6,192	6,401
Total weighted balances of risk assets	**80,124**	79,170	79,137
			percent
3. Ratio of capital to risk assets			
Ratio of tier 1 capital to risk assets	**10.53%**	10.05%	10.51%
Total ratio of capital to risk assets	**13.77%**	13.33%	13.94%
Minimal ratio of equity capital tier 1 required by the Supervisor of banks	(1)**9.31%**	(1)9.29%	(1)9.31%
Minimal ratio of capital required by the Supervisor of Banks	(1)**12.81%**	(1)12.79%	(1)12.81%
			percent
B. Significant Subsidiary			
Bank Massad Ltd.			
Ratio of tier 1 capital to risk assets	**13.22%**	11.86%	13.04%
Total ratio of capital to risk assets	**14.29%**	12.87%	14.12%
Minimal ratio of equity capital tier 1 required by the Supervisor of banks	**9.00%**	9.00%	9.00%
Minimal ratio of capital required by the Supervisor of Banks	**12.50%**	12.50%	12.50%

NOTE 8 - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(NIS million)

(3) Capital components for computation of capital ratio (consolidated)

	March 31, 2019	March 31, 2018	December 31, 2018
	(unaudited)	(unaudited)	(audited)
A. Equity capital tier 1			
Capital attributed to shareholders	**8,208**	7,772	8,093
Differences between capital attributed to shareholders and equity capital tier 1			
Minority interests	**215**	199	211
Total equity capital tier 1 before regulatory adjustments and deductions	**8,423**	7,971	8,304
Regulatory adjustments and deductions:			
Intangible assets	**(102)**	(100)	(104)
Regulatory adjustments and other deductions- equity capital tier 1	**(4)**	(6)	(5)
Total regulatory adjustments and deductions before adjustments in respect of efficiency measures - equity capital tier 1	**(106)**	(106)	(109)
Total adjustments in respect of efficiency measures- Tier 1 equity capital	**117**	93	126
Total equity capital tier 1 after regulatory adjustments and deductions	**8,434**	7,958	8,321
B. Tier 2 capital			
Tier 2 capital: instruments before deductions	**1,818**	1,860	1,931
Tier 2 capital: provisions before deductions	**785**	739	782
Total tier 2 capital before deductions	**2,603**	2,599	2,713
Deductions:			
Total deductions- tier 2 capital	**-**	-	-
Total tier 2 capital	**2,603**	2,599	2,713

	March 31, 2019	March 31, 2018	December 31, 2018
	(unaudited)	(unaudited)	(audited)
(4) Effect of transitional instructions on equity capital tier 1			
Ratio of capital to risk assets			
Ratio of tier 1 equity capital to risk assets before effect of adjustments in respect of efficiency measures	**10.36%**	9.92%	10.34%
Effect of adjustments in respect of efficiency measures	**0.17%**	0.13%	0.17%
Ratio of tier 1 equity capital to risk assets	**10.53%**	10.05%	10.51%

(1) Minimal capital ratio requested according to the Supervisor of Banks' directives are 9.0% and 12.5%, respectively. To these relations was added capital requirement of 1% of housing loans balance for the reporting date.

(2) An amount of NIS 159 million were deducted from the average balances of risk assets in respect of adjustments regarding the efficiency measures.

* The data in this Note are presented in accordance with Proper Conduct of Banking Business Directives No. 202 regarding "measurement and capital adequacy" and in accordance with the transitional instructions stated in Proper Conduct of Banking Business Directives No. 299. In addition, the said data include adjustments in respect of efficiency measures, as stated in the letter of the Supervisor of Banks dated January 12, 2016, in the matter of "operational efficiency of the banking sector in Israel" (hereinafter - "adjustments in respect of efficiency measures"), which are being reduced gradually over 5 years period.

For additional details in respect of the effect of the transitional directives and the adjustment regarding efficiency measures see 4 above.

(5) Factors that might materially affect the capital adequacy of the Bank and of its significant subsidiaries

(5a.) Capital components subject to fluctuations

The Bank manages the capital adequacy ratio with the aim of adhering to the minimal capital requirements of the Supervisor of Banks. The capital of the Bank is subject to changes, inter alia, in respect of the factors detailed below:

- Actuarial changes due to changes in the interest rate used to compute the liabilities of the Bank or in other actuarial assumptions, such as: mortality rates, retirement etc.
- The effect of changes in interest rate and interest spread on the adjustments to fair value of available for sale securities.

Following is an analysis of the impact of such changes on the Tier I equity capital of the Bank as of March 31, 2019:

	Effect of a change of NIS 100 million in Tier I equity capital	Effect of a change of NIS 1 billion in total risk assets
		percent
The Bank (consolidated data)	**0.13**	**0.13**
Massad Bank	**1.98**	**2.19**

B. Leverage ratio in accordance with instructions of the Supervisor of Banks

The Bank implements Proper Banking Management Directive No. 218 in the matter of leverage ratio. The Directive states a simple and transparent leverage ratio that is not risk based, which would serve as a supplementary and reliable measurement of the risk based capital requirements, and which is intended to restrict the accumulation of leverage at a banking corporation.

The leverage ratio is expressed in percentages, and is defined as the ratio between the measurement of capital and the measurement of exposure. Capital for the purpose of measuring leverage is the Tier I capital as defined in Proper Banking Management Directive No. 202, taking into consideration the determined transitional arrangements. The total measurement of exposure of the Bank is the total of the balance sheet exposures, exposure to derivatives and to transactions financing the purchase of securities and off-balance sheet items.

In accordance with the Directive, a banking corporation shall maintain a leverage ratio of not less than 5% on a consolidated basis, for a banking corporation, the total stated consolidated assets of which comprises up to 20% of the total stated assets of the banking industry, including the Bank.

	March 31, 2019 (unaudited)	March 31, 2018 (unaudited)	December 31, 2018 (audited)
	NIS million		
A. Consolidated			
Tier 1 capital*	**8,434**	7,958	8,321
Total exposures	**147,691**	143,250	144,433
			percent
Leverage ratio	**5.71%**	5.56%	5.76%
B. Significant Subsidiaries			
Bank Massad Ltd.			
Leverage ratio	**7.48%**	6.99%	7.25%
Minimal Leverage ratio required by the Supervisor of banks	**5.00%**	5.00%	5.00%

* For the effect of the transition directive and the effect in respect of the efficiency program, see note A(4) above.

NOTE 8 - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

C. Reporting the liquidity coverage ratio in accordance with instructions of the Supervisor of Banks

The Bank implements Proper Conduct of Banking Business Directive No. 221 in the matter of "liquidity coverage ratio". The Directive adopts the recommendations of the Basel Committee in the matter of liquidity coverage ratio as regards the banking industry in Israel. The liquidity coverage ratio examines a range of thirty days in a stress test, and is intended to ensure that a banking corporation shall have an inventory of high quality liquid assets serving the liquidity needs of the corporation within that period of time, as well as the anticipated cash outflows in the stress test, as defined in the Directive for the thirty calendar days.

	For the three months ended		
	March 31,	**March 31,**	**December 31**
	2019	**2018**	**2018**
	(unaudited)	(unaudited)	(audited)
			percent
A. Consolidated*			
Liquidity coverage ratio	**132%**	120%	122%
B. The bank*			
Liquidity coverage ratio	**132%**	120%	122%
C. Significant Subsidiary*			
Bank Massad Ltd.			
Liquidity coverage ratio	**179%**	189%	180%
Minimal liquidity coverage ratio required by the Supervisor of banks***	**100%**	100%	100%

* In terms of simple averages of daily observations during the reported quarter.

D. Dividends

On March 12, 2019, the Board of Directors of the Bank resolved on a cash dividend distribution to the shareholders of the Bank in a total amount of NIS 105 million. The determining date for the payment of the dividend was March 20, 2018, and the payment date was March 31, 2018.

Subsequent to balance sheet date, on May 28, 2019, the Board of Directors of the Bank resolved on a cash dividend distribution to the shareholders of the Bank in a total amount of NIS 85 million. The determining date for the payment of the dividend is June 6, 2019, and the payment date is June 17, 2019. The amount of the dividend is prior to any tax, including the tax that the Bank has to withhold under the law.

	For the three months ended		For the year ended
	March 31,	**March 31,**	**December 31**
	2019	**2018**	**2018**
	(unaudited)	(unaudited)	(audited)
			NIS million
Dividend declared and paid by the Bank	**105**	95	355

NOTE 9 - COMMITMENTS AND CONTINGENT LIABILITIES
(NIS million)

Other contingent liabilities and special commitments

		March 31, 2019 (unaudited)	March 31, 2018 (unaudited)	December 31 2018 (audited)
A.	Improvements to premises and acquisition of new premises, equipment and software	**8**	13	18
	Commitments to invest in private investment funds	**36**	40	37

B. The Bank and its investees have leased premises and equipment on a long-term basis. The rentals payable in the future subject to linkage terms (partly to the CPI and partly to foreign currency), are as follows:

	March 31, 2019 (unaudited)	March 31, 2018 (unaudited)	December 31 2018 (audited)
First year	***55**	*52	76
Second year	**70**	70	69
Third year	**65**	66	64
Fourth year	**58**	60	57
Fifth year	**51**	55	50
Sixth year and thereafter	**254**	300	251
Total	**553**	603	567

* For the period until the end of the calendar year

C. In the ordinary course of business, legal actions have been filed against the Bank and certain of its subsidiaries, including pleas for approval of class actions. In the opinion of the Management of the Bank and the Managements of its subsidiaries, based on legal opinions, as to the prospects of these actions, including the pleas for approval of class actions as detailed in this section, adequate provisions have been included in the financial statements, where required, to cover losses which might be sustained as a result of these actions.

As regards the legal actions, including pleas for approval of class action see Note 25G to the financial statements for 2018.

Following are details of changes made to actions that had been filed against the Bank and against a subsidiary company, in relation to that stated in the annual financial statements for 2018:

1. - In September, 2013, the Bank was served with a claim together with a motion for approval of the claim as a class action suit in an amount of not less than NIS 10.5 billion (hereinafter - "the claim and motion"). The claim and motion were served against the Bank, additional banks as well as against the General Manager of each of these banks, though at a later stage, a motion was filed to cross out the claims against the latter defendants. The amount of the claim relates to all the defendant banks together. The Plaintiffs claim that the said banks do not provide proper disclosure and even mislead their customers with respect to the costs involved in currency conversion services provided by them, upon selling foreign currency to the customer at a rate higher than the buying rate. The difference between the buying rate and the selling rate to the customer (named in the claim as - "mark-up commission") constitutes, as alleged by the Plaintiffs, a "brokerage commission" charged with no disclosure of it in any of the pricelists published by the banks. The Plaintiffs further claim that the Banks act in unison in this respect in order to hide the mark-up commission and that a binding agreement exists among them. In January 2014, the Court approved the motion of the Plaintiffs for withdrawal from the claim against the general managers. On March 1, 2018, the motion was rejected and the action was not approved as a class action. The Plaintiffs appealed this decision on March 18, 2018, and on April 1, 2019, the Court rejected the appeal.

- In March 2014, a motion for the approval of an action as a class action suit, of approximately NIS 2 billion, was filed against a former consolidated banking subsidiary, which since has been merged with and into the Bank, and against four additional banks, the cause of action being identical to that alleged against the Bank in an action filed in September 2013, as stated above. On March 1, 2018, the motion was rejected and the claim was not approved as a class action. The Plaintiffs appealed this decision and on April 1, 2019, the Court rejected the appeal.

2. On December 17, 2017, a former consolidated banking subsidiary, since merged with and into the Bank, received notice of a motion for approval of an action as a class action suit in the amount of NIS 177 million. This motion was filed against four banks, which extend credit within the framework of the fund for the encouragement of small businesses guaranteed by the State.

   The cause of action is the subjecting of one service to another.

   The Plaintiffs claim that the defendant banks demand a monetary deposit from customers who receive loans by means of the fund for the encouragement of small businesses guaranteed by the State. As alleged by the Plaintiffs, the said monetary deposit is a "fictitious" deposit, due to the fact that the source of the funds so deposited is the loan itself.

   On March 24, 2019, the motion for approval of a class action was deleted.

The additional exposure of the Bank and of the subsidiary companies as of March 31, 2019, to pending claims, which in the opinion of Management of the Bank the probability of their realization, in full or in part, is not remote, and in respect of which no provisions have been included, amounts to NIS 43 million.

D. Moreover, pending against the Bank is a motion for approval of a class action, as described below. In the opinion of Management of the Bank, based on Counsel's opinion, it is not possible at this stage to assess the prospect of this action and no provision has been included in respect thereof:

On May 8, 2018, the Bank received notice of an action together with a motion for approval of the action as a class action suit in the amount of NIS 146 million (hereinafter – "the motion").

As alleged by the Plaintiffs, the Bank concealed and did not disclose to its business customers an existing possibility, according to which they may be classified as a "small business" and the practical significance of classifying an account as a small business account with respect to the consumer pricelist. By default, the Bank classified its business customers as large businesses with no reasonable ground (thereby applying to them the large business pricelist, being the highest commission fee pricelist). The Bank misled its customers and acted in order to hide both their classification as large business and their right to be defined as a small business, so that those of its customers who are entitled to be defined as a small business would continue to pay charges that do not apply to them or charges in amounts higher than those which should be payable by them.

The class which the Plaintiffs wish to represent comprises "all customers of the Bank, past and present, who were or are entitled to be defined as a "small business" under the Banking Rules (Customer service) (Commission fees), 2008, and who paid fees not in accordance with the pricelist applying to a small business, as from date of entry into effect of the commission fee rules and until this day".

E. 1. Following are details of claims filed against an affiliated company, Israel Credit Cards Ltd. ("ICC"), the amounts claimed therein are material:

(a) On June 8, 2016, an amended motion for approval of an action as a class action against three credit card companies, including ICC (hereinafter – "the amended motion") was filed with the District Court, Central District. The amended motion replaces an earlier motion filed on April 28, 2014.

The subject matter of the motion is two binding arrangements with respect to immediate debit cards ("debit cards") and to "prepaid" cards. As alleged by the Plaintiffs, the first binding arrangement is an arrangement for the charging of a cross-commission in respect of transactions made by use of "debit cards" and "prepaid cards". The second binding arrangement, as claimed by the Plaintiffs, is the illegal delay in payment of amounts due to trading houses for a period of approximately twenty days following the collection of such amounts by the credit card companies.

A review of the economic opinion, to which the amended motion refers, shows that the amount of the claim is composed of the following main types of damage: an amount of NIS 13.5 million per year for the years 2007-2015 in respect of the damage stemming from the existence of an alleged binding arrangement regarding the amount of the cross commission payable in immediate debit card transactions; an amount of NIS 5.3 million per year, for the years 2007-2015, in respect of the damage stemming from the existence of an alleged binding arrangement regarding the date for the transfer of funds to trading houses in respect of immediate debit card transactions; an amount of between NIS 418 million and NIS 683 million per year for the years 2007-2015, in respect of the damage stemming from underuse of immediate debit cards due to the alleged two binding arrangements, as above.

On March 12, 2017, a preliminary hearing of the motion was held. In its decision, the Court stated that the matter of the cross-commission in respect of the "debit" and the "pre-paid" cards, is apparently included in a verdict given by the Competition Tribunal (formerly known as "the Antitrust Tribunal") and therefore any claim raised against the determination of the cross-commission, should be raised using procedures relating to the said verdict. In view of this, the Court deferred the hearing of the motion for a class action until after the matter is settled by the Competition Tribunal.

An action requesting declaratory relief was filed with the Competition Tribunal on October 16, 2017. Within the framework of this action, the Tribunal is requested to state that when giving the verdict which approved the cross-commission arrangement, such arrangement did not include immediate debit cards and prepaid cards. The credit card companies, including ICC, have filed a motion for the in *limine* dismissal of the action, and on October 16, 2018, the Court ruled that the motion for *in limine* dismissal and the action requesting a declaratory relief are to be admitted.

An appeal to the Supreme Court was filed on November 29, 2018, against the verdict of the Competition Tribunal.

On December 23, 2018, the Plaintiffs submitted to the Supreme Court, sitting as a High Court of Justice, a Plea against the Competition Commissioner (formerly known as the Antitrust Commissioner). In the Plea, the Court is petitioned to instruct the Competition Commissioner to act in order to clarify, or cancel, or change the verdict of the Competition Tribunal. A preliminary hearing of the Plea is fixed for June 18, 2019.

(b) On October 19, 2017, Diners received notice of an action and motion for approval of the action as a class action suit filed with the Haifa District Court against Diners and against another company (hereinafter - "the action and motion").

The subject matter of the motion is a claim that Diners and the other Respondent company had restricted the accumulation of flight points in respect of use of credit cards of the Diners Fly Card class (hereinafter - "the card"), so that the accumulation in respect of use of the card for payments made to Government agencies would be restricted to an amount of NIS 30,000 per month. As claimed, such restriction limits the number of flight points which club members may accumulate upon use of the card when making payments to Government agencies (hereinafter – "change in policy"). It is further argued that the change in policy was made in contradiction to the law, and that following this change in policy, Diners and the Respondent company do not disclose it in their publications.

The Plaintiffs stated their claim for all members of the class at approximately NIS 66 million and alternatively at NIS 300 million. On March 20, 2018, Diners responded to the motion for approval, in which it totally rejects the claim of the Plaintiff. On February 10, 2019, the Plaintiff filed a motion for the amendment of the motion for approval in which he requested to add a cause of action to the motion for approval, according to which the Respondents had violated the duty of "bank confidentiality" applying to them in that the practice of Diners is to deliver consolidated statements of account to customers holding a joint bank account.

On February 13, 2019, the Respondents filed a motion for the *in limine* dismissal of the motion for approval. The Court admitted on May 6, 2019 the motion of the Respondent, and ruled for the dismissal of the claim.

(c) On May 6, 2018, ICC received notice of an action together with a motion for approval of the action as a class action suit, filed with the Tel Aviv-Yaffo District Court, against ICC and against an additional company and a bank being the holder thereof, claiming that ICC did not provide proper disclosure of the interest charged by it.

The Plaintiff estimates his personal damage at NIS 38.54 and that of the class as a whole at NIS 181 million. On March 5, 2019, ICC responded to the motion for approval by.

2. The amount of exposure in respect of legal actions filed against ICC, the probability of their realization, in full or in part, is reasonably possible, totals NIS 197million.

3. Pending against ICC and against a consolidated subsidiary thereof are motions for approval of actions as class action suits, as detailed below. ICC states in its reports that in the opinion of Management of ICC, based on opinions of its legal counsels, it is not possible at this stage to assess their prospects, and accordingly, no provisions have been recorded in respect thereof:

(a) On May 2, 2018, ICC received notice of an action and a motion for its approval as a class action suit, filed with the Tel Aviv-Yaffo District Court.

It is alleged in the action that ICC had illegally increased the amounts of clearing commission charged to trading houses. The motion for approval relies, inter alia, on the decision of the Tel Aviv District Court, wherein, in a similar case, a motion for approval of an action as a class action, filed against another company, had been approved.

The Plaintiffs assess their personal damage at NIS 4,036. They did not state an amount regarding the damage to the group, but assessed it at "tens of millions of NIS". ICC has responded to the motion for approval.

(b) Notice was received by ICC on July 26, 2018, of an action filed with the Tel Aviv District Court together with a motion for approval of the action as a class action suit, against ICC and against two additional credit card companies. The subject matter of the action is transactions considered "no document transactions" (mainly transactions effected by telephone) made by members of the class with trading houses operating in the "direct marketing" field. It is claimed in the motion that such trading houses utilized the weakness of the senior citizen population, unlawfully charging their credit cards in respect of many transactions, as well as charging them with additional amounts that had not been approved by them. The Appellant argues that the credit card companies are engaged in clearing agreements with the "direct marketing" trading houses, thus enabling them to operate. The Appellant states the amount of the damage for the whole class, which he purports to represent, at NIS 900 million.

On March 24, 2019, the Respondent companies submitted their response to the motion for approval. The Appellant has to submit his comments on the response by the Respondent companies by July 31, 2019. A preliminary hearing of the case was fixed for January 7, 2020.

(c) A Plea was filed on December 9, 2018, with the Supreme Court sitting as a High Court of Justice, against Bank of Israel, the Competition Commissioner and three credit card companies, including ICC, in which the Appellants seek relief through the cancellation of the Banking Order (Customer service)(Supervision over cross-clearing service for transactions made by use of a charge card and of an immediate debit card), 2018. The Appellants argue that the Order should be abolished and that it should be determined that the credit card companies may not earn profits from the cross-commission, which is intended to cover only the costs of the issuer. In its ruling of December 24, 2018, the Supreme Court instructed the Competition Commissioner to submit a summarized response to the Plea by June 30, 2019.

