Financial Statements
31.3.2018

FIBI FIRST INTERNATIONAL BANK OF ISRAEL

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REPORT OF THE BOARD OF DIRECTORS AND MANAGEMENT AS OF MARCH 31, 2018

The meeting of the Board of Directors held on May 28, 2018, 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, 2018.

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 Group operates through three principal business divisions:

- The corporate division, which conducts all operations relating to corporate and middle-market customers, as well as business and institutional customers active on the capital market. Operating within this division is the business region, covering the operation of all business branches of the Bank.
- The banking division, which conducts all banking and mortgage operations to all customers segments of the Bank, including private banking, households and small businesses. In this framework operates Ubank branches which specialize in private banking and capital market and the branches of PAGI sub-division which specialize in the orthodox and ultra-orthodox segment, branches of Otzar Hachayal Bank and Massad Bank.
- The customer asset division which centralizes the whole capital market operations, monies and foreign currency with private, commercial customers, institutional bodies and capital market professionals. In the framework of the Division operate the dealing rooms in securities, foreign currency and deposits as well as the sub-divisions of investment and pension counseling, the investment center, the Trust Company and the Portfolio Management Company.

In addition to the Bank, the Group includes two commercial banks in Israel, specializing in unique customers populations: Otzar Hachayal, which specializes in providing services to households and commercial customers which emphasize on the employees and retirees of the security system and Massad, which specializes in providing services to the teachers' population in Israel.

FORWARD-LOOKING INFORMATION

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

Forward-looking information is notable for such words or expressions as: "forecast," "expected," "in the Bank's estimation" and "the Bank intends," as well as expressions such as "will be able," "might be" and "will be." These forward-looking expressions involve risks and uncertainty because they are based on the Management's assessments regarding future

events that may not occur or that may occur in a different manner than expected as the result inter alia of the aforementioned factors or as the result of the materialization of one or more of the risk factors detailed in the table of risk factors presented in this report.
The information in this report is based, among other, on the publication of the Central Bureau of Statistics, the Treasury department and the data from the Bank of Israel, as well as on public information given by different factors operating and connected with the capital and money markets.

Net profit attributed to the Bank's shareholders amounted to NIS 137 million in the first three months of 2018, compared with NIS 166 million in the same period last year, a decrease of 17.5%. Eliminating certain components (see table below) the net profit would amount to NIS 169 million compared to an amount of NIS 138 million in the same period last year, an increase of 22.5%.

Net return on equity attributed to the Bank's shareholders amounted to 7.2% (annualized) compared with 9.3% in the same period last year and 9.1% in 2017. Eliminating certain components (see table below) the net return on equity would amount to 9.0% compared to 7.7% in the same period last year.

Set out below are the central factors which affected the profit of the Group in the first three months of 2018 compared with the same period last year:

- Growth in financing profits (include net interest income and non-interest financing income) in the amount of NIS 50 million (8.7%).
- Reduction in credit loss expenses in the amount of NIS 7 million.
- Reduction in other income in the amount of NIS 19 million, stemming from the reduction in capital gains from the sale of buildings and equipment.
- Growth in payroll and related expenses in the amount of NIS 43 million (10.7%), stemming from a provision recorded in respect of an award to Bank employees, following the implications of a Court verdict regarding the claim for the payment of an award filed by the representative committee of managers. (See also the item "Labor relations at the Bank" in the Chapter on corporate governance).
- Growth in operating and other expenses (excluding payroll and related expenses) in the amount of NIS 40 million (15.9%), stemming mostly from increase in provision for efficiency measures in consolidated subsidiary and provision for legal actions.

Basic earnings per NIS 0.05 share amounted to NIS 1.37 in the first three months of the year compared with NIS 1.65 in the same period last year.

Credit to the public, net on March 31, 2018 amounted to NIS 81,904 million compared with NIS 77,993 million on March 31, 2017 and NIS 80,378 million at the end of 2017, an increase of 5.0% and 1.9%, respectively.

Deposits from the public on March 31, 2018 amounted to NIS 111,913 million, compared with NIS 106,198 million on March 31, 2017 and NIS 113,511 million at the end of 2017, an increase of 5.4% and a decrease of 1.4%, respectively.

Capital attributed to shareholders totaled NIS 7,772 million on March 31, 2018, compared with NIS 7,456 million on March 31, 2017 and NIS 7,756 million at the end of 2017, an increase of 4.2% and 0.2%, respectively.

The ratio of comprehensive capital to risk components amounted to 13.36% as compared to 13.94% at the end of 2017.

The ratio of Tier I equity capital to risk component as of March 31, 2018 amounted to 10.07% as compared to 10.38% at the end of 2017.

CONDENSED PRINCIPAL FINANCIAL INFORMATION AND PRINCIPAL EXECUTION INDICES

Principal financial ratios	For the three months ended		For the year ended
	2018	2017	2017
			in %
Execution indices			
Return on equity [(1)]	**7.2%**	9.3%	9.1%
Return on assets [(1)]	**0.4%**	0.5%	0.5%
Ratio of equity capital tier 1	**10.07%**	10.12%	10.38%
Leverage ratio	**5.56%**	5.54%	5.50%
Liquidity coverage ratio	**120%**	128%	123%
Efficiency ratio	**74.8%**	68.8%	69.5%
Efficiency ratio excluding certain components (see below)	**69.2%**	71.9%	70.0%
Credit quality indices			
Ratio of provision for credit losses to credit to the public	**1.02%**	1.05%	1.03%
Ratio of impaired debts or in arrears of 90 days or more to credit to the public	**0.91%**	1.20%	0.95%
Ratio of provision for credit losses to total impaired credit to the public	**162%**	111%	155%
Ratio of net write-offs to average total credit to the public [(1)]	**0.08%**	0.30%	0.18%
Ratio of expenses for credit losses to average total credit to the public [(1)]	**0.13%**	0.17%	0.15%

Principal data from the statement of income	For the three months ended	
	2018	2017
		NIS million
Net profit attributed to shareholders of the Bank	**137**	166
Interest Income, net	**584**	562
Expenses from credit losses	**27**	34
Total non-Interest income	**401**	388
Of which: Fees	**338**	334
Total operating and other expenses	**737**	654
Of which: Salaries and related expenses	***446**	403
Primary net profit per share of NIS 0.05 par value (NIS)	**1.37**	1.65

* Including provision in respect of claims by the Bank employees for an award, following the implications of a court verdict regarding the claim by the representative committee of managers.

Principal data from the balance sheet			As of
	31.3.18	31.3.17	31.12.17
			NIS million
Total assets	**132,636**	128,518	135,717
of which: Cash and deposits with banks	**34,481**	30,255	39,186
Securities	**10,471**	14,675	10,238
Credit to the public, net	**81,904**	77,993	80,378
Total liabilities	**124,566**	120,442	127,333
of which: Deposits from banks	**359**	716	1,133
Deposits from the public	**111,913**	106,198	113,511
Bonds and subordinated capital notes	**4,980**	5,575	5,249
Capital attributed to the shareholders of the Bank	**7,772**	7,456	7,756

Additional data			As of
	31.3.18	31.3.17	31.12.17
Share price (0.01 NIS)	**7,390**	5,895	7,202
Dividend per share (NIS)	**95**	70	309
Ratio of fees to assets (in %)[(1)]	**1.0%**	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.
- 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 or senior officers. 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 material developing risks are competition- strategic risk, regulatory risk, cyber and data protection risks, cross border risks, conduct risk. Additional information is detaild in the annual report 2017.

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.

Within the framework of the 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 subsidiaries (Otzar Hachayal and Massad) and the merged banks (UBank and PAGI) in their unique operating niches, mostly in the retail and small business sectors. The Bank is to maintain leadership in the capital market; would conduct actions leading to efficiency in expenses, while improving its manpower position, improving procedures, continue efficiency measures in the branch layout and increase the use of online banking channels, and support performance directed culture and measurement in the Group.

In 2017, the Bank approved the digital strategy, the purpose of which is to support the business strategy of the Bank. As part of the digital strategy and with adequacy to the Bank's strategy "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 implamantation 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.

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.

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 2018.

Growth

The published nonfinancial economic activity indicators, continue to be positive indicating that the economy continued to grow also in the beginning of 2018, with the employment market continuing to demostrate might with relatively low unemployment rates and a forecasted growth trend over a period of time. An additional parameter indicating recovery is Bank of Israel's Composite State-of-the-Economy Index, which rose during the first months of 2018 by 0.6%.
A survey of the Research Division of Bank of Israel dated April 2018, left the product growth forecast for 2018 at a level of 3.4%, and the growth forecast for 2019 at a level of 3.5%.

The State budget

A deficit of NIS 2.1 billion was measured in the first quarter of 2017 in the budgetary activity of the Government, in comparison to a deficit of NIS 2.3 billion, measured in the corresponding period last year.
During April 2018, the Fitch rating company ratified the credit rating forecast for the State of Israel with respect to the foreign currency debt, at the level of "A+" with a "stable" rating forecast.

Inflation

The inflationary environment in the economy continues to be relatively low, following a decline in the Consumer Price Index (CPI) in the first three months of 2018 by 0.1% (CPI "for the month"). The "known" CPI declined by 0.3%. According to Bank of Israel estimates, the inflation rate in 2018 would reach 1.1%, which is within the lower edge of the price stability range set by the Government (1%-3%), and in 2019 would reach 1.4%. As of April 2018, the inflationary expectations for the coming twelve months, derived from the capital market, indicate a low inflation rate of 0.6%.

The housing market

Recent publications reflect moderation in housing prices. According to the Housing Price Index published in April 2018 by the Central Bureau of Statistics (hereinafter - "the CBS") a reduction of 0.2% in prices of apartments was recorded in the months of January and February 2018, in comparison with prices of transactions effected in December 2017-January 2018. Construction of approximately 46,300 new apartments began in 2017, reflecting a decline of 14.1% in comparison with 2016.

Labor market

The rate of unemployment is low, though showing a slight increase amounting in February 2018 to 3.8% and in contrast to 3.7% in January.

Exchange rate

The exchange rate of the shekel as against the US dollar rose in the first quarter of 2018 by a rate of 1.4%. The exchange rate of the shekel as against the Euro rose by 4.2%.
In 2018, Bank of Israel continued the trend of foreign currency purchases, inter alia, in order to mitigate the impact of proceeds from the sale of natural gas on the strengthening of the shekel.

Bank of Israel interest rate

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

The global environment

A survey made in April 2018 by the International Monetary Fund estimates that the global growth, being the strongest since 2011, would continue also in the next two years. The forecast regarding global growth for the years 2018 and 2019 estimate it at 3.9%. The economic growth forecast for the United States is 2.9% while the gtowth rate for 2019 is 2.7%.

The capital markets

The domestic capital market recorded during the first quarter of 2018, a negative trend in the principal equities indices: the TA-125 Index fell by 3.9% and the TA-35 Index fell by 4.9%. The General Bond Index fell by 0.1%.

The daily average trade turnover recorded increases in the equities index (the TA-35) and in the bond indices, with a decline in the TA 125 equities index.

The S&P-500 Index fell by 1.2% during the first quarter of 2018. In Europe, the Eurostocks-600 Index fell by 4.7% and the developing countries Index (the EM-MSCI Index) rose by 1.1%.

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 137 million in the first quarter of 2018, as compared to NIS 166 million in the same period last year, a decrease of 17.5%.

The return of net profit to the capital attributed to the shareholders of the Bank (annualized) amounted to 7.2% in the period January-March 2018, as compared to 9.3% in the same period last year and 9.1% in 2017.

Condensed statement of income

	For the three months ended March 31,		
	2018	**2017**	**change**
		NIS million	%
Net financing earnings(1)	**624**	574	8.7
Expenses from credit losses	**27**	34	(20.6)
Net financing earnings After Expenses from credit losses	**597**	540	10.6
Fees	**338**	334	1.2
Other income	**23**	42	(45.2)
Operating and other expenses	**737**	654	12.7
Profit before taxes	**221**	262	(15.6)
Provision for taxes on profit	**82**	97	(15.5)
The bank's share in profit of equity-basis investee, after taxes	**6**	10	(40.0)
Net profit:			
Before attribution to noncontrolling interests	**145**	175	(17.1)
Attributed to noncontrolling interests	**(8)**	(9)	(11.1)
Attributed to shareholders of the Bank	**137**	166	(17.5)
Net return on equity attributed to the Bank's shareholders	**7.2%**	9.3%	

(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,		
	2018	**2017**	**change**
		NIS million	%
Net profit attributed to the shareholders of the Bank - as reported	**137**	166	(17.5)
Less/- Eliminations(1)			
- Gains from sale of a real estate asset in Switzerland	**(13)**	-	
- Gains on sale of an office building in Tel Aviv	**-**	(28)	
- Provision for a claim for an award to employees	**29**	-	
- Provision for expenses regarding efficiency measures implemented by a consolidated company	**16**	-	
Net profit attributed to the shareholders of the Bank after elimination of the above items	**169**	138	22.5
Return on equity	**9.0%**	7.7%	

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

Details regarding eliminated items

Gain from sale of a real estate asset in Switzerland - 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".

Gain on sale of an office building in Tel Aviv - The transaction for the sale of leasehold rights of the Bank in floor areas in an office building in Tel Aviv was concluded on March 30, 2017. The gain on the sale, in the amount of NIS 41 million, was included in the corresponding period last year in "other income".

Provision for a claim for an award to employees of the Bank - see the Section on "labor relations" in the Chapter on Corporate Governance.

Provision for expenses regarding efficiency measures implemented by a consolidated subsidiary - see the Section on "labor relations" in the Chapter on Corporate Governance.

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:

	2018				2017
	Q1	Q4	Q3	Q2	Q1
					NIS million
Interest income	**654**	696	615	753	640
Interest expenses	**70**	104	50	170	78
Net interest income	**584**	592	565	583	562
Non-interest financing income	**40**	12	38	21	12
Net financing earnings	**624**	604	603	604	574

Set out below is an analysis of net financing earnings:

	2018				2017
	Q1	Q4	Q3	Q2	Q1
					NIS million
Earnings from current activity	**618**	606	590	591	564
Reconciliations to fair value of derivative instruments	**1**	1	1	3	(1)
Income from realization and reconciliations to fair value of bonds	**1**	1	8	7	3
Earnings (losses) from investments in shares	**4**	(4)	4	3	8
Net financing earnings	**624**	604	603	604	574

An increase of 9.6% in financing earnings from current activity ocured in comparison with the same period last year. This increase derived mainly from the increase in the volume of credit to the public.

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

	For the three months ended March 31,	
	2018	2017
		in %
Income rate on asset bearing interest	**2.21**	2.25
Expense rate on liabilities bearing interest	**0.39**	0.44
Total interest spread	**1.82**	1.81
Ratio between net interest income and assets bearing interest balance	**1.97**	1.98

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 27 million in the first three months of 2018 compared with NIS 34 million in the same period last year.
Expenses from credit losses as a ratio of total credit to the public amounted to a rate of 0.13% compared with 0.18% in the same period last year and 0.15% in 2017.

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,	
	2018	2017
		NIS million
Individual expense in respect of credit losses	**55**	63
Decrease in individual expense in respect of credit losses and collection of debts written off in accounting	**(54)**	(60)
Individual expense, net in respect of credit losses	**1**	3
Collective expense in respect of credit losses	**26**	31
Total expenses in respect of credit losses	**27**	34
Of which:		
Expenses in respect of commercial credit	**13**	27
Expenses in respect of housing credit	**1**	-
Expenses in respect of other private credit	**13**	7
Ratio of individual expense in respect of credit losses to average total credit to the public(1)	**-**	0.02%
Ratio of collective expense in respect of credit losses to average total credit to the public(1)	**0.13%**	0.16%
Ratio of total expenses in respect of credit losses to average total credit to the public(1)	**0.13%**	0.18%

(1) Annualized.

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

Fees totaled NIS 338 million in the first three months of 2018, compared with NIS 334 million in the same period last year, an increase of 1.2%.

Set out below are details of fees income:

	For the three months ended		Change
	March 31, 2018	**March 31, 2017**	
		NIS million	in %
Account management	**62**	64	(3.1)
Credit cards	**26**	25	4.0
Transactions in securities	**162**	154	5.2
Credit processing	**4**	4	-
Conversion differentials	**38**	36	5.6
Fees from financing transactions	**22**	24	(8.3)
Other Fees	**24**	27	(11.1)
Total Fees	**338**	334	1.2

Other income totaled NIS 23 million in the first three months of 2018, compared with NIS 42 million in the same period last year, a decrease stemming from decrease in gain from realization of assets. On March 30, 2017 the transaction for the sale of the Bank's leasing rights in the areas in an office building in Tel Aviv was consumated, for a proceed of NIS of 84 million. The gain from the sale of these rights amounts to NIS 41 million, before tax effect. On March 14, 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 737 million in the first three months of 2018, compared with NIS 654 million in the same period last year, an increase of 12.7%.
Set out below are details of operating and other expenses:

	For the three months ended		Change
	March 31, 2018	**March 31, 2017**	**March 31, 2017**
		NIS million	in %
Salaries and related expenses	**446**	403	10.7
Maintenance and depreciation of premises and equipment	**96**	99	(3.0)
Amortization of intangible assets	**23**	23	-
Other expenses	**172**	129	33.3
Total operating and other expenses	**737**	654	12.7

Salaries and related expenses totaled NIS 446 million in the first three months of 2018, compared with NIS 403 million in the same period last tear, an increase of 10.7% 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. Eliminating the provision for the payment of the award, the salaries and related expenses would amount to NIS 401 million, similar to the same period last year.

Other income totaled NIS 172 million in the first three months of 2018, compared with NIS 129 million in the same period last year, an increase of 33.3% explained mainly from provision for expenses in the amount of NIS 24 million due to efficiency measures in consolidated subsidiary and from provison for legal actions.

The provision for taxes on operating earnings amounted to NIS 82 million compared with NIS 97 million in the same period last year. The effective tax rate as a proportion of earnings before taxes amounted to 37.1%, compared with the statutory rate of tax of 34.2%.

The Bank's share in the operating earnings of investee company after the tax effect amounted to NIS 6 million, compared with NIS 10 million in the same period last year. The decrease derives from the implementation of a joint issuing agreement between ICC and Shufersol Ltd. and specifically from the material increase in the marketing expenses implied in customers' purchasing (see chapter on main investee companies below).

The total comprehensive profit attributed to the shareholders of the Bank amounted to NIS 113 million. This amount was affected by the net profit for the quarter attributed to the shareholders of the Bank of NIS 137 million, by adjustments in respect of available-for-sale securities in an amount of NIS 28 million.

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

The consolidated balance sheet as of March 31, 2018 amounted to NIS 132,636 million compared with NIS 128,518 million as of March 31, 2017 and NIS 135,717 million as of December 31, 2017.

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

	March 31, 2018	December 31, 2017	Change
		NIS million	%
Credit to the public, net	**81,904**	80,378	1.9
Securities	**10,471**	10,238	2.3
Cash and deposits with banks	**34,481**	39,186	(12.0)
Deposits from the public	**111,913**	113,511	(1.4)
Bonds and subordinated capital notes	**4,980**	5,249	(5.1)
Shareholders' equity	**7,772**	7,756	0.2

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

	March 31, 2018	December 31, 2017	Change
		NIS million	%
Off-balance sheet financial instruments excluding derivatives:			
Documentary credit	**520**	244	113.1
Guarantees and other liabilities	**7,869**	7,369	6.8
Unutilized credit lines for derivatives instruments	**2,379**	2,510	(5.2)
Unutilized revolving credit and other on-call credit facilities	**10,454**	10,432	0.2
Unutilized credit lines for credit card facilities and Facilities for the lending of securities	**7,611**	7,327	3.9
Irrevocable commitments to grant credit, not yet executed and commitments to issue guarantees	**6,091**	5,430	12.2
Total	**34,924**	33,312	4.8

Derivative financial instruments:

	March 31, 2018			December 31, 2017		
	Positive fair value	Negative fair value	Face value	Positive fair value	Negative fair value	Face value
						NIS million
Interest contracts	**270**	**229**	**18,773**	235	231	17,003
Currency contracts	**487**	**311**	**62,025**	494	482	64,837
Contracts in respect of shares	**431**	**431**	**48,894**	612	612	70,817
Commodities and other contracts	**1**	**1**	**106**	1	1	1,502
Total	**1,189**	**972**	**129,798**	1,342	1,326	154,159

Credit to the public, net as of March 31, 2018 amounted to NIS 81,904 million compared with NIS 80,378 million as of December 31, 2017, an increase of 1.9%.

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, 2018	**December 31, 2017**		**Change**	**March 31, 2018**	**December 31, 2017**
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**67,328**	65,849	1,479	2.2	**82.2**	81.9
- CPI-linked	**9,942**	9,710	232	2.4	**12.1**	12.1
Foreign currency (including f-c linked)	**4,216**	4,360	(144)	(3.3)	**5.2**	5.4
Non-monetary items	**418**	459	(41)	(8.9)	**0.5**	0.6
Total	**81,904**	80,378	1,526	1.9	**100.0**	100.0

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

			As of		Change
	March 31, 2018	**December 31, 2017**	**March 31, 2017**	**December 31, 2017**	**March 31, 2017**
			NIS million	%	
Large business segment	**17,789**	17,785	**18,191**	-	(2.2)
Medium business segment	**5,694**	5,655	5,153	0.7	10.5
Small and minute business segment	**15,349**	14,613	14,481	5.0	6.0
Household segment	**43,352**	42,521	40,411	2.0	7.3
Of which: housing loans	**23,151**	22,848	22,058	1.3	5.0
Private banking segment	**52**	52	47	-	10.6
Institutional entities	**509**	590	537	(13.7)	(5.2)
Total	**82,745**	81,216	78,820	1.9	5.0
Of which: consumer credit excluding housing loans and credit cards					
Household segment	**16,894**	16,491	15,247	2.4	10.8
Private banking segment	**21**	21	17	-	23.5
Total	**16,915**	16,512	15,264	2.4	10.8

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 118,466 million on March 31, 2018 compared with NIS 115,924 million on December 31, 2017, an increase of 2.2%.

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, 2018		As of December 31, 2017		
	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)	**14,252**	**12.0**	15,453	13.3	(7.8)
Construction and real estate	**15,729**	**13.3**	14,794	12.8	6.3
Industry	**10,877**	**9.2**	10,609	9.2	2.5
Commerce	**8,652**	**7.3**	8,089	7.0	7.0
Private customer, including housing loans	**56,422**	**47.6**	55,118	47.5	2.4
Others	**12,534**	**10.6**	11,861	10.2	5.7
Total	**118,466**	**100.0**	115,924	100.0	2.2

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, 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	**1,237**	**107**	**1,344**	**623**
2.	Industry	**1**	**641**	**642**	**642**
3.	Financial services	**601**	**6**	**607**	**607**
4.	Commerce	**180**	**363**	**543**	**543**
5.	Financial services	**500**	**-**	**500**	**500**
6.	Electricity and water supply	**246**	**212**	**458**	**458**

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

* 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, 2018 totaled NIS 10,471 million compared with NIS 10,238 million at the end of 2017, an increase of 2.3%.

Set out below is the composition of the portfolio:

	As of		Share of total securities	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
		NIS million		%
Government bonds	**7,653**	7,535	**73.1**	73.6
Banks' bonds (1)	**598**	631	**5.7**	6.2
Other bonds (corporate and asset-backed)	**807**	790	**7.7**	7.7
Other bonds (corporate and asset-backed) guaranteed by governments	**1,175**	1,086	**11.2**	10.6
Shares (2)	**238**	196	**2.3**	1.9
Total	**10,471**	10,238	**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 399 million (December 31, 2017 - NIS 462 million).

(2) Investment in shares includes inter alia investment in private equity funds in the amount of NIS 105 million, investment in foreign currency shares of NIS 93 million and investment in shares traded on the Tel Aviv Stock Exchange amounting to NIS 26 million (31.12.17 - investment in private equity funds in the amount of NIS 98 million, investment in foreign currency shares of NIS 77 million and investment in shares traded on the Tel Aviv Stock Exchange amounting to NIS 6 million).