4. On December 14, 2016, the Director of Value Added Tax (hereinafter - "the VAT Director") issued VAT assessments for charge periods from January 2012 to August 2016. The sum charged in the assessments, including interest and linkage increments, amounts to NIS 48 million. ICC disputes the position of the VAT Director, and is of the opinion that it has good arguments supporting its position. On March 9, 2017, ICC filed an appeal against these assessments. To the best knowledge of ICC, assessments in this matter have also been received by its competitors.

   On March 8, 2018, ICC received the decision of the VAT Director rejecting the appeal and also increasing the amount charged in the assessments to NIS 75 million (including interest and linkage increments). In the case that the position of ICC would not be admitted by the Court, ICC might be liable with respect to the issues raised in the assessment also in the periods succeeding the period covered by the assessment.

NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES

(NIS million)

A. Volume of activity on a consolidated basis

1. For value of derivatives

	March 31, 2019 (unaudited)			March 31, 2018 (unaudited)			December 31, 2018 (audited)		
	Not trading derivatives	Trading derivatives	Total	Not trading derivatives	Trading derivatives	Total	Not trading derivatives	Trading derivatives	Total
Interest contracts									
Forward and Futures Contracts	**105**	**6,304**	**6,409**	11	3,166	3,177	15	9,757	9,772
SWAPS(1)	**4,068**	**15,101**	**19,169**	4,142	11,454	15,596	4,094	15,244	19,338
Total(2)	**4,173**	**21,405**	**25,578**	4,153	14,620	18,773	4,109	25,001	29,110
Of which: Hedging derivatives(3)	**3,136**	**-**	**3,136**	3,009	-	3,009	3,209	-	3,209
Foreign currency contracts									
Forward and Futures Contracts(4)	**12,124**	**25,999**	**38,123**	8,859	22,873	31,732	8,420	28,641	37,061
Options written	**643**	**11,264**	**11,907**	228	15,170	15,398	88	11,109	11,197
Options purchased	**645**	**11,818**	**12,463**	229	14,385	14,614	88	11,500	11,588
SWAPS	**252**	**-**	**252**	281	-	281	255	-	255
Total	**13,664**	**49,081**	**62,745**	9,597	52,428	62,025	8,851	51,250	60,101
Contracts on shares									
Forward and Futures Contracts	**-**	**10,492**	**10,492**	-	9,203	9,203	-	10,108	10,108
Options written	**-**	**13,868**	**13,868**	-	19,907	19,907	-	17,607	17,607
Options purchased(5)	**-**	**13,735**	**13,735**	-	19,784	19,784	-	17,512	17,512
Total	**-**	**38,095**	**38,095**	-	48,894	48,894	-	45,227	45,227
Commodities and other contracts									
Forward and Futures Contracts	**-**	**39**	**39**	-	71	71	-	63	63
Total	**-**	**39**	**39**	-	71	71	-	63	63
Credit contracts									
The Bank is a guarantor	**-**	**-**	**-**	35	-	35	37	-	37
Total	**-**	**-**	**-**	35	-	35	37	-	37
Total face value	**17,837**	**108,620**	**126,457**	13,785	116,013	129,798	12,997	121,541	134,538

(1) Of which: SWAPS the Bank is paying fixed interest in an amount of NIS 11,899 million (31.3.18 NIS 10,090 million, 31.12.18- NIS 12,047 million).

(2) Of which: NIS-CPI swap contracts in an amount of NIS 681 million (31.3.18- NIS 795 million, 31.12.18- NIS 682 million).

(3) The Bank performs protection transactions by IRS derivatives in order to hedge the accounting fair value of bonds. These transactions hedge the interest risk imbedded in foreign currency bonds having fixed interest and long duration.

(4) Of which: foreign currency swap spot contracts in an amount of NIS 1,361 million (31.3.18- NIS 2,084 million, 31.12.18- NIS 2,285 million).

(5) Of which: Traded on the Stock Exchange in an amount of NIS 13,571 million (31.3.18- NIS 19,340 million, 31.12.18- NIS 17,336 million).

NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

A. Volume of activity on a consolidated basis (CONT'D)

.2 Gross fair value of derivative instruments

	March 31, 2019 (unaudited)					
	Gross amount of assets in respect of derivative instruments			Gross amount of liabilities in respect of derivative instruments		
	Not trading derivatives	Trading derivatives	Total	Not trading derivatives	Trading derivatives	Total
Interest contracts	**16**	**230**	**246**	**82**	**226**	**308**
Of which: Hedging derivatives	**14**	**-**	**14**	**66**	**-**	**66**
Foreign currency contracts	**57**	**363**	**420**	**40**	**401**	**441**
Contracts on shares	**-**	**275**	**275**	**-**	**275**	**275**
Total assets/liabilities in respect of derivatives gross(1)	**73**	**868**	**941**	**122**	**902**	**1,024**
Amounts offset in the balance sheet	**-**	**-**	**-**	**-**	**-**	**-**
Balance sheet balance	**73**	**868**	**941**	**122**	**899**	**1,021**
Of which: not subject to net settlement arrangement or similar arrangements	**-**	**-**	**-**	**-**	**-**	**-**

	March 31, 2018 (unaudited)					
	Gross amount of assets in respect of derivative instruments			Gross amount of liabilities in respect of derivative instruments		
	Not trading derivatives	Trading derivatives	Total	Not trading derivatives	Trading derivatives	Total
Interest contracts	60	210	270	37	192	229
Of which: Hedging	55	-	55	13	-	13
Foreign currency contracts	82	405	487	27	284	311
Contracts on shares	-	431	431	-	431	431
Commodities and other contracts	-	1	1	-	1	1
Total assets/liabilities in respect of derivatives gross(1)	142	1,047	1,189	64	908	972
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	142	1,047	1,189	64	903	967
Of which: not subject to net settlement arrangement or similar arrangements	-	-	-	-	-	-

	December 31, 2018 (audited)					
	Gross amount of assets in respect of derivative instruments			Gross amount of liabilities in respect of derivative instruments		
	Not trading derivatives	Trading derivatives	Total	Not trading derivatives	Trading derivatives	Total
Interest contracts	31	177	208	41	182	223
Of which: Hedging	28	-	28	36	-	36
Foreign currency contracts	57	483	540	19	403	422
Contracts on shares	-	650	650	-	651	651
Commodities and other contracts	-	1	1	-	1	1
Total assets/liabilities in respect of derivatives gross(1)	88	1,311	1,399	60	1,237	1,297
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	88	1,311	1,399	60	1,234	1,294
Of which: not subject to net settlement arrangement or similar arrangements	-	-	-	-	-	-

(1) Of which: Gross fair value of liabilities in respect of embedded derivatives in an amount of NIS 3 million (31.3.18- NIS 5 million, 31.12.18- NIS 3 million).

NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

B. Accounting Hedge

	For the three months ended March 31, 2019 (unaudited)
	Interest income (expenses)
1. Effect of accounting of fair value Hedge	
Profit from fair value Hedge	
Interest contracts	
- Hedging items	**53**
- Hedging derivatives	**(54)**

		March 31, 2019 (unaudited)
		Cumulative fair value adjustments increasing the book value
	Book value	Existing hedge relation
2. Items Hedged by fair value Hedge		
Securities- debt instruments classified as available for sale	**3,323**	**47**

	For the three months ended March 31, 2019 (unaudited)
	Profit (loss) recognized in income (expenses)from activity in derivative instruments(1)
3. Effect of derivatives which were not designated as hedging instruments on statement of income	
Derivatives which were not designated as hedging instruments	
- Interest contracts	**(9)**
- Foreign currency contracts	**(145)**

(1) Included in the item non-interest financing income (expenses).

NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

C. Credit risk in respect of derivatives instruments, according to transaction counterparty

	March 31, 2019 (unaudited)					
	Exchanges	Banks	Dealers/ brokers	Government and central banks	Others	Total
Balance sheet balance of assets in respect of derivative instruments	**120**	**396**	**75**	**4**	**346**	**941**
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	**-**	**(206)**	**(15)**	**-**	**(33)**	**(254)**
Credit risk mitigation in respect of cash collateral received	**-**	**(73)**	**(20)**	**-**	**-**	**(93)**
Net amount of assets in respect of derivative instruments	**120**	**117**	**40**	**4**	**313**	**594**
Off balance sheet credit risk in respect of derivative instruments [(2)]	**-**	**298**	**52**	**4**	**951**	**1,305**
Off balance sheet credit risk mitigation	**-**	**(129)**	**(4)**	**-**	**(120)**	**(253)**
Net off balance sheet credit risk in respect of derivative instruments	**-**	**169**	**48**	**4**	**831**	**1,052**
Total credit risk in respect of derivative instruments	**120**	**286**	**88**	**8**	**1,144**	**1,646**
Balance sheet balance of liabilities in respect of derivative instruments [(1)]	**116**	**309**	**151**	**-**	**448**	**1,024**
Gross amounts not offset in the balance sheet:						
Financial instruments	**-**	**(206)**	**(15)**	**-**	**(33)**	**(254)**
Cash collateral which was attached by a lien	**-**	**(49)**	**-**	**-**	**-**	**(49)**
Net amount of liabilities in respect of derivative instruments	**116**	**54**	**136**	**-**	**415**	**721**

	March 31, 2018 (unaudited)					
	Exchanges	Banks	Dealers/ brokers	Government and central banks	Others	Total
Balance sheet balance of assets in respect of derivative instruments	110	261	97	-	721	1,189
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(196)	(13)	-	(30)	(239)
Credit risk mitigation in respect of cash collateral received	-	(37)	(25)	-	-	(62)
Net amount of assets in respect of derivative instruments	110	28	59	-	691	888
Off balance sheet credit risk in respect of derivative instruments [(2)]	-	248	38	-	689	975
Off balance sheet credit risk mitigation	-	(123)	(2)	-	(53)	(178)
Net off balance sheet credit risk in respect of derivative instruments	-	125	36	-	636	797
Total credit risk in respect of derivative instruments	110	153	95	-	1,327	1,685
Balance sheet balance of liabilities in respect of derivative instruments [(1)]	128	459	129	-	256	972
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(196)	(13)	-	(30)	(239)
Cash collateral which was attached by a lien	-	(51)	-	-	-	(51)
Net amount of liabilities in respect of derivative instruments	128	212	116	-	226	682

NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

C. Credit risk in respect of derivatives instruments, according to transaction counterparty (cont'd)

	December 31, 2018 (audited)					
	Exchanges	Banks	Dealers/ brokers	Government and central banks	Others	Total
Balance sheet balance of assets in respect of derivative instruments	189	318	104	-	788	1,399
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(223)	(10)	-	(38)	(271)
Credit risk mitigation in respect of cash collateral received	-	(59)	(22)	-	-	(81)
Net amount of assets in respect of derivative instruments	189	36	72	-	750	1,047
Off balance sheet credit risk in respect of derivative instruments [(2)]	-	292	45	1	913	1,251
Off balance sheet credit risk mitigation	-	(145)	(3)	-	(49)	(197)
Net off balance sheet credit risk in respect of derivative instruments	-	147	42	1	864	1,054
Total credit risk in respect of derivative instruments	189	183	114	1	1,614	2,101
Balance sheet balance of liabilities in respect of derivative instruments [(1)]	209	483	204	10	391	1,297
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(223)	(10)	-	(38)	(271)
Cash collateral which was attached by a lien	-	(65)	-	-	-	(65)
Net amount of liabilities in respect of derivative instruments	209	195	194	10	353	961

(1) Of which negative gross value of liabilities in respect of embedded derivative instruments is NIS 3 million (31.3.18 - NIS 5 million, 31.12.18 - NIS 3 million).

(2) The difference, if positive, between total amounts in respect of derivative instruments (including in respect of derivative instruments having a negative fair value) as computed for the purpose of limitations on indebtedness of a single borrower, according to credit risk mitigation, to the total balance of assets in respect of derivative instrument of the borrower.

NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

D. Maturity dates (stated value amounts): Balance on consolidated basis

	March 31, 2019 (unaudited)				
	Up to 3 months	from 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Interest rate contracts -					
- NIS - CPI	**-**	**8**	**673**	**-**	**681**
- Other	**6,696**	**2,438**	**12,231**	**3,532**	**24,897**
Foreign currency contracts	**51,658**	**10,489**	**575**	**23**	**62,745**
Contracts of shares	**35,278**	**2,438**	**379**	**-**	**38,095**
Commodities and other contracts	**39**	**-**	**-**	**-**	**39**
Total	**93,671**	**15,373**	**13,858**	**3,555**	**126,457**

	March 31, 2018 (unaudited)				
	Up to 3 months	from 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Total	96,905	19,885	8,234	4,774	129,798

	December 31, 2018 (audited)				
	Up to 3 months	from 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Total	86,807	26,732	16,264	4,735	134,538

NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION

A. Definitions

- **Private individuals** - individuals including those conducting a joint account, who at the reporting date have no indebtedness to the bank, or where their indebtedness has been classified to the "Private individuals - housing and other loans" segment.
- **Private banking segment** - private individuals the balance of their financial asset portfolio, on a consolidated basis, held with the bank (including monetary deposits, securities portfolios and other financial assets) exceeds NIS 3 million.
- **Households** - private individuals, excluding customers included in the private banking segment.
- **Business** - a customer not included in the "private individual" definition and who is not an institutional body or a banking corporation.
- **Business turnover** - annual sales turnover or volume of annual income.
- **Minute business** - a business the annual turnover of which is less than NIS 10 million.
- **Small business** - a business the annual turnover of which is higher than or equal to NIS 10 million and is lower than NIS 50 million.
- **Middle-market business** - a business the annual turnover of which is higher than or equal to NIS 50 million and is lower than NIS 250 million.
- **Large business** - a business the annual turnover of which is higher than or equal to NIS 250 million.
- **Institutional entities**- as defined in the Regulation of Engagement in Investment Consulting activity, Investment Marketing and Investment Portfolio Management Act, including provident funds, pension funds, further education funds, mutual trust funds, ETF's, insurance companies and stock exchange members managing customers funds.

Where the income turnover of business customer does not represents its volume of activity, the activity of the business customer was classified according to the said below: where the total indebtness of the business customer is equal to or exceeds NIS 100 million, the customer was classified to large business segment. In addition, in business accounts operating in the capital market the classification to customers segments is in accordance to the value of the assets in the balance sheet or average value of the assets in the Bank and in business account in the real estate area the classification is in accordance to the value of the assets in the balance sheet or the volume of the credit lines.

- **Financial management segment** - includes trading and asset and liability management operations as defined in the Directives of the Supervisor of Banks. The segment includes the Bank's share in the earning of ICC.

NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION

Principles for apportioning operating results among the different segments

- Net interest income-includes:
  - The financial margin between borrowing and lending activity, which is calculated as the spread between the interest obtained or paid and the average prices of money for the Bank, which derive from the duration of assets or liabilities in the relevant linkage segments.
  - Interest on the weighted capital attributed to the segment (on the basis of the risk assets attributed to each segment).
  - The customer segments are charged with the excess financing costs (over and above the cost of raising sources) of the capital notes attributed to the segment.
- Expenses on credit losses - Expenses on credit losses which were recorded in respect of its customers are attributed to each segment of activity.
- Non-interest income - Commission income, non-interest financing income and other income deriving from its customers' activity are charged to each segment of activity.
- Operating expenses - Attributed to each segment of activity are the direct expenses at the branches of the Bank and the head office deriving from the provision of services to the segment's customers, according to loading methodology, as follow:
  - Direct costs include:
    - Salary and organization expenses in the branches- are loaded on the basis of the "activity index" standard, which translates activity with customers into labor inputs.
    - Computer expenses at the branches- are loaded in accordance with the number of transactions carried out by the customers.
    - Salary, organization and computer expenses of the business units at head office- are loaded in accordance with loading parameters, corresponding with the nature of activity of the customer (such as: distribution of credit balances, number and volume of transactions).
  - The indirect expenses including the expenses of the head office and computer expenses of the back-office divisions and the general computer expenses which are not classified- these expenses are loaded in accordance to the nature of the expense. Most of the indirect expenses are loaded according to the distribution of the direct expenses, and the remaining expenses according to the distribution of income.
- Taxes on income - The provision for taxes on the earnings of each segment is calculated in accordance with the statutory rate of tax, with certain adjustments deriving from such factors as unrecognized expenses.
- Minority interest in net earnings - The charging of minority interest in the different segments of activity is calculated on the basis of the net earnings of subsidiaries with minority interest, as these earnings are attributed to the different segments of activity.

NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION (CON'T)

(NIS million)

B. Operational supervision segment information

	For the three months ended March 31, 2019 (Unaudited)									
	Activity in Israel									
	Households									
	Total	Of which: Housing loans	Of which: credit cards	Private banking	Small and minute businesses	Medium businesses	Large businesses	Institutional entities	Financial Management	Total
										(NIS million)
Interest income from external	338	136	4	-	166	47	100	3	73	727
Interest expense from external	33	-	-	12	18	4	15	16	(6)	92
Net interest income (expenses)										
- From external	305	136	4	(12)	148	43	85	(13)	79	635
- Inter - segment	3	(59)	(1)	22	13	-	(16)	35	(57)	-
Total net interest income	308	77	3	10	161	43	69	22	22	635
Non-interest income	137	4	20	17	77	19	28	46	43	367
Total income	445	81	23	27	238	62	97	68	65	1,002
Expenses (income) from credit losses	18	(1)	-	-	12	21	(17)	2	-	36
Operating and other expenses	370	30	14	17	157	29	42	45	13	673
Operating profit before taxes	57	52	9	10	69	12	72	21	52	293
Provision for taxes on operating profit	20	17	3	4	25	4	31	8	19	111
Operating profit after taxes	37	35	6	6	44	8	41	13	33	182
Bank's share in operating profit of investee company after tax effect	-	-	-	-	-	-	-	-	10	10
Net profit:										
Before attribution to non-controlling interests	37	35	6	6	44	8	41	13	43	192
Attributed to non-controlling interests	(6)	-	-	-	(1)	(1)	-	-	(1)	(9)
Net profit attributed to shareholders of the Bank	31	35	6	6	43	7	41	13	42	183
Average balance of assets(1)	44,708	23,989	2,638	45	15,804	5,532	18,088	908	50,541	135,626
of which: Investee Company(1)	-	-	-	-	-	-	-	-	612	612
of which: Average balance of credit to the public(1)	44,708	23,989	2,638	45	15,804	5,532	18,088	908	-	85,085
Balance of credit to the public	45,800	24,468	3,317	54	16,216	5,610	18,465	1,101	-	87,246
Balance of impaired debts	113	10	-	-	219	53	189	-	-	574
Balance in arrears over 90 days	198	169	-	-	24	4	-	-	-	226
Average balance of liabilities(1)	51,678	613	122	7,796	18,481	5,180	9,134	23,939	11,271	127,479
of which: Average balance of deposits from the public(1)	50,066	-	-	7,787	17,790	4,873	8,325	23,887	-	112,728
Balance of deposits from the public	50,532	-	-	7,843	17,694	4,966	9,104	25,210	-	115,349
Average balance of risk assets(1)(2)	31,265	13,168	3,082	206	15,281	6,822	17,377	1,116	7,469	79,536
Balance of risk assets(2)	31,000	13,185	3,648	210	15,578	6,837	17,790	1,037	7,483	79,935
Average balance of assets under management(1)(3)	34,824	-	-	15,876	14,915	3,806	13,778	227,111	-	310,310
Segmentation of net interest income:										
- Earnings from credit - granting activity	257	79	3	-	141	38	66	2	-	504
- Earnings from deposits - taking activity	55	-	-	10	22	6	5	20	-	118
- Other	(4)	(2)	-	-	(2)	(1)	(2)	-	22	13
Total net interest income	308	77	3	10	161	43	69	22	22	635

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION (CON'T)
(NIS million)