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

	As of				Segment's share of total securities	
	March 31, 2018	December 31, 2017		Change	March 31, 2018	December 31, 2017
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**2,905**	2,639	266	10.1	**27.7**	25.8
- CPI-linked	**975**	1,021	(46)	(4.5)	**9.3**	10.0
Foreign currency denominated & linked	**6,353**	6,382	(29)	(0.5)	**60.7**	62.3
Non-monetary items	**238**	196	42	21.4	**2.3**	1.9
Total	**10,471**	10,238	233	2.3	**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, 2018:

	Price quoted in active market	Indicative price*	Counter-party price**	Total
				NIS million
Shares and private investment funds	**107**	**22**	**109**	**238**
Local currency government bonds	**3,292**	**-**	**-**	**3,292**
Local currency corporate bonds	**353**	**235**	**-**	**588**
Non-asset backed foreign-currency and f-c linked bonds	**107**	**5,949**	**-**	**6,056**
MBS bonds	**-**	**297**	**-**	**297**
Total	**3,859**	**6,503**	**109**	**10,471**
% of portfolio	**37.0**	**62.0**	**1.0**	**100.0**

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

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

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

	As of	
	March 31, 2018	December 31, 2017
		NIS million
Israel (incl. Israel Government - 31.3.18 - NIS 3,013 million, 31.12.17 - NIS 2,533 million)	**3,237**	2,737
USA (incl. USA Government - 31.3.18 - NIS 1,347 million, 31.12.17 - NIS 1,801 million)	**1,412**	1,944
France	**83**	157
UK	**27**	211
Germany (incl. Germany Government or guaranteed by it - 31.3.18 - NIS 624 million, 31.12.17 - NIS 478 million)	**624**	478
Europe - others * (31.3.18 - 2 countries; 31.12.17 - 3 countries)	**104**	154
Canada	**412**	253
Australia	**25**	7
Far East, New Zealand* and others (31.3.18 - 4 countries; 31.12.17 - 5 countries)	**132**	141
Total	**6,056**	6,082

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.

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

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

	As of	
	March 31, 2018	December 31, 2017
		NIS million
Financial services	**37**	35
Banks	**74**	92
Industry	**49**	47
Electricity and water	**138**	150
Construction and real estate	**140**	128
Communications and computer services	**16**	12
Commerce	**47**	42
Public and community services	**5**	5
Transportation	**68**	64
Hotels, hospitality and food services	**14**	15
Total	**588**	590

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 6,056 million (Dollar 1,723 million) (includes foreign corporations amounting to NIS 1,472 million, foreign currency denominated bonds of Israeli corporations, mostly traded abroad, amounting to NIS 224 million, foreign currency denominated Israel Government bonds amounting to NIS 3,013 million and foreign government bonds amounting to NIS 1,347 million). All of the foreign bonds are investment grade and 98% of the portfolio is rated A or higher; 2% 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 6% 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 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 27 million (Dollar 8 million) compared with NIS 63 million (Dollar 18 million) on December 31, 2017.
- **Mortgage Backed Securities (MBS)** - amount to NIS 297 million (Dollar 85 million).

  The bonds were issued by federal agencies in the USA. Of these, NIS 293 million (Dollar 84 million) were issued by Ginnie Mae, which is wholly owned by the US government. The balance of NIS 4 million (Dollar 1 million) was issued by the US federal agencies Fannie Mae and Freddie Mac.

  Set out below is a sensitivity analysis as of March 31, 2018 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	**(1.7)**	**(6.4)**
Increase of 100 base points	**(1.5)**	**(3.1)**
Decrease of 100 base points	**10.1**	**2.5**
Decrease of 200 base points	**24.0**	**3.8**

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, 2018, amounted to NIS 26 million.

Cash and deposits at banks on March 31, 2018 totaled NIS 34,481 million compared with NIS 39,186 million at the end of 2017, a decrease of 12.0%

Deposits from the public on March 31, 2018 totaled NIS 111,913 million compared with NIS 113,511 million at the end of 2017, a decrease of 1.4%.

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

	As of				Segment's share of total deposits from the public on	
	March 31, 2018	December 31, 2017	Change		March 31, 2018	December 31, 2017
		NIS million	NIS million	%	%	%
Local currency						
- Non-linked	**86,590**	87,253	(663)	(0.8)	**77.4**	76.9
- CPI-linked	**5,977**	6,037	(60)	(1.0)	**5.3**	5.3
Foreign currency denominated & linked	**18,924**	19,755	(831)	(4.2)	**16.9**	17.4
Non-monetary items	**422**	466	(44)	(9.4)	**0.4**	0.4
Total	**111,913**	113,511	(1,598)	(1.4)	**100.0**	100.0

Deposits from the public by segment of activity

	As of			Change	
	March 31, 2018	**December 31, 2017**	**March 31, 2017**	**December 31, 2017**	**March 31, 2017**
			NIS million		%
Large business segment	**9,556**	11,683	9,409	(18.2)	1.6
Medium business segment	**5,219**	5,309	5,218	(1.7)	-
Small and minute business segment	**16,050**	15,439	16,264	4.0	(1.3)
Household segment	**47,268**	46,371	45,944	1.9	2.9
Private banking segment	**7,827**	8,028	7,560	(2.5)	3.5
Institutional entities	**25,993**	26,681	21,803	(2.6)	19.2
Total	**111,913**	113,511	106,198	(1.4)	5.4

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, 2018, amounted to NIS 327 billion, as compared to NIS 328 billion at the end of 2017.

Bonds and subordinated capital notes amounted at March 31, 2018 to NIS 4,980 million, as compared with NIS 5,249 million at December 31, 2017, a decrease of 5.1%.

CAPITAL AND CAPITAL ADEQUACY

The capital attributed to the shareholders of the Bank amounted on March 31, 2018 to NIS 7,772 million, as compared with NIS 7,756 million on December 31, 2017, an increase of 0.2%.
For detailes regarding the development of the other comprehensive profit, see the Chapter "Material developments in income, expenditure and in other comprehensive profit".

CAPITAL ADEQUACY

Minimum capital ratios

Bank of Israel issued on May 30, 2013 an amendment to Proper Conduct of Banking Business Directives Nos. 201-205, 208, 211 and 299, in the matter of "Measurement and capital adequacy", which adopt the Basel instructions. The initial implementation was set to January 1, 2014, and the implementation will be gradual in accordance to the transitional instructions in Proper Conduct of Banking Business Directive No. 299 "Measurement and capital adequacy- supervisory capital - transitional instructions". These 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 9.29% and 12.79%, 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 than9.30%, and the ratio of the comprehensive capital will be np less than 12.79%.
- 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%.

According to the transitional instructions, the regulatory adjustments and deductions from capital as well as the non-controlling interest that is not qualified to be included in the regulatory capital, shall be gradually deducted from capital at the rate of 20% in each year starting with January 1, 2014 and until January 1, 2018. The capital instruments no longer qualified as regulatory capital shall be recognized up to a maximum of 80% on January 1, 2014, this maximum level being reduced by an additional 10% until January 1, 2022. As from January 1, 2018, the transitional instructions regarding deductions from the regulatory capital are no longer in effect and the deductions amount to 100%, while the maximum rate of instruments qualified as regulatory capital amounts to 40%.

Operational Efficiency

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

The cost of the program is estimated at NIS 207 million (before the tax effect). Without the said relief, the implementation of the efficiency measures, as of March 31, 2018 would have reduced the capital adequacy ratios by 0.13%.

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, 2017, has been dully submitted to bank of Israel. The infrastructure for the capital adequacy, as approved by the Bank, serves as a basis for the internal process conducted at each of the banking subsidiaries, subject to required adjustments, and on the basis of the specific risk profile of each subsidiry. The subsidiary companies had conducted the ICAAP process in relation to the December 31, 2016 data and are in stages of performing the ICAAP for the December 31, 2017 data.

		As of	
		March 31, 2018	**December 31, 2017**
1.	**Capital for calculation of capital ratio, after deduction and supervisory adjustments**		
	Tier 1 capital, after deductions and supervisory adjustments	**7,958**	8,033
	Tier 2 capital	**2,599**	2,749
	Total capital	**10,557**	10,782
2.	**Weighted balances of risk assets**		
	Credit risk	**72,608**	70,445
	Market risk	**662**	725
	Operational risk	**5,732**	6,201
	Total weighted balances of risk assets	**79,002**	77,371
3.	**Ratio of capital to risk assets**		
	Raito of tier 1 equity capital to risk assets	**10.07%**	10.38%
	Total ratio of capital to risk assets	**13.36%**	13.94%
	Minimal ratio of equity capital tier 1 required by the Supervisor of banks	**9.29%**	9.30%
	Minimal ratio of capital required by the Supervisor of Banks	**12.79%**	12.80%

The Tier I equity capital ratio as of March 31, 2018, amounted to 10.07% in comparison with 10.38% on December 31, 2017. The ratio of comprehensive capital to risk components as of March 31, 2018, amounted to 13.36%, in comparison with 13.94% on December 31, 2017.

The comprehensive capital as of March 31, 2018 amounted to NIS 10,557 million, in comparison with NIS 10,782 million on December 31, 2017. The reduction in the capital base stemmed mostly from a reduction of NIS 156 million in instruments issued by the Bank qualified for inclusion in the supervisory capital, from dividend paid in the amount of NIS 95 million and from other comprehensive loss from available for sale securities to fair value in the amount of NIS 28 million. This reduction was partly offset by the profits for the quarter in the amount of NIS 137 million. Risk assets as of March 31, 2018 amounted to NIS 79,002 million as compared with NIS 77,371 million on December 31, 2017.

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

	March 31, 2018	December 31, 2017
		In percent
Significant subsidiaries		
Bank Otsar Hahayal Ltd.		
Ratio of Tier 1 capital to risk assets	**10.50%**	11.01%
Ratio of overall capital to risk assets	**12.56%**	13.32%
Bank Massad Ltd.		
Ratio of Tier 1 capital to risk assets	**11.86%**	11.87%
Ratio of overall capital to risk assets	**12.87%**	12.95%

Leverage ratio in accordance with instructions of the Supervisor of Banks - On April 28, 2015, the Supervisor of Banks published Proper Conduct of Banking Business Directive No. 218 in the matter of leverage ratio. The leverage ratio is expressed in percentages and is defined as the ratio between capital measurement and exposure measurement. Capital for the purpose of measuring the leverage ratio is the Tier I equity capital, as defined in Proper Conduct of Banking Business Directive No. 202, taking into consideration the prescribed transitional arrangements. In accordance with the Directive, a banking corporation should attain a leverage ratio of no less than 5% on a consolidated basis, 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, 2018, amounts to 5.56%, compared to 5.50% as of December 31, 2017.

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 of 2017.

Following are details regarding dividends distributed by the Bank, as from the year 2015:

Declaration date	Payment date	Total dividend paid	Dividend per share
		NIS million	NIS
9 June 2015	30 June 2015	60	0.60
18 November 2015	6 December 2015	70	0.70
17 November 2016	5 December 2016	200	1.99
15 March 2017	2 April 2017	70	0.70
23 May 2017	14 June 2017	70	0.70
14 August 2017	31 August 2017	70	0.70
14 November 2017	3 December 2017	100	1.00
5 March 2018	21 March 2018	95	0.95

Subsequent to balance sheet date, on May 28, 2018, the Board of directors of the Bank resolved to distribute a dividend in cash to shareholders of the Bank in a total amount of NIS 60 million. The determining date for the distribution of the dividend is June 5 2018, and the date of payment is June 13 2018. The amount of the dividend is before any taxes, including the tax that the Bank has to withhold in terms of the law.

SUPERVISORY SEGMENTS OF 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	
	2018	**2017**	**Change**	**31.3.18**	**31.3.17**
		NIS million	%		%
Large business	**106**	114	(7.0)	**10.8**	12.0
Medium business	**60**	53	13.2	**6.1**	5.6
Small and minute business	**232**	218	6.4	**23.6**	23.0
Household	**420**	382	9.9	**42.6**	40.2
Private banking	**24**	24	-	**2.4**	2.5
Institutional entities	**60**	55	9.1	**6.1**	5.8
Financial management	**83**	104	(20.2)	**8.4**	10.9
Total	**985**	950	3.7	**100.0**	100.0

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

	For the three months ended March 31,	
	2018	**2017**
		NIS million
Large business	**38**	46
Medium business	**17**	10
Small and minute business	**22**	19
Household	**(2)**	12
Private banking	**5**	4
Institutional entities	**11**	9
Financial management	**46**	66
Total	**137**	166

* 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	
	2018	2017	Change	31.3.18	31.3.17
		NIS million	%	%	%
Large business	**17,107**	18,026	(5.1)	**12.6**	14.0
Medium business	**5,597**	5,061	10.6	**4.1**	3.9
Small and minute business	**14,883**	14,173	5.0	**10.9**	11.0
Household	**42,491**	39,536	7.5	**31.3**	30.8
Private banking	**53**	315	**(83.2)	**-**	0.3
Institutional entities	**624**	673	(7.3)	**0.5**	0.5
Financial management	**55,247**	50,690	9.0	**40.6**	39.5
Total	**136,002**	128,474	5.9	**100.0**	100.0

	Total liabilities				
	For the three months ended March 31,			% of total liabilities	
	2018	2017	Change	31.3.18	31.3.17
		NIS million	%	%	%
Large business	**10,454**	9,381	11.4	**8.2**	7.8
Medium business	**5,055**	5,376	(6.0)	**4.0**	4.5
Small and minute business	**16,024**	16,746	(4.3)	**12.5**	13.9
Household	**46,587**	45,853	1.6	**36.5**	38.0
Private banking	**7,719**	8,255	**(6.5)	**6.0**	6.8
Institutional entities	**26,257**	20,814	26.2	**20.6**	17.3
Financial management	**15,568**	14,074	10.6	**12.2**	11.7
Total	**127,664**	120,499	5.9	**100.0**	100.0

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

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

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

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

	For the three months ended March 31, 2018				For the three months ended March 31, 2017			
	Small and minute business	Medium business	Large business	Total	Small and minute business	Medium business	Large business	Total
								NIS million
Net interest income	**148**	**42**	**74**	**264**	138	37	78	253
Non-interest income	**84**	**18**	**32**	**134**	80	16	36	132
Total income	**232**	**60**	**106**	**398**	218	53	114	385
Expenses (income) from credit losses	**19**	**1**	**(7)**	**13**	25	12	(10)	27
Operating and other expenses	**176**	**30**	**52**	**258**	160	25	48	233
Net profit attributed to the shareholders of the Bank	**22**	**17**	**38**	**77**	19	10	46	75
Average balance of assets	**14,883**	**5,597**	**17,107**	**37,587**	14,173	5,061	18,026	37,260
Balance of credit to the public at the end of the reported period	**15,349**	**5,694**	**17,789**	**38,832**	14,481	5,153	18,191	37,825
Average balance of liabilities	**16,024**	**5,055**	**10,454**	**31,533**	16,746	5,376	9,381	31,503
Balance of deposits from the public at the end of the reported period	**16,050**	**5,219**	**9,556**	**30,825**	16,264	5,218	9,409	30,891

Total net interest income amounted to NIS 264 million, compared with NIS 253 million in the same period last year, an increase of 4.3%.

The operating and other expenses amounted to NIS 258 million, compared to NIS 233 million in the corresponding period last year, an increase of 10.7%, explained mainly by an increase in salaries and related expenses due to a provision for claimes of the Bank's employees as a result of a verdict given in the claim of the managers committee, and of segment's share in the provision for efficiency measures in consolidated company. Eliminating these provisions, total operating and other expenses amounted to NIS 232 million, similar to the same period last year.

The net profit attributed to the shareholders of the Bank in respect of the small and minute, medium sized and large businesses, amounted to NIS 77 million, in comparison with NIS 75 million in the same period last year, an increase of 2.7%.

Credit to the public as of March 31, 2018 amounted to NIS 38,832 million, in comparison with NIS 37,825 million on March 31, 2017, an increase of 2.7%.

Deposits from the public as of March 31, 2018 amounted to NIS 30,825 million, in comparison with NIS 30,891 million on March 31, 2017, a decrease of 0.2%.

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, 2018			For the three months ended March 31, 2017		
	household	private banking	Total	household	private banking	Total
						NIS million
Net interest income	**274**	**8**	**282**	239	5	244
Non-interest income	**146**	**16**	**162**	143	14	157
Total income	**420**	**24**	**444**	382	19	401
Expenses from credit losses	**14**	**-**	**14**	7	-	7
Operating and other expenses	**402**	**16**	**418**	349	14	363
Net profit (loss) attributed to the shareholders of the Bank	**(2)**	**5**	**3**	12	3	15
Average balance of assets	**42,491**	**53**	**42,544**	39,536	47	39,583
Balance of credit to the public at the end of the reported period	**43,352**	**52**	**43,404**	40,411	47	40,458
Average balance of liabilities	**46,587**	**7,719**	**54,306**	45,853	7,552	53,405
Balance of deposits from the public at the end of the reported period	**47,268**	**7,827**	**55,095**	45,944	7,560	53,504

Total net interest income amounted to NIS 282 million, as compared with NIS 244 million in the corresponding period last year, an increase of 15.6%. This increase stems from an increase in the credit balances.

Non-interest income amounted to NIS 162 million, in comparison with NIS 157 million in the corresponding period last year.

Operating and other expenses amounted to NIS 418 million, as compared to NIS 363 million in the corresponding period last year, an increase of 15.2%, explained mainly by an increase in salaries and related expenses due to a provision for claimes of the Bank's employees as a result of a verdict given in the claim of the managers committee, and of segment's share in the provision for efficiency measures in consolidated company. Eliminating these provisions, total operating and other expenses amounted to NIS 378 million, an increase of 4.1%, compared to the same period last year.

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 3 million, compared with NIS 15 million in the corresponding period last year.

Credit to the public as of March 31, 2018 amounted to NIS 43,404 million, in comparison with NIS 40,458 million on March 31, 2017, an increase of 7.3%.

Deposits from the public as of March 31, 2018 amounted to NIS 55,095 million, in comparison with NIS 53,504 million on March 31, 2017, an increase of 3.0%.

FINANCIAL MANAGEMENT SEGMENT

Total income attributed to this segment amounted to NIS 83 million compared with NIS 104 million in the corresponding period last year.

The net earnings of the Financial Management Segment amounted to NIS 46 million compared with NIS 66 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, before the tax effect, compared to NIS 41 milion in the corresponding period last year.

PRINCIPAL INVESTEE COMPANIES

The Bank's investments in investee companies in Israel totaled NIS 2,483 million on March 31, 2018, compared with NIS 2,458 million on December 31, 2017, an increase of 1.0%.
The Bank’s share in the net earnings of investee companies in Israel amounted to NIS 27 million compared with NIS 32 million in the same period last year.

Bank Otsar Hahayal (hereinafter - “Otsar Hahayal”) - in which the Bank holds 100.0% of the share capital and voting rights, is a commercial bank that operates via 46 branches and sub-branches.
The Bank’s investment in Otsar Hahayal amounted to NIS 1,294 million on March 31, 2018. Total assets of Otsar Hahayal on March 31, 2018 amounted to NIS 21,958 million compared with NIS 21,274 million on December 31, 2017, an increase of 3.2%. Shareholders' equity of Otsar Hahayal on March 31, 2018 amounted to NIS 1,294 million compared with NIS 1,291 million on December 31, 2017, an increase of 0.2%.
Net earnings of Otsar Hahayal amounted to NIS 7.2 million compared with NIS 16.4 million in the same period last year, a decrease of 56.1%.

The decrease in profit is mainly explained by provision for expenses for organiztional change. This provision was partly offset by:

A. Increase in interest income stemming mostly from the growth in the volume of operations, which was partly offset by the growth in credit loss expenses.
B. Increase in commission fees, stemming mostly from commission fees in respect of credit handling.
C. Decrease in payroll and related expenses, reflecting a reduction in the number of employees.

Net profit reflected a return on equity of 2.2% in comparison to 5.5% in the corresponding period last year.
The ratio of equity to risk assets amounted to 12.56% as compared with 13.32% at the end of 2017. The Tier 1 equity capital ratio amounted to 10.50% as compared with 11.01% at the end of 2017.
In May 2017, The Board of Directors of Otsar Hahayal resolved, after discussion of the ICAAP document regarding the evaluation of the capital adequacy, that in 2017 and until a different decision is made, the Tier 1 equity capital ratio will not be less than 9.3% and the overall capital ratio of Otsar Hahayal will not be less than the regulatory requirement, which at December 31, 2017 amounted to 12.53%.

On January 14, 2018, the Bank offered all shareholders of Otsar Hahayal (not being the Bank), including Chever Regular Servicemen and Pensioners Ltd. (hereinafter - "Chever") to purchase their shares in Otsar Hahayal, of whatever class, within the framework of proceedings in accordance with Section 341 of the Companies Act, 1999 (hereinafter - "the Companies Act"), in consideration for a total amount of NIS 340 million, a price equal to the exercise price stated in the terms of the PUT option granted to Chever, in accordance with arrangements made in 2006 and updated from time to time (hereinafter - "the Chever option).
In accordance with this process, the acquisition by the Bank of the holdings of Chever in Otsar Hahayal was completed on January 16, 2018, following which, the option held by Chever expired. On April 22, 2018, the Bank completed the purchase of the shares held by all the minority shareholders in Otzar Hachayal in accordance with Section 341 of the Companies Act and the dates and terms stated therein, following which the Bank holds 100% of the voting rights and equity rights in Otzar Hachayal.

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

The Bank's investment in Massad amounted to NIS 310 million on March 31, 2018. Total assets of Massad on March 31, 2018 amounted to NIS 7,920 million compared with NIS 7,773 million on December 31, 2017, an increase of 2.4%. Shareholders' equity of Massad on March 31, 2018, totaled NIS 607 million compared with NIS 592 million on December 31, 2017, an increase of 2.5%.

Net earnings of Massad totaled NIS 16.0 million compared with NIS 11.5 million in the same period last year, an increase of 39.1%. 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, net of amortization of excess of cost of the acquisition, amounted to NIS 6.0 million compared with NIS 3.7 million in the same period last year.

Net return on equity amounted to 11.2% compared with 8.1% in the same period last year. The ratio of capital to risk assets amounted to 12.87%, compared with 12.95% at the end of 2017. The Tier 1 capital ratio amounted to 11.86% compare with 11.87% at the end of 2017.

In the framework of the ICAAP process for the data of December 31, 2016 the minimal capital targets were set: tier 1 equity capital ratio will not be less than 10.5% until December 31, 2019 and the comprehensive capital ratio will be no less than 12.85% until December 31, 2019.

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

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

The Bank's investment in ICC amounted to NIS 571 million on March 31, 2018.

The ratio of capital to risk assets on March 31, 2018 amounted to 14.8%, compare with 15.6% at the end of 2017.

The Bank's share in the net earnings of ICC before the tax effect amounted to NIS 7.0 million compared with NIS 12.7 million in the same period last year, a decrease of 44.9%.

The decline in profits is explained by the implementation of the joint issuance agreement between ICC and Supersol Ltd., and in particular by the material growth in marketing expenses involved in the attraction of customers, in relating operating expenses and in credit loss expenses in respect of unused allocated credit facilities.

These expenses stemmed mostly from the issuance in the first quarter of the year of over 300 thousand credit cards belonging to the joint customer club of ICC and Supersol.

See note 9 regarding motions for approval of class actions against ICC, a motion for approval of a derivative lawsuit against officers and functionaries officiating at ICC during the relevant period.

FIBI (Switzerland) - On December 19, 2016, FIBI (Switzerland) Ltd., a subsidiary of the Bank (hereinafter - "the Extension") signed an agreement for the sale of its operations to a third party (hereinafter - "the agreement"). The transaction was consummated on June 2, 2017, following the transfer to the purchaser of most of the assets of customers of the Extension. On this date, the extension received a payment on account of the total amount of the consideration stated in the agreement.