B. Operational supervision segment information (CON'T)

	For the three months ended March 31, 2018 (Unaudited)									
	Activity in Israel									
	Households									
	Total	Of which: Housing loans	Of which: credit cards	Private banking	Small and minute businesses	Medium businesses	Large businesses	Institutional entities	Financial Management	Total
										(NIS million)
Interest income from external	321	126	6	1	161	42	83	2	44	654
Interest expense from external	24	-	-	6	14	5	10	7	4	70
Net interest income (expenses)										
- From external	297	126	6	(5)	147	37	73	(5)	40	584
- Inter - segment	(23)	(58)	(3)	13	1	5	1	16	(13)	-
Total net interest income	274	68	3	8	148	42	74	11	27	584
Non-interest income	146	4	21	16	84	18	32	49	56	401
Total income	420	72	24	24	232	60	106	60	83	985
Expenses (income) from credit losses	14	1	-	-	19	1	(7)	-	-	27
Operating and other expenses	402	31	16	16	176	30	52	43	18	737
Operating profit before taxes	4	40	8	8	37	29	61	17	65	221
Provision for taxes on operating profit	1	14	3	3	14	11	23	6	24	82
Operating profit after taxes	3	26	5	5	23	18	38	11	41	139
Bank's share in operating profit of investee company after tax effect	-	-	-	-	-	-	-	-	6	6
Net profit:										
Before attribution to non-controlling interests	3	26	5	5	23	18	38	11	47	145
Attributed to non-controlling interests	(5)	-	-	-	(1)	(1)	-	-	(1)	(8)
Net profit attributed to shareholders of the Bank	(2)	26	5	5	22	17	38	11	46	137
Average balance of assets(1)	42,491	22,993	2,835	53	14,883	5,597	17,107	624	55,247	136,002
of which: Investee Company(1)	-	-	-	-	-	-	-	-	568	568
of which: Average balance of credit to the public(1)	42,491	22,993	2,835	53	14,883	5,597	17,107	624	-	80,755
Balance of credit to the public	43,352	23,151	3,307	52	15,349	5,694	17,789	509	-	82,745
Balance of impaired debts	96	10	-	-	226	32	165	-	-	519
Balance in arrears over 90 days	197	154	-	-	32	1	-	1	-	231
Average balance of liabilities(1)	47,991	568	-	7,727	16,684	5,363	11,421	26,299	10,689	126,174
of which: Average balance of deposits from the public(1)	46,778	-	-	7,719	16,024	5,055	10,454	26,257	-	112,287
Balance of deposits from the public	47,268	-	-	7,827	16,050	5,219	9,556	25,993	-	111,913
Average balance of risk assets(1)(2)	29,482	12,074	3,152	187	14,829	6,921	17,734	944	8,174	78,271
Balance of risk assets(2)	29,384	12,128	3,372	186	15,338	7,024	18,025	1,015	8,198	79,170
Average balance of assets under management(1)(3)	35,940	-	-	15,382	13,186	3,915	18,553	240,294	-	327,270
Segmentation of net interest income:										
- Earnings from credit - granting activity	244	71	3	-	136	39	72	2	-	493
- Earnings from deposits - taking activity	34	-	-	8	15	4	6	9	-	76
- Other	(4)	(3)	-	-	(3)	(1)	(4)	-	27	15
Total net interest income	274	68	3	8	148	42	74	11	27	584

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION (CON'T)

(NIS million)

B. Operational supervision segment information (CON'T)

	For the year ended December 31, 2018 (audited)									
	Activity in Israel									
	Households									
	Total	Of which: Housing loans	Of which: credit cards	Private banking	Small and minute businesses	Medium businesses	Large businesses	Institutional entities	Financial Management	Total
										(NIS million)
Interest income from external	1,524	685	16	1	677	191	358	14	236	3,001
Interest expense from external	183	-	-	34	106	34	65	59	34	515
Net interest income (expenses)										
- From external	1,341	685	16	(33)	571	157	293	(45)	202	2,486
- Inter - segment	(196)	(400)	(3)	66	48	20	4	107	(49)	-
Total net interest income	1,145	285	13	33	619	177	297	62	153	2,486
Non-interest income	577	15	89	62	321	81	119	194	283	1,637
Total income	1,722	300	102	95	940	258	416	256	436	4,123
Expenses from credit losses	67	4	-	-	55	8	35	1	-	166
Operating and other expenses	1,545	115	60	63	653	120	188	178	72	2,819
Operating profit before taxes	110	181	42	32	232	130	193	77	364	1,138
Provision for taxes on operating profit	41	67	15	12	87	49	72	29	118	408
Operating profit after taxes	69	114	27	20	145	81	121	48	246	730
Bank's share in operating profit of investee company after tax effect	-	-	-	-	-	-	-	-	37	37
Net profit:										
Before attribution to non-controlling interests	69	114	27	20	145	81	121	48	283	767
Attributed to non-controlling interests	(20)	-	(2)	-	(5)	(4)	-	-	(5)	(34)
Net profit attributed to shareholders of the Bank	49	114	25	20	140	77	121	48	278	733
Average balance of assets(1)	43,802	23,625	2,921	51	15,426	5,739	17,855	764	51,675	135,312
of which: Investee Company(1)	-	-	-	-	-	-	-	-	585	585
of which: Average balance of credit to the public(1)	43,802	23,625	2,921	51	15,426	5,739	17,855	764	-	83,637
Balance of credit to the public	45,359	24,319	3,320	51	15,948	5,816	17,052	934	-	85,160
Balance of impaired debts	100	6	-	-	218	35	114	-	-	467
Balance in arrears over 90 days	215	185	-	-	23	5	-	-	-	243
Average balance of liabilities(1)	48,806	695	70	7,676	17,848	5,230	11,042	26,042	10,415	127,059
of which: Average balance of deposits from the public(1)	47,682	-	-	7,667	17,127	4,907	9,981	25,984	-	113,348
Balance of deposits from the public	50,300	-	-	8,029	17,802	5,167	9,212	21,187	-	111,697
Average balance of risk assets(1)(2)	30,202	12,811	3,401	189	15,474	6,958	17,925	1,079	7,490	79,317
Balance of risk assets(2)	30,602	13,202	3,528	190	16,136	7,089	16,395	1,554	7,171	79,137
Average balance of assets under management(1)(3)	36,170	-	-	15,501	13,444	3,922	15,054	243,650	-	327,741
Segmentation of net interest income:										
- Earnings from credit - granting activity	1,007	298	13	-	560	164	292	12	-	2,035
- Earnings from deposits - taking activity	159	-	-	33	72	19	21	51	-	355
- Other	(21)	(13)	-	-	(13)	(6)	(16)	(1)	153	96
Total net interest income	1,145	285	13	33	619	177	297	62	153	2,486

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

NOTE 11A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH

A. General

1. Instructions of the Supervisor of Banks state that a banking corporation, the operating segments of which per Management's approach, materially differ from the regulatory segments of activity, shall, in addition, provide disclosure regarding operating segments according to Management's approach ("administrative operating segments"), in accordance with accounting principles accepted by US banks in the matter of segments of operation (ASC 280-10).
2. The distribution to segments of operation in accordance with Management's approach is made according to criteria detailed in item 3 below. This distribution is used by the chief operational decision maker at the Bank for the purpose of determining the work plan, taking decisions and analyzing the business results of the Group. Management of the Bank and the Board of Directors are considered as the chief operational decision maker at the Bank.
3. The Bank has identified the following administrative operating segments:
   - **Banking Division - housing loans** - the segment is responsible for providing housing credit services to customers in this segment.
   - Banking Division – Private customers – the segment includes all the activities of private banking customers and household customers conducted at the Banking Division branches. Moreover, this segment includes also the customers of the PAGI group conducting activities of a similar nature.
   - **Banking Division - other** - the segment includes all activities of small business customers and commercial customers conducted at the Banking Division branches. In addition, the segment includes also the customers of PAGI group, conducting activities of a similar nature.
   - **Corporate Division - corporate customers** - The corporate department of the Division coordinates all activities of large and international corporate customers, having a credit facility of NIS 40 million and over, or an income turnover of NIS 200 million and over, as well as the activity of borrowers in complex credit transactions, such as: communication, diamonds, closed construction projects, factoring and such like.
   - **Corporate Division - commercial customers** - The commercial department handles customers most of whom having a credit facility of between NIS 5 million and up to NIS 40 million, and an income turnover of between NIS 25 million and up to NIS 200 million and the customers of the branches of the corporate division, who are not under authority of the branch manager. In addition, the segment includes the customers of the PAGI group conducting activities of a similar nature.
   - **Corporate Division - other** – small business customers of branches of the Corporate Division.
   - **Customer Assets Division** - The Division is responsible for the Bank's activity with all customers in operations involving the capital market, foreign currency and deposits. It is also responsible for all activities of institutional customers.
   - **Financial Management** - The segment includes the results of operations concerning the asset and liability management of the Bank, including management of market and liquidity risk management in general, the results of management of the "nostro" portfolio of the Bank, including activity with other banks and with Bank of Israel. The segment includes also the Bank's share in the earnings of Israel Credit Cards Ltd.
   - **Subsidiary companies** - The segment includes the results of operation of its banking subsidiary Massad Bank (in 2018 and in the corresponding period last year it included also the activity of Otsar Hahayal Bank).

NOTE 11A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)

- **Adjustments:**

  A part of the results of operations with customers of the Bank is recorded in more than one operating segment, as detailed below:

  - The results of operation in the capital market product, which includes securities activity of customers, the distribution of pension products and deposits from the public, as well as the foreign currency product, are included both in the Customer Assets Division segment and in the Banking Division segments (excluding housing loans) as well as in the Corporate Division segments.
  - The results of operation of certain commercial customers under the responsibility of the Corporate Division are included both in the Corporate Division-commercial customers segment and in the Banking Division-other segment.
  - The results of operation of certain small business customers under the responsibility of the Banking Division are included both in the Banking Division-other segment and in the Corporate Division-other business segment.
  - The results of operation of certain customers under the responsibility of the Customer Assets Division are included both in the Customer Assets Division segment and in the Banking Division segments (excluding housing loans) or in any one of the Corporate Division segments.

The duplicity in the recording of the results of operation as described above is eliminated in the adjustments column.

The adjustments column includes also the elimination of inter-company balances.

For detail regarding the principles of the distribution of the results of operation between the different segments of activity, see note 11.

NOTE 11A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)

(NIS million)

	For the three months ended March 31, 2019 (unaudited)										
	Banking Division			Corporate Division							
	Housing loans	Private customers	Other	Corporate customers	Commercial customers	Other	Customer Asset Division	Financial management	Subsidiary companies	Adjustments	Total
Net interest income	79	206	112	108	72	9	121	13	60	(145)	635
Non-interest income	4	150	53	47	20	6	164	53	12	(142)	367
Total income	83	356	165	155	92	15	285	66	72	(287)	1,002
Expenses (income) in respect of credit losses	(2)	22	14	(25)	25	4	1	-	1	(4)	36
Operating and other expenses	34	326	66	71	52	11	208	13	50	(158)	673
Operating profit before taxes	51	8	85	109	15	-	76	53	21	(125)	293
Provision for taxes on operating profit	18	3	30	43	5	-	27	19	10	(44)	111
Operating profit after taxes	33	5	55	66	10	-	49	34	11	(81)	182
Bank's share in operating profit of investee company after taxes	-	-	-	-	-	-	-	10	-	-	10
Net profit											
Before attribution to non-controlling interests	33	5	55	66	10	-	49	44	11	(81)	192
Attributed to non-controlling interests	-	-	-	-	-	-	-	-	(9)	-	(9)
Attributed to shareholders of the Bank	33	5	55	66	10	-	49	44	2	(81)	183
Average balance of assets[(1)]	24,303	17,961	9,796	22,812	9,125	485	6,263	48,348	6,802	(10,269)	135,626
Balance of credit to the public at the end of the reported period	24,411	19,002	9,955	23,261	9,339	495	6,492	-	4,783	(10,492)	87,246
Balance of deposits from the public at the end of the reported period	-	56,778	15,384	17,777	5,073	2,443	109,738	-	6,812	(98,656)	115,349

(1) Average balance calculated on the basis of balances at the beginning of the quarter or the beginning of the month.

NOTE 11A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)

(NIS million)

	For the three months ended March 31, 2018 (unaudited)									
	Banking Division		Corporate Division							
	Housing loans	Other	Corporate customers	Commercial customers	Other	Customer Asset Division	Financial management	Subsidiary companies	Adjustments	Total
Net interest income	71	205	93	59	7	67	16	165	(99)	584
Non-interest income	4	166	55	20	8	175	27	112	(166)	401
Total income	75	371	148	79	15	242	43	277	(265)	985
Expenses (income) in respect of credit losses	-	15	(10)	5	-	(1)	-	15	3	27
Operating and other expenses	33	364	74	45	13	187	9	202	(190)	737
Operating profit (loss) before taxes	42	(8)	84	29	2	56	34	60	(78)	221
Provision for taxes (tax saving) on operating profit (loss)	18	(3)	35	12	1	23	14	21	(39)	82
Operating profit (loss) after taxes	24	(5)	49	17	1	33	20	39	(39)	139
Bank's share in operating profit of investee company after taxes	-	-	-	-	-	-	6	-	-	6
Net profit (loss)										
Before attribution to non-controlling interests	24	(5)	49	17	1	33	26	39	(39)	145
Attributed to non-controlling interests	-	-	-	-	-	-	-	(8)	-	(8)
Attributed to shareholders of the Bank	24	(5)	49	17	1	33	26	31	(39)	137
Average balance of assets (1)	23,102	16,414	19,972	7,562	483	4,765	47,502	25,152	(8,950)	136,002
Balance of credit to the public at the end of the reported period	23,225	16,716	20,635	7,774	473	5,153	-	18,376	(9,607)	82,745
Balance of deposits from the public at the end of the reported period	-	50,886	18,956	4,949	2,617	88,756	-	24,747	(78,998)	111,913

(1) Average balance calculated on the basis of balances at the beginning of the quarter or the beginning of the month.

NOTE 11A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)
(NIS million)

	For the year ended December 31, 2018 (audited)									
	Banking Division		Corporate Division							
	Housing loans	Other	Corporate customers	Commercial customers	Other	Customer Asset Division	Financial management	Subsidiary companies	Adjustments	Total
Net interest income	295	849	396	243	31	318	100	685	(431)	2,486
Non-interest income	15	650	211	77	31	673	195	416	(631)	1,637
Total income	310	1,499	607	320	62	991	295	1,101	(1,062)	4,123
Expenses (income) in respect of credit losses	1	102	4	24	-	(1)	-	49	(13)	166
Operating and other expenses	125	1,382	260	166	47	728	49	808	(746)	2,819
Operating profit before taxes	184	15	343	130	15	264	246	244	(303)	1,138
Provision for taxes on operating profit	72	6	134	51	6	103	79	84	(127)	408
Operating profit after taxes	112	9	209	79	9	161	167	160	(176)	730
Bank's share in operating profit of investee company after taxes	-	-	-	-	-	-	37	-	-	37
Net profit										
Before attribution to non-controlling interests	112	9	209	79	9	161	204	160	(176)	767
Attributed to non-controlling interests	-	-	-	-	-	-	-	(34)	-	(34)
Attributed to shareholders of the Bank	112	9	209	79	9	161	204	126	(176)	733
Average balance of assets	23,674	16,795	21,014	7,802	512	5,725	43,598	25,933	(9,741)	135,312
Balance of credit to the public at the end of the reported period	24,301	17,285	20,905	8,060	516	6,121	-	18,316	(10,344)	85,160
Balance of deposits from the public at the end of the reported period	-	53,436	18,818	5,088	2,341	87,150	-	26,139	(81,275)	111,697

(1) Average balance calculated on the basis of balances at the beginning of the quarter or the beginning of the month.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES

(NIS million)

A. Debts(1) and off-balance sheet credit instruments

Provision for credit losses

1. Change in provision for credit losses

	For the three months ended March 31, 2019 (unaudited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of the year (audited)	**489**	**119**	**260**	**868**	**-**	**868**
Expenses in respect of credit losses	**20**	**(1)**	**19**	**38**	**-**	**38**
Accounting write-offs	**(54)**	**(1)**	**(28)**	**(83)**	**-**	**(83)**
Collection of debts written off in accounting in previous years	**55**	**1**	**14**	**70**	**-**	**70**
Net accounting write-offs	**1**	**-**	**(14)**	**(13)**	**-**	**(13)**
Provision for credit losses at end of the period	**510**	**118**	**265**	**893**	**-**	**893**
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of the year (audited)	**53**	**-**	**11**	**64**	**-**	**64**
Decrease in the provision	**(2)**	**-**	**-**	**(2)**	**-**	**(2)**
Provision in respect of off-balance sheet credit instruments at end of the period	**51**	**-**	**11**	**62**	**-**	**62**
Total provision for credit losses - debts and off-balance sheet credit instruments	**561**	**118**	**276**	**955**	**-**	**955**

	For the three months ended March 31, 2018 (unaudited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Change in provision for credit losses - Debts						
Provision for credit losses at beginning of the year (audited)	471	115	252	838	-	838
Expenses in respect of credit losses	5	1	13	19	-	19
Accounting write-offs	(37)	-	(29)	(66)	-	(66)
Collection of debts written off in accounting in previous years	31	-	19	50	-	50
Net accounting write-offs	(6)	-	(10)	(16)	-	(16)
Provision for credit losses at end of the period	470	116	255	841	-	841
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of the year (audited)	48	-	13	61	-	61
Increase in the provision	8	-	-	8	-	8
Provision in respect of off-balance sheet credit instruments at end of the period	56	-	13	69	-	69
Total provision for credit losses - debts and off-balance sheet credit instruments	526	116	268	910	-	910

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

A. Debts* and off-balance sheet credit instruments (Cont'd)

2. Additional information regarding the method of calculating the provision for credit losses in respect of debts[(1)] and the underlying debts[(1)]

	March 31, 2019 (unaudited)					
	Credit to the public					
	Commercial [(3)]	Housing	Other private	Total	Banks and Governments	Total
Recorded debt balance of debts[(1)]						
Examined on an individual basis	**36,260**	**-**	**316**	**36,576**	**2,897**	**39,473**
Examined on a collective basis	**5,444**	**24,468**	**20,758**	**50,670**	**-**	**50,670**
Of which: provision for which was calculated according to the extent of arrears	**297**	**24,459**	**-**	**24,756**	**-**	**24,756**
Total debts	**41,704**	**24,468**	**21,074**	**87,246**	**2,897**	**90,143**
Provision for credit losses in respect of debts[(1)]						
Examined on an individual basis	**443**	**-**	**33**	**476**	**-**	**476**
Examined on a collective basis	**67**	**118**	**232**	**417**	**-**	**417**
Of which: provision for which was calculated according to the extent of arrears	**2**	[(2)]**118**	**-**	**120**	**-**	**120**
Total provision for credit losses	**510**	**118**	**265**	**893**	**-**	**893**

	March 31, 2018 (unaudited)					
	Credit to the public					
	Commercial [(3)]	Housing	Other private	Total	Banks and Governments	Total
Recorded debt balance of debts[(1)]						
Examined on an individual basis	34,419	-	237	34,656	2,315	36,971
Examined on a collective basis	5,224	23,151	19,714	48,089	-	48,089
Of which: provision for which was calculated according to the extent of arrears	302	23,137	-	23,439	-	23,439
Total debts	39,643	23,151	19,951	82,745	2,315	85,060
Provision for credit losses in respect of debts[(1)]						
Examined on an individual basis	412	-	32	444	-	444
Examined on a collective basis	58	116	223	397	-	397
Of which: provision for which was calculated according to the extent of arrears	1	[(2)]116	-	117	-	117
Total provision for credit losses	470	116	255	841	-	841

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

A. Debts* and off-balance sheet credit instruments (Cont'd)

2. Additional information regarding the method of calculating the provision for credit losses in respect of debts(1) and the underlying debts(1) (Cont'd)

	December 31, 2018 (audited)					
	Credit to the public					
	Commercial (3)	Housing	Other private	Total	Banks and Governments	Total
Recorded debt balance of debts(1)						
Examined on an individual basis	34,961	-	306	35,267	3,616	38,883
Examined on a collective basis	5,098	24,319	20,476	49,893	-	49,893
Of which: provision for which was calculated according to the extent of arrears	309	24,312	-	24,621	-	24,621
Total debts	40,059	24,319	20,782	85,160	3,616	88,776
Provision for credit losses in respect of debts(1)						
Examined on an individual basis	420	-	30	450	-	450
Examined on a collective basis	69	119	230	418	-	418
Of which: provision for which was calculated according to the extent of arrears	2	(2)119	-	121	-	121
Total provision for credit losses	489	119	260	868	-	868

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

(2) Includes the provision exceeding the amount required according to the method of the extent of arrears, calculated on an collective basis in the amount of approximately NIS 85 million (31.3.18 - NIS 82 million, 31.12.18 - NIS 85 million).

(3) The balance of commercial debts includes housing loans in the amount of NIS 2,809 million, combined in the framework of transaction and collateral of the commercial borrowers or that have been granted to purchase groups at construction stages (31.3.18 - NIS 2,772 million, 31.12.18 - NIS 2,875 million).

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B.Debts[1]

1. Credit quality and arrears

	March 31, 2019 (unaudited)					
		Problematic[2]			Unimpaired debts - additional information	
	Non-problematic	Unimpaired	Impaired [3]	Total	In arrears of 90 days or more[4]	In arrears of 30 to 89 days[5]
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	4,800	62	39	4,901	5	7
Construction and real estate - real estate activities	5,131	12	26	5,169	-	3
Financial services	8,642	11	2	8,655	-	-
Commercial - other	21,847	506	387	22,740	23	41
Total commercial	40,420	591	454	41,465	28	51
Private individuals - housing loans	24,270	[6]188	10	24,468	169	220
Private individuals - others	20,704	267	103	21,074	29	56
Total public - activity in Israel	85,394	1,046	567	87,007	226	327
Banks in Israel	945	-	-	945	-	-
Israeli government	676	-	-	676	-	-
Total activity in Israel	87,015	1,046	567	88,628	226	327
Borrower activity abroad						
Public - commercial						
Construction and real estate	-	-	-	-	-	-
Other commercial	232	-	7	239	-	-
Total commercial	232	-	7	239	-	-
Private individuals	-	-	-	-	-	-
Total public - activity abroad	232	-	7	239	-	-
Banks abroad	1,276	-	-	1,276	-	-
Governments abroad	-	-	-	-	-	-
Total activity abroad	1,508	-	7	1,515	-	-
Total public	85,626	1,046	574	87,246	226	327
Total banks	2,221	-	-	2,221	-	-
Total governments	676	-	-	676	-	-
Total	88,523	1,046	574	90,143	226	327

(1) Credit to the public, credit to government, deposits with banks and other debts, excluding bonds and securities borrowed.
(2) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which a provision based on the extent of arrears exists, and housing loans for which a provision based on the extent of arrears does not exist, which are in arrears of 90 days or more.
(3) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 12.B.2.c. below.
(4) Classified as unimpaired problematic debts, accruing interest income.
(5) Accruing interest income Debts in arrears of 30 to 89 days, in the amount of approximately NIS 107 million (31.3.18 - NIS 89 million) were classified as unimpaired problematic debts.
(6) Includes a balance of housing loans, in the amount of approximately NIS 3 million (31.3.18 - NIS 4 million) with provision based on the extent of arrears, for which an arrangement has been signed for the borrower's repayment of the amounts in arrears, where a change has been made in the repayment, schedule with regard to the balance of the loan not yet due for repayment.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B.Debts(1) (Cont'd)

1. Credit quality and arrears (Cont'd)

	March 31, 2018 (unaudited)					
		Problematic(2)			Unimpaired debts - additional information	
	Non-problematic	Unimpaired	Impaired (3)	Total	In arrears of 90 days or more(4)	In arrears of 30 to 89 days(5)
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	4,190	22	39	4,251	5	5
Construction and real estate - real estate activities	5,079	3	41	5,123	1	-
Financial services	7,280	21	1	7,302	1	5
Commercial - other	21,460	416	334	22,210	27	33
Total commercial	38,009	462	415	38,886	34	43
Private individuals - housing loans	22,982	(6)159	10	23,151	154	221
Private individuals - others	19,614	251	86	19,951	43	46
Total public - activity in Israel	80,605	872	511	81,988	231	310
Banks in Israel	292	-	-	292	-	-
Israeli government	677	-	-	677	-	-
Total activity in Israel	81,574	872	511	82,957	231	310
Borrower activity abroad						
Public - commercial						
Construction and real estate	5	-	-	5	-	-
Other commercial	744	-	8	752	-	-
Total commercial	749	-	8	757	-	-
Private individuals	-	-	-	-	-	-
Total public - activity abroad	749	-	8	757	-	-
Banks abroad	1,346	-	-	1,346	-	-
Governments abroad	-	-	-	-	-	-
Total activity abroad	2,095	-	8	2,103	-	-
Total public	81,354	872	519	82,745	231	310
Total banks	1,638	-	-	1,638	-	-
Total governments	677	-	-	677	-	-
Total	83,669	872	519	85,060	231	310

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B.Debts(1) (Cont'd)

1. Credit quality and arrears (Cont'd)

	December 31, 2018 (audited)					
		Problematic(2)			Unimpaired debts - additional information	
	Non-problematic	Unimpaired	Impaired (3)	Total	In arrears of 90 days or more(4)	In arrears of 30 to 89 days(5)
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	4,491	30	38	4,559	5	12
Construction and real estate - real estate activities	5,058	3	23	5,084	1	-
Financial services	8,505	21	1	8,527	-	8
Commercial - other	20,766	626	297	21,689	22	80
Total commercial	38,820	680	359	39,859	28	100
Private individuals - housing loans	24,121	(6)192	6	24,319	185	235
Private individuals - others	20,421	267	94	20,782	30	60
Total public - activity in Israel	83,362	1,139	459	84,960	243	395
Banks in Israel	1,206	-	-	1,206	-	-
Israeli government	700	-	-	700	-	-
Total activity in Israel	85,268	1,139	459	86,866	243	395
Borrower activity abroad						
Public - commercial						
Construction and real estate	-	-	-	-	-	-
Other commercial	192	-	8	200	-	-
Total commercial	192	-	8	200	-	-
Private individuals	-	-	-	-	-	-
Total public - activity abroad	192	-	8	200	-	-
Banks abroad	1,710	-	-	1,710	-	-
Governments abroad	-	-	-	-	-	-
Total activity abroad	1,902	-	8	1,910	-	-
Total public	83,554	1,139	467	85,160	243	395
Total banks	2,916	-	-	2,916	-	-
Total governments	700	-	-	700	-	-
Total	87,170	1,139	467	88,776	243	395

(1) Credit to the public, credit to government, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
(2) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which a provision based on the extent of arrears exists, and housing loans for which a provision based on the extent of arrears does not exist, which are in arrears of 90 days or more.
(3) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 12.B.2.c. below.
(4) Classified as unimpaired problematic debts, accruing interest income.
(5) Accruing interest income Debts in arrears of 30 to 89 days, in the amount of approximately NIS 160 million were classified as unimpaired problematic debts.
(6) Includes a balance of housing loans, in the amount of approximately NIS 6 million with provision based on the extent of arrears, for which an arrangement has been signed for the borrower's repayment of the amounts in arrears, where a change has been made in the repayment, schedule with regard to the balance of the loan not yet due for repayment.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

Credit quailty - the status of debts in arrears

The credit risk policy of the Bank defines principal indicators for the examination of credit quality, among which are the default situation, rating of the customer, status of the collateral etc. The status of debts in arrears is monitored routinely, and serves as one of the key indicators of credit quality. The status of debts in arrears is determined based on actual days of arrears. Debts which are evaluated on an individual basis, are treated as nonperforming debts (debts not accruing interest income) after 90 days of arrears. In addition, debts restructuring of problematic debts, are treated as impaired debts. With regard to debts evaluated on a collective basis, the status of arrears effects the classification of the debt (the classification is more severe for more extensive arrears) and mostly after 150 days of arrears, the Bank performs an accounting write-off of the debt up to the extent of the collateral. With regard to housing loans, with the exception of loans without quarterly or monthly payments, the Bank establishes an allowance according to the method of the extent of arrears.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts [1](Cont'd)

2. Additional information regarding impaired debts

	March 31, 2019 (unaudited)				
A. Impaired debts and the individual provision	Balance[2] of impaired debts for which an individual provision exists[3]	Individual provision[3]	Balance[2] of impaired debts for which no individual provision exists[3]	Total Balance[2] of impaired debts	Balance of contractual principal of impaired debts
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	24	8	15	39	797
Construction and real estate - real estate activities	5	2	21	26	735
Financial services	2	1	-	2	924
Commercial - other	352	129	35	387	1,886
Total commercial	383	140	71	454	4,342
Private individuals - housing loans	-	-	10	10	11
Private individuals - others	93	25	10	103	198
Total public - activity in Israel	476	165	91	567	4,551
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	476	165	91	567	4,551
Borrower activity abroad					
Public - commercial					
Construction and real estate	-	-	-	-	-
Other commercial	-	-	7	7	24
Total commercial	-	-	7	7	24
Private individuals	-	-	-	-	-
Total public - activity abroad	-	-	7	7	24
Banks abroad	-	-	-	-	-
Government abroad	-	-	-	-	-
Total activity abroad	-	-	7	7	24
Total public	476	165	98	574	4,575
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total(*)	476	165	98	574	4,575
(*) Of which:					
Measured at the present value of cash flows	464	164	43	507	
Debts in troubled debt restructuring	222	75	32	254	

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.
(2) Recorded debt balance.
(3) Individual provision for credit losses.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts(1) (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

	March 31, 2018 (unaudited)				
A. Impaired debts and the individual provision	Balance(2) of impaired debts for which an individual provision exists(3)	Individual provision(3)	Balance(2) of impaired debts for which no individual provision exists(3)	Total Balance(2) of impaired debts	Balance of contractual principal of impaired debts
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	35	15	4	39	845
Construction and real estate - real estate activities	21	4	20	41	645
Financial services	1	1	-	1	803
Commercial - other	288	121	46	334	1,578
Total commercial	345	141	70	415	3,871
Private individuals - housing loans	-	-	10	10	10
Private individuals - others	77	25	9	86	179
Total public - activity in Israel	422	166	89	511	4,060
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	422	166	89	511	4,060
Borrower activity abroad					
Public - commercial					
Construction and real estate	-	-	-	-	-
Other commercial	-	-	8	8	68
Total commercial	-	-	8	8	68
Private individuals	-	-	-	-	-
Total public - activity abroad	-	-	8	8	68
Banks abroad	-	-	-	-	-
Government abroad	-	-	-	-	-
Total activity abroad	-	-	8	8	68
Total public	422	166	97	519	4,128
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total(*)	422	166	97	519	4,128
(*) Of which:					
Measured at the present value of cash flows	421	165	46	467	
Debts in troubled debt restructuring	228	78	34	262	

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts[1] (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

					December 31, 2018 (audited)
A. Impaired debts and the individual provision	Balance[2] of impaired debts for which an individual provision exists[3]	Individual provision[3]	Balance[2] of impaired debts for which no individual provision exists[3]	Total Balance[2] of impaired debts	Balance of contractual principal of impaired debts
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	25	10	13	38	869
Construction and real estate - real estate activities	5	1	18	23	700
Financial services	1	-	-	1	896
Commercial - other	273	110	24	297	1,700
Total commercial	304	121	55	359	4,165
Private individuals - housing loans	-	-	6	6	6
Private individuals - others	86	23	8	94	192
Total public - activity in Israel	390	144	69	459	4,363
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	390	144	69	459	4,363
Borrower activity abroad					
Public - commercial					
Construction and real estate	-	-	-	-	-
Other commercial	-	-	8	8	70
Total commercial	-	-	8	8	70
Private individuals	-	-	-	-	-
Total public - activity abroad	-	-	8	8	70
Banks abroad	-	-	-	-	-
Government abroad	-	-	-	-	-
Total activity abroad	-	-	8	8	70
Total public	390	144	77	467	4,433
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total(*)	390	144	77	467	4,433
(*) Of which:					
Measured at the present value of cash flows	379	144	27	406	
Debts in troubled debt restructuring	200	68	33	233	

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.
(2) Recorded debt balance.
(3) Individual provision for credit losses.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts(1) (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

	For the three months ended March 31					
			2019			2018
			(unaudited)			(unaudited)
B. Average balance and interest income	**Average balance of impaired debts(2)**	**Interest income recorded(3)**	**Of which: recorded on a cash basis**	**Average balance of impaired debts(2)**	**Interest income recorded(3)**	**Of which: recorded on a cash basis**
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	**38**	**-**	**-**	46	-	-
Construction and real estate - real estate activities	**25**	**-**	**-**	41	-	-
Financial services	**1**	**-**	**-**	1	-	-
Commercial - other	**342**	**1**	**-**	334	-	-
Total commercial	**406**	**1**	**-**	422	-	-
Private individuals - housing loans	**8**	**-**	**-**	9	-	-
Private individuals - others	**99**	**1**	**-**	87	1	-
Total public - activity in Israel	**513**	**2**	**-**	518	1	-
Banks in Israel	**-**	**-**	**-**	-	-	-
Israeli government	**-**	**-**	**-**	-	-	-
Total activity in Israel	**513**	**2**	**-**	518	1	-
Borrower activity abroad						
Public - commercial						
Construction and real estate	**-**	**-**	**-**	-	-	-
Other commercial	**8**	**-**	**-**	8	-	-
Total commercial	**8**	**-**	**-**	8	-	-
Private individuals	**-**	**-**	**-**	-	-	-
Total public - activity abroad	**8**	**-**	**-**	8	-	-
Banks abroad	**-**	**-**	**-**	-	-	-
Government abroad	**-**	**-**	**-**	-	-	-
Total activity abroad	**8**	**-**	**-**	8	-	-
Total public	**521**	**2**	**-**	526	1	-
Total banks	**-**	**-**	**-**	-	-	-
Total governments	**-**	**-**	**-**	-	-	-
Total	**521**	(4)**2**	**-**	526	(4)1	-

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.
(2) Average recorded debt balance of impaired debts to the public in the reported period
(3) Interest income recognized in the reported period in respect of the average balance of impaired debts, during the period of time in which the debts have been classified as impaired.
(4) If the impaired debts were accruing interest in respect of the original terms, an interest income in the amount of NIS 7 million was recorded in three months ended March 31, 2019 (for three months ended March 31, 2018 - NIS 9 million).

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts[1] (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

	March 31, 2019 (unaudited)				
	Recorded debt balance				
C. Troubled debt restructuring	Not accruing interest income	accruing[2] in arrears of 90 days or more	accruing[2] in arrears of 30 to 89 days	Accruing[2], not in arrears	Total[3]
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	11	-	-	1	12
Construction and real estate - real estate activities	2	-	-	4	6
Financial services	1	-	-	-	1
Commercial - other	121	-	-	16	137
Total commercial	135	-	-	21	156
Private individuals - housing loans	-	-	-	-	-
Private individuals - others	65	-	-	25	90
Total public - activity in Israel	200	-	-	46	246
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	200	-	-	46	246
Borrower activity abroad					
Public - commercial					
Construction and real estate	-	-	-	-	-
Other commercial	8	-	-	-	8
Total commercial	8	-	-	-	8
Private individuals	-	-	-	-	-
Total public - activity abroad	8	-	-	-	8
Banks abroad	-	-	-	-	-
Governments abroad	-	-	-	-	-
Total activity abroad	8	-	-	-	8
Total public	208	-	-	46	254
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	208	-	-	46	254

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.
(2) Accruing interest income.
(3) Included in impaired debts.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts[1] (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

	March 31, 2018 (unaudited)				
	Recorded debt balance				
C. Troubled debt restructuring	Not accruing interest income	accruing [2] in arrears of 90 days or more	accruing [2] in arrears of 30 to 89 days	Accruing[2], not in arrears	Total[3]
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	9	-	-	2	11
Construction and real estate - real estate activities	7	-	-	4	11
Financial services	1	-	-	-	1
Commercial - other	143	-	-	15	158
Total commercial	160	-	-	21	181
Private individuals - housing loans	-	-	-	-	-
Private individuals - others	52	-	-	21	73
Total public - activity in Israel	212	-	-	42	254
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	212	-	-	42	254
Borrower activity abroad					
Public - commercial					
Construction and real estate	-	-	-	-	-
Other commercial	8	-	-	-	8
Total commercial	8	-	-	-	8
Private individuals	-	-	-	-	-
Total public - activity abroad	8	-	-	-	8
Banks abroad	-	-	-	-	-
Governments abroad	-	-	-	-	-
Total activity abroad	8	-	-	-	8
Total public	220	-	-	42	262
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	220	-	-	42	262

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.
(2) Accruing interest income.
(3) Included in impaired debts.

(NIS million)

B. Debts[1] (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

	December 31, 2018 (audited)				
	Recorded debt balance				
C. Troubled debt restructuring (Cont'd)	Not accruing interest income	accruing [2] in arrears of 90 days or more	accruing [2] in arrears of 30 to 89 days	Accruing[2], not in arrears	Total[3]
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	6	-	-	5	11
Construction and real estate - real estate activities	2	-	-	4	6
Financial services	1	-	-	-	1
Commercial - other	108	-	-	16	124
Total commercial	117	-	-	25	142
Private individuals - housing loans	-	-	-	-	-
Private individuals - others	59	-	-	24	83
Total public - activity in Israel	176	-	-	49	225
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	176	-	-	49	225
Borrower activity abroad					
Public - commercial					
Construction and real estate	-	-	-	-	-
Other commercial	8	-	-	-	8
Total commercial	8	-	-	-	8
Private individuals	-	-	-	-	-
Total public - activity abroad	8	-	-	-	8
Banks abroad	-	-	-	-	-
Governments abroad	-	-	-	-	-
Total activity abroad	8	-	-	-	8
Total public	184	-	-	49	233
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	184	-	-	49	233

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.
(2) Accruing interest income.
(3) Included in impaired debts.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts[1] (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

C. Troubled debt restructuring (Cont'd)	Restructuring made, For the three months ended March 31, 2019: Number of contracts	2019: Debt balance before restructuring	2019: Debt balance after restructuring	2018 (unaudited): Number of contracts	2018 (unaudited): Debt balance before restructuring	2018 (unaudited): Debt balance after restructuring
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	**10**	**2**	**2**	5	-	-
Construction and real estate - real estate activities	**1**	**1**	**1**	1	1	1
Financial services	**-**	**-**	**-**	1	1	1
Commercial - other	**110**	**25**	**25**	58	16	16
Total commercial	**121**	**28**	**28**	65	18	18
Private individuals - housing loans	**-**	**-**	**-**	-	-	-
Private individuals - others	**368**	**18**	**18**	256	10	10
Total public - activity in Israel	**489**	**46**	**46**	321	28	28
Banks in Israel	**-**	**-**	**-**	-	-	-
Israeli government	**-**	**-**	**-**	-	-	-
Total activity in Israel	**489**	**46**	**46**	321	28	28
Borrower activity abroad						
Public - commercial						
Construction and real estate	**-**	**-**	**-**	**-**	**-**	**-**
Other commercial	**-**	**-**	**-**	-	-	-
Total commercial	**-**	**-**	**-**	-	-	-
Private individuals	**-**	**-**	**-**	-	-	-
Total public - activity abroad	**-**	**-**	**-**	-	-	-
Banks abroad	**-**	**-**	**-**	-	-	-
Governments abroad	**-**	**-**	**-**	-	-	-
Total activity abroad	**-**	**-**	**-**	-	-	-
Total public	**489**	**46**	**46**	321	28	28
Total banks	**-**	**-**	**-**	-	-	-
Total governments	**-**	**-**	**-**	-	-	-
Total	**489**	**46**	**46**	321	28	28

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities that were borrowed.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts[1] (Cont'd)

2. Additional information regarding impaired debts (Cont'd)

	Restructuring made and failed [2]			
	For the three months ended March 31			
	2019		2018	
			(unaudited)	
c. **Troubled debt restructuring** (Cont'd)	**Number of contracts**	**Balance of debt recorded**	**Number of contracts**	**Balance of debt recorded**
Borrower activity in Israel				
Public - commercial				
Construction and real estate - construction	**5**	**2**	5	-
Construction and real estate - real estate activities	**-**	**-**	-	-
Financial services	**1**	**-**	1	1
Commercial - other	**46**	**4**	30	3
Total commercial	**52**	**6**	36	4
Private individuals - housing loans	**-**	**-**	-	-
Private individuals - others	**132**	**4**	141	3
Total public - activity in Israel	**184**	**10**	177	7
Banks in Israel	**-**	**-**	-	-
Israeli government	**-**	**-**	-	-
Total activity in Israel	**184**	**10**	177	7
Borrower activity abroad				
Public - commercial				
Construction and real estate	**-**	**-**	-	-
Other commercial	**-**	**-**	-	-
Total commercial	**-**	**-**	-	-
Private individuals	**-**	**-**	-	-
Total public - activity abroad	**-**	**-**	-	-
Banks abroad	**-**	**-**	-	-
Governments abroad	**-**	**-**	-	-
Total activity abroad	**-**	**-**	-	-
Total public	**184**	**10**	177	7
Total banks	**-**	**-**	-	-
Total governments	**-**	**-**	-	-
Total	**184**	**10**	177	7

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities that were borrowed.