On March 4, 2018, the parties signed an amendment to the above agreement, according to which, the final amount of the consideration payable in respect of the transfer of the operations of the Extension would be CHF 4.6 million.In addition, according to the amendment part of the indemnification commitments that were granted in the agreement were cancelled. The balance of the consideration amount recorded in the first quarter of the year as part of "other income", amounted to NIS 3 million.

On March 14, 2018 the real estate that was owned by the extention was sold.The profit from the sale amounted to NIS 19 million, before tax effect.

The Extension terminated all of its banking activities and on February 28, 2018 returned its banking license to the Swiss Supervisory Authorities. The Bank is dealing now with the liquidation of the Extension. With the return of the banking license of the Extension, the Bank, within the framework of the agreement, serves now as guarantor for all its obligations and replaces it in respect of its commitments under the agreement and its amendments.

REVIEW OF RISKS

REVIEW OF RISKS

This chapter was written in great detail in the financial statements for 2017. Therefore, it should be read together with the chapter of the risk review published in the annual reports for 2017. Additional information about the risks can be found on the report on risks and additional supervisory reporting in the Bank's internet website.

General

a. The Group's activity is accompanied by exposure to risks, the most significant of which are: credit risk (including concentration of economy segments and borrowers), market risk, for which the main risk is the interest risk (cross system risk), liquidity risk, operational risk, compliance risk and AML risk, strategy risk, legal risk and reputation risk. Members of the Board of Management 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. The second line is maintained by units of the Risk Management Division and Chief Accountant by means of independent control. The third line consists of the internal and external auditing functions.

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

f. Those responsible for risk management at the Group are:

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

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

   Mr. Yaacov Konortov- compliance manager, including, among other things AML, internal enforcement and cross border risks. Also appointed as Responsible Officer in-charge of implementation of the FATCA directives and QI agreement;

   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, Chief Legal Counsel-Legal Risk Manager;

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

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

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

For discussion of the risk appetite and risk management principles, see reference in the description of principal risks, presented in the financial statements for the year 2017.

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

CREDIT RISK

Significant exposures to borrower groups

As of March 31, 2018 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 1,613 million compared with NIS 1,642 million at the end of 2017, a decrease of 1.8%

The ratio of problematic credit risk to total credit risk at the group amounted to 1.4% at the end of march 2018, similar to at the end of 2017. 16.7% of problematic credit risk at the group are attributed to the manufacturing sector, 12.9% to the real estate sector, 23.6% to the commerce sector, and 32.6% to the private customers including housing loans. The ratio of problematic credit risk to total credit to the public amounted to 1.7%, compared with 1.8% at the end of 2017.

1. Problematic credit risk

	March 31, 2018			March 31, 2017			December 31, 2017		
	Balance-sheet	Off-balance-sheet	Total	Balance-sheet	Off-balance-sheet	Total	Balance-sheet	Off-balance-sheet	Total
									NIS million
Impaired credit risk	**524**	**105**	**629**	749	143	892	547	118	665
Inferior credit risk	**155**	**5**	**160**	235	19	254	157	5	162
Credit under special supervision risk	**718**	**106**	**824**	764	71	835	745	70	815
Total problematic credit risk*	**1,397**	**216**	**1,613**	1,748	233	1,981	1,449	193	1,642
* Of which: Non-impaired debts in arrears of 90 days or more	**231**	**-**	**231**	201	-	201	230	-	230

		Balance on March 31, 2018	Balance on March 31, 2017	Balance on December 31, 2017
				NIS million
2.	**Non-performing assets**			
	Impaired credit to the public not accruing interest income:	**477**	696	493
3.	**Performing impaired assets**			
	Impaired debts undergoing problematic debts restructuring and accruing interest income	**42**	48	49
	Impaired bonds accruing interest income	**5**	5	5
	Total performing impaired assets	**47**	53	54

		For the three months ended March 31, 2018	For the three months ended March 31, 2017	For the year ended December 31, 2017
				NIS million
4.	**Changes in impaired debts**			
	Balance of impaired debts at beginning of year	**542**	**577**	577
	Classified as impaired	**63**	**291**	*551
	Removed from impaired classification	**(8)**	**(33)**	(41)
	Collection of debts	**(51)**	**(49)**	*(406)
	Accounting write-offs	**(27)**	**(42)**	(139)
	Balance of impaired debts at end of period	**519**	**744**	542

* Of which: one debt in the amount of NIS 227 million that was classified as impaired in restructuring in 2017 and was collected later.

	For the three months ended March 31		For the year ended December 31
	2018	**2017**	**2017**
5. Risk Indices			
Ratio of impaired credit to the public or in arrears of 90 days + to total credit to the public	**0.91%**	1.20%	0.95%
Of which:			
Ratio of impaired credit to the public to total credit to the public	**0.63%**	0.94%	0.67%
Ratio of non-impaired credit to the public in arrears of 90 days+ to total credit to the public	**0.28%**	0.26%	0.28%
Ratio of problematic credit risk in respect of the public to overall credit risk in respect of the public	**1.36%**	1.75%	1.42%
Ratio of expenses for credit losses to average total credit to the public*	**0.13%**	0.17%	0.15%
Ratio of net write-offs in respect of credit to the public to average total credit to the public*	**0.08%**	0.30%	0.18%
Ratio of provision for credit losses in respect of credit to the public to credit to the public	**1.02%**	1.05%	1.03%
Ratio of provision for credit losses in respect of credit to the public to total impaired credit to the public	**162.0%**	111.2%	154.6%
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	**112.1%**	87.5%	108.5%
Ratio of net write-offs in respect of credit to the public to provision for credit losses in respect of credit to the public*	**7.8%**	31.1%	16.7%

* Annualized.

The decline in the rate of the impaired credit to the public from the credit to the public, as well as the decline in the rate of problematic credit risk in respect of the public from the overall credit risk in respect of the public, derived mainly from the decrease in the balance of impaired credit to the public, mainly as a result of repayment of debts and due to accounting write-offs.

Total credit risk according to economic sectors
(NIS million)

	as at March 31, 2018									
	Total credit risk(1)			Debts(2) and off-balance credit risk (excluding derivatives)(3)						
								Credit losses (4)		
	Total	Credit execution rating(5)	Problematic (6)	Total	Of which: Debts(2)	Problematic (6)	Impaired	Expenses (income) for credit losses	Net accounting write-offs	Provision for Credit losses
In respect of borrowers in Israel										
Public-Commercial:										
Agriculture	564	529	9	560	445	9	5	(1)	(1)	5
Mining and quarrying	143	143	-	65	48	-	-	-	-	-
Industry	10,287	9,719	269	10,034	7,144	269	141	(4)	3	134
Construction and Real estate - construction(7)	10,047	9,759	114	9,976	4,251	113	52	8	4	78
Construction and Real estate - real estate activities	5,677	5,439	94	5,563	5,123	94	91	-	-	24
Electricity and water supply	1,396	1,333	6	1,210	783	6	4	1	-	7
Commerce	8,652	7,989	380	8,545	6,958	380	153	10	-	191
Hotels, hospitality and food services	988	901	26	973	810	26	9	1	1	12
Transport and storage	1,120	1,023	35	1,017	828	30	10	(1)	(1)	14
Information and communications	2,408	2,162	28	2,304	1,443	28	15	(1)	1	10
Financial services	13,266	13,222	23	9,911	7,302	23	1	(1)	-	23
Other business services	2,696	2,504	32	2,668	1,748	32	11	2	1	14
Public and community services	2,646	2,487	63	2,627	2,003	63	27	1	-	12
Total commercial(8)	59,890	57,210	1,079	55,453	38,886	1,073	519	15	8	524
Private individuals - housing loans	24,733	24,191	169	24,733	23,151	169	10	1	-	116
Private individuals - others	31,689	30,055	357	31,661	19,951	357	87	13	10	268
Total public - activity in Israel	116,312	111,456	1,605	111,847	81,988	1,599	616	29	18	908
Banks in Israel	549	549	-	292	292	-	-	-	-	-
Israeli government	7,620	7,621	-	677	677	-	-	-	-	-
Total activity in Israel	124,481	119,626	1,605	112,816	82,957	1,599	616	29	18	908
In respect of borrowers abroad										
Total public - activity abroad	2,154	2,145	8	772	757	8	8	(2)	(2)	2
Banks abroad	2,229	2,229	-	1,346	1,346	-	-	-	-	-
Foreign governments	1,347	1,347	-	-	-	-	-	-	-	-
Total activity abroad	5,730	5,721	8	2,118	2,103	8	8	(2)	(2)	2
Total public	118,466	113,601	1,613	112,619	82,745	1,607	624	27	16	910
Total banks	2,778	2,778	-	1,638	1,638	-	-	-	-	-
Total governments	8,967	8,968	-	677	677	-	-	-	-	-
Total	130,211	125,347	1,613	114,934	85,060	1,607	624	27	16	910

See note on page 46.

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

(NIS million)

	as at March 31, 2017									
	Total credit risk(1)			Debts(2) and off-balance credit risk (excluding derivatives)(3)						
								Credit losses(4)		
	Total	Credit execution rating(5)	Problematic (6)	Total	Of which: Debts(2)	Problematic (6)	Impaired	Expenses (income) for credit losses	Net accounting write-offs	Provision for Credit losses
In respect of borrowers in Israel										
Public-Commercial:										
Agriculture	548	505	25	547	432	25	7	-	-	10
Mining and quarrying	153	151	1	67	54	1	-	-	-	-
Industry	10,351	9,683	346	10,090	7,381	346	137	4	19	134
Construction and Real estate - construction(7)	9,720	9,341	129	9,669	3,783	128	89	1	2	89
Construction and Real estate - real estate activities	5,240	5,027	82	5,134	4,608	82	74	(4)	(2)	22
Electricity and water supply	1,549	1,481	3	959	700	3	1	-	-	5
Commerce	8,681	7,860	452	8,575	7,322	452	184	18	20	180
Hotels, hospitality and food services	954	868	23	937	778	23	7	1	8	11
Transport and storage	1,052	977	38	942	759	33	11	2	1	14
Information and communications	2,435	2,339	31	2,337	1,328	31	18	(2)	-	12
Financial services	13,220	12,829	266	9,687	7,283	266	228	7	1	36
Other business services	2,580	2,405	24	2,540	1,658	24	7	2	1	13
Public and community services	2,493	2,335	49	2,458	1,868	49	20	(2)	(1)	9
Total commercial(8)	58,976	55,801	1,469	53,942	37,954	1,463	783	27	49	535
Private individuals - housing loans	23,176	22,609	158	23,176	22,058	158	11	-	2	113
Private individuals - others	29,459	27,765	346	29,435	18,150	346	85	7	7	245
Total public - activity in Israel	111,611	106,175	1,973	106,553	78,162	1,967	879	34	58	893
Banks in Israel	1,181	1,181	-	670	670	-	-	-	-	-
Israeli government	10,003	10,003	-	652	648	-	-	-	-	-
Total activity in Israel	122,795	117,359	1,973	107,875	79,480	1,967	879	34	58	893
In respect of borrowers abroad										
Total public - activity abroad	1,784	1,776	8	670	658	8	8	-	-	1
Banks abroad	3,511	3,511	-	1,537	1,537	-	-	-	-	-
Foreign governments	2,003	2,003	-	-	-	-	-	-	-	-
Total activity abroad	7,298	7,290	8	2,207	2,195	8	8	-	-	1
Total public	113,395	107,951	1,981	107,223	78,820	1,975	887	34	58	894
Total banks	4,692	4,692	-	2,207	2,207	-	-	-	-	-
Total governments	12,006	12,006	-	652	648	-	-	-	-	-
Total	130,093	124,649	1,981	110,082	81,675	1,975	887	34	58	894

See note on page 46.

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

(NIS million)

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

See note on page 46.

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

NOTES:

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts, bonds, securities borrowed, assets in respect of derivative instruments and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 85,060, 10,233, 637, 1,189 and 33,092 million respectively (31.3.17 - NIS 81,675, 14,493, 492, 1,340 and 32,093 million respectively, 31.12.17 - NIS 84,516, 10,042, 813, 1,342 and 32,140 million respectively).

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

(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, excluding in respect of derivative instrument.

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

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

(6) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which 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.

(7) 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 (31.3.17 - NIS 250 million and NIS 667 million, respectively, 31.12.17 - NIS 293 million and NIS 225 million, respectively).

(8) 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 (31.3.17 - NIS 2,298 million, 31.12.17 - NIS 2,500 million).

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, 2018			As of December 31, 2017		
	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-	**802**	**-**	**802**	742	3	745
A+ to A-	**1,123**	**23**	**1,146**	1,122	36	1,158
BBB+ to BBB-	**6**	**10**	**16**	26	10	36
BB+ to B-	**42**	**-**	**42**	111	-	111
Unrated	**-**	**3**	**3**	-	3	3
Total credit exposure to foreign financial institutions	**1,973**	**36**	**2,009**	2,001	52	2,053
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 237 million on March 31, 2018 (December 31, 2017 - NIS 280 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 (97%) is attributed to leading financial institutions in OECD countries, which are graded AAA to A-, and 40% 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 125 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 three years.

In addition, balance-sheet credit risk includes NIS 1.6 billion of deposits placed with foreign banks, mainly for a short period of a day to a week.

As of March 31, 2018 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 1,584 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.

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

	As at March 31, 2018					
	Balance sheet exposure(2)					
	Cross-border balance sheet exposure			Balance sheet exposure of the Bank's foreign subsidiaries to local residents		
	to Governments (4)	To Banks	To Others	Before deduction for local liabilities	Deduction for local liabilities	Net of local liabilities
United States	**1,640**	**726**	**508**	**-**	**-**	**-**
Spain	**-**	**1**	**6**	**-**	**-**	**-**
Italy	**-**	**3**	**9**	**-**	**-**	**-**
Ireland	**-**	**-**	**1**	**-**	**-**	**-**
Portugal	**-**	**-**	**1**	**-**	**-**	**-**
Other	**1**	**1,329**	**2,421**	**82**	**1**	**81**
Total exposure to foreign countries	**1,641**	**2,059**	**2,946**	**82**	**1**	**81**
Total exposure to LDC countries	**-**	**1**	**227**	**-**	**-**	**-**

	As at March 31, 2017					
	Balance sheet exposure(2)					
	Cross-border balance sheet exposure			Balance sheet exposure of the Bank's foreign subsidiaries to local residents		
	to Governments (4)	To Banks	To Others	Before deduction for local liabilities	Deduction for local liabilities	Net of local liabilities
United States	2,201	1,090	485	-	-	-
Spain	-	3	9	-	-	-
Italy	74	1	30	-	-	-
Ireland	-	-	12	-	-	-
Greece	-	-	1	-	-	-
Portugal	-	-	2	-	-	-
Other	36	2,079	1,887	251	28	223
Total exposure to foreign countries	2,311	3,173	2,426	251	28	223
Total exposure to LDC countries	-	77	202	-	-	-

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

	Total balance sheet exposure	Problematic balance sheet credit risk	Impaired debt	Off-Balance sheet exposure(2)(3) Total off-balance sheet exposure	Of which: off-balance sheet problematic credit risk	Cross-border balance sheet exposure(2) Maturity up to one year	Maturity over one year
	2,874	**7**	**-**	**68**	**-**	**2,412**	**462**
	7	**2**	**-**	**18**	**-**	**6**	**1**
	12	**-**	**-**	**2**	**-**	**10**	**2**
	1	**-**	**-**	**1**	**-**	**1**	**-**
	1	**-**	**-**	**-**	**-**	**1**	**-**
	3,832	**23**	**-**	**457**	**-**	**3,209**	**542**
	6,727	**32**	**-**	**546**	**-**	**5,639**	**1,007**
	228	**9**	**-**	**79**	**-**	**210**	**18**

	Total balance sheet exposure	Problematic balance sheet credit risk	Impaired debt	Off-Balance sheet exposure(2)(3) Total off-balance sheet exposure	Of which: off-balance sheet problematic credit risk	Cross-border balance sheet exposure(2) Maturity up to one year	Maturity over one year
	3,776	2	-	97	-	3,349	427
	12	-	-	15	-	11	1
	105	-	-	3	-	103	2
	12	-	-	1	-	11	1
	1	-	-	-	-	1	-
	2	-	-	-	-	2	-
	4,225	13	2	685	-	3,180	822
	8,133	15	2	801	-	6,657	1,253
	279	-	-	118	-	260	19

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

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

Balance-sheet exposures:

Balance-sheet balances	Balance-sheet balances	Balance-sheet balances
March 31, 2018	March 31, 2017	December 31, 2017
United Kingdom 867	United Kingdom 870	-

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

C. Information regarding balance-sheet exposure to foreign countries with liquidity problems

	For the three months ended							
	March 31, 2018			March 31, 2017				
	Portugal	Puerto Rico	Venezuela	Greece	Ireland	Portugal	Puerto Rico	Venezuela
Total exposure at beginning of the reported period	**2**	**4**	**2**	-	14	2	2	2
Short-term changes in total exposure, net	**(1)**	**(1)**	**-**	1	(2)	-	2	-
Total exposure at end of the reported period	**1**	**3**	**2**	1	12	2	4	2

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

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, 1,008 million in the first three months of 2018 compared with NIS 982 million in the same period last year, an increase of 2.6%. These data include housing loans from the Bank's own sources (excluding credit from Treasury funds) in the amount of NIS 1,004 million compared with NIS 981 million in the same period last year, an increase of 2.3%. Rollovers deriving from early repayments in the first three months of 2018, totaled NIS 86 million compared with NIS 44 million in the same period last year, an increase of 95.5%.

Housing loans portfolio at the Bank alone amounted to NIS 23,041 million as of March 31, 2018 compared with NIS 21,937 million as of March 31, 2017, an increase of 5.0%.

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

In view of the risk to which the Israeli banking system is exposed 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 orgenizer 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 charechteristics, among them: LTV, income-debt ratio, loan purpose etc.

Loan to value

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

The portfolio of housing loans extended from the Bank's sources on March 31, 2018 included 71% of credit granted at an LTV of up to 60% compared to 71% on March 31, 2017. 95% of total loans were granted at an LTV of up to 75%, similar to March 31, 2017.

Housing loan extensions from the Bank's sources in the first three months of 2017 included 74% of credit granted at an LTV of up to 60%, compared with 77% in the same period last year. All loan extensions were granted at an LTV of up to 75%, similar to 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, 2018 included 79% of credit granted at a debt-income ratio of up to 35% similar to March 31, 2017. 90% of the credit was extended to borrowers on the basis of a debt-income ratio of up to 50%, similar to March 31, 2017.

Housing loan extensions from the Bank's sources in the first three months of 2018 included 81% of credit granted at a debt-income ratio of up to 35% compared with 83% in the same period last year. 89% of the credit was extended to borrowers on the basis of a debt-income ratio of up to 50% compared to 90% in the same period last year.

Floating-rate loans

The portfolio of housing loans from the Bank's sources as of March 31, 2018 includes 62% of credit that was granted at floating-rate interest and amounts to NIS 14,344 million.

Housing loan extensions from the Bank's sources in the first three months of 2018 include NIS 332 million of credit granted at floating-rate interest of up to five years constituting 33% of extentions. An amount of NIS 228 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, 2018 includes 61% of credit whose redemption period as of the report date is up to 20 years and amounts to NIS 14,085 million.

Housing loan extensions from the Bank's sources in the first three months of 2018 include 46% of credit whose redemption period as of the report date is up to 20 years and amounts to NIS 464 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
31.3.18	**5,465**	**24.8**	**9,789**	**44.4**	**2,990**	**13.6**	**3,744**	**17.0**	**45**	**0.2**	**22,033**	**1,008**	**23,041**
31.12.17	5,304	24.4	9,563	44.1	3,010	13.9	3,779	17.4	48	0.2	21,704	1,040	22,744

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

	Three months 2018	Three months 2017	2017	2016	2015	2014
Total housing loan extensions (NIS million)	**1,004**	981	3,756	4,337	4,796	3,707
Rate of change in housing loan extensions compared with previous year	**2%**	(23%)	(13%)	(10%)	29%	4%
Rate of expense (income) on credit losses relative to mortgages at the Bank's risk	**0.01%**	(0.05%)	(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%**	0.52%	0.51%	0.55%	0.60%	0.74%

Private individuals credit risk (excluding housing loans)

General

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

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

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

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

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

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

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

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

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

74% 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	
	31.3.18	**31.3.17**	**31.12.17**	**31.3.17**	**31.12.17**
			NIS million		%
Current account and utilized balances of credit cards	**5,016**	4,622	5,024	8.5	(0.2)
Other loans	**14,935**	13,528	14,408	10.4	3.7
Total balance credit risk	**19,951**	18,150	19,432	9.9	2.7
Unutilized current account credit lines	**4,156**	3,925	3,985	5.9	4.3
Unutilized credit lines in credit cards	**6,328**	5,702	6,216	11.0	1.8
Other off-balance credit risks	**1,226**	1,682	1,414	(27.1)	(13.3)
Total off-balance credit risk	**11,710**	11,309	11,615	3.5	0.8
Total credit risk	**31,661**	29,459	31,047	7.5	2.0
Average volume of credit, including overdrafts, credit cards and loans	**19,568**	17,786	18,421	10.0	6.2

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

	As of			Change	
	31.3.18	**31.3.17**	**31.12.17**	**31.3.17**	**31.12.17**
			NIS million		%
Impaired credit risks	**87**	85	89	2.4	(2.2)
Unimpaired problematic credit risk	**270**	261	269	3.4	0.4
Non-problematic credit risk	**31,304**	29,113	30,689	7.5	2.0
Total credit risk	**31,661**	29,459	31,047	7.5	2.0
Of which: unimpaired debts in arrears of 90 days or more	**43**	39	40	10.3	7.5
Balance of restructured debts out of the problematic credit	**73**	71	74	2.8	(1.4)
Expense rate of credit losses out of total credit to the public	**0.26%**	0.16%	0.33%		

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

				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	**499**	**61**	**560**	**293**
Up to 10	**3,981**	**540**	**4,521**	**2,735**
From 10 to 20	**4,700**	**1,311**	**6,011**	**3,287**
Over 20	**5,247**	**3,612**	**8,859**	**5,395**
Total	**14,427**	**5,524**	**19,951**	**11,710**

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

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

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

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

	Balance sheet credit risk	
	March 31, 2018	December 31, 2017
Period to redemption		NIS million
Up to one year	**5,571**	5,665
From one to three years	**2,866**	2,834
From three to five years	**4,310**	4,138
From five to seven years	**2,479**	2,344
Over seven years	**4,725**	4,451
Total	**19,951**	19,432

Distribution by size of credit to the borrower*

	March 31, 2018			December 31, 2017		
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**
NIS thousands			NIS million			NIS million
Up to 10	**255**	**641**	**896**	252	650	902
From 10 to 20	**393**	**787**	**1,180**	391	801	1,192
From 20 to 40	**1,092**	**1,741**	**2,833**	1,097	1,761	2,858
From 40 to 80	**2,893**	**2,850**	**5,743**	2,898	2,873	5,771
From 80 to 150	**5,377**	**2,848**	**8,225**	5,312	2,816	8,128
From 150 to 300	**6,169**	**2,140**	**8,309**	6,002	2,059	8,061
Over 300	**3,772**	**703**	**4,475**	3,480	655	4,135
Total	**19,951**	**11,710**	**31,661**	19,432	11,615	31,047

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

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

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

	March 31, 2018	December 31, 2017
	Balance sheet credit risk	Balance sheet credit risk
Type of credit	NIS million	NIS million
Current account	**1,678**	1,811
Credit card	**3,338**	3,213
Credit carrying variable interest	**14,320**	13,768
Credit carrying fixed interest	**613**	636
Other*	**2**	4
Total	**19,951**	19,432

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

Collateral

	March 31, 2018			December 31, 2017		
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
			NIS million			NIS million
Total credit secured by collateral*	**3,802**	**828**	**4,630**	3,571	1,017	4,588
* Of which:						
Non-liquid collateral	**3,025**	**576**	**3,601**	2,785	762	3,547
Liquid collateral	**777**	**252**	**1,029**	786	255	1,041

Description of operations

A. The underwriting of credit to private individuals

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

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

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

B. The manner of supervising and monitoring risk characteristics

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

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

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

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

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

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

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

Construction and real estate sector risks

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

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

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

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

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

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

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

		March 31,	December 31,
	2018	2017	2017
			NIS million
Overall credit risk(1)			
Projects not yet completed			
Of which: Open land	**1,516**	1,179	1,282
Property under construction	**5,156**	5,142	4,764
Completed building projects	**4,179**	3,830	3,994
Other(2)	**4,873**	4,809	4,748
Total	**15,724**	14,960	14,788

(1) Of which: credit secured by housing property in the amount of NIS 5,282 million, Credit secured by industrial property in the amount of NIS 420 million and credit secured by commercial property in the amount of 5,149 million (31.3.17 - NIS 5,028 million, NIS 389 million and NIS 4,734 million, 31-12-17 - NIS 4,782 million, NIS 394 million and NIS 4,864 million respectively).

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

Leveraged Finance

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

The criteria according to which the Bank defines credit as leveraged finance were set in a conservative manner. For additional detail see the risk report for 2017 in the internet website of the Bank.

As of March 31, 2018 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 1,425 million, compared to NIS 1,382 million on March 31, 2017 and NIS 1,272 million at the end of 2017.

MARKET RISK

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

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

	% actual exposure	
	March 31, 2018	**December 31, 2017**
Non-linked local currency(*)	**1.16**	0.92
CPI-linked local currency	**(1.28)**	(0.95)
Foreign currency and foreign-currency linked	**(0.53)**	(0.53)

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

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

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

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

As of March 31, 2018	Local currency		Foreign currency [2]			
	Non-linked	**CPI-linked**	**Dollar**	**Euro**	**Other**	**Total**
						NIS million
Financial assets [1]	**103,543**	**12,021**	**9,276**	**2,942**	**479**	**128,261**
Amounts receivable in respect of derivative financial and off-balance-sheet instruments[3]	**21,338**	**451**	**20,417**	**6,499**	**2,757**	**51,462**
Financial liabilities [1][5]	**92,900**	**11,144**	**14,787**	**3,149**	**1,272**	**123,252**
Amounts payable in respect of derivative financial and off-balance-sheet instruments	**27,546**	**562**	**14,898**	**6,318**	**1,921**	**51,245**
Net fair value of financial instruments	**4,435**	**766**	**8**	**(26)**	**43**	**5,226**

As of March 31, 2017	Local currency		Foreign currency [2]			
	Non-linked	**CPI-linked**	**Dollar**	**Euro**	**Other**	**Total**
						NIS million
Financial assets [1]	97,863	12,626	9,686	2,630	944	123,749
Amounts receivable in respect of derivative financial and off-balance-sheet instruments[3]	22,881	291	25,672	5,451	3,974	58,269
Financial liabilities [1][5]	86,889	11,424	15,900	3,196	1,240	118,649
Amounts payable in respect of derivative financial and off-balance-sheet instruments	30,009	532	19,298	4,915	3,638	58,392
Net fair value of financial instruments	3,846	961	160	(30)	40	4,977

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

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

The redemption time of non-interest bearing current accounts which is used for calculating the said exposure is on demand and up to a month.

As of March 31, 2018	Net fair value of financial instruments, after effect of changes in interest rates (4)								
	Local currency		Foreign currency (2)			Offsetting effects	Total	Total change in fair value(6)(7)	
	Non-linked	Linked	Dollar	Euro	Other				
		NIS million			NIS million		NIS million	NIS million	In percent
Changes in interest rates									
Immediate parallel increase of one percent	**4,226**	**698**	**(26)**	**(36)**	**39**	**-**	**4,901**	**(325)**	**(6.22)**
Immediate parallel increase of 0.1 percent	**4,411**	**759**	**5**	**(27)**	**43**	**-**	**5,191**	**(35)**	**(0.67)**
Immediate parallel decrease of one percent	**4,744**	**833**	**39**	**(18)**	**47**	**-**	**5,645**	**419**	**8.02**

As of March 31, 2017	Net fair value of financial instruments, after effect of changes in interest rates (4)								
	Local currency		Foreign currency (2)			Offsetting effects	Total	Total change in fair value(6)	
	Non-linked	Linked	Dollar	Euro	Other				
		NIS million			NIS million		NIS million	NIS million	In percent
Changes in interest rates									
Immediate parallel increase of one percent	3,520	872	124	(37)	35	-	4,514	(463)	(9.30)
Immediate parallel increase of 0.1 percent	3,811	952	156	(31)	40	-	4,928	(49)	(0.98)
Immediate parallel decrease of one percent	4,165	1,081	196	(22)	45	-	5,465	488	9.81

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

(1) Including complex financial instruments. Not including balance-sheet balances of off-balance-sheet financial instruments.
(2) Including foreign-currency linked local currency.
(3) Amounts receivable (payable) in respect of derivative financial instruments and off-balance-sheet financial instruments, discounted by the interest rates used for calculating the fair value in all currencies which are not USD and other principal currencies for which separate disclosure is given.
(4) The net fair value of financial instruments which is presented in each of the linkage segments is the net fair value in that segment on the assumption that a change has occurred which is noted in all the interest rates in the linkage segment. The total net fair value of financial instruments is the net fair value of all the financial instruments (with the exception of non-monetary items), on the assumption that a change has occurred which is noted in all the interest rates in all the linkage segments.
(5) Including the fair value of actuarial liability to employees in the amount of NIS 1,184 million and not including the value of the assets of the program (31.12.17 - NIS 1,166 million, 31.3.17 - NIS 1,135 million).
(6) This measurement includes the sensitivity effect of the actuarial liability to employees, that was estimated in decline in fair value of the liabilities in the amount of NIS 72 million in a scenario of 1% interest increase (31.12.17 - NIS 75 million, 31.3.17 - NIS 71 million) and does not include the sensitivity effect of the program assets to changes in interest, that was estimated in decrease in the value of the assets in the amount of NIS 19 million in a scenario of increase in interest of 1% (31.12.17 - NIS 19 million, 31.3.17 - NIS 17 million).
(7) At March 31, 2018, cash flows in respect of mortgages were assessed according to the premature repayment forecast, which is based on a statistical model. Capitalization of the said cash flow, according to the anticipated repayment dates instead of the contractual repayment dates, increased the fair value of the mortgages by an amount of NIS 32 million. In a scenario of a 1% rise in the interest rate, the change in fair value was increased by NIS 102 million, while in a scenario of a 1% decrease in the interest rate, the change in fair value declined by NIS 119 million (31.12.17 - NIS 46 million, NIS 99 million and NIS 112 million, respectively). The comparative data as of March 31, 2017, has not been reclassified.

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

	On demand and up to one month	One to three months	Three months to one year	One to three years	Three to five years	Five to ten years
	NIS million					
Israeli currency - unlinked						
Financial assets, amounts receivable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial assets						
Financial assets (1)	**86,199**	**2,260**	**3,657**	**4,367**	**3,267**	**2,820**
Derivative financial instruments (except options)	**4,843**	**6,607**	**3,984**	**2,152**	**1,503**	**767**
Options (in terms of the underlying asset)	**207**	**431**	**831**	**13**	**-**	**-**
Total fair value	**91,249**	**9,298**	**8,472**	**6,532**	**4,770**	**3,587**
Financial liabilities and amounts payable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial liabilities						
Financial liabilities (1)	**75,486**	**1,894**	**4,124**	**8,847**	**1,206**	**148**
Derivative financial instruments (except options)	**8,667**	**7,683**	**4,846**	**1,696**	**2,067**	**793**
Options (in terms of the underlying asset)	**337**	**502**	**955**	**-**	**-**	**-**
Total fair value	**84,490**	**10,079**	**9,925**	**10,543**	**3,273**	**941**
Financial instruments, net						
Exposure to fluctuations in interest rates in the segment	**6,759**	**(781)**	**(1,453)**	**(4,011)**	**1,497**	**2,646**
Cumulative exposure in the segment	**6,759**	**5,978**	**4,525**	**514**	**2,011**	**4,657**
Israeli currency - Linked to the CPI						
Financial assets and amounts receivable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial assets						
Financial assets (1)	**1,897**	**437**	**1,521**	**4,133**	**2,375**	**1,123**
Derivative financial instruments (except options)	**-**	**9**	**13**	**280**	**131**	**18**
Total fair value	**1,897**	**446**	**1,534**	**4,413**	**2,506**	**1,141**
Financial liabilities and amounts payable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial liabilities						
Financial liabilities (1)	**1,612**	**160**	**1,489**	**4,263**	**2,460**	**909**
Derivative financial instruments (except options)	**-**	**4**	**256**	**268**	**16**	**18**
Total fair value	**1,612**	**164**	**1,745**	**4,531**	**2,476**	**927**
Financial instruments, net						
Exposure to fluctuations in interest rates in the segment	**285**	**282**	**(211)**	**(118)**	**30**	**214**
Cumulative exposure in the segment	**285**	**567**	**356**	**238**	**268**	**482**

See notes in page 66.

Ten to twenty years	Over twenty years	With no repayment period	Total fair value	Internal rate of return	Effective duration	Total fair value	Internal rate of return	Effective duration	Total fair value	Internal rate of return	Effective duration
				March 31, 2018			March 31, 2017			December 31, 2017	
			NIS million	%	years	NIS million	%	years	NIS million	%	years
918	**50**	**5**	**103,543**	**3.09**	**0.54**	97,863	3.35	0.66	106,710	3.18	0.47
-	**-**	**-**	**19,856**		**0.94**	21,712		0.75	22,319		0.80
-	**-**	**-**	**1,482**		**0.36**	1,169		0.45	1,327		0.28
918	**50**	**5**	**124,881**		(2)**0.60**	120,744		(2)0.67	130,356		(2)0.52
11	**-**	**-**	**91,716**	**0.63**	**0.25**	85,754	0.91	0.22	93,028	0.57	0.23
-	**-**	**-**	**25,752**		**0.83**	28,803		0.72	29,573		0.68
-	**-**	**-**	**1,794**		**0.36**	1,206		0.41	1,306		0.30
11	**-**	**-**	**119,262**		(2)**0.38**	115,763		(2)0.34	123,907		(2)0.34
907	**50**										
5,564	**5,614**										
502	**32**	**1**	**12,021**	**2.89**	**2.69**	12,626	3.22	3.17	11,675	2.95	2.55
-	**-**	**-**	**451**		**2.81**	291		2.92	462		2.99
502	**32**	**1**	**12,472**		(2)**2.69**	12,917		(2)3.16	12,137		(2)2.56
246	**5**	**-**	**11,144**	**0.44**	**2.39**	11,424	1.02	2.66	11,411	0.45	2.45
-	**-**	**-**	**562**		**1.82**	532		1.51	713		1.63
246	**5**	**-**	**11,706**		(2)**2.36**	11,956		(2)2.61	12,124		(2)2.40
256	**27**										
738	**765**										

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

	On demand and up to one month	One to three months	Three months to one year	One to three years	Three to five years	Five to ten years
	NIS million					
Foreign Currency (4)						
Financial assets and amounts receivable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial assets						
Financial assets (1)	**4,495**	**1,507**	**2,680**	**690**	**722**	**2,585**
Derivative financial instruments (except options)	**15,910**	**6,855**	**4,250**	**165**	**230**	**237**
Options (in terms of the underlying asset)	**473**	**507**	**1,046**	**-**	**-**	**-**
Total fair value	**20,878**	**8,869**	**7,976**	**855**	**952**	**2,822**
Financial liabilities and amounts payable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial liabilities						
Financial liabilities (1)	**15,691**	**1,936**	**1,442**	**101**	**12**	**26**
Derivative financial instruments (except options)	**9,775**	**4,296**	**3,721**	**360**	**574**	**2,701**
Options (in terms of the underlying asset)	**339**	**431**	**927**	**13**	**-**	**-**
Total fair value	**25,805**	**6,663**	**6,090**	**474**	**586**	**2,727**
Financial instruments, net						
Exposure to fluctuations in interest rates in the segment	**(4,927)**	**2,206**	**1,886**	**381**	**366**	**95**
Cumulative exposure in the segment	**(4,927)**	**(2,721)**	**(835)**	**(454)**	**(88)**	**7**

See notes in page 66.

Ten to twenty years	Over twenty years	With no repayment period	March 31, 2018 Total fair value	March 31, 2018 Internal rate of return	March 31, 2018 Effective duration	March 31, 2017 Total fair value	March 31, 2017 Internal rate of return	March 31, 2017 Effective duration	December 31, 2017 Total fair value	December 31, 2017 Internal rate of return	December 31, 2017 Effective duration
			NIS million	%	years	NIS million	%	years	NIS million	%	years
18	**-**	**-**	**12,697**	**2.18**	**1.87**	13,260	2.02	1.57	12,690	1.77	1.55
-	**-**	**-**	**27,647**		**0.24**	33,748		0.28	33,671		0.19
-	**-**	**-**	**2,026**		**0.34**	1,349		0.40	1,378		0.31
18	**-**	**-**	**42,370**		[2]**0.73**	48,357		[2]0.64	47,739		[2]0.56
-	**-**	**-**	**19,208**	**2.23**	**0.08**	20,336	1.48	0.09	20,100	1.71	0.07
-	**-**	**-**	**21,427**		**1.14**	26,539		0.88	26,159		0.79
-	**-**	**-**	**1,710**		**0.34**	1,312		0.43	1,390		0.29
-	**-**	**-**	**42,345**		[2]**0.63**	48,187		[2]0.54	47,649		[2]0.47
18	**-**										
25	**25**										

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

	On demand and up to one month	One to three months	Three months to one year	One to three years	Three to five years	Five to ten years
	NIS million					
Total exposure to changes in interest rates						
Financial assets and amounts receivable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial assets						
Financial assets (1)(3)	**92,591**	**4,204**	**7,858**	**9,190**	**6,364**	**6,528**
Derivative financial instruments (except options)	**20,753**	**13,471**	**8,247**	**2,597**	**1,864**	**1,022**
Options (in terms of the underlying asset)	**680**	**938**	**1,877**	**13**	**-**	**-**
Total fair value	**114,024**	**18,613**	**17,982**	**11,800**	**8,228**	**7,550**
Financial liabilities and amounts payable in respect of derivative instruments, off-balance sheet financial instruments and hybrid financial liabilities						
Financial liabilities (1)	**92,789**	**3,990**	**7,055**	**13,211**	**3,678**	**1,083**
Derivative financial instruments (except options)	**18,442**	**11,983**	**8,823**	**2,324**	**2,657**	**3,512**
Options (in terms of the underlying asset)	**676**	**933**	**1,882**	**13**	**-**	**-**
Total fair value	**111,907**	**16,906**	**17,760**	**15,548**	**6,335**	**4,595**
Financial instruments, net						
Exposure to fluctuations in interest rates in the segment	**2,117**	**1,707**	**222**	**(3,748)**	**1,893**	**2,955**
Cumulative exposure in the segment	**2,117**	**3,824**	**4,046**	**298**	**2,191**	**5,146**
In addition, exposure to interest rates in respect of liabilities for employee rights, gross - pension and severance pay	**52**	**64**	**126**	**241**	**104**	**226**

Notes:
- Further details regarding the exposure to changes in interest rates in each segment of the financial assets and financial liabilities, according to the different balance-sheet items, will be provided upon request.
- In this table, data by period reflect the present value of future cash flows of each financial instrument, discounted by the interest rate used for deduction to the fair value, in consistency with the assumptions used to calculate the fair value of the financial instrument. For further details regarding the assumptions used in the calculation of the fair value of the financial instruments, see Note 14.A. to the Financial Statements.
- The internal return rate is the interest rate for the deduction of the expected cash flows from the financial instrument to the fair value included in respect thereof.
- The effective average duration of a group of financial instruments constitutes an approximation of the change, in percent, in the fair value of the group of financial instruments which would be caused by a small change (an increase of 0.1%) in the internal return rate of each of the financial instruments.
- Cash flows in respect of mortgages have been assessed according to the premature repayment forecast, which is based on a statistical model. Capitalization of the said cash flow, according to the anticipated repayment dates instead of the contractual repayment dates, increased the fair value of the mortgages by an amount of NIS 32 million (31.12.17 - NIS 46 million). In accordance with the original cash flow, which does not take into account premature repayments, the average period to redemption of assets in the non-linked shekel segment at March 31, 2018, was 0.59 years, and the internal rate of return reached 3.27% (31.12.17 - 0.54 years and 3.44%, respectively). In the CPI linked shekel segment the average period to redemption was 3.16 years and the internal rate of return reached 3.05% (31.12.17 - 3.22 years and 3.19%, respectively). The overall exposure reached an average period to redemption of 0.96 years and an internal rate of return of 2.99% (31.12.17 - 0.87 years and 3.07%, respectively). The comparative data as of March 31, 2017, has not been reclassified.

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

					March 31, 2018			March 31, 2017			December 31, 2017
Ten to twenty years	Over twenty years	With no repayment period	Total fair value	Internal rate of return	Effective duration	Total fair value	Internal rate of return	Effective duration	Total fair value	Internal rate of return	Effective duration
			NIS million	%	years	NIS million	%	years	NIS million	%	years
1,438	**82**	**955**	**129,210**	**2.84**	**0.87**	124,784	3.09	1.01	132,150	2.83	0.76
-	**-**	**178**	**48,132**		**0.55**	55,811		0.48	56,499		0.46
-	**-**	**254**	**3,762**		**0.35**	2,903		0.42	3,271		0.29
1,438	**82**	**1,387**	**181,104**		(2)**0.78**	183,498		(2)0.84	191,920		(2)0.66
257	**5**	**709**	**122,777**	**0.58**	**0.42**	118,363	0.99	0.43	125,417	0.53	0.41
-	**-**	**178**	**47,919**		**0.98**	55,934		0.80	56,492		0.74
-	**-**	**254**	**3,758**		**0.35**	2,903		0.42	3,262		0.29
257	**5**	**1,141**	**174,454**		(2)**0.57**	177,200		(2)0.55	185,171		(2)0.51
1,181	**77**										
6,327	**6,404**										
302	**69**		**1,184**	**1.20**	**14.28**	1,135	1.70	14.89	1,166	1.10	14.37

Basis exposure

Actual basis exposure

Set out below is a description of the actual exposure of active capital, at the Group level, compared with the Board of Directors' restrictions (NIS millions):

	Actual exposure		% of active capital	
		As of		As of
	31.3.18	**31.12.17**	**31.3.18**	**31.12.17**
Non-linked local currency	**5,210**	6,124	**87**	97
CPI-linked local currency	**744**	106	**13**	2
Foreign currency and f-C linked	**23**	82	**-**	1

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, 2018 (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	**(1)**	**5**
10% decrease	**(1)**	**12**
5% increase	**2**	**-**
10% increase	**9**	**(1)**

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, 2018 (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	**(46)**
3% increase	**36**

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 March 31, 2018	As of December 31, 2017
Hedging transactions:		
Interest rate contracts	**3,009**	2,509
ALM and other transactions:		
Interest rate contracts	**15,764**	14,494
Foreign currency contracts (including spot)	**62,025**	64,837
Contracts on shares, share indexes, commodities and other contracts	**49,000**	72,319
Total derivative financial instruments	**129,798**	154,159

LIQUIDITY RISK

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 43.9 billion on March 31, 2018, compared with NIS 48.4 billion at the end of 2017. Of this amount, the balance of cash, deposits with the Bank of Israel and deposits with banks accounted for NIS 34.5 billion, and NIS 9.4 billion were invested in securities, principally Israel government bonds.

The ratio of deposits from the public to credit to the public on March 31, 2018 amounted to 136.6% compared with 141.2% on December 31, 2017.

At the end of March 2018, deposits from the public, bonds and subordinated notes totaled NIS 116.9 billion compared with NIS 118.8 billion at the end of 2017.

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

In the non-linked shekel and foreign currency segments 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 in these segments 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).

In the CPI linked segement, both sources and uses are spread for medium- long terms, for which a change in the CPI of up to 2% does not have a material effect on the Bank exposure.

The CPI exposure of the Bank's group amounted to NIS 744 million as of March 31, 2018.

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

	As of March 31, 2018	As of December 31, 2017
		NIS million
1	**2,644**	3,000
2	**2,558**	2,949
3	**2,453**	2,554

OTHER RISKS

For information regarding other risks, among others, the operational risls 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 2017 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 2017.

No change ocured in the level of risk factors during the first quarter of 2018.

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 2017 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, 2018 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, 2018, 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	**Smadar Barber-Tsadik**	**Nachman Nitzan**
Chairperson of the Board of Directors	Chief Executive Officer	Executive Vice President, Chief Accountant

Tel Aviv, May 28, 2018

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, 2018 (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, 2018

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, 2018 (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, 2018

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, 2018 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, 2018

CONSOLIDATED STATEMENT OF INCOME
(NIS million)

	NOTE	For the three months ended March 31 2018	For the three months ended March 31 2017	For the year Ended December 31 2017
		(unaudited)	(unaudited)	(audited)
Interest Income	2	**654**	640	2,704
Interest Expenses	2	**70**	78	402
Interest Income, net		**584**	562	2,302
Expenses from credit losses	6,12	**27**	34	121
Net Interest Income after expenses from credit losses		**557**	528	2,181
Non- Interest Income				
Non Interest Financing income	3	**40**	12	83
Fees		**338**	334	1,305
Other income		**23**	42	62
Total non- Interest income		**401**	388	1,450
Operating and other expenses				
Salaries and related expenses		**446**	*403	*1,579
Maintenance and depreciation of premises and equipment		**96**	99	380
Amortizations and impairment of intangible assets		**23**	23	94
Other expenses		**172**	*129	*554
Total operating and other expenses		**737**	654	2,607
Profit before taxes		**221**	262	1,024
Provision for taxes on profit		**82**	97	358
Profit after taxes		**139**	165	666
The bank's share in profit of equity-basis investee, after taxes		**6**	10	54
Net profit:				
Before attribution to noncontrolling interests		**145**	175	720
Attributed to noncontrolling interests		**(8)**	(9)	(42)
Attributed to shareholders of the Bank		**137**	166	678
				NIS
Primary profit per share attributed to the shareholders of the Bank				
Net profit per share of NIS 0.05 par value		**1.37**	1.65	6.76

* Restated in view of the application of amendment No. 2017-07 of the Codification, regarding improvement of the presentation of pension and other post-retirement benefits. See also Note 1D (3) below.