(2) Debts that became debts in arrears of 30 days or more during the reported period which were restructured as a problematic debt during the 12 months that preceded the date in which they became debts in arrears.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

B. Debts(1) (Cont'd)

3. Additional information regarding housing loans

Year-end balances by financing ratio (LTV) (*), repayment type, and interest type

	March 31, 2019 (unaudited)			
	Balance of housing loans			Total Off-balance sheet credit risk
	Total	Of which: bullet and balloon	OF which: floating interest rate	
First lien financing rate				
- Up to 60%	**16,996**	**268**	**10,212**	**1,106**
- Over 60%	**7,061**	**71**	**4,464**	**574**
Secondary lien or no lien	**411**	**111**	**389**	**-**
Total	**24,468**	**450**	**15,065**	**1,680**

	March 31, 2018 (unaudited)			
	Balance of housing loans			Total Off-balance sheet credit risk
	Total	Of which: bullet and balloon	OF which: floating interest rate	
First lien financing rate				
- Up to 60%	16,278	362	9,786	1,090
- Over 60%	6,561	82	4,256	492
Secondary lien or no lien	312	70	290	-
Total	23,151	514	14,332	1,582

	December 31, 2018 (audited)			
	Balance of housing loans			Total Off-balance sheet credit risk
	Total	Of which: bullet and balloon	OF which: floating interest rate	
First lien financing rate				
- Up to 60%	16,859	287	10,126	899
- Over 60%	7,078	71	4,487	411
Secondary lien or no lien	382	108	362	-
Total	24,319	466	14,975	1,310

* Ratio of the approved credit facility, when the facility was provided, to the value of the asset, as approved by the Bank when the facility was provided. The LTV ratio constitute an additional indication of the Bank for assessing the customer's risk in time of approving the credit facility.

NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

C. Off-balance sheet financial instruments

	Balance of contracts[1]			Balance of provision for credit losses		
	31.3.19	**31.3.18**	**31.12.18**	**31.3.19**	**31.3.18**	**31.12.18**
	(unaudited)	(unaudited)	(audited)	(unaudited)	(unaudited)	(audited)
Transactions the balance of which represents credit risk:						
Documentary credit	**461**	520	281	**1**	1	1
Guarantees securing credit	**893**	884	881	**7**	9	8
Guarantees to home purchasers	**2,720**	2,814	2,716	**5**	10	5
Guarantees and other liabilities	**4,055**	3,923	4,020	**24**	19	23
Unutilized credit lines for derivatives instruments	**2,369**	2,379	2,405	**-**	-	-
Unutilized revolving credit and other on-call credit facilities	**9,561**	*8,175	9,568	**13**	16	11
Irrevocable commitments to grant credit, not yet executed	**4,830**	4,417	5,273	**4**	4	7
Unutilized credit lines for credit card facilities	**7,471**	7,197	7,478	**4**	4	4
Facilities for the lending of securities	**402**	414	248	**-**	-	-
Required guarantees and collateral in respect of the Stock Exchange and Maof Clearing Houses	**145**	165	143	**-**	-	-
Commitments to issue guarantees	**1,213**	1,674	1,406	**4**	6	5
Transactions the stated amount of which does not represents credit risk:						
Guarantees (including guarantees to the courts for claims which may arise upon the occurrence of certain events) and letters of indemnity[2]	**83**	83	80	**-**	-	-

* Reclassified.

(1) Balance of contracts or their stated amounts at the end of the period, before provision for credit losses.

(2) In addition, the Bank provided the courts with letters of self-undertaking unlimited in amounts, given in connection with legal proceedings, in order to secure compensation for the damage to the defendants in the event that the action against them is dismissed or the legal proceedings terminated because of any other reason.

NOTE 13 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES

(NIS million)

	March 31, 2019 (unaudited)						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the consumer price index	U.S. dollar	Euro	Other	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	**32,528**	**-**	**1,177**	**212**	**191**	**-**	**34,108**
Securities	**3,596**	**608**	**5,142**	**1,750**	**13**	**229**	**11,338**
Securities which were borrowed	**664**	**-**	**-**	**-**	**-**	**-**	**664**
Credit to the public, net[3]	**71,522**	**10,215**	**3,222**	**816**	**107**	**471**	**86,353**
Credit to the government	**56**	**620**	**-**	**-**	**-**	**-**	**676**
Investee company	**-**	**-**	**-**	**-**	**-**	**617**	**617**
Premises and equipment	**-**	**-**	**-**	**-**	**-**	**1,011**	**1,011**
Intangible assets and goodwill	**-**	**-**	**-**	**-**	**-**	**231**	**231**
Assets in respect of derivative instruments	**284**	**52**	**291**	**31**	**8**	**275**	**941**
Other assets	**726**	**1**	**12**	**4**	**-**	**301**	**1,044**
Total assets	**109,376**	**11,496**	**9,844**	**2,813**	**319**	**3,135**	**136,983**
Liabilities							
Deposits from the public	**88,649**	**5,857**	**16,225**	**3,052**	**1,093**	**473**	**115,349**
Deposits from banks	**772**	**-**	**238**	**50**	**4**	**-**	**1,064**
Deposits from the Government	**585**	**120**	**72**	**1**	**1**	**-**	**779**
Bonds and subordinated capital notes	**469**	**3,801**	**-**	**-**	**-**	**-**	**4,270**
Liabilities in respect of derivative instruments	**392**	**14**	**259**	**79**	**5**	**272**	**1,021**
Other liabilities	**5,379**	**157**	**74**	**4**	**7**	**341**	**5,962**
Total liabilities	**96,246**	**9,949**	**16,868**	**3,186**	**1,110**	**1,086**	**128,445**
Difference	**13,130**	**1,547**	**(7,024)**	**(373)**	**(791)**	**2,049**	**8,538**
Non-hedging derivatives							
Derivative instruments (not including options)	**(8,177)**	**93**	**6,542**	**702**	**840**	**-**	**-**
Options in the money, net (in terms of underlying asset)	**(118)**	**-**	**333**	**(216)**	**1**	**-**	**-**
Options out of the money, net (in terms of underlying asset)	**111**	**-**	**(8)**	**(104)**	**1**	**-**	**-**
Total	**4,946**	**1,640**	**(157)**	**9**	**51**	**2,049**	**8,538**
Options in the money, net (present value of stated amount)	**(167)**	**-**	**371**	**(207)**	**3**	**-**	**-**
Options out of the money, net (present value of stated amount)	**170**	**-**	**74**	**(249)**	**5**	**-**	**-**

(1) Including linked to foreign currency.
(2) Including derivatives instruments which their underlying assets represent non-monetary item.
(3) After deduction of provisions for credit losses attributed to the linkage base.

NOTE 13 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES (CONT'D)

(NIS million)

	March 31, 2018 (unaudited)						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the consumer price index	U.S. dollar	Euro	Other	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	32,699	139	1,247	210	186	-	34,481
Securities	2,905	975	4,642	1,697	14	238	10,471
Securities which were borrowed	637	-	-	-	-	-	637
Credit to the public, net[3]	67,328	9,942	2,899	1,036	281	418	81,904
Credit to the government	59	618	-	-	-	-	677
Investee company	-	-	-	-	-	571	571
Premises and equipment	-	-	-	-	-	1,046	1,046
Intangible assets and goodwill	-	-	-	-	-	228	228
Assets in respect of derivative instruments	207	50	327	150	23	432	1,189
Other assets	591	4	482	2	2	316	1,397
Assets held for sale	-	-	-	-	-	35	35
Total assets	104,426	11,728	9,597	3,095	506	3,284	132,636
Liabilities							
Deposits from the public	86,590	5,977	14,556	3,114	1,254	422	111,913
Deposits from banks	93	127	114	19	6	-	359
Deposits from the Government	386	302	57	3	1	-	749
Bonds and subordinated capital notes	701	4,279	-	-	-	-	4,980
Liabilities in respect of derivative instruments	219	15	211	86	9	427	967
Other liabilities	5,031	138	64	15	12	338	5,598
Total liabilities	93,020	10,838	15,002	3,237	1,282	1,187	124,566
Difference	11,406	890	(5,405)	(142)	(776)	2,097	8,070
Non-hedging derivatives							
Derivative instruments (not including options)	(5,887)	(146)	5,226	(15)	822	-	-
Options in the money, net (in terms of underlying asset)	(33)	-	(109)	142	-	-	-
Options out of the money, net (in terms of underlying asset)	(276)	-	286	(10)	-	-	-
Total	5,210	744	(2)	(25)	46	2,097	8,070
Options in the money, net (present value of stated amount)	(71)	-	(113)	184	-	-	-
Options out of the money, net (present value of stated amount)	(54)	-	946	(895)	3	-	-

(1) Including linked to foreign currency.
(2) Including derivatives instruments which their underlying assets represent non-monetary item.
(3) After deduction of provisions for credit losses attributed to the linkage base.

NOTE 13 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES (CONT'D)

(NIS million)

	December 31, 2018 (audited)						
	Israeli currency		Foreign currency(1)				
	Non-linked	Linked to the consumer price index	U.S. dollar	Euro	Other	Non-monetary items(2)	Total
Assets							
Cash and deposits with banks	29,326	-	1,570	216	191	-	31,303
Securities	4,250	712	5,632	1,761	13	227	12,595
Securities which were borrowed	863	-	-	-	-	-	863
Credit to the public, net(3)	69,600	10,073	3,161	808	96	554	84,292
Credit to the government	71	622	7	-	-	-	700
Investee company	-	-	-	-	-	606	606
Premises and equipment	-	-	-	-	-	1,023	1,023
Intangible assets and goodwill	-	-	-	-	-	239	239
Assets in respect of derivative instruments	135	47	477	58	30	652	1,399
Other assets	653	5	13	3	1	425	1,100
Total assets	104,898	11,459	10,860	2,846	331	3,726	134,120
Liabilities							
Deposits from the public	86,317	5,858	14,845	3,004	1,119	554	111,697
Deposits from banks	1,003	-	121	23	3	-	1,150
Deposits from the Government	705	225	49	2	1	-	982
Bonds and subordinated capital notes	712	4,277	-	-	-	-	4,989
Liabilities in respect of derivative instruments	151	13	410	61	8	651	1,294
Other liabilities	4,918	137	64	12	6	458	5,595
Total liabilities	93,806	10,510	15,489	3,102	1,137	1,663	125,707
Difference	11,092	949	(4,629)	(256)	(806)	2,063	8,413
Non-hedging derivatives							
Derivative instruments (not including options)	(5,198)	96	4,151	96	855	-	-
Options in the money, net (in terms of underlying asset)	(139)	-	36	99	4	-	-
Options out of the money, net (in terms of underlying asset)	(251)	-	245	5	1	-	-
Total	5,504	1,045	(197)	(56)	54	2,063	8,413
Options in the money, net (present value of stated amount)	(254)	-	106	142	6	-	-
Options out of the money, net (present value of stated amount)	(876)	-	551	327	(2)	-	-

(1) Including linked to foreign currency.
(2) Including derivatives instruments which their underlying assets represent non-monetary item.
(3) After deduction of provisions for credit losses attributed to the linkage base.

NOTE 14A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS

(NIS million)

					March 31, 2019 (unaudited)
	Stated in the				Fair value[1]
	Balance Sheet	(1)	(2)	(3)	Total
Financial assets					
Cash and deposits with banks	**34,108**	**729**	**33,388**	**11**	**34,128**
Securities[2]	**11,338**	**4,208**	**7,067**	**136**	**11,411**
Securities which were borrowed	**664**	**-**	**664**	**-**	**664**
Credit to the public, net	**86,353**	**3,580**	**284**	**82,852**	**86,716**
Credit to the government	**676**	**-**	**52**	**624**	**676**
Assets in respect of derivative instruments	**941**	**445**	**353**	**143**	**941**
Other financial assets	**556**	**312**	**-**	**244**	**556**
Total financial assets	[3]**134,636**	**9,274**	**41,808**	**84,010**	**135,092**
Financial liabilities					
Deposits from the public	**115,349**	**3,941**	**80,305**	**30,521**	**114,767**
Deposits from Banks	**1,064**	**-**	**1,052**	**17**	**1,069**
Deposits from the Government	**779**	**394**	**332**	**61**	**787**
Bonds and non-convertible subordinated capital notes	**4,270**	**3,919**	**-**	**459**	**4,378**
Liabilities in respect of derivative instruments	**1,021**	**465**	**542**	**14**	**1,021**
Other financing liabilities	**4,584**	**536**	**308**	**3,738**	**4,582**
Total financial liabilities	[3]**127,067**	**9,255**	**82,539**	**34,810**	**126,604**
Off balance sheet financial instruments					
Transaction were the balance represents credit risk	**35**	**-**	**-**	**35**	**35**
In addition, the liability in respect of employee rights, gross - pension and severance pay[4]	**1,046**	**-**	**-**	**1,046**	**1,046**

(1) Level 1 - fair value measurements using prices quoted in an active market.
Level 2 - fair value measurements using other significant observable data.
Level 3 - fair value measurements using significant unobservable data.

(2) For further details of the stated balance and the fair value of securities, see Note 5, "Securities".

(3) Of which: assets of NIS 14,307 million and liabilities of NIS 5,894 million, the stated balance of which is identical to their fair value (instruments reflected in the balance sheet at fair value). For further information regarding instruments measured at fair value on a recurring basis and on a non-recurring basis, see note 14B-14D.

(4) The liability in shown gross, without taking into account the plan assets managed against it.

NOTE 14A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONT'D)

(NIS million)

					March 31, 2018 (unaudited)
	Stated in the				Fair value[1]
	Balance Sheet	(1)	(2)	(3)	Total
Financial assets					
Cash and deposits with banks	34,481	667	33,680	137	34,484
Securities[2]	10,471	3,906	6,514	125	10,545
Securities which were borrowed	637	-	637	-	637
Credit to the public, net	81,904	3,115	1,157	77,757	82,029
Credit to the government	677	-	48	627	675
Assets in respect of derivative instruments	1,189	544	317	328	1,189
Other financial assets	840	298	-	542	840
Total financial assets	[3]130,199	8,530	42,353	79,516	130,399
Financial liabilities					
Deposits from the public	111,913	2,646	*80,649	*28,241	111,536
Deposits from Banks	359	-	216	151	367
Deposits from the Government	749	302	388	69	759
Bonds and non-convertible subordinated capital notes	4,980	4,472	-	718	5,190
Liabilities held for sale	967	544	406	17	967
Other financing liabilities	4,344	603	1,157	2,582	4,342
Total financial liabilities	[3]123,312	8,567	82,816	31,778	123,161
Off balance sheet financial instruments					
Transaction were the balance represents credit risk	35	-	-	35	35
In addition, the liability in respect of employee rights, gross - pension and severance pay[4]	1,184	-	-	1,184	1,184

* Reclassified

(1) Level 1 - fair value measurements using prices quoted in an active market.
Level 2 - fair value measurements using other significant observable data.
Level 3 - fair value measurements using significant unobservable data.

(2) For further details of the stated balance and the fair value of securities, see Note 5, "Securities".

(3) Of which: assets of NIS 13,709 million and liabilities of NIS 4,522 million, the stated balance of which is identical to their fair value (instruments reflected in the balance sheet at fair value). For further information regarding instruments measured at fair value on a recurring basis and on a non-recurring basis, see note 14B-14D.

NOTE 14A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONT'D)

(NIS million)

	December 31, 2018 (audited)				
	Stated in the Balance Sheet	Fair value(1) (1)	(2)	(3)	Total
Financial assets					
Cash and deposits with banks	31,303	680	30,634	8	31,322
Securities(2)	12,595	4,917	7,575	135	12,627
Securities which were borrowed	863	-	863	-	863
Credit to the public, net	84,292	3,400	1,167	79,543	84,110
Credit to the government	700	-	76	623	699
Assets in respect of derivative instruments	1,399	805	342	252	1,399
Other financial assets	591	426	-	165	591
Total financial assets	(3)131,743	10,228	40,657	80,726	131,611
Financial liabilities					
Deposits from the public	111,697	3,431	78,059	29,480	110,970
Deposits from Banks	1,150	-	1,146	14	1,160
Deposits from the Government	982	671	253	66	990
Bonds and non-convertible subordinated capital notes	4,989	4,574	-	495	5,069
Liabilities in respect of derivative instruments	1,294	804	477	13	1,294
Other financing liabilities	4,355	586	1,166	2,600	4,352
Total financial liabilities	(3)124,467	10,066	81,101	32,668	123,835
Off balance sheet financial instruments					
Transaction were the balance represents credit risk	32	-	-	32	32
In addition, the liability in respect of employee rights, gross - pension and severance pay (4)	1,109	-	-	1,109	1,109

(1) Level 1 - fair value measurements using prices quoted in an active market.
Level 2 - fair value measurements using other significant observable data.
Level 3 - fair value measurements using significant unobservable data.

(2) For further details of the stated balance and the fair value of securities, see Note 5, "Securities".

(3) Of which: assets of NIS 15,886 million and liabilities of NIS 5,986 million, the stated balance of which is identical to their fair value (instruments reflected in the balance sheet at fair value). For further information regarding instruments measured at fair value on a recurring basis and on a non-recurring basis, see note 14B-14D.

(4) The liability in shown gross, without taking into account the plan assets managed against it.

NOTE 14A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONT'D)

(NIS million)

A. Fair value of financial instruments.

The Note includes information regarding the fair value of financial instruments. There is no quotable "market value" for most of the financial instruments of the Bank since they are not traded in an active market. Therefore, the fair value is derived by accepted pricing models, such as discounting future cash flows at interest rates reflecting the credit risk inherent in the financial instrument.

Determination of fair value, estimated by discounting future cash flows and determining the relative interest rates is subjective. Furthermore, the fair value estimations for most of the financial instruments does not necessarily indicate the realizable value on the reporting date. The estimated fair value was calculated according to interest rates prevailing on balance sheet date and does not consider interest rate fluctuations. Given other interest rate assumptions fair value estimates may differ materially. This is mainly the case where financial instruments have fixed interest rates or do not bear interest.

In addition, in determining fair value, commissions to be received or paid as a result of the said transactions and tax effects, in respect of the gap between the fair value and the balances at the balance sheet, were not taken into consideration.

Furthermore, the difference between the balance sheet and the fair value amounts may not be realized as the Bank may hold the instruments until maturity. As a result of all of these it is necessary to emphasize that the data included in this note does not reflect the net worth of the Bank as a going concern. Also, as a result of the wide range of possible estimation techniques and methods, care should be taken when comparing fair value of different banks.

(NIS million)

B. Principal methods and assumptions used for the calculation of the fair value estimates of financial instruments

Marketable securities - According to their value in the principal market. Where there are several markets on which the instrument is traded, the assessment is made according to the most beneficial market.

Credit to the public - The fair value of the credit to the public balance was estimated according to discounting the future cash flows in an appropriate discount rate. The balance was separated into homogenous categories. The receipts in each category were discounted at a discount rate which reflects the risk inherent in the category. In general, this discount rate is determined according to the interest at which the Bank transacts similar business at the reporting date.

The fair value of impaired debts is assessed using discount rates that reflect the high credit risk inherent in such debts. In any event, such discount rates are not lower than the highest interest rate used by the Bank in transacting business at the reporting date.

Anticipated future cash flows in respect of impaired debts and other debts have been assessed after deducting the effect of accounting write-offs and of provisions for credit losses in respect of the debts.

Accounting write-offs and provisions for credit losses are attributed, where possible, to periods in which these debts had been classified (example: where the provision was assessed on a specific basis, by the present value of future cash flows). In the absence of such data, accounting write-offs and provisions for credit losses are attributed proportionally to the outstanding balance of credit according to maturity periods at end of the period.

Cash flows in respect of mortgages have been assessed according to the premature repayment forecast, which is based on a statistical model.

Deposits and subordinate capital notes - By discounting future cash flows according to interest rates used by the Group in raising similar deposits (if a quoted price on an active market is not available), or issuing similar capital notes, at reporting date. As regards bonds and subordinate debt notes that are traded as an asset on an active market, fair value is based upon quoted market prices or dealers' quotations for identical liability traded as an asset on an active market.