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, 2018

STATEMENT OF COMPREHENSIVE INCOME[1]

(NIS million)

	For the three months ended March 31		For the year Ended December 31
	2018	2017	2017
	(unaudited)	(unaudited)	(audited)
Net profit before attribution to noncontrolling interests	**145**	175	720
Net profit attributed to noncontrolling interests	**(8)**	(9)	(42)
Net profit attributed to the shareholders of the Bank	**137**	166	678
Other comprehensive income (loss) before taxes:			
Adjustments of available for sale securities to fair value, net	**(42)**	32	90
Adjustments from translation of financial statements[1] net after the effect of hedges[2]	**-**	-	4
Adjustments of liabilities in respect of employee benefits[3]	**7**	24	1
Other comprehensive income (loss) before taxes	**(35)**	56	95
Related tax effect	**11**	(19)	(35)
Other comprehensive income (loss) before attribution to noncontrolling interests, after taxes	**(24)**	37	60
Less other comprehensive income attributed to noncontrolling interests	**-**	2	3
Other comprehensive income (loss) attributed to the shareholders of the Bank, after taxes	**(24)**	35	57
Comprehensive income before attribution to noncontrolling interests	**121**	212	780
Comprehensive income attributed to noncontrolling interests	**(8)**	(11)	(45)
Comprehensive income attributed to the shareholders of the Bank	**113**	201	735

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

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

CONSOLIDATED BALANCE SHEET

(NIS million)

	NOTE	31.3.18 (unaudited)	31.3.17 (unaudited)	31.12.17 (audited)
Assets				
Cash and deposits with banks		**34,481**	30,255	39,186
Securities	5	**10,471**	14,675	10,238
Securities which were borrowed		**637**	492	813
Credit to the public	6,12	**82,745**	78,820	81,216
Provision for Credit losses	6,12	**(841)**	(827)	(838)
Credit to the public, net		**81,904**	77,993	80,378
Credit to the government		**677**	648	675
Investments in investee company		**571**	518	565
Premises and equipment		**1,046**	1,113	1,095
Intangible assets		**228**	240	235
Assets in respect of derivative instruments	10	**1,189**	1,340	1,342
Other assets(2)		**1,397**	1,002	1,186
Assets held for sale		**35**	242	4
Total assets		**132,636**	128,518	135,717
Liabilities, temporary equity and Shareholders' Equity				
Deposits from the public	7	**111,913**	106,198	113,511
Deposits from banks		**359**	716	1,133
Deposits from the Government		**749**	593	960
Bonds and subordinated capital notes		**4,980**	5,575	5,249
Liabilities in respect of derivative instruments	10	**967**	1,447	1,318
Other liabilities(1)(3)		**5,598**	5,222	5,162
Liabilities held for sale		**-**	691	-
Total liabilities		**124,566**	120,442	127,333
Temporary equity – non-controlling interests		**-**	331	338
Capital attributed to the shareholders of the Bank		**7,772**	7,456	7,756
Noncontrolling interests		**298**	289	290
Total equity		**8,070**	7,745	8,046
Total liabilities, temporary equity and shareholders' equity		**132,636**	128,518	135,717

(1) Of which: provision for credit losses in respect of off-balance sheet credit instruments in the amount of NIS 69 million and NIS 67 million and NIS 61 million at 31.3.18, 31.3.17 and 31.12.17, respectively.

(2) Of which: other assets measured at fair value in the amount of NIS 298 million and NIS 375 million and NIS 423 million at 31.3.18, 31.3.17 and 31.12.17, respectively.

(3) Of which: other liabilities measured at fair value in the amount of NIS 603 million and NIS 690 million and NIS 521 million at 31.3.18, 31.3.17 and 31.12.17, respectively.

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, 2018 (unaudited)					
	Share capital and premium (1)	Accumulated other comprehensive loss	Retained earnings (2)	Total share-holders' equity	Non-controllin g interests	Total equity
Balance at the beginning of the year (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 three months ended March 31, 2017 (unaudited)					
	Share capital and premium (1)	Accumulated other comprehensive income (loss)	Retained earnings (2)	Total share-holders' equity	Non-controllin g interests	Total equity
Balance at the beginning of the year (audited)	927	(177)	6,571	7,321	283	7,604
Net profit for the period	-	-	166	166	6	172
Dividend	-	-	(70)	(70)	-	(70)
Other comprehensive income, after tax effect	-	35	-	35	-	35
Temporary equity – non-controlling interest.	-	-	4	4	-	4
Balance as at March 31, 2017	927	(142)	6,671	7,456	289	7,745

	For the year ended December 31, 2017 (audited)					
	Share capital and premium (1)	Accumulated other comprehensive income (loss)	Retained earnings (2)	Total share-holders' equity	Non-controllin g interests	Total equity
Balance at the beginning of the year	927	(177)	6,571	7,321	283	7,604
Net profit for the year	-	-	678	678	26	704
Dividend	-	-	(310)	(310)	(20)	(330)
Other comprehensive income, after tax effect	-	57	-	57	1	58
Temporary equity – non-controlling interest.	-	-	10	10	-	10
Balance as at December 31, 2017	927	(120)	6,949	7,756	290	8,046

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

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
	2018	2017	2017
	(unaudited)	(unaudited)	(audited)
Cash flows from (for) operating activities:			
Net profit for the period	**145**	175	720
Adjustments to reconcile cash provided by operating activities:			
The Bank's share in profit of equity-basis investee	**(6)**	(10)	(54)
Depreciation of premises and equipment	**20**	20	78
Amortization of intangible assets	**23**	23	94
Gain on sale of premises and equipment	**(19)**	(41)	(45)
Expenses from credit losses	**27**	34	121
Gain from sale of available for sale securities	**(3)**	(7)	(28)
Realized and non-realized gains from adjustment to fair value of trading securities	**3**	3	10
Deferred taxes, net	**(40)**	2	(2)
Defined benefit severance pay and pension schemes	**39**	16	70
Effect on cash balances of changes in exchange rates	**(58)**	149	249
Dividend received from equity-basis investee	**-**	*8	*8
Net change in current assets:			
Trading securities	**148**	180	434
Other assets	**(159)**	(7)	(198)
Assets in respect of derivative instruments	**172**	(9)	(8)
Net change in current liabilities:			
Other liabilities	**404**	312	168
Liabilities in respect of derivative instruments	**(351)**	99	(26)
Accumulation differences included in investing and financing activities	**(122)**	394	531
Net cash from (for) operating activity	**223**	1,341	2,122
Cash flows from (for) investing activity			
Deposits in banks	**395**	*1,362	*(1,683)
Securities borrowed	**176**	*(78)	*(399)
Credit to the public	**(1,979)**	*(563)	*(2,475)
Change in credit to the public held for sale	**2**	*58	*298
Credit to the government	**(2)**	*6	*(21)
Purchase of held to maturity and available for sale securities	**(2,260)**	(1,466)	(4,655)
Proceeds from redemption of bonds held to maturity	**218**	28	177
Proceeds from sale of available for sale securities	**203**	1,342	4,103
Redemption of available for sale securities	**1,501**	1,121	5,780
Acquisition of premises and equipment	**(6)**	(7)	(55)
Proceeds of sale of premises, equipment and other assets	**21**	84	93
Investment in intangible assets	**(16)**	(20)	(86)
Net cash from (for) investing activity	**(1,747)**	1,867	1,077

* Reclassified in view of the application of US generally accepted accounting principles in the matter of the statement of cash flows, as stated in the instructions of Item 230 of the Codification. See also Note 1D (2).

STATEMENT OF CASH FLOWS (CONT'D)

(NIS million)

	For the three months ended March 31,		For the year ended December 31
	2018	2017	2017
	(unaudited)	(unaudited)	(audited)
Cash flows from (for) financing activity			
Deposits from the public	**(1,586)**	*(268)	*7,021
Change in other liabilities held for sale	**-**	*(54)	*(745)
Deposits from banks	**(774)**	*(39)	*378
Deposits from the government	**195**	*(4)	*(345)
Additional acquisition of shares in consolidated company	**(340)**	-	-
Issue of bonds and subordinate debt notes	**-**	52	352
Redemption of bonds and subordinate debt notes	**(245)**	(257)	(916)
Dividend paid to shareholders	**(95)**	-	(310)
Dividend paid to non-controlling shareholders in consolidated companies	**-**	-	(20)
Net cash from (for) financing activity	**(2,845)**	(570)	5,415
Increase (decrease) in cash	**(4,369)**	2,638	8,614
Cash balances at beginning of year	**35,987**	27,638	27,638
Effect of changes in exchange rates on cash balances	**65**	(163)	(265)
Cash balances at end of period	**31,683**	30,113	35,987
Interest and taxes paid and/or received:			
Interest received	**705**	746	3,007
Interest paid	**184**	184	684
Dividends received	**5**	15	21
Income tax paid	**156**	97	498
Income tax received	**57**	27	131

* Reclassified in view of the application of US generally accepted accounting principles in the matter of the statement of cash flows, as stated in the instructions of Item 230 of the Codification. See also Note 1D (2).

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, 2018 include those of the Bank and of its subsidiary companies (hereinafter - "the Group) as well as the rights of the Group in equity basis investees. 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, 2017 (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, the Bank publishes only the condensed consolidated financial statements. The condensed consolidated interim financial statements were approved by the Board of Directors for publication on May 28, 2018.

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

B. Financial reporting principles

The financial statements of he 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, 2018, the Bank implements new accounting standards and instructions regarding the matters detailed below:

1. Reporting by banks and credit card companies in accordance with US accepted accounting principles in the matter of recognition of income from contracts with customers.
2. Reporting by banks and credit card companies in accordance with US accepted accounting principles in matters of noncurrent assets held for sale and discontinued operations, fixed assets and investment real estate, earnings per share, statement of cash flows, interim period reporting and other matters.
3. Amendment No. 2017-07 of the Codification of the FASB regarding the improvement of presentation of pension expenses and other post-retirement benefits.

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 accordance with US accepted accounting principles in the matter of recognition of income from contracts with customers

A circular letter was published on January 11, 2015, in the matter of the adoption of an update regarding the recognition of income from contracts with customers. The letter updates the public reporting instructions in the light of the publication of ASU 2014-09, which adopts in US accounting principles a new standard in the matter of recognition of income. Following the update of the US standard ASU 2015-14, which deferred the date of initial application, the standard if applied as from January 1, 2018.

The standard contains a single model applying to contracts with customers, which includes five stages in order to determine the timing of recognition of income and its amount:

- Identification of the contract with the customer;
- Identification of separate execution commitments in the agreement;
- Determination of the transaction price
- Allocation of the transaction price to the separate execution commitments;
- Recognition of income upon execution of the commitment.

In accotdance with the provisions of the standard, income is to be recognized in the amount expected to be received in consideration for the delivery of the goods or provision of servises to the customer.

Moreover, the standard (which is partly combined with sub-item 610-20 of the Codification) includes instructions regarding gains or losses from disposal of nonfinancial assets.

Upon the initial application, the alternative of retroactive application may be elected with the restatement of the comparative data, or that of application "from now onwards" with the recognition in equity of the cumulative effect as of date of initial application.

The new standard does not apply, inter alia, to financial instruments or contractual commitments to which item 310 of the Codification applies. Furthermore, Bank of Israel directives clarify that, as a general rule, the instructions of the new standard shall not apply to the accounting treatment of interest income and expenses and to non-interest financing income.

In accordance with the provisions of the new standard, the manner of recognizing income from disposal of nonfinancial assets (including real estate) shall be tested in a way reflecting the transfer of control, replacing the instructions in effect at peresent, which are stricter in comparison with the new instructions.

Application of the above instructions had no material effect on the financial statements.

2. Reporting by banking corporations and credit card companies in Israel in accordance with US accepted accounting principles

A circular letter was published on October 13, 2016, in the matter of the reporting by banking corporations and credit card companies in Israel in accordance with US accepted accounting principles. The letter includes, inter alia, certain clarifications regarding the reporting of taxes on income in accordance with principles applying in the US. In addition, the letter updates the public reporting instructions and adopts US accepted accounting standards on the following matters: noncurrent assets held for sale and discontinued operations, fixed assets and investment real estate, earnings per share, statement of cash flows, interim period reporting and other matters.

The letter updates the public reporting instructions and adopts US accepted accounting standards on the following matters:

- Discontinued operations in accordance with item 205-20 of the Codification regarding "discontinued operations";
- Fixed assets in accordance with item 360 of the Codification regarding "fixed assets";
- Earnings per share in accordance with item 260 of the Codification regarding "earnings per share";
- Statement of cash flows in accordance with item 230-10 of the Codification regarding "statement of cash flows"
- Interim period reporting in accordance with item 270 of the Codification regarding "interim period reporting";
- Capitalization of interest costs in accordance with item 835-20 of the Codification regarding "capitalization of interest" (it should be clarified in this respect, that in accordance with the public reporting instructions, a bank may not capitalize interest costs, unless it had determined a policy and clear procedures and controls regarding the criteria for the recognition of assets as qualified assets and for the amount of interest cost that may be capitalized);
- Measurement and disclosure of guarantees in accordance with item 460 of the Codification regarding "guarantees".

The instructions contained in the letter have been applied as from January 1, 2018. Upon the initial application thereof, the Bank is required to follow the transitional instructions determined in these matters by the US standards, with the required modifications, including the retroactive restatement of the comparative data, where required, in accordance with the rules of the US standards in these matters.

Application of the above instructions had no material effect on the financial statements.

3. Amendment No. 2017-07 of the Codification of the FASB regarding the improvement of presentation of pension expenses and other post retirement benefits.

The Supervisor of Banks issued on January 1, 2018, a letter regarding Amendment No. 2017-07 of the Codification of the FASB regarding the improvement of presentation of pension expenses and other post retirement benefits. The Amendment clarifies that the components of cost of the benefits included in payroll expenses in the statement of profit and loss should be separated so that only the cost of service should remain in payroll expenses, while all other costs are to be presented in "other expenses". Moreover, it is clarified that only the cost of service may be capitalized in cases where capitalization of payroll cost is permitted, while all other components of the cost of benefits may not be capitalized.

It is required to apply the instructions contained in the letter as from January 1, 2018 and thereafter. Upon the initial application, it is required to follow the transitional instructions determined in the US, with the necessary modifications.

Application of the instructions had no material effect on the financial statements save for the manner of presentation and disclosure, including the restatement of the comparative data for prior periods with a view of matching them to the new instructions.

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

1. A new update of the standard regarding receivables

In March 2017, the US Financial Accounting Standards Board ("FASB") published ASU 2017-08 (hereinafter - "the Amendment"), regarding the reduction in the premium on purchased bonds with an option for premature redemption, comprising an amendment to item 310-20 of the Codification regarding receivables - nonrefundable commissions and other costs.

In accordance with the Amendment, the period of amortization of the premium on bonds with an premature redemption option by the issuer, shall be shortened and shall be calculated in accordance with the earliest redemption date.

The above rules will apply to US public entities as from the annual and quarterly financial statements for periods beginning after December 15, 2018. Earlier application is possible, including in interim financial statements.

The Bank considers that the application of the new instructions is not expected to have a material effect on the financial statements.

2. Adoption of updates to accounting principles accepted by US banks - credit loss expenses 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 - credit loss expenses 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 states also a general outline and dates for the initial application of the new instructions, as detailed below:

(a) Provisions for expected credit losses (CECL)

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.

(b) Recognition and measurement of financial instruments

The letter adopts the US accepted accounting principles in the matter of financial instruments, published as part of the update of standard ASU2016-01. The principal objects of the new rules are to simplify the reporting model regarding financial instruments and to provide users of the financial statements with more useful information for decision making.

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: marketable shares classified as available-for-sale, shall be measured according to fair value through the statement of profit and loss, instead of the method of measurement in effect at present, which, as a general rule, requires the recording of adjustments to fair value not yet realized in other comprehensive profit; the changes in fair value of financial liabilities measured by the fair value alternative, stemming from the credit risk specific to the instrument, shall be recognized in other comprehensive profit and not in profit and loss; also updated is the manner of presentation of financial instruments in the balance sheet.

The standard is to be applied as from January 1, 2019 and thereafter. At date of initial application, gains not yet realized in respect of available-for-sale shares recorded in capital reserve, shall be reclassified to retained earnings.

(c) Derivative instruments and hedge activity

The letter adopts the US accepted accounting principles in the matter of derivative instruments and hedge activity, published as part of the update of standard ASU2017-12. The object of the new rules is to improve financial reporting in respect of hedge relations, in a way that would reflect in a better form the economic results of the risk management operations of the banking corporation by means of changes in designation, measurement and presentation of hedge results.

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 rules expand the ability of banking corporations to hedge certain risk components, thus creating agreement between the manner of recording the hedge instruments and recording the hedged items in the financial statements; the rules facilitate and simplify the implementation of the accounting guidelines regarding hedge, principally by mitigating the requirements regarding examination of the effectiveness of the hedge and documentation of the hedge; the rules also update the disclosure of the activity of banking corporations in derivative instruments.

The standard will take effect as from January 1, 2019 and thereafter.

(d) Leases

The letter adopts the US accepted accounting principles in the matter of leases, published as part of the update of standard ASU 2016-02. The main object of the new rules is to fully reflect in the financial statements the level of leverage created as a result of long-term lease agreements. 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: banking corporations, which lease assets for periods exceeding twelve months shall recognize these assets in the balance sheet even if the lease is classified as an operating lease; in the case of an operating lease transaction, an asset is to be recorded in the balance sheet, reflecting the right of the corporation to use the leased asset, with the parallel recording of a liability for payment in respect of the lease; also transactions where a banking corporation sells an asset and leases it back, could in certain circumstances be considered as accounting sale transactions, subject to the existence of certain conditions as stated in the new rules.

The standard will take effect as from January 1, 2020 and thereafter.

NOTE 2 - INTEREST INCOME AND EXPENSES

(NIS million)

		For the three months ended March 31 (unaudited)	
		2018	**2017**
A.	**Interest income** (1)		
	From credit to the public	**611**	601
	From deposits with banks	**3**	3
	From deposits with Bank of Israel and From cash	**7**	5
	From bonds(2)	**33**	31
	Total interest income	**654**	640
B.	**Interest expenses** (1)		
	On deposits from the public	**47**	43
	On deposits from the Government	**1**	1
	On deposits from banks	**1**	1
	On bonds and subordinated capital notes	**20**	32
	On other liabilities	**1**	1
	Total interest expenses	**70**	78
	Total interest income, net	**584**	562
C.	**Details on net effect of hedging derivative instruments on interest income and expenses**		
	Interest expense(3)	**(1)**	(7)
D.	**Details of interest income from bonds on cumulative basis**		
	Held to maturity	**6**	8
	Available for sale	**26**	21
	Held for trading	**1**	2
	Total included in interest income	**33**	31

(1) Including effective component in hedging relations.
(2) Including Interest income on mortgage-backed bond (MBS) in the amount of NIS 2 million (31.3.2017 - NIS 1 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)	
	2018	**2017**
A. Non-interest financing income in respect of non-trading activities		
1. From activity in derivative instruments		
Non-effective part of hedging ratios (see C below)[1]	**-**	2
Net income (expenses) in respect of ALM derivative instruments[2]	**153**	(398)
Total from activity in derivative instruments	**153**	(396)
2. From investments in bonds		
Profits from sale of bonds available for sale[3]	**3**	6
Total from investment in bonds	**3**	6
3. Net exchange differences	**(121)**	392
4. Gains from investment in shares		
Gains from sale of shares available for sale[3]	**-**	1
Dividend from shares available for sale	**5**	7
Total from investment in shares	**5**	8
Total non-interest financing income in respect of non-trading activities	**40**	10

(1) Excluding the effective component of hedging ratios
(2) Derivative instruments constituting part of the asset and liability management network of the Bank, which are not designated for hedging ratios.
(3) Reclassified from cumulative other comprehensive income.

	For the three months ended March 31 (unaudited)	
	2018	**2017**
B. Net income in respect of non-interest financing activity for trading[3]		
Net income in respect of other derivative instruments	**3**	5
Net realized and unrealized losses from adjustments to fair value of bonds held for trading[1]	**(2)**	(3)
Net realized and unrealized losses from adjustments to fair value of shares held for trading[2]	**(1)**	-
Total non-interest financing income from trading activities[4]	**-**	2
Total non-interest financing income	**40**	12
Details on non-interest financing income in respect of trading activities, by risk exposure		
Interest rate exposure	**(2)**	-
Exposure to shares	**2**	2
Total	**-**	2
C. Ineffective part in hedging ratios- foreign activity [5]		
Ineffectiveness of hedging	**-**	1
Gain element in respect of derivative instruments, excluded for the assessment of the effectiveness of the hedge	**-**	1
Total	**-**	2

(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, 2018.
(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 noncontrolling interests					
	Adjustment in respect of reporting available for sale securities in fair value	**Translation adjustments(1) net after the effect of hedges(2)**	**Adjustments in respect of employee benefits**	**Total**	**Other comprehensive income (loss) attributed to noncontrolling interests**	**Other comprehensive income (loss) attributed to the Bank's shareholders**
Balance as of 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, 2016 (audited)	(13)	(2)	(174)	(189)	(12)	(177)
Net change during the period	21	-	16	37	2	35
Balance as of March 31, 2017 (unaudited)	8	(2)	(158)	(152)	(10)	(142)
Balance as of December 31, 2016 (audited)	(13)	(2)	(174)	(189)	(12)	(177)
Net change during 2017	58	2	-	60	3	57
Balance as of December 31, 2017 (audited)	45	-	(174)	(129)	(9)	(120)

(1) Adjustments from translation of financial statements of foreign activity for which the operating currency is different from the operating currency of the Bank.
(2) Net gains (losses) in respect of hedging net investment in foreign currency.

NOTE 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, 2017 (audited)		
			2018			2017			
	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 available for sale securities presentation according to fair value									
Unrealized net gains (losses) from adjustments to fair value	**(63)**	**22**	**(41)**	37	(13)	24	114	(41)	73
Losses (Gains) in respect of available for sale securities reclassified to income statement(1)	**21**	**(8)**	**13**	(5)	2	(3)	(24)	9	(15)
Net change during the period	**(42)**	**14**	**(28)**	32	(11)	21	90	(32)	58
Translation adjustments*									
Adjustments from translation of financial statements	**-**	**-**	**-**	(8)	3	(5)	(12)	4	(8)
Hedges**	**-**	**-**	**-**	8	(3)	5	12	(4)	8
Losses in respect of translation adjustments of financial statements reclassified to income statement	**-**	**-**	**-**	-	-	-	4	(2)	2
Net change during the period	**-**	**-**	**-**	-	-	-	4	(2)	2
Employee benefits:									
Net actuarial gain (loss) for the period	**-**	**-**	**-**	17	(6)	11	(28)	9	(19)
Net losses reclassified to the statement of profit and loss(2)	**7**	**(3)**	**4**	7	(2)	5	29	(10)	19
Net change during the period	**7**	**(3)**	**4**	24	(8)	16	1	(1)	-
Changes in the components of cumulative other comprehensive income (loss) attributed to minority interests									
Total change during the period	**-**	**-**	**-**	2	-	2	6	(3)	3
Changes in the components of cumulative other comprehensive income (loss) attributed to the Bank's shareholders									
Total change during the period	**(35)**	**11**	**(24)**	54	(19)	35	89	(32)	57

* Adjustments from translation of financial statements of foreign activity for which the operating currency is different from the operating currency of the Bank.

** Net gains in respect of hedging net investment in foreign currency.

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

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

NOTE 5 - SECURITIES

(NIS million)

					March 31, 2018 (unaudited)
A. Debentures held to maturity	**Book value**	**Amortized cost (in shares cost)**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value** (1)
Of Israeli government	**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**

(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)

				March 31, 2017 (unaudited)	
A. Debentures held to maturity	**Book value**	**Amortized cost (in shares cost)**	**Unrealized gains from adjustment to fair value**	**Unrealized losses from adjustment to fair value**	**Fair value (1)**
Of Israeli government	1,068	1,068	19	-	1,087
Of financial institutions in Israel	60	60	9	-	69
Of foreign financial institutions	41	41	-	-	41
Of others in Israel	265	265	18	-	283
Total debentures held to maturity	1,434	1,434	46	-	1,480

B. Securities available for sale	**Book value**	**Amortized cost (in shares cost)**	**Cumulative other comprehensive income**		**Fair value (1)**
			Profits	**Losses**	
Bonds -					
Of Israeli government	7,100	7,080	28	8	7,100
Of foreign governments	2,003	2,006	-	3	2,003
Of financial institutions in Israel	246	248	-	2	246
Of foreign financial institutions	(6)1,282	1,284	-	2	1,282
Mortgage backed (MBS) securities	(5)316	320	1	5	316
Of others in Israel	(7)720	715	8	3	720
Of foreign others	613	614	-	1	613
Total debentures and bonds available for sale	12,280	12,267	37	24	12,280
Shares -	(4)170	171	3	4	170
Total securities available for sale	12,450	12,438	(2)40	(2)28	12,450

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	691	690	1	-	691
Of foreign financial institutions	51	51	-	-	51
Of others in Israel	33	33	-	-	33
Of foreign others	4	4	-	-	4
Total trading debentures and bonds	779	778	1	-	779
Shares -	12	12	-	-	12
Total trading securities	791	790	(3)1	(3)-	791
Total securities	14,675	14,662	87	28	14,721

(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", except for securities amounting to NIS 4 million, which include an embedded derivative measured according to fair value while reflecting changes in fair value in profit and loss.
(3) Recorded in the Statement of Income.
(4) Including investments in shares and private equity funds having no available fair value presented at cost of NIS 119 million (of which - investments in private equity funds in amount of NIS 107 million).
(5) Securities issued by GNMA and guaranteed by US government in the amount of NIS 308 million and securities issued by FNMA & FHLMC in amount of NIS 8 million.
(6) Including securities owned by more than one government in the amount of NIS 797 million and securities owned and have specified government guarantee in the amount of NIS 290 million.
(7) Including impaired bonds accruing interest income in amount of NIS 5 million.

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

					December 31, 2017 (audited)
A. Debentures held to maturity	Book value	Amortized cost (in shares cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1)
Of Israeli government	1,018	1,018	38	-	1,056
Of financial institutions in Israel	32	32	4	-	36
Of others in Israel	260	260	36	-	296
Total debentures held to maturity	1,310	1,310	78	-	1,388

B. Securities available for sale	Book value	Amortized cost (in shares cost)	Cumulative other comprehensive income		Fair value (1)
			Profits	Losses	
Bonds -					
Of Israeli government	4,143	4,075	70	2	4,143
Of foreign governments	1,932	1,934	-	2	1,932
Of financial institutions in Israel	106	105	1	-	106
Of foreign financial institutions	(6)511	512	-	1	511
Mortgage backed (MBS) securities	(5)300	306	1	7	300
Of others in Israel	(7)358	350	8	-	358
Of foreign others	853	854	1	2	853
Total debentures and bonds available for sale	8,203	8,136	81	14	8,203
Shares -	(4)194	192	3	1	194
Total securities available for sale	8,397	8,328	(2)84	(2)15	8,397

C. Securities held for trading	Book value	Amortized cost (in shares cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value (1)
Bonds -					
Of Israeli government	442	442	-	-	442
Of foreign financial institutions	28	28	-	-	28
Of others in Israel	38	38	-	-	38
Of foreign others	21	21	-	-	21
Total trading debentures and bonds	529	529	-	-	529
Shares -	2	2	-	-	2
Total trading securities	531	531	(3)-	(3)-	531
Total securities	10,238	10,169	162	15	10,316

(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 119 million (of which - investments in private equity funds in amount of NIS 98 million).
(5) Securities issued by GNMA and guaranteed by US government in the amount of NIS 296 million and securities issued by FNMA & FHLMC in amount of NIS 4 million.
(6) Including securities of entities owned by more than one government in the amount of NIS 146 million and securities of entities owned and have specified government guarantee in the amount of NIS 316 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, 2018 (unaudited)							
	Less than 12 months				12 months and above			
	Fair Value	Unrealized losses 0-20%	Unrealized losses 20-40%	Unrealized losses Total	Fair Value	Unrealized losses 0-20%	Unrealized losses 20-40%	Unrealized losses Total
Securities available for sale								
Bonds								
Of Israeli government	**566**	**4**	**-**	**4**	**-**	**-**	**-**	**-**
Of foreign governments	**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**

	March 31, 2017 (unaudited)							
	Less than 12 months				12 months and above			
	Fair Value	Unrealized losses 0-20%	Unrealized losses 20-40%	Unrealized losses Total	Fair Value	Unrealized losses 0-20%	Unrealized losses 20-40%	Unrealized losses Total
Securities available for sale								
Bonds								
Of Israeli government	1,876	6	-	6	742	2	-	2
Of foreign government	1,929	3	-	3	-	-	-	-
Of Israeli financial institutions	-	-	-	-	148	2	-	2
Of foreign financial institutions	1,088	2	-	2	-	-	-	-
Mortgage backed (MBS) securities	308	5	-	5	-	-	-	-
Of others in Israel	-	-	-	-	373	3	-	3
Of foreign others	573	1	-	1	-	-	-	-
Shares	-	-	-	-	24	2	2	4
Total securities available for sale	5,774	17	-	17	1,287	9	2	11

	December 31, 2017 (audited)							
	Less than 12 months				12 months and above			
	Fair Value	Unrealized losses 0-20%	Unrealized losses 20-40%	Total	Fair Value	Unrealized losses 0-20%	Unrealized losses 20-40%	Total
								(NIS million)
Securities available for sale								
Bonds								
Of Israeli government	-	-	-	-	567	2	-	2
Of foreign governments	864	1	-	1	972	1	-	1
Of foreign financial institutions	376	1	-	1	-	-	-	-
Mortgage backed (MBS) securities	51	1	-	1	244	6	-	6
Of foreign others	675	2	-	2	-	-	-	-
Shares	-	-	-	-	24	1	-	1
Total securities available for sale	1,966	5	-	5	1,807	10	-	10

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

E. On September 7, 2017, the Court approved the arrangement plan in accordance with proceedings under Section 350 of the Companies Act, submitted by the Tel Aviv Stock Exchange Ltd. (hereinafter - "the Stock exchange"). In accordance with this arrangement plan, the present members of the Stock Exchange have been allotted shares in the Stock exchange, the share of the Bank Group in this allotment amounting to 20.3%.

On December 29, 2017, the Stock Exchange approached its shareholders proposing to receive offers for the sale of the shares in the Stock Exchange held by them. In accordance with the terms of the offer, the Stock Exchange or a third party, to whom the Stock Exchange at its discretion would assign its rights (hereinafter - "the Purchaser"), would be granted the right to purchase the holdings of its shareholders, in whole or in part, at the discretion of the Purchaser, at a price reflecting the value of NIS 500 million for all the Stock Exchange shares.

On January 18, 2018, the Bank Group responded to the approach by the Stock Exchange, offering to sell 15.4% of the number of Stock Exchange shares held by it (hereinafter - "the salable holdings"), in accordance with terms stated in the approach of the Stock Exchange to the Bank. It is noted that the present stated value of the holdings of the Bank in the Stock Exchange, as recorded in the books of the Bank, is a negligible amount.

On April 16, 2018, The Stock exchange informed the Bank of the acceptance of the Bank's response regarding the sale of its salable holdings (hereinafter - "the acceptance notice").

In the acceptance notice the Stock Exchange noted that the consideration payable for the sale of the holdings would exceed the price stated in the purchase offer. However, according to the Stock Exchange, the surplus amount between the consideration that would actually be received and the consideration derived from the amount stated in the purchase offer shall be paid over to the Stock Exchange, as required by the provisions of the Securities Act (Amendment No. 63), 2017, according to that stated in the acceptance notice. The acceptance notice is subject to regulatory approvals and to the closing of the transaction.

It is clarified that uncertainty exists with respect to obtaining the required regulatory approvals for the purchase of the holdings offered for sale and/or the closing of the transaction.

According to an announcement of the Stock Exchange, the closing of the purchase transaction, if at all achieved, shall be effected no later than June 19, 2018, unless if this date is extended with the consent of all the parties, and if the required approval are not obtained, or if the closing of the transaction is not effected, for any reason whatsoever, including the non-receipt of the said approval or approvals by the above mentioned date (unless extended), than the transaction would be null and void.

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, 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**	**23,151**	**-**	**23,453**	**-**	**23,453**
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**

	March 31, 2017 (unaudited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Recorded balance:						
Debts examined on an individual basis	33,640	-	207	33,847	2,855	36,702
Debts examined on a collective basis	4,972	22,058	17,943	44,973	-	44,973
Of which: according to the extent of arrears	250	22,058	-	22,308	-	22,308
Total	38,612	22,058	18,150	78,820	2,855	81,675
Of which:						
Debts restructuring	351	-	71	422	-	422
Other impaired debts	298	11	13	322	-	322
Total impaired debts	649	11	84	744	-	744
Debts in arrears of 90 days or more	29	133	39	201	-	201
Other problematic debts	584	14	199	797	-	797
Total problematic debts	1,262	158	322	1,742	-	1,742
Provision for credit losses:						
In respect of debts examined on an individual basis	429	-	27	456	-	456
In respect of debts examined on a collective basis	54	113	204	371	-	371
Of which: according to the extent of arrears	1	113	-	114	-	114
Total	483	113	231	827	-	827
Of which: in respect of impaired debts	145	-	21	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, 2017 (audited)					
	Credit to the public					
	Commercial	Housing	Other private	Total	Banks and Governments	Total
Recorded balance:						
Debts examined on an individual basis	33,954	-	226	34,180	3,300	37,480
Debts examined on a collective basis	4,982	22,848	19,206	47,036	-	47,036
Of which: according to the extent of arrears	293	22,848	-	23,141	-	23,141
Total	38,936	22,848	19,432	81,216	3,300	84,516
Of which:						
Debts restructuring	189	-	74	263	-	263
Other impaired debts	258	7	14	279	-	279
Total impaired debts	447	7	88	542	-	542
Debts in arrears of 90 days or more	34	156	40	230	-	230
Other problematic debts	454	9	208	671	-	671
Total problematic debts	935	172	336	1,443	-	1,443
Provision for credit losses:						
In respect of debts examined on an individual basis	407	-	33	440	-	440
In respect of debts examined on a collective basis	64	115	219	398	-	398
Of which: according to the extent of arrears	1	115	-	116	-	116
Total	471	115	252	838	-	838
Of which: in respect of impaired debts	136	-	26	162	-	162

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, 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	**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	**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**

	For the three months ended March 31, 2017 (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	501	115	231	847	-	847
Expenses in respect of credit losses	31	-	7	38	-	38
Accounting write-offs	(73)	(2)	(30)	(105)	-	(105)
Collection of debts written off in accounting in previous years	24	-	23	47	-	47
Net accounting write-offs	(49)	(2)	(7)	(58)	-	(58)
Provision for credit losses at end of the period	483	113	231	827	-	827
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of the year	57	-	14	71	-	71
Decrease in the provision	(4)	-	-	(4)	-	(4)
Provision in respect of off-balance sheet credit instruments at end of the period	53	-	14	67	-	67
Total provision for credit losses - debts and off-balance sheet credit instruments	536	113	245	894	-	894

NOTE 7 - DEPOSITS FROM THE PUBLIC

(NIS million)

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

	March 31, 2018	March 31, 2017	December 31, 2017
		(unaudited)	(audited)
Demand			
- Non- bearing interest	**45,757**	41,186	47,062
- Bearing interest	**6,161**	5,942	6,178
Total demand	**51,918**	47,128	53,240
Fixed-term*	**59,995**	59,070	60,271
Total deposits in Israel**	**111,913**	106,198	113,511
* Of which: non-bearing interest deposits	**2,631**	2,566	2,654
** Of which:			
Deposits of private individuals	**55,095**	53,504	54,399
Deposits of institutional entities	**25,993**	21,803	26,681
Deposits of corporates and others	**30,825**	30,891	32,431

B. Deposits of the public by size

	March 31, 2018	March 31, 2017	December 31, 2017
Maximum amount of deposit		(unaudited)	(audited)
Up to 1	**42,991**	41,540	42,116
From 1 to 10	**25,722**	25,447	25,557
From 10 to 100	**14,442**	14,639	14,319
From 100 to 500	**5,291**	4,774	6,027
Over 500	**23,467**	19,798	25,492
Total	**111,913**	106,198	113,511

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, increase in compensation, increased severance pay, mortality and retirement rates. Additional provisions for severance compensation in respect of additional efficiency measures, such as: changes in structure had been recorded as an expense being included on a non-actuarial basis.

2. Staff Long-Service Awards

The employees of consolidated subsidiaries are entitled to Seniority awards, after completing defined employment period. 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 officres are entitled to non-competion award upon their retirement.

5. Other post-retirement benefits

Employees of the group are entitled to certain post-retirement benefits, which include: holidays presents, newspapers, vacations, etc. Employees of consolidated subsidiary are entitled to an award when ariving at retirement age in respect of unutilized sick leave. This liability is measured on an actuarial basis using actuarial and other assumptions, including the discounting rate, mortality and retirements 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 2017 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,
		2018	2017	2017
			(unaudited)	(audited)
				(NIS million)
A.	**Change in liability regarding anticipated benefits**			
	Liability regarding anticipated benefit at beginning of period	**1,166**	1,166	1,166
	Cost of service	**6**	6	26
	Cost of interest	**9**	10	42
	Actuarial (profit) loss	**(3)**	(15)	33
	Benefits paid	**(18)**	(32)	(102)
	Other, including loss from reduction and structural changes	(1)**24**	-	1
	Liability regarding anticipated benefit at end of period	**1,184**	1,135	1,166
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	**732**	750	750
	Actual return on assets of the scheme	**-**	6	34
	Deposits in the scheme by the Bank	**3**	3	11
	Benefits paid	**(15)**	(15)	(63)
	Fair value of assets of the scheme at end of period	**720**	744	732
	Financing situation - net liability recognized at end of period*	**464**	391	434

* Included in the item "other assets/other liabilities".
(1) In respect of efficiency measures implemented by a consolidated company, including structural changes.

		March 31,	March 31,	December 31,
		2018	2017	2017
			(unaudited)	(audited)
				(NIS million)
C.	**Amounts recognized in the consolidated balance sheet**			
	Amounts recognized in the item "other liabilities"	**464**	391	434
	Net liability recognized at end of period	**464**	391	434
D.	**Amounts recognized in other cumulative comprehensive loss, before the tax effect**			
	Actuarial loss, net	**196**	180	196
	Liability net, in respect of transition*	**22**	26	26
	Closing balance in other cumulative comprehensive profit	**218**	206	222

* 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,
		2018	**2017**	**2017**
			(unaudited)	(audited)
				(NIS million)
A.	**Cost components of net benefit recognized in profit and loss**			
	Cost of service	**6**	6	26
	Cost of interest	**9**	10	42
	Anticipated return on assets of the scheme	**(5)**	(6)	(21)
	Amortization of non-recognized amounts:			
	Net actuarial loss	**3**	3	11
	Other, including loss from reduction or dismissal and structural changes	**27**	4	16
	Capitalization of software costs	**(1)**	(1)	(4)
	Total cost of benefits, net	**39**	16	70
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 (profit) for the period	**2**	(15)	20
	Amortization of actuarial loss	**(3)**	(3)	(11)
	Dismissal	**(3)**	(4)	(15)
	Total recognized in other comprehensive profit	**(4)**	(22)	(6)
	Total net cost of benefit	**39**	16	70
	Total net cost of benefit for the period recognized in other comprehensive profit	**35**	(6)	64

		(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 2018, before the tax effect**	
	Net actuarial loss	**38**
	Total amount expected to be amortized from other cumulative comprehensive profit	**38**

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,
	2018	**2017**	**2017**
		(unaudited)	(audited)
			percent
1. Principal guidelines used to determine the liability for benefits			
Discounting rate	**1.3**	1.7	1.1

	For the three months ended March 31,		For the year ended December 31,
	2018	**2017**	**2017**
		(unaudited)	(audited)
			percent
2. Principal guidelines used to measure the net cost of benefits for the period			
Discounting rate	**1.1**	1.7	1.4-1.7

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,
	2018	**2017**	**2017**	**2018**	**2017**	**2017**
		(unaudited)	(audited)		(unaudited)	(audited)
			(NIS million)			(NIS million)
Discounting rate	**(72)**	(71)	(75)	**86**	85	89

C. Cash flows

(1) Deposits

	Forecast	Actual deposits		
		For the three months ended March 31,		For the year ended December 31,
	***2018**	**2018**	**2017**	**2017**
	(unaudited)		(unaudited)	(audited)
	(NIS million)			(NIS million)
Deposits	11	**3**	3	11

* Assessment of amounts which the Bank expects to deposit with a defined benefit pension scheme during 2018.

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

A. CAPITAL ADEQUACY

Starting January 1, 2014 the bank has implemented Proper Banking Management Directives Nos. 201-211 in the matter of measurement and capital adequacy, as updated, in order to modify them to the Basel guidelines.

It is noted that the Basel instructions determine significant changes in the computation of the regulatory capital requirements, among other things, in everything related to:

- Components of the regulatory capital;
- Deductions from capital and regulatory adjustments;
- Treatment of exposure to financial corporations;
- Treatment of exposure to credit risk in respect of impaired debts;
- Allocation of capital in respect of CVA risk.

The instructions were implemented in a gradual manner, in accordance with the transitional instructions stated in Proper Banking Management Directive No, 299 in the matter of measurement and capital adequacy - regulatory capital - transitional instructions, this in order to allow compliance with the new instructions of the regulatory capital within the framework of the implementation of Basel, and determine a transitional period until their implementation in full. Among other things, the transitional instructions relate to the regulatory adjustments and the deductions from capital, as well as to capital instruments that are not qualified for inclusion in the regulatory capital in accordance with the new criteria determined in the Basel instructions. In particular, according to the transitional instructions, the regulatory adjustments and deductions from capital as well as the non-controlling interest that is not qualified to be included in the regulatory capital, shall be gradually deducted from capital at the rate of 20% in each year starting with January 1, 2014 and until January 1, 2018. The capital instruments no longer qualified as regulatory capital shall be recognized up to a maximum of 80% on January 1, 2014, this maximum level being reduced by an additional 10% until January 1, 2022. As from January 1, 2018, the transitional instructions regarding deductions from the regulatory capital are no longer in effect and the deductions amount to 100%, while the maximum rate of instruments qualified as regulatory capital amounts to 40%.

(1) Capital adequacy goals

The Group's policy, as approved by the Board of Directors and Management, is to maintain an adequate level of capital, in accordance with the capital target determined by an internal process, and which would not be less than the minimum capital objectives required by the Supervisor of Banks. The capital target determined by the Board of Directors and Management reflects in the opinion of the Group, the proper capital level required in accordance with the risk profile and risk appetite of the Group.

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

In consequence thereof, the minimum Tier I equity capital ratio and the minimum comprehensive capital ratio required on a consolidated basis by the Supervisor of Banks, based on data as of the reporting date, are 9.29% and 12.79%, respectively.

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

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

- In the ordinary course of business - Tier I equity capital ratio of not lower than 9.3% and comprehensive capital ratio of not lower than 12.79%.
- In stress situations - Tier I equity capital ratio of not lower than 6.5% and comprehensive capital ratio of not lower than 9.0%.

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, 2018	March 31, 2017	December 31, 2017
	(unaudited)	(unaudited)	(audited)
a. Consolidated			
1. Capital for calculation of capital ratio			
Tier 1 capital, after supervisory adjustments and deductions	**7,958**	7,738	8,033
Tier 2 capital after deductions	**2,599**	2,682	2,749
Total overall capital	**10,557**	10,420	10,782
2. Weighted balances of risk assets			
Credit risk	(3)**72,608**	(3)69,693	(3)70,445
Market risk	**662**	804	725
Operational risk	**5,732**	5,955	6,201
Total weighted balances of risk assets	**79,002**	76,452	77,371
			percent
3. Ratio of capital to risk assets			
Ratio of tier 1 capital to risk assets	**10.07%**	10.12%	10.38%
Total ratio of capital to risk assets	**13.36%**	13.63%	13.94%
Minimal ratio of equity capital tier 1 required by the Supervisor of banks	(1)**9.29%**	(1)9.29%	(1)9.30%
Minimal ratio of capital required by the Supervisor of Banks	(1)**12.79%**	(1)12.79%	(1)12.80%
			percent
B. Significant Subsidiaries			
Bank Otsar Hahayal Ltd.			
Ratio of tier 1 capital to risk assets	**10.50%**	10.68%	11.01%
Total ratio of capital to risk assets	**12.56%**	13.28%	13.32%
Minimal ratio of equity capital tier 1 required by the Supervisor of banks	(1)**9.03%**	(1)9.02%	(1)9.03%
Minimal ratio of capital required by the Supervisor of Banks	(1)**12.53%**	(1)12.52%	(1)12.53%
Bank Massad Ltd.			
Ratio of tier 1 capital to risk assets	**11.86%**	12.93%	11.87%
Total ratio of capital to risk assets	**12.87%**	14.03%	12.95%
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, 2018	March 31, 2017	December 31, 2017
	(unaudited)	(unaudited)	(audited)
A. Equity capital tier 1			
Capital attributed to shareholders	**7,772**	7,456	7,756
Differences between capital attributed to shareholders and equity capital tier 1			
Minority interests	**199**	(2)438	(2)446
Application of the transitional instructions in respect of the adoption of accepted accounting principles in the matter of employee rights	**-**	14	14
Total equity capital tier 1 before regulatory adjustments and deductions	**7,971**	7,908	8,216
Regulatory adjustments and deductions:			
Intangible assets	**(100)**	(112)	(103)
Commitment to invest in shares	**-**	(2)(172)	(2)(176)
Regulatory adjustments and other deductions- equity capital tier 1	**(6)**	(5)	(4)
Total regulatory adjustments and deductions before adjustments in respect of efficiency measures - equity capital tier 1	**(106)**	(289)	(283)
Total adjustments in respect of efficiency measures- Tier 1 equity capital	**93**	119	100
Total equity capital tier 1 after regulatory adjustments and deductions	**7,958**	7,738	8,033
B. Tier 2 capital			
Tier 2 capital: instruments before deductions	**1,860**	1,956	2,015
Tier 2 capital: provisions before deductions	**739**	726	734
Total tier 2 capital before deductions	**2,599**	2,682	2,749
Deductions:			
Total deductions- tier 2 capital	**-**	-	-
Total tier 2 capital	**2,599**	2,682	2,749

(4) Effect of transitional instructions on equity capital tier 1

	March 31, 2018	March 31, 2017	December 31, 2017
	(unaudited)	(unaudited)	(audited)
Ratio of capital to risk assets			
Ratio of equity capital tier 1 to risk assets before implementation of transitional instructions in directive 299 and before effect of adjustments in respect of efficiency measures	**9.94%**	9.82%	10.11%
Effect of transitional instructions	**-**	0.12%	0.12%
Ratio of tier 1 equity capital to risk assets before effect of adjustments in respect of efficiency measures	**9.94%**	9.94%	10.23%
Effect of adjustments in respect of efficiency measures	**0.13%**	0.18%	0.15%
Ratio of tier 1 equity capital to risk assets	**10.07%**	10.12%	10.38%

(1) Minimal capital ratio requested according to the Supervisor of Banks' directives effective from January 1, 2015 until December 31, 2017. To these relations, as of January 1, 2015 was added capital requirement of 1% of housing loans balance for the reporting date. This requirement was applied gradually until January 1, 2017.

(2) Until December 31, 2017, the Bank implemented the transition instructions of Basel regarding the PUT option granted to noncontrolling interests (31.3.17 - NIS 56 million, 31.12.17 - NIS 58 million).

(3) An amount of NIS 130 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 until December 31, 2020.
For additional details regarding the effect of transitional instructions and adjustments in respect of efficiency measures, see item 4 above.

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

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

(5a.) Capital components subject to fluctuations

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

- Changes in the volume of risk assets of the Bank and in deductions from capital;
- Actuarial changes due to changes in the interest rate used to compute the liabilities of the Bank or in other actuarial assumptions, such as: mortality rates, retirement etc.

Following is an analysis of the impact of such changes on the Tier I equity capital of the Bank as of March 31, 2018:

	Effect of a change of NIS 100 million in Tier I equity capital	Effect of a change of NIS 1 billion in total risk assets
		percent
The Bank (consolidated data)	**0.13**	**0.13**
Otsar Hahayal Bank	**0.80**	**0.79**
Massad Bank	**1.99**	**1.97**

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

As from April 1, 2015, the Bank implements Proper Banking Management Directive No. 218 in the matter of leverage ratio. The Directive states a simple and transparent leverage ratio that is not risk based, which would serve as a supplementary and reliable measurement of the risk based capital requirements, and which is intended to restrict the accumulation of leverage at a banking corporation.