Cash flows in respect of demand deposits (current accounts balances) were spread based on statistical model for forecasting stable balances.

Derivative financial instruments - Derivative financial instruments for which an active market exists have been estimated at market value, and where several active markets exist, have been estimated according to the most beneficial market.

Derivative financial instruments for which no active market exists have been calculated according to models which are used by the Group in current activity and take into account the inherent risks of the financial instrument (market risk, credit risk, etc.).

Off-balance sheet financial instruments and transactions the balance of which represents credit risk - the fair value has been assessed in accordance with commission earned in similar transactions at the reporting date, adjusted in respect of the remaining period of the transaction and the credit quality of the counterparty.

NOTE 14B - ITEMS MEASURED AT FAIR VALUE
(NIS million)

A. Items measured at fair value on a recurrent basis

	March 31, 2019 (unaudited)				
	Fair-value measurements using -				
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Effect of netting agreements	Balance sheet balance
Assets					
Bonds available for sale and shares not for trading	**2,457**	**6,790**	**-**	**-**	**9,247**
Trading Securities	**223**	**4**	**-**	**-**	**227**
Assets in respect of derivative instruments	**445**	**353**	**143**	**-**	**941**
Others	**3,892**	**-**	**-**	**-**	**3,892**
Total assets	**7,017**	**7,147**	**143**	**-**	**14,307**
Liabilities					
Liabilities in respect of derivative instruments	**465**	**545**	**14**	**-**	**1,024**
Others	**4,870**	**-**	**-**	**-**	**4,870**
Total liabilities	**5,335**	**545**	**14**	**-**	**5,894**

	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)	Effect of netting agreements	Balance sheet balance
Assets					
Bonds and shares available for sale	2,539	6,187	-	-	8,726
Trading Securities	318	63	-	-	381
Assets in respect of derivative instruments	544	317	328	-	1,189
Others	3,413	-	-	-	3,413
Total assets	6,814	6,567	328	-	13,709
Liabilities					
Liabilities in respect of derivative instruments	544	411	17	-	972
Others	3,550	-	-	-	3,550
Total liabilities	4,094	411	17	-	4,522

	December 31, 2018 (audited)				
	Fair-value measurements using -				
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Effect of netting agreements	Balance sheet balance
Assets					
Bonds and shares available for sale	2,873	7,250	1	-	10,124
Trading Securities	482	55	-	-	537
Assets in respect of derivative instruments	805	342	252	-	1,399
Others	3,826	-	-	-	3,826
Total assets	7,986	7,647	253	-	15,886
Liabilities					
Liabilities in respect of derivative instruments	804	480	13	-	1,297
Others	4,689	-	-	-	4,689
Total liabilities	5,493	480	13	-	5,986

NOTE 14B - ITEMS MEASURED AT FAIR VALUE (CONT'D)

(NIS million)

B. Items measured at fair value on a non-recurrent basis

	March 31, 2019 (unaudited)				
	Level 1	Level 2	Level 3	Total fair value	Total profit (loss) for the three months ended March 31, 2019
Impaired credit the collection of which is contingent on collateral	**-**	**-**	**47**	**47**	**(1)**

	March 31, 2018 (unaudited)				
	Level 1	Level 2	Level 3	Total fair value	Total profit (loss) for the three months ended March 31, 2018
Impaired credit the collection of which is contingent on collateral	-	-	39	39	(13)

	December 31, 2018 (audited)				
	Level 1	Level 2	Level 3	Total fair value	Total profit (loss) for the year ended December 31, 2018
Impaired credit the collection of which is contingent on collateral	-	-	48	48	(4)

NOTE 14C - CHANGES IN ITEMS MEASURED AT FAIR VALUE ON A RECURRENT BASIS INCLUDED IN LEVEL 3

(NIS million)

	For the three months ended March 31, 2019 (unaudited)							
	Fair value as at December 31, 2018	Profits (losses) realized and unrealized Included in the profit and loss statement (1)	Purchases	Payments	Transfers to level 3, gross	Transfer from level 3, gross	Fair value as at March 31, 2019	Unrealized profits (losses) in respect of instruments held as at March 31, 2019
Assets								
Assets in respect of derivative instruments	**252**	**92**	**17**	**(218)**	**-**	**-**	**143**	**7**
Liabilities								
Liabilities in respect of derivative instruments	**13**	**(1)**	**-**	**-**	**-**	**-**	**14**	**(1)**

	For the three months ended March 31, 2018 (unaudited)							
	Fair value as at December 31, 2017	Profits (losses) realized and unrealized Included in the profit and loss statement (1)	Purchases	Payments	Transfers to level 3, gross	Transfer from level 3, gross	Fair value as at March 31, 2018	Unrealized profits (losses) in respect of instruments held as at March 31, 2018
Assets								
Assets in respect of derivative instruments	276	486	16	(450)	-	-	328	175
Liabilities								
Liabilities in respect of derivative instruments	42	-	-	(25)	-	-	17	1

	For the year ended December 31, 2018 (unaudited)							
	Fair value as at December 31, 2017	Profits (losses) realized and unrealized Included in the profit and loss statement (1)	Purchases	Payments	Transfers to level 3, gross	Transfer from level 3, gross	Fair value as at December 31, 2018	Unrealized profits (losses) in respect of instruments held as at December 31, 2018
Assets								
Assets in respect of derivative instruments	276	2,011	66	(2,101)	-	-	252	118
Liabilities								
Liabilities in respect of derivative instruments	42	2	-	(27)	-	-	13	2

(1) Realized profits (losses) are included in the profit and loss statement in the item non interest financing income.

NOTE 14D - QUANTITATIVE INFORMATION ON ITEMS MEASURED AT FAIR VALUE INCLUDED IN LEVEL 3

	As of March 31, 2019 (unaudited)				
	Value Assessment technique	Unobservable inputs	Fair value	Average	Range
			(NIS million)		in %
A. Items measured at fair value on a recurrent basis					
Assets					
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI linked interest	**2**	**(0.90)**	**(4.15)-(0.63)**
Interest rate contract: other	Discounted cash flow	Counter-party credit risk	**10**	**1.45**	**1.10-1.75**
Foreign currency contracts	Discounted cash flow	1. CPI-linked interest	**50**	**(1.28)**	**(5.50)-(0.63)**
		2. Counter-party credit risk	**81**	**1.32**	**0.90-4.72**
Liabilities					
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI-linked interest	**2**	**(0.83)**	**(0.89)-(0.63)**
Foreign currency contracts	Discounted cash flow	CPI-linked interest	**12**	**(1.42)**	**(5.31)-(0.63)**
B. Items measured at fair value on a non-recurrent basis					
Impaired credit the collection of which is contingent on collateral	Collaterals value		**47**		

	As of March 31, 2018 (unaudited)				
	Value Assessment technique	Unobservable inputs	Fair value	Average	Range
			(NIS million)		in %
A. Items measured at fair value on a recurrent basis					
Assets					
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI linked interest	22	(0.32)	(0.42)-(0.30)
Interest rate contract: other	Discounted cash flow	Counter-party credit risk	9	1.90	1.30-4.96
Foreign currency contracts	Discounted cash flow	1. CPI-linked interest	53	(0.39)	(0.52)-0.42
		2. Counter-party credit risk	244	1.53	1.05-4.96
Liabilities					
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI-linked interest	2	(0.27)	(0.69)-2.29
Foreign currency contracts	Discounted cash flow	CPI-linked interest	15	(0.71)	(0.82)-(0.26)
B. Items measured at fair value on a non-recurrent basis					
Impaired credit the collection of which is contingent on collateral	Collaterals value		39		

NOTE 14D - QUANTITATIVE INFORMATION ON ITEMS MEASURED AT FAIR VALUE INCLUDED IN LEVEL 3 (CONT'D)

	As of December 31, 2018 (audited)				
	Value Assessment technique	Unobservable inputs	Fair value	Average	Range
			(NIS million)		in %
A. Items measured at fair value on a recurrent basis					
Assets					
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI linked interest	3	(0.32)	(1.01)-(0.01)
Interest rate contract: other	Discounted cash flow	Counter-party credit risk	9	1.49	1.10-1.55
Foreign currency contracts	Discounted cash flow	1. CPI-linked interest	44	(0.67)	(1.40)-0.04
		2. Counter-party credit risk	196	1.30	0.90-4.76
Liabilities					
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI-linked interest	3	(0.31)	(0.40)-(0.01)
Foreign currency contracts	Discounted cash flow	CPI-linked interest	10	(0.57)	(1.40)-0.04
B. Items measured at fair value on a non-recurrent basis					
Impaired credit the collection of which is contingent on collateral	Collaterals value		48		

Qualitative information in respect of items measured at fair value included in level 3

- Interest linked to the CPI- a change in the forecasted inflation rate will affect the fair value of CPI transaction, so an Increase (decrease) in the forecasted inflation rate will lead to an increase (decrease) in the fair value in accordance to the Bank's CPI position.
- Counter-party credit risk- a change in the credit risk of the counter-party to the transaction, so when the credit risk of the counter-party will be high/low, the value of the transaction will be high/low.

LIST OF TABLES - CORPORATE GOVERNANCE

Corporate Governance, Additional Information and Appendix

CORPORATE GOVERNANCE

DISCLOSURE OF THE INTERNAL AUDITOR

Details regarding the Internal Auditor of the Bank (which also serves as the Internal Auditor in Massad Bank), including the working plan of the internal auditor department, conduct of the audit and the internal audit reports, were published in the annual financial statements for 2018.

The report of the internal audit for the year 2018 was discussed in the audit committee of the Bank on April 16, 2019.

MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

During January-March 2019, the Bank's Board of Directors held 7 meetings in plenary session and 14 meetings of its various Board Committees.

TRANSACTIONS WITH INTERESTED PARTIES

a. Amendments to the Securities Regulations (Periodic and immediate reports), 1970 - Reporting of transactions with controling interests

No changes occurred during the reported period in the rules regarding the reporting of transactions with controlling interests, as detailed in the Chapter on corporate governance, transactions with interested parties, contained in the financial statements for the year 2018.

b. Determination of criteria regarding transactions of the Bank with interested parties

No changes occurred during the reported period in the said criteria, as detailed in the Chapter on corporate governance, transactions with interested parties, contained in the financial statements for the year 2018.

c. Transactions with controlling interests or where the controlling interests have a personal interest therein, which were approved during the reported year in accordance with Section 270(4) and/or 267A of the Companies Act (including framework transactions that are still in effect at date of reporting and transactions approved under the Companies Regulations (Relief for transactions with interested parties), 2000 (hereinafter - "the Relief Regulations"):

For details of the transactions see the Chapter on corporate governance, transactions with interested parties, contained in the financial statements for the year 2018.

d. Additional information on transactions with interested parties

Set out below is a collation of data concerning banking transactions that were conducted by the Bank and companies under its control with the controlling owners at the Bank (including their relatives and companies in which controlling owners at the Bank are interested parties), including data concerning transactions conforming to the criteria that were determined with respect to negligible transactions, contained in the financial statements for the year 2018 (NIS thousand):

Indebtedness	Credit	Investment in bonds	Fair value of derivatives	Total balance-sheet monetary indebtedness	Unutilized credit balance	Guarantees granted by Bank for securing credit to a controlling owner or to a party related thereto	Guarantees granted to Bank by controlling owner in favor of third party	Indebtedness of controlling owner in respect of transactions in derivatives	Total
									NIS thousand
Indebtedness of others(1)									
March 31, 2019	**153**	**-**	**-**	**153**	**277**	**-**	**-**	**-**	**430**
December 31, 2018	112	-	-	112	317	-	-	-	429

Deposits	March 31, 2019		December 31, 2018	
	Balance on balance-sheet date	Highest balance during period(3)	Balance on balance-sheet date	Highest balance during period(3)
		NIS thousand		NIS thousand
Deposits of others(1)	**5,164**	**22,157**	10,928	27,461

(1) Relatives of controlling shareholders of the Bank. As the term relative is defined in the Banking Law (licensing)-1981.
(2) On the basis of balances at the end of each day.

DETAILS OF THE OWNERS OF CONTROL IN THE BANK

FIBI Holdings Ltd. owns 48.34% of the issued share capital and voting rights in the Bank (a rate comprising the control core in accordance with the control permit granted by Bank of Israel). The controlling shareholders of FIBI are Mr. Zadik Bino and his children, Nessrs. Gil Bino, Hadar Bino-Shmueli and Daphna Bino-Or (hereinafter - "the Bino Family), Messrs. Michael and Helen Abeles and Messrs. Barry Lieberman, Casey Lieberman-Harris, Lee Lieberman and Joshua Lieberman (each of the said groups through corporations under their full control: Binohon Ltd., Instanz No. 2 Ltd. and Dolphin Energies Ltd.). The controlling shareholders are party to various arrangements concerning their holdings in FIBI, and indirectly, at the Bank, as detailed in the Chapter "Details regarding the stakeholders in the Bank" in the financial report for 2018.

During the first quarter of 2019 FIBI reported that Instanz No. 2 sold part of its holding in FIBI. In accordance with FIBI's reports as of March 31, 2019, the holdings of the controlling stakeholders in FIBI (in equity and voting) are as follows: Binohon – 28.54%, Instanz No. 2 Ltd. – 11.68% and Dolphin Energies Ltd - 11.68%.

ADDITIONAL INFORMATION

LABOR RELATIONS AT THE BANK

Two labor organizations exist at the Bank: the union of managers and signatories numbering approximately 750 employees and the clerks union numbering approximately 1,900 employees.

Following a decision regarding the manner by which the employees of Otzar Hachayal would be integrated as employees of the Bank, the of managers and signatories union would number approximately 900 employees and the clerks union would number approximately 2,400 employees. It is noted that the Federation of Labor and the representative committee of Otzar Hachayal employees claim that following the merger of Otzar Hachayal with and into the Bank, the representative committee of Otzar Hachayal employees continues to represent the employees of Otzar Hachayal for a period of two years following the date of merger. This claim is the subject of a collective dispute that is being heared at the Regional Labor Tribunal in Tel Aviv.

Collective labor agreement are in effect at the Bank, which link to a certain extent, the employment terms of the clerks and managers to those agreed upon by the Management of Bank Leumi and the unions of its employees.

A. The managers and signatories of the Bank filed on September 28, 2016, a party motion regarding the dispute concerning the collective employment agreement. It is argued in the motion that under the linkage to Bank Leumi employment terms agreement, the managers and signatories are entitled to an award equal to one month's salary per person, following such a payment made by Bank Leumi to its employees, being a "harnessing" award in respect to its efficiency program that included the voluntary retirement of 700 Leumi employees.

   On December 2, 2018, the National Labor Tribunal awarded the power of a Court verdict to the agreement reached by the parties regarding the cancellation of the economic results of the verdict of the Regional Labor Tribunal, and thus the dispute came to an end.

B. The clerks of the Bank also filed on November 17, 2016, a party motion regarding the dispute concerning the collective employment agreement. It is argued in the motion that under the linkage to Bank Leumi employment terms agreement; the clerks are entitled to an award equal to one month's salary per person, following such a payment made by Bank Leumi to its employees on June 2, 2016.

   On March 31, 2019, the voluntary retirement plan was completed, the award was paid and accordingly, no motion for extension of the date for filing an appeal has been submitted. Thus, the verdict of the Regional Labor Tribunal that rejected the claim remains unchanged.

C. The managers and signatories submitted on March 14, 2017, a party motion in the collective dispute, in which they request temporary and permanent relief against the continuing efficiency measures at the Bank, while requesting the Tribunal to instruct the Bank to enter into negotiations with them towards the signing of a collective agreement as regards everything relating to the implications of the efficiency measures on the managers and signatories. Two sessions for the hearing of evidence had been held and a timetable was fixed for submission of the summing-up briefs which ended in November 2018. The hearing of this case was stayed within the framework of an agreement dated September 5, 2018, as long as negotiations between the parties continue, and a report to the Tribunal regarding the progress made, has to be submitted by June 15, 2019.

D. The representative committees of the clerks and of the managers and signatories submitted to the Bank a claim for the payment of an award of one half of the monthly salary, the payment of which was announced by Bank Leumi on August 1, 2018. The claim by the managers was stayed within the framework of an agreement reached with them on September 5, 2018, and the claim of the the clerks was stayed within the framework of an agreement reached with them on January 8. 2019.

E. On January 8, 2019, the representative committee of Otzar Hachayal employees together with the Federation of Labor filed a party motion regarding the collective dispute as well as a plea for urgent relief in the matter of the placement of Otzar Hachayal managers at the Bank. The Tribunal denied the issue of an Order and instructed the parties to enter negotiations, which continued until recently. The representative committee of Otzar Hachayal employees and the Federation of Labor applied to the Tribunal for renewal of the hearing of the party motion regarding everything relating to the definition of the status of "managers" at Otzar Hachayal as "managers" at the Bank, and as regards everything relating to the separate and independent status of the representative committee of Otzar Hachayal employees.

It is expected that following the request of the representative committee of employees and the response of the Bank, the Tribunal would resume the hearing of the case.

LEGISLATION REGARDING LIMITATIONS, STANDARDS AND SPECIAL CONSTRAINTS AFFECTING THE BANK GROUP

Set out below are brief details of the principal legislative changes and legislative initiatives relevant to the period of the report, which have an effect on or are likely to have a material effect on the Bank's activity.

BANKING

Banking Rules (Customer service) (Commission fees) (Amendment), 2019

The Rules, which were published on May 1, 2019, include several amendments, the essence of which is the duty, at the initiative of the bank, to attach a customer being a small business or an "authorized dealer" to the commission fee channel most suitable for him, where, in accordance with the test determined in the rules, the customer may benefit from savings in commission fee charges as a result of joining the channel; the duty, at the initiative of the bank, of updating the test stated in the Rules for the attachment of a senior citizen or a handicapped customer to the basic commission fee channel; the addition of commission fees to the pricelist in respect of new special services, as well as the updating of the rules regarding disclosure of the pricelist (including with respect to the manner preferred by the customer for the receipt of the pricelist – either at the branch office or by way of the communication channels offered by the Bank) and presentation of information regarding commission fees.

Consumer Protection Act (Amendment No. 57), 2018

The Act, which was published on July 25, 2018, includes an amendment to the Banking Act (Customer service), 1981, according to which, a banking corporation that operates a telephonic service, which includes an automatic call routing service, shall provide professional human response to the customer with respect to at least the following types of service: treatment of a failure, information regarding an account, termination of engagement.

In addition, the amendment requires that the waiting time for obtaining a professional human response in respect of the said services, shall not exceed six minutes from beginning of the call, and that the customer shall not be referred to a "leave a message" service unless he chooses to do so. The Supervisor of Banks is authorized to instruct that a banking corporation may deviate from the above stated waiting time, by a ratio of the total approaches made during a period determined by it, or by a period of time stated by it. The Act takes effect one year following its date of publication.

Under the power invested in it by the Act, Bank of Israel published on May 5, 2019, an updated draft of Proper Conduct of Banking Business Directive in the matter of providing professional human telepone response, according to which, banking corporations would be allowed to deviate from the waiting time stated in the Act by a ratio of the telephone calls as stated in the Directive. Furthermore, the Directive gives effect to the duty of granting preference in the line for service to a senior citizen, and defines requirements for the monitoring and control over the format of response by the telephone call center, as well as with respect to the publication of details on the Internet website of the banking corporation.

Payment Services Act, 2019

The Act was published on January 9, 2019. It follows the recommendations contained in the report of the interministerial committee for the promotion of use of advanced means of payment, and establishes a comprehensive and uniform regulation of the use of payment services and means of payment and also replaces the Charge Cards Act, 1986. The Act is adapted to the technological developments in the field of payment services, and is also based on the European regulations in accordance with the principles stated in the Payment Service Directive (PSD).

The Act regulates two principal contractual systems:

- Between "the provider of payment services" (an issuer of payments means or a manager of a payment account) and the payer.

- Between "the provider of payment services" (a clearing agent or manager of a payment account) and "the beneficiary" (receiver of the payment).

The payment services to which the Act applies are the issuance of means of payment, settlement of a payment transaction and the management of a payment account. It has a wide application as regards the Bank, which includes also payment services within the framework of certain operations performed in current accounts.

The Act relates to the material instructions and to consumer protection in the field of payment services, and determines instructions with respect to the following principal subjects: payment services contract (the manner of entering into agreement, its contents, validity and termination), proper disclosure and prevention of misrepresentation, payment operation (performance, termination thereof and responsibility for) stopping the use of means of payment, misuse of the means of payment, authorization to charge an account or payment means, manner of execution of a payment order, determination of criminal proceedings and monetary sanctions in respect of certain violations of the provisions of the Act.

The Act prohibits the subjecting of its provisions to conditions, unless they are in favor of the customer, except in the case of a customer conducting a business, the annual sales turnover of which exceeds NIS 30 million.

The Act shall enter into effect one year following the date of its publication ("the effective date"), and the Minister of Justice has the authority to defer the effective date by one additional year at the most. The Act shall apply also to means of payment issued prior to its effective date and to charging authorizations made prior to the effective date, subject to the transitional instructions determined in this matter. In addition, the Act requires that until the effective date, certain items contained in existing payment services contracts should be amended.

At this stage it is not possible to quantify the impact of the Act on the Bank Group.

Proper Conduct of Banking Business Directive No. 470 in the matter of charge cards

In accordance with amendments to the Directive published on July 2, 2018:

- an issuer being a banking corporation shall deliver to the operator of the issue the proceeds in respect of all the transactions made through use of the charge card that had been issued by it, in accordance with the date/dates determined in the cross-settlement agreement, irrespective of the charge date of the customer or the identity of the clearing agent, to whom the operator of the issue delivers the proceeds. The effective date of the Directive with respect to the proceeds that the operator of the issue is required to deliver to the clearing agent, is fixed for February 1, 2019.
- All banks and issue operators are required to submit to the Supervisor of Banks the new operating agreements (including renewal of an existing agreement, which in the opinion of the bank or the issue operator had been materially amended) signed until January 31, 2022. A bank having a wide scope of operations is required to obtain the approval of the Supervisor of Banks to a new agreement (this requirement does not apply to the Bank). This Directive takes effect on date of publication.

In accordance with amendnemts to the Directive published on November 21, 2018:

- An arrangement has been determined with respect to the implementation of the provisions of the Increase in Competition and Reduction in Concentration in the Banking Market in Israel (Legislation amendments), 2017 in the matter of the presentation of information by a bank with respect to all charge cards held by the customer, payment in respect of which is made by way of charging the account of the customer (including off-banking cards).
- With respect to the above amendment, the Banking Regulations (Customer service) (Transfer of information from the issuer to the banking corporation), 2018, were published on February 3, 2019, which regulate the details of information that the issuer has to provide to the banking corporation, the dates on which such information has to be transferred and the manner of transfer. The Regulations take effect on January 31, 2020.
- The duty of the issuer to provide the customer with information has been updated and expanded with respect to transactions made by the customer by use of a charge card. The information is to be provided via the communication channels made available to the customers, and at least through the issuer's Internet website and through the cellular application.

- The permit granted to credit card companies to send the charge card agreement to the customer using any means of delivery in practice by the company, and not only by regular mail, has been expanded.

The effective date of these amendments is January 31, 2020.

Application of the Directive is not expected to have a material effect on the results of operations of the Bank.

Draft Amendment of Proper Conduct of Banking Business Directive No. 325 - Management of credit facilities

An updated draft of the amendment to the Directive was published on October 28, 2018, the gist of which is the widening of the application of the Directive also to credit facilities offered by credit cards. In addition to widening the application, several requirements in the Directive relating to the credit agreement and to deviations from credit facilities have been updated, and requirements have been added relating to the drawing of customer attention to the manner of utilizing the credit facility in their current account and in the credit card.

Proper Conduct of Banking Business Directive No. 359A - Outsourcing

The Directive was published by Bank of Israel on October 8, 2018, with the aim of determining principles for the outsourcing of different operations while minimizing exposure to potential risks inherent in outsourcing.

The Directive applies where a banking corporation engages a third party on a continuous basis, to perform material operations included in the line of business of the banking corporation in accordance with the Banking Act (Licensing), in its name and on its behalf. The definition of an operation as "material" shall be determined by the banking corporation in accordance with considerations as detailed in the Directive. The application of the Directive by a banking group shall be based on the risk assessment of the banking corporation.

In accordance with the Directive, outsourcing is not permitted with respect to the duties of the board of directors and senior management, as well as decisions requiring discretion as regards matters that include, inter alia, the opening or closing of customer accounts and underwriting activity regarding loans, unless the terms stated in the Directive are in effect. Moreover, terms are stated for the outsourcing of an initiated approach to households offering credit and the posibilities of banking corporations to engage brokers have been enlarged.

The Directive imposes duties on the board of directors, general management and the internal audit, and, inter alia, requires due diligence review of the provider of the service, regularizing the outsourcing by way of a written agreement and formation of a comprehensive program for the management of outsourcing risks as well as a business continuity plan.

The Directive is to take effect on March 31, 2020, with the possibility of earlier application.

CREDIT AND COLLATERAL

The Act and the Bill discussed below offer a significant reform in collateral and insolvency laws, and includes, inter alia, possible impairment in the rights of secured creditors and in the ability to collect debts.

The Insolvency and Economic Recovery Act, 2018

The Act was published on March 15, 2018, and will enter into effect following eighteen months from date of its publication. The Act includes transitional instructions regarding different issues, including with respect to floating pledges. The Act consolidated under one cover (fundamental and organizational) the different insolvency statutes, which are at present found in a number of different Acts. The Act comprises a wide scope reform, which includes many changes regarding many issues found in the existing statutes, and imposes on the Bank, as a secured creditor, various restrictions, including in respect of the realization of collateral securing credit extended prior to the publication of the Act. While in the past, the principal aim of the legislation as regards repayment statutes was to achieve the repayment of the debt to the different creditors, the principal aim of the new Act has been materially changed to that of the financial recovery of the debtor. This aim is reflected throughuot the provisions of the new Act.

Among other things, the Act includes the following innovations: the definition of insolvency would be based on the cash flow test instead of the assets and liabilities test in practice today; a debt secured by a floating charge shall be collected

from the pledged assets up to a maximum of 75% of their value. The balance of the debt secured by a floating charge shall turn into a regular debt of a status equal to that of all the other regular debts; payments received on account of a debt shall be credited according to the following order: the principal of the debt, contractual interest subject to the provisions of the Act, under certain conditions, and finally also interest in arrears; interest in arrears accumulated in favor of a secured creditor after the date of the insolvency Order, shall not be considered a secured debt, and shall be paid only after repayment of the debt of the regular creditors; A regular creditor is not entitled to the payment of interest in arrears accumulated in his favor after the date of the insolvensy Order; the list of preferential debts has been changed; the threshold of entry into insolvency proceedings has also been changed; A plan for the economic recovery of an individual would be determined for a period of three years, at the end of which, an individual complying with the conditions of the plan would obtain an exemption, and cases may occur in which an individual may receive an immediate exemption; the creditor no longer has the right to determine the type of proceedings to be taken against the debtor, these being now decided by the Court on the merits of the case; the influence of the secured creditor over the appointment of the office holder, even in the case of realization of an asset pledged in his favor, is negligible, if at all; as a general rule, a future creditor shall not have the right to apply for the institution of insolvency proceedings, and more.
The Bank is preparing accordingly.

The Pledge Bill, 2015

On July 17, 2015, the Pledge Bill passed its first reading by the Knesset, and on May 29, 2018, the Constitution, Law and Justice Committee of the Knesset began discussion of the Bill. The Bill includes material changes regarding the pledge statutes, inter alia, as detailed below: the right of an individual to pledge an asset not yet in his possession or even an asset that has not yet come into existence; revocation of the concept of a "floating pledge" - the borrower company would be able to create a fixed pledge upon its future assets, and the status of such pledge would not be automatically inferior to specific pledges; cancellation of the possibility of a creditor to limit the power of the debtor to effect transactions regarding the pledged asset, and more.

COMPETITION

Credit Data Act, 2016

This Act was published on April 12, 2016 and entered into effect on April 12, 2019. In accordance with the Act, Bank of Israel has established and is managing a credit data base, which includes data gathered by Bank of Israel, inter alia, from information sources that have the duty under the Act to provide such information, including banking corporations. This data is transferred to credit offices, which, at the request of credit providers, including requests from banking corporations, may provide a comprehensive credit report regarding the customer, or indication as to whether the credit provider should enter into a credit transaction with the customer. The credit offices also monitor the financial condition of the borrower throughout the life of the credit transaction, subject to the terms stated in the Act.
The Act also regulates the right of the customer not to be included at his request in the credit data base, or to request that data applying to him shall not be provided for the purpose of the preparation of a credit report in his respect. It also grants him the right to receive a summary statement of the data in his respect existing in the data base.The act determines criminal sanctions in respect of the violation of a part of its provisions, as well as imposes personal responsibility on company officers in respect of the violation of the said provisions. The Act also authorizes the officer in charge of credit data sharing, appointed by the Governor of Bank of Israel, to impose monetary sanctions in respect of violations of his instructions, as stated in the Act.

Regulation of Off-banking Loans Act (Amendment No. 5), 2017

Amendment No. 5 of this Act was published on August 9, 2017. Inter alia, the Amendment changed also the name of the Act to the Fair Credit Act, 1993 (hereinafter - "the Act").

The Amendment to the Act was passed on background of the recommendations of the team examining the increase of competition in the banking sector, with the aim of equalizing the norms applying to non-institutional lenders to those applying to institutional lenders, including banks. The Amendment states maximum amounts with respect to the cost of credit and maximum rates of interest appling to credit in arrears, and in addition, all the provisions of the Act, including instructions relating to the granting and collection of credit, apply now to the institutional bodies including the banks. The Amendment to the Act imposes criminal and administrative sanctions in respect of the different violations of the Act. The Act applies to individual borrowers only, though the Minister of Finance has the authority to expand its application also to corporations of a class to be determined. The Amendment will take effect on August 25, 2019 and will apply to contracts signed as from this date onwards.

The Bank is preparing for the implementation of the Act.

In addition, the Regulation of Off-Banking Loans Regulations, 2018, were published on February 25, 2019, whereby certain classes of credit transactions were excepted from the Fair Credit Act, due to the fact that such transactions do not fulfill the purpose of the Act, and certain classes and amounts of expenses incurred in order to extend loans are not to be included in the computation of the actual cost.

Proper Conduct of Banking Business Directive No. 449 - Simplifying agreements with customers

The Directive, which was published on July 10, 2018, is aimed at determining a structure and rules for the simplification of bank agreements for the granting of loans, forming the implementation of Section 3(d) to the Fair Credit Act discussed above. The Directive states that a banking corporation has to present to the customer, in a summarized and concised form on the first page of the agreement, the variable and material terms applying to the specific engagement with the customer. The date on which the Directive takes effect was fixed for the date on which the said Fair Credit Act takes effect.

The Bank is preparing for the implementation of the Directive.

The Economic Program Act (Legislation amendments for the implementation of the economic policy for the 2019 budget year), 2018 (hereinafter – "the Act")

Chapter "B": Banking - transfer of accounts between banks

The Act, which was published on March 22, 2018, amends, inter alia, the Banking Act (Customer service), 1981, with the aim of reducing the existing barriers in the banking market, which make difficult the movement of customers between banks. The Act requires banks to enable customers to transfer, in an online, convenient, reliable and secured manner, their financial operations from the bank in which it is conducted to the accepting bank, without charging the customer a fee for such process and within seven business days from the date on which the first bank had received notice from the accepting bank approving the customer's request.

The Governor of Bank of Israel, with the consent of the Minister of Finance, may determine that the said instructions shall not apply to certain banks (a bank having a low volume of operations, the value of its assets not exceeding 5% of the total assets of all banks, and also an online bank), or determine that the instructions shall apply at the end of a period to be determined by the Governor, or that they shall apply to such banks only as an accepting bank or as an original bank.

The Act states a monetary sanction in respect of certain violations of its provisions (which would become effective at the end of four years from date of publication of the Act).

The Act takes effect at the end of three years from date of publication thereof (with the possibility of deferment for two additional periods of six months each).

The Bank is preparing for the implementation of the Act on the due date.

On November 25, 2018, the Banking Rules (Customer service) (Transfer between banks of the financial activity of a customer), 2018 (hereinafter – "the Rules") were published, stating that the provisions of the said Amendment shall apply where the following terms cumulatively exist:

1. The accounts both at the original bank and at the accepting bank are current accounts;
2. Absolute identity exists between the holders of the accounts at the original bank and at the accepting bank, or alternatively, all owners of the account at the original bank are also owners of the account at the accepting bank (it is possible to have additional owners);
3. The account at the original bank is not subject to certain restrictions stated in the Rules, such as: the account is not classified as a trust account, the account is not conducted by a custodian, the account is not owned by a customer under bankruptcy proceedings, and more.

A draft amendment of the Rules was published on April 17, 2019, which includes the types of financial operations to which the Act applies and which would be included in the framework of the transfer of accounts, and also a draft Proper Conduct of Banking business Directive in the matter of the transfer of financial activity of a customer between banks in an online fashion, which, inter alia, details the duties of the transferring bank and of the accepting bank, upon the transfer of the account.

On February 14, 2019, the Competition Commissioner announced his decision regarding exemption from approval of a binding arrangement between the Bank Clearing Center Ltd. (hereinafter – "MSB"), Bank Hapoalim Ltd., Bank Leumi leIsrael Ltd., Israel Discount Bank Ltd. Mizrahi Tfachot Bank Ltd and the Bank. This decision amends the exemption decision given on September 20, 2018, (hereinafter – "the 2018 exemption"), in which it was clarified that the activity of MSB in the field of movement of accounts between banks had not been examined, and accordingly it would not be included within the framework of the activities in which MSB may engage. MSB has submitted a request for the amendment of the terms of the exemption, as determined in the 2018 exemption, so that MSB would be able to establish a new system to be integrated as part of its system for the clearing of debits and credits, and would assist customers interested in transferring their activity from one bank to another. The decision states that the 2018 exemption shall be amended so as to apply also to the activity of MSB in the establishment of the system for the mobility of bank accounts.

Antitrust Act (Amendment No. 21), 2019

This Amendment, which was published on January 10, 2019, changed, inter alia, the name of the Act to "Economic Competition Act" and the name of the Antitrust Commissioner to "Competition Commissioner". Other material amendments contained in the Act are: increasing the responsibility of officers of a corporation by imposing supervisory duties and the duty of preventing violation of the law by the corporation or its employees; expanding the definition of "owner of a monopoly" so that such an owner would also be one who exercises a significant market power even if he does not hold a market share in excess of 50%; increasing the maximum amount of the monetary sanctions, which the Commissioner is authorized to impose on a corporation that had violated the law, in a manner that the maximum monetary sanction would amount to 8% of the sales turnover of the corporation but not more than NIS 100 million; and stricter maximum criminal punishment regarding binding arrangement offences.

THE CAPITAL MARKET

Terms of the General Permit under Section 49A of the Securities Act

Section 49A(b) of the Securities Act, 1968 (hereinafter - "The Securities Act"), which took effect on July 6, 2017, states that alongside the prohibition on the offer of securities trading services by means of a securities trading system that does not have a Stock Exchange license in Israel, the Chairman of the Securities Authority may permit a person to make such an offer by means of a securities trading system conducted by a stock exchange outside Israel, under the terms to be determined by the Chairman, if he finds that no harm shall be caused by it to the interests of the investor public in Israel.

On December 27, 2018, the Securities Authority published the terms of a general permit according to Section 49A of the Securities Act. The permit is in two parts: one, a permit to foreign stock exchanges or anyone on their behalf, and two, the grant of a permit to other factors.

A factor applying for a permit under Section 49A(b) of the Securities Act, is required to declare to the Securities Authority that all conditions relevant to him are fulfilled and obtain a permit of the Authority to offer services as mentioned above.

A person having such a permit has to submit once every three years, a similar declaration regarding his compliance with the terms of the general permit relevant to him.

In accordance with the terms of the permit, a banking corporation may offer its customers brokerage services through foreign brokers operating on foreign stock exchanges, on condition that such banking corporation is not acting on behalf of the foreign stock exchange in which the securities transactions would be conducted, and on condition that the banking corporation does not market a certain foreign stock exchange or a certain market.

The holder of a permit has to disclose it in a prominent manner in accordance with version attached to the terms of the general permit.

A request for the issue of a permit has to be submitted to the Securities Authority within four months from date of publication of the version of the permit. Prohibition on operations without a licence will take effect six months following the publication thereof.

The Bank has applied to the Securities Authority for the issue of a licence.

Proper Conduct of Banking Business Directive No. 332 - Acquisition by banking corporations of own shares

Bank of Israel published on February 28, 2019, an amendment to the Directive, dealing with two principal issues:

- Removal of the prohibition on the self-acquisition of shares issued by the banking corporation and details of the conditions in which banking corporations would be able to purchase their own shares, namely: conforming to the provisions of Section 302 of the Companies Act, 1999, and the provisions of Proper Conduct of Banking Business Directive No. 331; the amount of the share acquisition in each acquisition plan, shall not exceed 3% of the issued and paid share capital of the banking corporation; the purchase offer shall not be addressed to a certain group of shareholders; the acquisition should be made in accordance with the "safe harbor" mechanism published by the Securities Authority; the acquisition plan should be approved by the Board of Directors of the banking corporation and by the Supervisor of Banks.
- Update of the restrictions applying to the granting of finance collateralized by securities issued by the banking corporation - the Amendment permits: (a) the granting of finance to a borrower (or a group of borrowers) collateralized by the said securities, provided that the amount of the collateral shall not exceed 0.5% of the issued and paid share capital of the banking corporation; and (b) the financing of transactions in share indices units that include the shares of the banking corporation, including investment funds, the holdings of which include securities issued by the banking corporation, and everything on condition that the total amount of the collateral provided to the banking corporation in accordance with items (a) and (b) above, shall not exceed 5% of its issued and paid share capital.

FOREIGN RESIDENTS

Income Tax Regulations (Application of a uniform standard for reporting and examining the appropriateness of information regarding financial acounts), 2019

The Regulations, which were published on February 6, 2019, enacted in accordance with the provisions of the Income Tax Ordinance Amentment Act (No. 227), 2016, adopt the international standard regarding the exchange of information ("the CRS standard") dealing with the automatic exchange of information on an annual basis, for the purpose of the mutual assistance in tax enforcement for countries with which agreements have been signed, according to which obligation exists for the delivery of the said information ("reportable states").

In accordance with the Regulations, financial institutes, including banks, are to conduct appropriateness examinations regarding accounts of individuals and entities, classifiy accounts of foreign residents according to the tax laws applying in their countries of residence and deliver the required information to the Israeli Tax Authorities, for delivery to the states of tax residence of the account holders, being reportable states.

The Tax Authority published on February 6, 2019, a list of 96 states that are the reportable states to which Israel would deliver information within the framework of the CRS. More concise lists had been published for the 2017 and 2018 reporting years.

The Bank and Massad Bank are preparing for the application of the sais legislation.

PROHIBITION OF MONEY LAUNDERING

Reducing the Use of Cash Act

The Act, which was formally published on March 18, 2018, restricts cash transactions to the amounts stated therein, as well as prohibits the cashing of a check that does not state the name of the beneficiary, and the cashing of an endorsed check in an amount exceeding NIS 10,000, if the names of the endorser and endorsee are not stated therein together with the ID number of the endorser, or if it had been endorsed more than once (or more than twice if the second endorsement is in favor of a supervised financial body).

The Act states the rates of monetary sanctions that might be imposed upon a trader and penalties imposed on those who are not traders, in case of violation of the provisions of the Act. The Act also states a criminal offense in respect of a fraud committed in trying to evade the bans stated in the Act, which carries a punishment of imprisonment for three years.

The Act entered into effect on January 1, 2019 ("the effective date") excluding the ban on the cashing of checks and the monetary sanctions imposed in respect of the violation thereof, which would take effect on July 1, 2019 ("the later effective date"). It is further stated that no monetary sanctions and/or penalties shall be imposed in the period of nine months as from the effective date or the later effective date, as the case may be, unless the person violating the Act had received a warning in writing regarding the violation and has repeated once more the violation of that same instruction.

The Bank is preparing for the implementation of the Act, as required.