The leverage ratio is expressed in percentages, and is defined as the ratio between the measurement of capital and the measurement of exposure. Capital for the purpose of measuring leverage is the Tier I capital as defined in Proper Banking Management Directive No. 202, taking into consideration the determined transitional arrangements. The total measurement of exposure of the Bank is the total of the balance sheet exposures, exposure to derivatives and to transactions financing the purchase of securities and off-balance sheet items. As a general rule, measurement is consistent with accounting values and risk weights are not taken into consideration. Furthermore, the Bank is not permitted to use physical or financial collateral, guarantees or other credit risk reducing techniques, in order to reduce exposure measurement, unless this is specifically permitted by the Directive. Balance sheet assets, deducted from Tier I capital (in accordance with Directive No. 202) are deducted from exposure measurement. In accordance with the Directive, the Bank computes exposure in respect of derivatives in accordance with the provisions of Appendix "C" of Proper Banking Management Directive No. 203, and exposure in respect of off-balance sheet items by converting the imputed amount of the items by the conversion coefficients for credit, as determined in Proper Banking Management Directive No. 203.

In accordance with the Directive, a banking corporation shall maintain a leverage ratio of not less than 5% on a consolidated basis, 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, 2018 (unaudited)	March 31, 2017 (unaudited)	December 31, 2017 (audited)
	NIS million		
A. Consolidated			
Tier 1 capital*	**7,958**	7,738	8,033
Total exposures	**143,250**	139,554	146,137
			percent
Leverage ratio	**5.56%**	5.54%	5.50%
B. Significant Subsidiaries			
Bank Otsar Hahayal Ltd.			
Leverage ratio	**5.69%**	5.61%	5.79%
Bank Massad Ltd.			
Leverage ratio	**6.99%**	7.48%	6.99%
Minimal Leverage ratio required by the Supervisor of banks	**5.00%**	5.00%	5.00%

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

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

As from April 1, 2015 the Bank implements Proper Conduct of Banking Business Directive No. 221 in the matter of "liquidity coverage ratio". The Directive adopts the recommendations of the Basel Committee in the matter of liquidity coverage ratio as regards the banking industry in Israel. The liquidity coverage ratio examines a range of thirty days in a stress test, and is intended to ensure that a banking corporation shall have an inventory of high quality liquid assets serving the liquidity needs of the corporation within that period of time. The Directive specifies the manner of computation of the liquidity coverage ratio, including the definitions of characteristics and operational requirements for the "inventory of high quality liquid assets" (numerator) and security coefficients in its respect, as well as the anticipated cash outflows in the stress test, as defined in the Directive for the thirty calendar days (denominator).

The stress test stated in the Directive includes a stress situation that combines a specific stress to the corporation with a system stress, within the framework of which, standard withdrawal rates have been defined for cash outflows and cash deposit rates for cash inflows, in accordance with the different categories of outstanding balances.

As from January 1, 2017 the minimum required ratio is 100%.

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

	For the three months ended		
	March 31, 2018	**March 31, 2017**	**December 31 2017**
	(unaudited)	(unaudited)	(audited)
			percent
A. Consolidated*			
Liquidity coverage ratio	**120%**	128%	123%
B. The bank*	**120%**	127%	122%
Liquidity coverage ratio			
Significant Subsidiaries*			
Bank Otsar Hahayal Ltd.			
Liquidity coverage ratio	**268%**	315%	329%
Bank Massad Ltd.			
Liquidity coverage ratio	**189%**	241%	202%
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 5, 2018, 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 95 million. The determining date for the payment of the dividend was March 13, 2018, and the payment date was March 21, 2018.

Subsequent to balance sheet date, on May 28, 2018, 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 60 million. The determining date for the payment of the dividend is June 5, 2018, and the payment date is June 13, 2018. 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		
	March 31, 2018	**March 31, 2017**	**December 31 2017**
	(unaudited)	(unaudited)	(audited)
			NIS million
Dividend declared and paid by the Bank	**95**	70	310

NOTE 9 - COMMITMENTS AND CONTINGENT LIABILITIES
(NIS million)

Other contingent liabilities and special commitments

		March 31, 2018 (unaudited)	March 31, 2017 (unaudited)	December 31 2017 (audited)
A.	Improvements to premises and acquisition of new premises, equipment and software	**13**	5	17
	Commitments to invest in private investment funds	**40**	52	51

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, 2018 (unaudited)	March 31, 2017 (unaudited)	December 31 2017 (audited)
First year	***52**	*52	73
Second year	**70**	68	67
Third year	**66**	64	63
Fourth year	**60**	61	57
Fifth year	**55**	55	52
Sixth year and thereafter	**300**	329	290
Total	**603**	629	602

* 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 2017:

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 2017:

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 banks together. The Plaintiffs claim that the said banks do not provide proper disclosure and even mislead their customers with respect to the costs involved in currency conversion services provided by them, upon selling foreign currency to the customer at a rate higher than the buying rate. The difference between the buying rate and the selling rate to the customer (named in the claim as - "mark-up commission") constitutes, as alleged by the Plaintiffs, a "brokerage commission" charged with no disclosure of it in any of the pricelists published by the banks. The Plaintiffs further claim that the Banks act in unison in this respect in order to hide the mark-up commission and that a binding agreement exists among them. In January 2014, the Court approved the motion of the Appellant for withdrawal from the claim against the general managers. 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.

   - In March 2014, a motion for the approval of a claim as a class action suit, of approximately NIS 2 billion, was filed against a consolidated subsidiary and against four additional banks, the cause of action being identical to that alleged against the Bank in an action filed in September 2013, as stated above. On March 1, 2018, the motion was rejected and the claim was not approved as a class action. The Plaintiffs appealed this decision on March 18, 2018.

2. On December 18, 2016, the Bank received notice of a motion for approval of a class action filed against the Bank and four additional Banks. The subject matter of the action relates to commission fees charged by the Banks in respect of the transfer of foreign currency to or from an account. As argued by the Appellant, the pricelist issued by Bank of Israel (hereinafter - “the pricelist”) states that with respect to transfers, as above, banks are entitled to quote a minimum fee or a percentage fee, the higher of the two, up to a maximum amount to be determined in advance (hereinafter - “the fee range”), whatever would be the amount of the transfer, while in practice, as alleged by the Appellant, all the defendant banks quote a graded fee range depending of the amount being transferred. In doing so, the Appellant argues, the banks violate a series of statutes, Proper Conduct of Banking Business directives, duties imposed on them, etc. The Appellant further claims that the banks are in unison regarding the manner in which they disregard the instructions of the pricelist, restricting competition among them with respect to the costs involved in the transfer of foreign currency.

   The group which the Appellant wishes to represent is “individuals or legal entities who made use of bank services for the transfer and/or other handling of foreign currency, as well as the general public in Israel directly or indirectly affected by these violations”.

   The amount of the claim against all the defendant banks is estimated by the Appellant at a minimum amount of NIS 500 million.

   On March 13, 2018, the Plaintiff withdrew from the motion and his personal claim was rejected.

The additional exposure of the Bank and of the subsidiary companies as of March 31, 2018, 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 28 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 group 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 April 28, 2014, ICC received notice of an action and a motion for approval and conduct of the action as a class action under the Class Actions Act, 2006, filed with the District Court, Central District against ICC and other credit card companies (hereinafter - "the claim and motion").

The motion refers to two binding arrangements with respect to immediate debit cards ("debit cards") and to "prepaid" cards, which, as alleged by the Appellants, amount to systematic and continuous deception of customers of credit card companies. The first binding arrangement, as argued by the Appellants, is the arrangement for the charging of a cross commission in respect of transactions made by debit cards and "prepaid cards". The second binding arrangement, as argued by the Appellants, is the unlawful withholding of funds due to trading houses for periods of approximately twenty days after the credit card companies had received the money. The class of those directly affected which the Appellants wish to represent was defined as "all trading houses in the State of Israel that accept debit cards". The class of those indirectly affected, which the Appellants seek to represent is defined as "whoever purchased goods or services at trading houses that accept debit cards, including the Appellants".

The Appellants stated the amount of the claim in respect of all class members and regarding all the Defendants, at NIS 1,736 million.

On February 24, 2015, the Appellants, with the consent of the Responders, filed a motion for withdrawal from the claim and from the request for approval of a class action, with no order for expenses.

On April 19, 2015, a motion was filed with the Court, requesting the Court to order the replacement of the Appellants who had filed for withdrawal, as above, and their representatives, by the Appellant and his representative, and to instruct the continuation of the proceedings through the Appellant.

It is alleged in this motion, that the request for withdrawal does not state the reasons meriting the request for withdrawal, and that it relies only on future action to be taken by the Regulator (Bank of Israel) with no compensation in respect of the past.

On July 1, 2015 the Court approved the withdrawal. Concurrently, the Court instructed that a replacement of the Appellant and its representative be found, who would take upon themselves the management of the proceedings in the name of the group.

Following the decision of the Court of July 1, 2015, the representatives for the Appellants presented on July 6, 2015, the text of a newspaper advertisement regarding the withdrawal from the claim which had been approved by the Court.

On June 8, 2016, an amended motion for approval of the class action was filed ("the amended motion"). In this motion for approval, three credit card companies are being sued under the allegation that they had entered into binding arrangements regarding the immediate debit card and "pre-paid" card markets.

The amended motion does not state explicitly the amount of the claim, but makes reference to an economic opinion appended to the amended motion. A review of the economic opinion shows that the amount of the claim is composed of the following main types of damage: an amount of NIS 13.5 million per year for the years 2007-2015 in respect of the damage stemming from the existence of an alleged binding arrangement regarding the amount of the cross commission payable in immediate debit card transactions; an amount of NIS 5.3 million per year, for the years 2007-2015, in respect of the damage stemming from the existence of an alleged binding arrangement regarding the date for the transfer of funds to trading houses in respect of immediate debit card transactions; an amount of between NIS 418 million and NIS 683 million per year for the years 2007-2015, in respect of the damage stemming from underuse of immediate debit cards due to the alleged two binding arrangements, as above.

ICC responded to the amended motion for approval on December 22, 2016. The Appellant submitted his response to the response of ICC on February 22, 2017. On March 12, 2017, a preliminary hearing of the motion was held. In its decision, the Court stated that the matter of the cross-commission in respect of the "debit" and the "pre-paid" cards, is apparently included in a verdict given by the Antitrust Tribunal, and therefore any claim raised against the determination of the cross-commission, should be raised using procedures relating to the said verdict. In view of this, the Court deferred the hearing of the motion for a class action until after the matter is settled by the Antitrust Tribunal.

An action requesting declaratory relief was filed with the Antitrust Tribunal on October 16, 2017. Within the framework of this action, the Tribunal is requested to state that when giving the verdict which approved the cross-commission arrangement, such arrangement did not include immediate debit cards and rechargeable cards. The credit card companies, including ICC, have filed a motion for the in limina dismissal of the action together with a request for extension of the date for filing the response to the subject matter of the claim, in the event that the said motion for dismissal is rejected.

On February 28, 2018, the Appellant submitted their response to the motion to the in limina dismissal of the action, and on March 1, 2018, the Court ordered that the Commissioner shall submit his response by April 23, 2018.

On April 23, 2018, the Commissioner submitted his position, according to which the motion for the in limina dismissal should be admitted because it is not appropriate for hearing within the framework of a motion for declaratory relief, this on background of the contents of the motion as well as considering the long period of time in which the verdict has been implemented. The Commissioner further clarified that in everything relating to the possibility of amendment or cancellation of the approval, the appropriate proceedings are an approach to the Commissioner under Section 12 of the Antitrust Act.

(b) A plea was filed on August 10, 2017, with the Supreme Court sitting as a High Court of Justice, the Respondents to which are the Attorney General for the Government, the State Prosecutor Office, ICC, the First International Bank and Israel Discount Bank. In the plea, the Court is requested to instruct the Respondents to provide reason why they should not act in order to indict whoever had been involved in the affair relating to the international clearing operations of ICC, and why they should refrain from reaching an arrangement with those involved in the said affair. The Court is also requested to issue an Interim Order instructing the Respondents to avoid any attempt to reach an arrangement, until decision is given in the plea. An Interim Order has not been given. The Attorney General for the Government and the State Prosecutor Office submitted their response to the plea and to the request for an Interim Order on November 12, 2017. Israel Discount Bank, ICC and the First International Bank submitted their response by November 19, 2017. The hearing of the plea was fixed for June 28, 2018. In this respect, see also the derivative action discussed in item 4 hereunder.

2. The amount of exposure due to claims submitted against ICC, the prospect of materialization of all or part of these claims is reasonably possible, totals NIS 99 million.

3. Motions for approval of actions as class action suits are pending against ICC and its consolidated subsidiary "Diners", as detailed below. ICC states in its financial reports that, in the opinion of the Management of ICC, based upon Counsels opinion, it is not possible at this stage to assess the prospects of these action, and therefore no provision has been recorded in respect thereof.

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

The subject matter of the motion is a claim that Diners and the other Respondent company intentionally mislead in their publications members of the Frequent Flyer Club, who hold credit cards of the Diners Fly Card class (hereinafter - "the card"), with regards to the manner of calculation of the flight points, which may be accumulated upon use of the card when making payments to Government agencies.

The class is defined as "any holder of the Diners Fly Card type who used the card for payment to Government agencies in amounts of over NIS 30,000 per month".

The Plaintiffs stated their claim for all members of the class at approximately NIS 66 million and alternatively at NIS 300 million. On March 20, 2018, Diners responded to the motion for approval, in which it totally rejects the claim of the Plaintiff.

(b) 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".

(c) On May 6, 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, filed against ICC, an additional company and the bank owning it, that ICC had not provided proper disclosure of the interest charged by it.

The Plaintiff assesses his personal damage at NIS 38.54, and the amount of the claim in respect of the group at NIS 181 million.

4. As detailed to ICC by Israel Discount Bank Ltd. (hereinafter - -"Discount"), Discount received notice on May 7, 2015, of an action and a motion for its approval as a multi-party derivative action, filed with the Tel Aviv-Yafo District Court. The Court is being asked to approve a derivative action against sixteen officers and other executives (including former officers in Discount and the Bank) who officiated in the relevant period at ICC and at ICC international Ltd., which on December 31, 2009 was merged into ICC and struck-off the Companies Register. The action alleges damage caused to ICC and ICC International and the damage expected to be caused to these companies, as alleged, in connection with the international clearing activity of ICC and of ICC International in the years 2006-2009.

The Appellant claims that the responded officers and other executives have, among other things violated their duties and caused the alleged damage, which is assessed by him at NIS 100 million. The Appellant further refers to a potential risk of forfeiture of funds to the tune of NIS billions, within the framework of criminal proceedings, if these are instituted, and to reputation and other damage, not yet assessed, all as alleged by the Appellant.

In accordance with a procedural arrangement reached by the parties, the Appellant filed on May 9, 2017, an amended motion for approval of a derivative action. The amended motion remained mostly unchanged, though with two central changes: (1) Presentation of the conditional arrangement signed with the State Prosecutor and presentation of the payment under it as an additional damage caused to ICC; and (2) Deletion of the cause of action relating to the violation of the provisions of the Money Laundering Act and the monetary sanction imposed by Bank of Israel stemming there from.

The Court decided on May 10, 2017, that ICC and all other Respondents shall submit their response to the amended motion by September 24, 2017. It was also decided that a copy of the motion for approval would be delivered to the Attorney General for the Government (including the Supervisor of Banks) who shall inform whether he intends to join the proceedings. On August 20, 2017, the Attorney General for the Government informed that he sees no reason to join the proceedings. Furthermore, on August 29, 2017, the parties informed that the Appellant, ICC and the insurers of the other Respondents are negotiating an arrangement that would obviate the hearing of this case. Accordingly, the parties asked for an extension of the date for submission of the response of the Respondents to the amended motion. Recently, the parties have reached a compromise arrangement as detailed below.

The Board of Directors of ICC in its meeting of February 2, 2018, discussed the report of the special ad-hoc committee regarding the international clearing operations (hereinafter – "the Committee"), which included a recommendation regarding the mode of operation most beneficial to ICC.

The Board of Directors decided to adopt the recommendation of the Committee, stating that on background of all the considerations taken into account at the discussions of the Committee, the promotion of a compromise arrangement along the suggested outline as well as the exercising of ICC's insurance rights would be to the benefit of ICC. Accordingly, the Board of Directors of ICC instructed the representatives of ICC to promote the compromise outline. The Board of Directors also stated that the amount to be recovered under the proposed compromise outline is most fair and reasonable, and is even on the high side – taking into consideration the risks and prospects of the action in substance and the cause of action, in relation to the ratio of compromise in other proceedings, and with respect to the cross-company considerations regarding the benefit to ICC resulting from an efficient and exhaustive conclusion of the international clearing affair. The Board of Directors of ICC further stated that for reasons detailed in the opinion rendered by the Committee to the Board of Directors of ICC, the institution of legal action against any of the Officers in lieu of the proposed compromise agreement, and alternatively taking no action whatever – shall not be compatible with the benefit of ICC.

On March 28, 2018, the parties to the case filed with the Court a joint motion for approval of the compromise agreement regarding the derivative action, this without the agreement consisting an admission by the parties or anyone on their behalf, of any of the cases of the action or of the arguments included in the motion for approval.

In accordance with the compromise arrangement submitted for approval of the Court, the insurers will pay ICC, in respect of the officers, an amount of US$4.5 million, which would settle the causes of action against the officers as regards the international clearing activity and would be received in lieu of submitting a claim against anyone of the officers, as defined in the compromise arrangement. Furthermore, the compromise arrangement shall lead to the mutual settlement of all claims between the parties to the motion for approval in respect of the international clearing activity. Subject to approval of the compromise arrangement, and subject to the payment to ICC of the compromise amount, the verdict shall constitute a Court ruling and shall include a conclusion, waiver and an irrevocable settlement in full of all causes of the claim relating directly or indirectly to the international clearing activity, towards the officers and towards the companies related to ICC.

The parties also agreed to recommend to the Court approval for the payment of fees to the representative of the Appellant in the motion for approval, in the amount of NIS 2 million, and for the payment of special compensation to the Appellant himself, in the amount of NIS 260 thousand (comprising 14% of the compromise amount and payable out of the compromise amount).

On September 28, 2016, the Bank received a letter sent by a shareholder of the Bank, in which the Board of Directors of the Bank is requested to do their utmost to exploit a cause of action against two former senior officers of ICC (the former managing director of ICC and the former general manager of CAL International) prior to the submission to the Court of a motion for approval of a multiple derivative action on the part of the Bank, and a motion for disclosure of documents. To the best understanding of the Bank, the request relates to events in respect of which an action and a motion for approval of a derivative action had been filed against Discount Bank and against ICC, as discussed above. The Board of Directors of the Bank discussed the said request on November 1, 2016, and decided to reject it.

5. 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. 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). Under the Regulations of the VAT Act, ICC is entitled within thirty days of receipt of the decision, to file an appeal against it with the District Court. On March 29, 2018, the District Court approved (with consent) a sixty days extension for submission of the appeal.

   ICC disputes the position of the VAT Director, and is of the opinion that it has good arguments supporting its position.

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

(NIS million)

A. Volume of activity

		March 31, 2018 (unaudited)					
		Interest Contracts		Foreign currency contracts	Contracts of shares	Commodity and other contracts	Total
		Shekel-CPI	Other				
1.	**Face value of derivative instruments**						
A.	**Hedging derivatives(1)**						
	SWAPS	-	3,009	-	-	-	3,009
	Total	-	3,009	-	-	-	3,009
	Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	-	3,009	-	-	-	3,009
B.	**ALM derivatives(1)(2)**						
	Futures contracts	-	11	-	-	-	11
	Forward contracts	720	-	28,349	-	-	29,069
	Option contracts traded on an exchange:						
	- Options written	-	-	228	-	-	228
	- Purchased options	-	-	229	-	-	229
	Other option contracts:						
	- Options written	-	-	5,544	-	-	5,544
	- Purchased options	-	-	4,772	-	-	4,772
	SWAPS	75	11,532	167	-	-	11,774
	Total	795	11,543	39,289	-	-	51,627
	Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	75	6,516	-	-	-	6,591
C.	**Other derivatives(1)**						
	Futures contracts	-	2,446	1,300	9,203	71	13,020
	Option contracts traded on an exchange:						
	- Options written	-	-	9,160	19,340	-	28,500
	- Purchased options	-	-	9,160	19,340	-	28,500
	Other option contracts:						
	- Options written	-	-	466	567	-	1,033
	- Purchased options	-	-	452	444	-	896
	SWAPS	-	980	114	-	-	1,094
	Total	-	3,426	20,652	48,894	71	73,043
	Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	-	490	-	-	-	490
D.	**Credit derivatives and spot swap foreign currency contacts**						
	Credit derivatives for which the Banking corporation is guarantor	-	-	-	-	35	35
	Foreign currency spot swap contracts	-	-	2,084	-	-	2,084

(1) Except for credit derivatives and foreign currency spot swap contracts
(2) Derivatives constituting part of the bank's assets and liabilities management, that have not been designated for hedging relationships.

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

(NIS million)

A. Volume of activity (CONT'D)

		March 31, 2017 (unaudited)					
		Interest Contracts		Foreign currency contracts	Contracts of shares	Commodity and other contracts	Total
		Shekel-CPI	Other				
1.	**Face value of derivative instruments**						
A.	**Hedging derivatives[1]**						
	Forward contracts	-	-	241	-	-	241
	SWAPS	-	2,745	-	-	-	2,745
	Total	-	2,745	241	-	-	2,986
	Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	-	2,745	-	-	-	2,745
B.	**ALM derivatives[1][2]**						
	Futures contracts	-	55	-	-	-	55
	Forward contracts	336	500	36,916	-	-	37,752
	Option contracts traded on an exchange:						
	- Options written	-	-	232	-	-	232
	- Purchased options	-	-	380	-	-	380
	Other option contracts:						
	- Options written	-	-	2,635	-	-	2,635
	- Purchased options	-	-	2,730	-	-	2,730
	SWAPS	75	9,432	329	-	-	9,836
	Total	411	9,987	43,222	-	-	53,620
	Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	75	5,391	-	-	-	5,466
C.	**Other derivatives[1]**						
	Futures contracts	-	1,733	497	9,503	116	11,849
	Option contracts traded on an exchange:						
	- Options written	-	-	7,714	22,078	-	29,792
	- Purchased options	-	-	7,714	22,078	-	29,792
	Other option contracts:						
	- Options written	-	-	477	1,219	-	1,696
	- Purchased options	-	-	452	868	-	1,320
	SWAPS	-	1,340	131	-	-	1,471
	Total	-	3,073	16,985	55,746	116	75,920
	Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	-	670	-	-	-	670
D.	**Credit derivatives and spot swap foreign currency contacts**						
	Credit derivatives for which the Banking corporation is guarantor	-	-	-	-	36	36
	Foreign currency spot swap contracts	-	-	1,013	-	-	1,013

(1) Except for credit derivatives and foreign currency spot swap contracts
(2) Derivatives constituting part of the bank's assets and liabilities management, that have not been designated for hedging relationships.

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

(NIS million)

A. Volume of activity (CONT'D)

		December 31, 2017 (audited)					
		Interest Contracts		Foreign currency contracts	Contracts of shares	Commodity and other contracts	Total
		Shekel-CPI	Other				
1.	**Face value of derivative instruments**						
A.	**Hedging derivatives[1]**						
	SWAPS	-	2,509	-	-	-	2,509
	Total	-	2,509	-	-	-	2,509
	Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	-	2,509	-	-	-	2,509
B.	**ALM derivatives[1][2]**						
	Futures contracts	-	32	-	-	-	32
	Forward contracts	731	-	35,695	-	-	36,426
	Option contracts traded on an exchange:						
	- Options written	-	-	83	-	-	83
	- Purchased options	-	-	84	-	-	84
	Other option contracts:						
	- Options written	-	-	3,574	-	-	3,574
	- Purchased options	-	-	3,487	-	-	3,487
	SWAPS	75	10,568	293	-	-	10,936
	Total	806	10,600	43,216	-	-	54,622
	Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	75	5,816	-	-	-	5,891
C.	**Other derivatives[1]**						
	Futures contracts	-	2,108	637	9,163	1,467	13,375
	Option contracts traded on an exchange:						
	- Options written	-	-	9,186	30,187	-	39,373
	- Purchased options	-	-	9,186	30,187	-	39,373
	Other option contracts:						
	- Options written	-	-	240	743	-	983
	- Purchased options	-	-	231	537	-	768
	SWAPS	-	980	114	-	-	1,094
	Total	-	3,088	19,594	70,817	1,467	94,966
	Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate	-	490	-	-	-	490
D.	**Credit derivatives and spot swap foreign currency contacts**						
	Credit derivatives for which the Banking corporation is guarantor	-	-	-	-	35	35
	Foreign currency spot swap contracts	-	-	2,027	-	-	2,027

(1) Except for credit derivatives and foreign currency spot swap contracts

(2) Derivatives constituting part of the bank's assets and liabilities management, that have not been designated for hedging relationships.