Privacy Protection

Privacy Protection Bill (Amendment No. 13), 2018

The Bill was published on February 27, 2018, and passed its first reading by the Knesset. The aim of the Bill is to improve enforcement tools and the supervisory mechanism as regards compliance with the provisions of the Privacy Protection Act, 1981, relating to data base privacy. The Bills comes to strengthen to a large extent the enforcement ability of the Data Base Registrar unit, and in this framework grant it alternative administrative authority for instituting criminal proceedings, including imposition of monetary sanctions (in amounts not lower than those stated in the Act, in accordance with the severity of the violation and additional parameters), issuance of an administrative warning and demanding a commitment to refrain from further violation, accompanied by a guarantee in the amount of the monetary sanction that the Commissioner may impose in respect of such violation. The Bill also aims at supplementing the tools existing in the hands of the Authority with criminal investigation tools, and determining a list of felonies relating to the gathering of information for keeping in a data base, for the management of a data base and for the use of information stored in a data base.

LEGAL PROCEEDINGS

Note 9 to the financial statements includes details of material claims pending against the Bank and its subsidiary companies.

THE RATING OF THE BANK BY RATING AGENCIES

Set out below is the Bank's rating as determined by rating agencies in Israel and by an international rating agency:

- S&P Maalot rated the Bank ilAA+/Positive and its subordinated notes at ilAA and its subordinated notes with loss absorption mechanism ilAA-.
- Midrug rated the Bank's internal finance resolution at aa3.il/positive, the Bank's short-term deposits P-1.il, its long-term deposits and senior debt Aa1.il/positive and its subordinated notes Aa2.il/positive, and its subordinated notes with loss absorption mechanism A1.il(hyb)/positive.
- Moody's rates the Bank as follows: long and short-term foreign-currency and local currency deposits "A3/Prime-2". On October 16, 2018, the international rating agency "Moody's" ratified the long and short-term foreign-currency and local currency deposits at "A3/Prime-2" and raised the rating forecast from "stable" to "positive".

EMPLOYEE COMPENSATION POLICY

For disclosure in the matter of employees' compensation policy, see the document "Disclosure according to Pillar III of Basel and additional information regarding risk" for the year 2018, available for perusal on the Internet.

CONTRIBUTION TO THE COMMUNITY

The social-community project of the Bank - in cooperation with MATAN - Investing in the Community Organization - is in operation already for over a decade. In its early years, the project focused on young persons that were expeled from different frameworks, with the aim of giving these young persons the oportunity to change their lives and live a normative life within the Israeli society. Within the framework of the program the young persons were integrated into business initiatives and different programs combining studies with work and grooming business enterpenuership by development of skills.

In continuance and in recent years the Bank approached additional populations, within the new project "believing in you", in order to expand the voluntiring activity among its employees, while creating social involvement with additional value such as Business entrepreneurship for woman, "Unistream", "Fidel", "fathers and sons on the field" and cooperations with populations of childrens at risk.

The Bank continues these projects in the framework of "believing in you" with a focus on children and youth in risk situations concentrating on enriching and providing tools in various subjects, such as: financial awarness, business enterprenuership, management and exellence skills, and with personal support, tutoring and adoption of groups in various frames.

In addition, the Bank is active in assisting populations from social and geographic peripheral areas by cooperation of joint learning, volunteer work, packaging food baskets, language learning, social rehabilitive activity, etc.

The Bank encourages and supports the volunteers from among employees of the Bank, who are interested in taking part in the project and in contributing their time, experience and skills in favor of these young persons and additioal populations. In addition to these projects, the Bank and its subsidiaries donate to various foundations and organizations.

PRINCIPAL DEVELOPMENTS IN ISRAEL AND GLOBALLY

Nonfinancial developments

The published indicators for nonfinancial activity continue to be positive, indicating that the economy continued to grow also in the first quarter of 2019, with the labor market continuing to demonstrate vigor, with relatively low unemployment rates, though in the long run, a slowdown in growth is forecasted. In accordance with assessments published during April 2019 by the Central Bureau of Statistics (hereinafter – "the CBS"), the economy grew in the second half of 2018 by 2.4% (in annualized terms) following a growth of 3.4% in the first half of 2018 and a growth of 4.3% in the second half of 2017. The growth in the product in the second half of 2018, reflects increases in the private consumption expenditure, in public consumption expenditure, in the export of goods and services and a decrease in investments in fixed assets. In addition, an increase was recorded in the import of goods and services. Bank of Israel's Composite State-of-the-Economy Index rose during the first quarter of 2019 by 1.0%, in comparison with a rise of 0.8% in the corresponding period last year.

In April 2019, the Research Division of Bank of Israel reduced the product growth forecast for 2019 to a level of 3.2%, in comparison to 3.4% in the previous forecast. The growth forecast for 2020 remained at a level of 3.5%. The forecast for 2019 is lower than the previous one due to the effect of the slow down expected globally and its implications on the Israeli economy and following the changes in activity of the large companies operating in the market. Private consumption is expected to grow in the years 2019 and 2020 at a rate of 3%, and investments in fixed assets are expected to grow by 3% in 2019, though in 2020 it is expected to contract by 2% due to the completion of several large investments in the economy.

Credit risk of the Israeli economy

The risk level of the Israeli economy, as reflected in the ratings allotted by the credit rating agencies and by the capital markets, is low.

The global credit rating agency Fitch ratified in March 2019 the credit rating outlook of the State of Israel at a level of A+ with a stable outlook. The credit rating of the State of Israel is balaced between sound macro-economic performance and institutional solidity, on the one hand, and a ratio of Government spending to the GDP, which is still high in relation to the reference states as well as political and security risks, on the other hand. The ratification of the credit rating reflects the strength and stability of the Israeli economy and stresses the importance of continuing a growth encouraging policy, while preserving fiscal frameworks and reducing the burden of the national debt.

State budget

In accordance with a preliminary assessment by the Ministry of Finance, a deficit of NIS 9.3 billion was measured in the budgetary activity of the Government in the first quarter of 2019, as compared with a deficit of NIS 2.1 billion in the corresponding period last year.

The planned deficit for 2019 amounts to NIS 40.2 billion comprising 2.9% of the GDP. In the past twelve months (April 2018 to March 2019) the budget deficit amounted to 3.4% of the GDP. The expenditure of the civilian Government offices increased by 12.9%, while the expenditure of the Defense Ministry declined by 1.2%, in comparison with the corresponding period last year.

Tax revenues in the first quarter of 2019 amounted to NIS 82.6 billion, a nominal increase of 2.2% in comparison with the corresponding period last year.

Inflation

The inflationary environment in the economy is at an upward trend, following a rise in the Consumer Price Index (CPI) in the first three months of 2019 of 0.5% (Index "for the month"). The "known Index" fell by 0.3%. In the past twelve months (March 2018 as compared with March 2019) the CPI rose by 1.4%.

According to estimates of the Research Division of Bank of Israel of April 2019, the inflation in 2019 would reach a level of 1.5%, and in 2020 - 1.6%. The forecast reflects an assessment that the tight labor market would continue to support wage

increases, and accordingly also inflation. According to assessments, the rise in inflation is expected to be gradual, on backgroung of measures which seem not yet fully utilized, the continuing growth in competition, measures adopted by the Government to reduce the cost of living and the development of trade on the Internet.
As of April 2019, inflationary expectations for the coming twelve months, derived from the capital market, amount to a rate of 1.1%, being within the targeted price stability range of the Government.

Housing market

Recent publications reflect an increase in housing prices and in the volume of transactions. In accordance with the housing price index of the CBS published in April 2019, housing prices increased by 0.6% in January-February 2019, in comparison with transaction prices in the months of December 2018 and January 2019. Prices of transactions made in January-February 2019 were 0.1% higher than those of the corresponding months last year.
The construction of 47,430 new apartments began in 2018, a reduction of 10.4% in comparison with the year 2017, and construction of 49,970 apartments was completed in 2018, an increase of 3.2% in comparison with 2017.
6,400 new apartments were sold in the period from December 2018 to February 2019, an increase of 2.5% in comparison to the number of new apartments sold in the months of September to November 2018 (net of seasonal factors). The number of new apartments sold in the twelve months from March 2018 to February 2019 remained stable in comparison with the previous twelve months (net of seasonal factors).

Labor market

Unemployment rates continue to be low and and even falling. The rate of unemployment in March 2019 (for ages 15 and over) amounted to 3.9%, in comparison with a rate of 4.3% in December 2018. With respect to the main employable ages (ages 25-64), the rate of unemployed is low amounting to 3.6% in the first quarter of 2019, in comparison with a rate of 3.7% in the fourth quarter of 2018. According to the Research Division of Bank of Israel, the tight labor market is expected to support wage increases, thus contributing to the rise in inflation.

Exchange rate

The exchange rate of the shekel as against the US dollar dropped by 3.1% in the first quarter of 2019, while the exchange rate of the shekel as against the Euro dropped by 5.0%.
In November 2018, Bank of Israel announced the termination of the plan to purchase foreign currency, intended to offset the effect of gas production on the exchange rate. Nonetheless, Bank of Israel stressed that it will continue to act in the foreign currency market in case of exceptional fluctuations in the exchange rate, that are not compatible with the basic economic conditions, or in the event that the foreign currency market does not perform properly.
During the first quarter of 2019, Bank of Israel purchased an amount of US$32 million.

	Exchange rate as of			Rate of change	
	31.3.19	**31.12.18**	**31.3.18**	**Quarter I 2019**	**Quarter I 2018**
US dollar	**3.63**	3.75	3.51	(3.1%)	1.4%
Euro	**4.08**	4.29	4.33	(5.0%)	4.2%

Bank of Israel interest rate

In November 2018, Bank of Israel raised the interest rate for the first time since February 2015, by 0.15 percentage points to a level of 0.25%. The inflationary environment settled slightly over the lower edge of the targeted price range. In the coming months, the annual inflation rate is expected be slightly over the lower edge of the targeted range, while expectations and forecasts for the year move around it.
Bank of Israel estimates that the rising interest rate outline in the future would be gradual and measured, in a way that would support the process, at the end of which the inflation would settle around the center of the targeted range, as well as support economic activity.

According to an assessment of the Research Division of Bank of Israel of April 2019, the interest rate is expected to rise to a level of 0.5% towards the end of the third quarter of 2019, continuing to rise twice to a level of 1.0% during the year 2020.

The global environment

The macro image of the global economy continues to indicate moderation in the rate of economic growth and in inflation. The principal risks observed are the possible intensification of the "trade war" (despite the progress made in the negotiations between the US and China), and concerns that Britain would exit the European Union without an agreement.

Investment houses have updated downwards the growth forecasts for most of the economic zones with the Eurozone in particular. The slowdown in global trade is intensifying and includes also the emerging markets. The financial markets have recorded rising prices in most of the share indices, and falling returns on government bonds, on background of expectations that the global monetary contraction would stop for the time being.

Moderation was recorded in the rate of inflation in the US and the FED left unchanged the interest rate, with interest rate forecasts being updated downwards.

In Europe, economic activity is loosing momentum and the sentiment indices continue to weaken. The ECB left unchanged the interest rate and updated downwards the growth and inflation forecasts, though noting that the possibility of sliding towards a recession is very low. Furthermore, the ECB has renewed the program for extending credit to the commercial banks in order to support economic activity in the Eurozone.

In Britain the risks remained high with the effect of the Brexit, and the uncertainty is expected to burden on the economical activity in the next few months.

In Japan, economic activity slowed down since the beginning of the year, following a certain recovery recorded in the last quarter of 2018.

The emerging markets displayed relative stability, though economic activity may slow down. The growth in China continued to weaken in the first quarter of 2019. The price of oil continued to rise as a result of the reduction in supply, in continuation of the steep increase in prices since the beginning of 2019.

Capital markets

During the first quarter of 2019, the local capital market recorded increases in the principal equities indices: the TA 35 Index rose by 5.4% and TA 125 Index rose by 6.4%, while the General Bond Index rose by 3.2%.

A downward trend in volume was recorded in the trade turnover in equities on the local Stock Exchange. The average daily trade turnover of the TA 35 shares recorded a decline of 33%, while that of the TA 125 shares recorded a decline of 30.7%. A decline of 13.5% was recorded in the trade turnover of bonds.

	Rate of change		Average daily trade turnover	
	%		NIS millions	
	January - March		January - March	
	2019	**2018**	**2019**	**2018**
TA 35 Index	**5.4%**	(4.9%)	**619**	924
TA 125 Index	**6.4%**	(3.9%)	**791**	1,141
General bond Index	**3.2%**	(0.1%)	**3,543**	4,097

The total amount of capital raised during the first quarter of 2019 (both in shares and bonds) recorded a decrease of 7.9%, in comparison with the corresponding period last year. This decrease stems from the decrease in the issueance of shares and convertibles as well as corporate bonds. Issuance of government bonds recorded an increase.

	Amount of capital raised		
	NIS millions		
	January - March 2019	January - March 2018	Rate of change
Shares and convertibles	**1,392**	2,860	(51.3%)
Government bonds	**18,722**	12,095	54.8%
Corporate bonds (incl. institutional)	**15,158**	23,335	(35.0%)
Total	**35,272**	38,290	(7.9%)

The S&P 500 Index rose in the first quarter of 2019 by 13.1%. In Europe, the Eurostocks 600 Index rose by 12.3% and the developing countries index (the MSCI_EM Index) rose by 9.5%.

APPENDIX

APPENDIX 1 -
RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES

A. Average balances and interest rates - assets

	For the three months ended March 31, 2019			For the three months ended March 31, 2018		
	Average balance(1)	Interest income	Rate of income	Average balance(1)	Interest income (expense)	Rate of income (expense)
		NIS million	%		NIS million	%
Assets bearing interest						
Credit to the public(2)(5)						
- In Israel	**79,122**	**653**	**3.34**	74,674	611	3.31
Total	**79,122**	**653**	**3.34**	74,674	611	3.31
Credit to the Government						
- In Israel	**674**	**(2)**	**(1.18)**	652	-	-
Total	**674**	**(2)**	**(1.18)**	652	-	-
Deposits with banks						
- In Israel	**2,271**	**7**	**1.24**	2,286	3	0.53
- Outside Israel	**14**	**-**	**-**	14	-	-
Total	**2,285**	**7**	**1.23**	2,300	3	0.52
Deposits with central banks						
- In Israel	**25,022**	**16**	**0.25**	29,444	7	0.10
Total	**25,022**	**16**	**0.25**	29,444	7	0.10
Securities borrowed						
- In Israel	**819**	**-**	**-**	622	-	-
Total	**819**	**-**	**-**	622	-	-
Held to maturity or available for sale bonds(3)						
- In Israel	**11,468**	**53**	**1.86**	9,967	32	1.29
Total	**11,468**	**53**	**1.86**	9,967	32	1.29
Trading bonds						
- In Israel	**380**	**-**	**-**	399	1	1.01
Total	**380**	**-**	**-**	399	1	1.01
Total assets bearing interest	**119,770**	**727**	**2.45**	118,058	654	2.23
Debtors regarding credit cards non-bearing interest	**2,670**			2,537		
Other assets non-bearing interest(4)	**13,169**			13,862		
Total assets	**135,609**			134,457		
Total assets bearing interest attributed to activity outside Israel	**14**	**-**	**-**	14	-	-

APPENDIX 1 -
RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

B. Average balances and interest rates - liabilities and capital

	For the three months ended March 31, 2019			For the three months ended March 31, 2018		
	Average balance (1)	Interest expense	Rate of expense	Average balance (1)	Interest expense	Rate of expense
		NIS million	%		NIS million	%
Liabilities bearing interest						
Deposits from the public						
- In Israel						
Demand	**6,337**	**5**	**0.32**	5,926	-	-
Fixed-term	**55,944**	**69**	**0.49**	58,185	47	0.32
Total	**62,281**	**74**	**0.48**	64,111	47	0.29
Deposits from the Government						
- In Israel	**237**	**1**	**1.70**	252	1	1.60
Total	**237**	**1**	**1.70**	252	1	1.60
Deposits from banks						
- In Israel	**910**	**1**	**0.44**	966	1	0.41
Total	**910**	**1**	**0.44**	966	1	0.41
Bonds						
- In Israel	**4,573**	**15**	**1.32**	5,098	20	1.58
Total	**4,573**	**15**	**1.32**	5,098	20	1.58
Other liabilities						
- In Israel	**239**	**1**	**1.68**	257	1	1.57
Total	**239**	**1**	**1.68**	257	1	1.57
Total liabilities bearing interest	**68,240**	**92**	**0.54**	70,684	70	0.40
Deposits from the public non-bearing interest	**50,447**			47,985		
Creditors in respect of credit cards non-bearing interest	**2,628**			2,537		
Other liabilities non-bearing interest (6)	**5,841**			4,968		
Total liabilities	**127,156**			126,174		
Total capital resources	**8,453**			8,283		
Total liabilities and capital resources	**135,609**			134,457		
Interest spread			**1.91**			1.83
Net return on assets bearing interest (7)						
- In Israel	**119,756**	**635**	**2.14**	118,044	584	1.99
- Outside Israel	**14**	**-**	**-**	14	-	-
Total	**119,770**	**635**	**2.14**	118,058	584	1.99
Total liabilities bearing interest attributed to activity outside Israel	**-**	**-**	**-**	-	-	-

APPENDIX 1 -
RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

C. Average balances and income rates - additional information on interest bearing assets and liabilities attributed to activity in Israel

	For the three months ended March 31, 2019			For the three months ended March 31, 2018		
	Average balance(1)	Income (expense) interest	Income (expense) ratio	Average balance (1)	Income (expense) interest	Income (expense) ratio
		NIS million	%		NIS million	%
Non-linked Israeli currency						
Total assets bearing interest	**96,422**	**601**	**2.52**	94,614	543	2.32
Total liabilities bearing interest	**50,615**	**(36)**	**(0.28)**	53,031	(25)	(0.19)
Interest spread			**2.24**			2.13
Israeli currency linked to the CPI						
Total assets bearing interest	**10,766**	**42**	**1.57**	10,948	46	1.69
Total liabilities bearing interest	**9,424**	**(16)**	**(0.68)**	10,166	(25)	(0.99)
Interest spread			**0.89**			0.70
Foreign currency (including linked to f-c)						
Total assets bearing interest	**12,568**	**84**	**2.70**	12,482	65	2.10
Total liabilities bearing interest	**8,201**	**(40)**	**(1.97)**	7,487	(20)	(1.07)
Interest spread			**0.73**			1.03
Total activity in Israel						
Total assets bearing interest	**119,756**	**727**	**2.45**	118,044	654	2.23
Total liabilities bearing interest	**68,240**	**(92)**	**(0.54)**	70,684	(70)	(0.40)
Interest spread			**1.91**			1.83

APPENDIX 1 -
RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

D. Analysis of changes in interest income and expenses

	For the three months ended March 31, 2019 compared with the same period last year		
	Increase (decrease) due to the change		
	Quantity	Price	Net change
			NIS million
Interest bearing assets			
Credit to the public			
- In Israel	**37**	**5**	**42**
Total	**37**	**5**	**42**
Other interest bearing assets			
- In Israel	**(5)**	**36**	**31**
Total	**(5)**	**36**	**31**
Total interest income	**32**	**41**	**73**
Interest bearing liabilities			
Deposits from the public			
- In Israel			
Demand	**-**	**5**	**5**
Fixed-term	**(3)**	**25**	**22**
Total	**(3)**	**30**	**27**
Other interest bearing liabilities			
- In Israel	**(2)**	**(3)**	**(5)**
Total	**(2)**	**(3)**	**(5)**
Total interest expenses	**(5)**	**27**	**22**
Total interest income less interest expenses	**37**	**14**	**51**

NOTES:

(1) On the basis of monthly opening balances, excluding the non-linked Shekel segment in which calculated on daily balances.

(2) Before deduction of the average balance of provisions for credit losses including impaired debts which are non-bearing interest income.

(3) From the average balance of available for sale bonds was deducted the average balance of unrealized gains from adjustments to fair value of bonds, included in other comprehensive profit in the item "adjustments to fair value of available for sale securities" for the three months ended on March 31, 2019 in the amount of NIS 17 million, (for the three months ended March 31, 2018 balance of NIS 55 million, was deducted).

(4) Including derivative instruments, other non-bearing interest assets and after deduction of provision for credit losses.

(5) Fees in the amount of NIS 45 million and NIS 47 million were included in interest income for the three months ended March 31, 2019 and March 31, 2018, respectively.

(6) Including derivative instruments.

(7) Net return- net interest income to total interest bearing assets.

(8) Change attributed to quantity was calculated by multiplying the price in the reported period by the change in the quantity in the compared periods.
Change attributed to price was calculated by multiplying the quantity in the previous period by the change in the price in the compared periods.