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

(NIS million)

A. Volume of activity (CONT'D)

	March 31, 2018 (unaudited)					
	Interest Contracts					
	Shekel-CPI	Other	Foreign currency contracts	Contracts of shares	Commodity and other contracts	Total
2. Gross fair value of derivative instruments						
A. Hedging derivatives(1)						
Gross positive fair value	-	55	-	-	-	55
Gross negative fair value	-	13	-	-	-	13
B. ALM derivatives(1)(2)						
Gross positive fair value	22	174	363	-	-	559
Gross negative fair value	2	196	187	-	-	385
C. Other derivatives(1)						
Gross positive fair value	-	19	124	431	1	575
Gross negative fair value	-	18	124	431	1	574
D. Credit derivatives						
Credit derivatives for which the bank is guarantor:						
Gross positive fair value	-	-	-	-	-	-
E. Total						
Gross positive fair value	22	248	487	431	1	1,189
Fair value amounts that were offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets in respect of derivative instruments*	22	248	487	431	1	1,189
* Of which: balance sheet balance of assets in respect of derivative instruments which are not subject to a netting agreement or similar arrangements	-	-	-	-	-	-
Gross negative fair value (3)	2	227	311	431	1	972
Fair value amounts that were offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of liabilities in respect of derivative instruments*(3)	2	227	311	431	1	972
* Of which: balance sheet balance of liabilities in respect of derivative instruments which are not subject to a netting agreement or similar arrangements	-	-	-	-	-	-

(1) Except for credit derivatives and foreign currency spot swap contracts.
(2) Derivatives constituting part of the bank's assets and liabilities management, that have not been designated for hedging relationships.
(3) Of which gross negative fair value of liabilities in respect of embedded derivative instruments of NIS 5 million.

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

(NIS million)

A. Volume of activity (CONT'D)

	March 31, 2017 (unaudited)					
	Interest Contracts					
	Shekel-CPI	Other	Foreign currency contracts	Contracts of shares	Commodity and other contracts	Total
2. Gross fair value of derivative instruments						
A. Hedging derivatives(1)						
Gross positive fair value	-	26	16	-	-	42
Gross negative fair value	-	20	-	-	-	20
B. ALM derivatives(1)(2)						
Gross positive fair value	22	180	489	-	-	691
Gross negative fair value	1	220	616	-	-	837
C. Other derivatives(1)						
Gross positive fair value	-	9	153	444	1	607
Gross negative fair value	-	8	153	444	1	606
D. Credit derivatives						
Credit derivatives for which the bank is guarantor:						
Gross positive fair value	-	-	-	-	-	-
E. Total						
Gross positive fair value	22	215	658	444	1	1,340
Fair value amounts that were offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets in respect of derivative instruments*	22	215	658	444	1	1,340
* Of which: balance sheet balance of assets in respect of derivative instruments which are not subject to a netting agreement or similar arrangements	-	-	-	-	-	-
Gross negative fair value (3)	1	248	769	444	1	1,463
Fair value amounts that were offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of liabilities in respect of derivative instruments*(3)	1	248	769	444	1	1,463
* Of which: balance sheet balance of liabilities in respect of derivative instruments which are not subject to a netting agreement or similar arrangements	-	-	-	-	-	-

(1) Except for credit derivatives and foreign currency spot swap contracts.
(2) Derivatives constituting part of the bank's assets and liabilities management, that have not been designated for hedging relationships.
(3) Of which gross negative fair value of liabilities in respect of embedded derivative instruments of NIS 16 million.

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

(NIS million)

A. Volume of activity (CONT'D)

	December 31, 2017 (audited)					
	Interest Contracts					
	Shekel-CPI	Other	Foreign currency contracts	Contracts of shares	Commodity and other contracts	Total
2. Gross fair value of derivative instruments						
A. Hedging derivatives(1)						
Gross positive fair value	-	28	-	-	-	28
Gross negative fair value	-	18	-	-	-	18
B. ALM derivatives(1)(2)						
Gross positive fair value	22	173	351	-	-	546
Gross negative fair value	2	199	340	-	-	541
C. Other derivatives(1)						
Gross positive fair value	-	12	143	612	1	768
Gross negative fair value	-	12	142	612	1	767
D. Credit derivatives						
Credit derivatives for which the bank is guarantor:						
Gross positive fair value	-	-	-	-	-	-
E. Total						
Gross positive fair value	22	213	494	612	1	1,342
Fair value amounts that were offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets in respect of derivative instruments*	22	213	494	612	1	1,342
* Of which: balance sheet balance of assets in respect of derivative instruments which are not subject to a netting agreement or similar arrangements	-	-	-	-	-	-
Gross negative fair value (3)	2	229	482	612	1	1,326
Fair value amounts that were offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of liabilities in respect of derivative instruments*(3)	2	229	482	612	1	1,326
* Of which: balance sheet balance of liabilities in respect of derivative instruments which are not subject to a netting agreement or similar arrangements	-	-	-	-	-	-

(1) Except for credit derivatives and foreign currency spot swap contracts.
(2) Derivatives constituting part of the bank's assets and liabilities management, that have not been designated for hedging relationships.
(3) Of which gross negative fair value of liabilities in respect of embedded derivative instruments of NIS 8 million.

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

(NIS million)

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

	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

	March 31, 2017 (unaudited)					
	Exchanges	Banks	Dealers/ brokers	Government and central banks	Others	Total
Balance sheet balance of assets in respect of derivative instruments	127	472	108	-	633	1,340
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(295)	(34)		(13)	(342)
Credit risk mitigation in respect of cash collateral received	-	(91)	(13)	-	-	(104)
Net amount of assets in respect of derivative instruments	127	86	61	-	620	894
Off balance sheet credit risk in respect of derivative instruments (2)	-	372	-	-	942	1,314
Off balance sheet credit risk mitigation	-	(121)	-	-	(78)	(199)
Net off balance sheet credit risk in respect of derivative instruments	-	251	-	-	864	1,115
Total credit risk in respect of derivative instruments	127	337	61	-	1,484	2,009
Balance sheet balance of liabilities in respect of derivative instruments (1)						
Gross amounts not offset in the balance sheet:	126	442	208	-	687	1,463
Financial instruments	-	(295)	(34)	-	(13)	(342)
Cash collateral which was attached by a lien	-	(72)	-	-	-	(72)
Net amount of liabilities in respect of derivative instruments	126	75	174	-	674	1,049

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

(NIS million)

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

	December 31, 2017 (audited)					
	Exchanges	**Banks**	**Dealers/ brokers**	**Government and central banks**	**Others**	**Total**
Balance sheet balance of assets in respect of derivative instruments	206	321	123	-	692	1,342
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(211)	(24)	-	(29)	(264)
Credit risk mitigation in respect of cash collateral received	-	(26)	(15)	-	-	(41)
Net amount of assets in respect of derivative instruments	206	84	84	-	663	1,037
Off balance sheet credit risk in respect of derivative instruments (2)	-	293	-	-	927	1,220
Off balance sheet credit risk mitigation	-	(139)	-	-	(104)	(243)
Net off balance sheet credit risk in respect of derivative instruments	-	154	-	-	823	977
Total credit risk in respect of derivative instruments	206	238	84	-	1,486	2,014
Balance sheet balance of liabilities in respect of derivative instruments (1)	196	418	225	-	487	1,326
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(211)	(24)	-	(29)	(264)
Cash collateral which was attached by a lien	-	(149)	-	-	-	(149)
Net amount of liabilities in respect of derivative instruments	196	58	201	-	458	913

(1) Of which negative gross value of liabilities in respect of embedded derivative instruments is NIS 5 million (31.3.17 - NIS 16 million, 31.12.17 - NIS 8 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)

C. Maturity dates (stated value amounts): period-end balance

	March 31, 2018 (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	**3**	**280**	**512**	**-**	**795**
- Other	**2,405**	**3,594**	**7,243**	**4,736**	**17,978**
Foreign currency contracts	**48,403**	**13,337**	**247**	**38**	**62,025**
Contracts of shares	**46,023**	**2,639**	**232**	**-**	**48,894**
Commodities and other contracts	**71**	**35**	**-**	**-**	**106**
Total	**96,905**	**19,885**	**8,234**	**4,774**	**129,798**

	March 31, 2017 (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	86	35	290	-	411
- Other	2,198	1,650	6,620	5,337	15,805
Foreign currency contracts	50,093	10,910	404	54	61,461
Contracts of shares	51,769	3,061	916	-	55,746
Commodities and other contracts	116	-	36	-	152
Total	104,262	15,656	8,266	5,391	133,575

	December 31, 2017 (audited)				
	Up to 3 months	**from 3 months to 1 year**	**From 1 to 5 years**	**Over 5 years**	**Total**
Interest rate contracts -					
- NIS - CPI	10	283	513	-	806
- Other	2,541	3,241	6,180	4,235	16,197
Foreign currency contracts	52,885	11,613	301	38	64,837
Contracts of shares	67,736	2,347	734	-	70,817
Commodities and other contracts	65	-	1,437	-	1,502
Total	123,237	17,484	9,165	4,273	154,159

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 instructional body or a banking corporation.
- **Business turnover** - annual sales turnover or volume of annual income.
- **Minute business** - a business the annual turnover of which is less than NIS 10 million.
- **Small business** - a business the annual turnover of which is higher than or equal to NIS 10 million and is lower than NIS 50 million.
- **Middle-market business** - a business the annual turnover of which is higher than or equal to NIS 50 million and is lower than NIS 250 million.
- **Large business** - a business the annual turnover of which is higher than or equal to NIS 250 million.
- **Institutional entities**- as defined in the Regulation of Engagement in Investment Consulting activity, Investment Marketing and Investment Portfolio Management Act, including provident funds, pension funds, further education funds, mutual trust funds, ETF's, insurance companies and stock exchange members managing customers funds.

Where the income turnover of business customer does not represents its volume of activity, the activity of the business customer was classified according to the said below: where the total indebtness of the business customer is equal to or exceeds NIS 100 million, the customer was classified to large business segment. In addition, in business accounts operating in the capital market the classification to customers segments is in accordance to the value of the assets in the balance sheet or average value of the assets in the Bank and in business account in the real estate area the classification is in accordance to the value of the assets in the balance sheet or the volume of the credit lines.
According to the transition directive set in the FAQ file of the Bank of Israel, it was determined that business customer, which is indebtness to the bank is up to NIS 80 thousands (including credit facilities etc.) and the bank does not have information regarding its activity turnover, will be classified to the relevant supervisory segment of activity according to its total financial assets at the bank (including financial deposits, securities portfolio and other financial assets), after multiplying them by 10.

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

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.

B. Classification change - certain of the comparative data for the corresponding period last year and for the year 2017, have been improved in this report, including improvement in the allocation of customers to the different segments.

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

(NIS million)

B. Operational supervision segment information

	Households						
	Total	of which: Housing loans	of which: credit cards	Private banking	Small and minute businesses	Medium business	Large business
Interest income from external	321	126	6	1	161	42	83
Interest expense from external	24	-	-	6	14	5	10
Net interest income							
- From external	297	126	6	(5)	147	37	73
- Inter - segment	(23)	(58)	(3)	13	1	5	1
Total net interest income	274	68	3	8	148	42	74
Non-interest income	146	4	21	16	84	18	32
Total income	420	72	24	24	232	60	106
Expenses (Income) in respect of credit losses	14	1	-	-	19	1	(7)
Operating and other expenses	402	31	16	16	176	30	52
Operating profit before taxes	4	40	8	8	37	29	61
Provision for taxes on operating profit	1	14	3	3	14	11	23
Operating profit after taxes	3	26	5	5	23	18	38
Bank's share in operating profit of investee company after tax effect	-	-	-	-	-	-	-
Net profit							
Before attribution to noncontrolling interests	3	26	5	5	23	18	38
Attributed to noncontrolling interests	(5)	-	-	-	(1)	(1)	-
Net profit (loss) attributed to shareholders of the Bank	(2)	26	5	5	22	17	38
Average balance of assets(1)	42,491	22,993	2,835	53	14,883	5,597	17,107
of which: Investee Company(1)	-	-	-	-	-	-	-
of which: Average balance of credit to the public(1)	42,511	22,993	2,835	50	14,866	5,597	17,107
Balance of credit to the public	43,352	23,151	3,307	52	15,349	5,694	17,789
Balance of impaired debts	96	10	-	-	226	32	165
Balance in arrears over 90 days	197	154	-	-	32	1	-
Average balance of liabilities(1)	46,587	-	-	7,719	16,024	5,055	10,454
of which: Average balance of deposits from the public(1)	46,587	-	-	7,719	16,024	5,055	10,454
Balance of deposits from the public	47,268	-	-	7,827	16,050	5,219	9,556
Average balance of risk assets(1)(2)	29,482	12,074	3,152	187	14,829	6,921	17,734
Balance of risk assets(2)	29,384	12,128	3,372	186	15,338	7,024	18,025
Average balance of assets under management(1)(3)	35,940	-	-	15,382	13,186	3,915	18,553
Segmentation of net interest income:							
- Earnings from credit - granting activity	244	71	3	-	136	39	72
- Earnings from deposits - taking activity	34	-	-	8	15	4	6
- Other	(4)	(3)	-	-	(3)	(1)	(4)
Total net interest income	274	68	3	8	148	42	74

(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.

	For the three months ended March 30, 2018 (unaudited)				
	Activity in Israel			Activity abroad	
	Institutional entities	Financial Management	Total activity in Israel	Total activity abroad	Total
					(NIS million)
	2	44	654	-	654
	7	4	70	-	70
	(5)	40	584	-	584
	16	(13)	-	-	-
	11	27	584	-	584
	49	56	401	-	401
	60	83	985	-	985
	-	-	27	-	27
	43	18	737	-	737
	17	65	221	-	221
	6	24	82	-	82
	11	41	139	-	139
	-	6	6	-	6
	11	47	145	-	145
	-	(1)	(8)	-	(8)
	11	46	137	-	137
	624	55,247	136,002	-	136,002
	-	568	568	-	568
	624	-	80,755	-	80,755
	509	-	82,745	-	82,745
	-	-	519	-	519
	1	-	231	-	231
	26,257	15,568	127,664	-	127,664
	26,257	-	112,096	-	112,096
	25,993	-	111,913	-	111,913
	944	8,090	78,187	-	78,187
	1,015	8,030	79,002	-	79,002
	240,294	-	327,270	-	327,270
	2	-	493	-	493
	9	-	76	-	76
	-	27	15	-	15
	11	27	584	-	584

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

(NIS million)

B. Operational supervision segment information

	Households						
	Total	of which: Housing loans	of which: credit cards	Private banking	Small and minute businesses	Medium business	Large business
Interest income from external	297	116	4	-	159	39	100
Interest expense from external	26	-	-	7	12	5	15
Net interest income							
- From external	271	116	4	(7)	147	34	85
- Inter - segment	(32)	(62)	(1)	12	(9)	3	(7)
Total net interest income	239	54	3	5	138	37	78
Non-interest income	143	4	21	14	80	16	36
Total income	382	58	24	19	218	53	114
Expenses (Income) in respect of credit losses	7	-	-	-	25	12	(10)
Operating and other expenses	349	25	16	14	160	25	48
Operating profit before taxes	26	33	8	5	33	16	76
Provision for taxes on operating profit	10	12	3	2	13	5	29
Operating profit after taxes	16	21	5	3	20	11	47
Bank's share in operating profit of investee companies after tax effect	-	-	-	-	-	-	-
Net profit							
Before attribution to noncontrolling interests	16	21	5	3	20	11	47
Attributed to noncontrolling interests	(4)	-	-	-	(1)	(1)	(1)
Net profit attributed to shareholders of the Bank	12	21	5	3	19	10	46
Average balance of assets(1)	39,536	21,924	2,655	47	14,173	5,061	18,026
of which: Investee Company(1)	-	-	-	-	-	-	-
of which: Average balance of credit to the public(1)	39,536	21,924	2,655	47	14,173	5,061	18,026
Balance of credit to the public	40,411	22,058	3,106	47	14,481	5,153	18,191
Balance of impaired debts	95	11	-	-	201	98	123
Balance in arrears over 90 days	172	133	-	-	28	1	-
Average balance of liabilities(1)	45,853	-	-	7,552	16,746	5,376	9,381
of which: Average balance of deposits from the public(1)	45,853	-	-	7,552	16,746	5,376	9,381
Balance of deposits from the public	45,944	-	-	7,560	16,264	5,218	9,409
Average balance of risk assets(1)(2)	27,717	11,448	2,898	166	13,608	6,467	18,640
Balance of risk assets(2)	27,931	11,487	3,218	162	14,110	6,496	17,817
Average balance of assets under management(1)(3)	34,791	-	-	14,134	12,490	3,727	15,566
Segmentation of net interest income:							
- Earnings from credit - granting activity	216	58	3	-	133	36	81
- Earnings from deposits - taking activity	29	-	-	5	9	3	3
- Other	(6)	(4)	-	-	(4)	(2)	(6)
Total net interest income	239	54	3	5	138	37	78

* Reclassified. See B in page 127.

(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.

For the three months ended March 31, 2017* (unaudited)				
Activity in Israel			Activity abroad	
Institutional entities	Financial Management	Total activity in Israel	Total activity abroad	Total
				(NIS million)
4	39	638	2	640
8	5	78	-	78
(4)	34	560	2	562
12	21	-	-	-
8	55	560	2	562
47	49	385	3	388
55	104	945	5	950
-	-	34	-	34
41	13	650	4	654
14	91	261	1	262
5	33	97	-	97
9	58	164	1	165
-	10	10	-	10
9	68	174	1	175
-	(2)	(9)	-	(9)
9	66	165	1	166
673	50,690	128,206	268	128,474
-	516	516	-	516
673	-	77,516	-	77,516
537	-	78,820	-	78,820
227	-	744	-	744
-	-	201	-	201
20,814	14,074	119,796	703	120,499
20,814	-	105,722	-	105,722
21,803	-	106,198	-	106,198
950	8,503	76,051	449	76,500
790	8,697	76,003	449	76,452
200,894	-	281,602	-	281,602
3	-	469	-	469
6	-	55	2	57
(1)	55	36	-	36
8	55	560	2	562

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

(NIS million)

B. Operational supervision segment information

	Households						
	Total	of which: Housing loans	of which: credit cards	Private banking	Small and minute businesses	Medium business	Large business
Interest income from external	1,351	569	14	1	648	166	355
Interest expense from external	155	-	-	27	78	27	60
Net interest income							
- From external	1,196	569	14	(26)	570	139	295
- Inter - segment	(185)	(333)	(2)	51	5	6	1
Total net interest income	1,011	236	12	25	575	145	296
Non-interest income	562	13	84	57	324	65	134
Total income	1,573	249	96	82	899	210	430
Expenses (Income) in respect of credit losses	64	1	-	-	45	27	(3)
Operating and other expenses	1,410	104	61	55	615	98	186
Operating profit (loss) before taxes	99	144	35	27	239	85	247
Provision for taxes on operating profit	33	48	12	9	83	29	86
Operating profit (loss) after taxes	66	96	23	18	156	56	161
Bank's share in operating profit of investee companies after tax effect	-	-	-	-	-	-	-
Net profit (loss)							
Before attribution to noncontrolling interests	66	96	23	18	156	56	161
Attributed to noncontrolling interests	(19)	-	(1)	(1)	(7)	(4)	(1)
Net profit (loss) attributed to shareholders of the Bank	47	96	22	17	149	52	160
Average balance of assets(1)	40,711	22,340	2,768	50	14,331	5,414	17,630
of which: Investee Company(1)	-	-	-	-	-	-	-
of which: Average balance of credit to the public(1)	40,711	22,340	2,768	50	14,331	5,414	17,630
Balance of credit to the public	42,521	22,848	3,182	52	14,613	5,655	17,785
Balance of impaired debts	95	7	-	-	203	34	210
Balance in arrears over 90 days	196	156	-	-	33	1	-
Average balance of liabilities(1)	46,273	-	-	7,652	16,175	5,227	9,126
of which: Average balance of deposits from the public(1)	46,273	-	-	7,652	16,175	5,227	9,126
Balance of deposits from the public	46,371	-	-	8,028	15,439	5,309	11,683
Average balance of risk assets(1)(2)	28,105	11,948	2,891	170	14,216	6,603	17,915
Balance of risk assets(2)	29,095	12,228	3,070	170	14,463	6,661	17,408
Average balance of assets under management(1)(3)	35,241	-	-	15,097	12,644	3,749	16,304
Segmentation of net interest income:							
- Earnings from credit - granting activity	912	252	12	1	549	139	303
- Earnings from deposits - taking activity	124	-	-	24	43	13	15
- Other	(25)	(16)	-	-	(17)	(7)	(22)
Total net interest income	1,011	236	12	25	575	145	296

* Reclassified. See B in page 127.
(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.

				For the year ended December 31, 2017* (audited)
		Activity in Israel	Activity abroad	
Institutional entities	Financial Management	Total activity in Israel	Total activity abroad	Total
				(NIS million)
14	167	2,702	2	2,704
36	19	402	-	402
(22)	148	2,300	2	2,302
60	62	-	-	-
38	210	2,300	2	2,302
183	106	1,431	19	1,450
221	316	3,731	21	3,752
(9)	-	124	(3)	121
157	54	2,575	32	2,607
73	262	1,032	(8)	1,024
26	92	358	-	358
47	170	674	(8)	666
-	54	54	-	54
47	224	728	(8)	720
-	(10)	(42)	-	(42)
47	214	686	(8)	678
578	51,663	130,377	111	130,488
-	536	536	-	536
578	-	78,714	-	78,714
590	-	81,216	-	81,216
-	-	542	-	542
-	-	230	-	230
23,058	14,469	121,980	290	122,270
23,058	-	107,511	-	107,511
26,681	-	113,511	-	113,511
1,013	8,546	76,568	207	76,775
941	8,625	77,363	8	77,371
210,228	-	293,263	-	293,263
11	-	1,915	-	1,915
28	-	247	2	249
(1)	210	138	-	138
38	210	2,300	2	2,302

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 - other** - the segment includes all activities of private banking customers, households, small businesses and commercial customers of the Banking Division branches. In addition, the segment includes the customers of Pagi sub-division, with similar characteristics.
   - **Corporate Division - corporate customers** - The corporate department of the Division coordinates all activities of large and international corporate customers, having a credit facility of NIS 40 million and over, or an income turnover of NIS 200 million and over, as well as the activity of borrower in complex credit areas, such as: communication, diamonds, closed construction projects and such like.
   - **Corporate Division - commercial customers** - The commercial department handles customers having a credit facility of between NIS 5 million and up to NIS 40 million, and an income turnover of between NIS 25 million and up to NIS 200 million and the customers of the branches which are not under authority of the branches' managers. In addition, the segment includes the customers of Pagi sub-division, with similar characteristics.
   - **Corporate Division - other** - Bank customers in the business branches subordinated to the corporate division up to the authority of the branches' managers.
   - **Customer Assets Division** - The Division is responsible for the Bank's activity with all customers in operations involving the capital market, foreign currency and deposits.
   - **Financial Management** - The segment includes the results of operations concerning the asset and liability management of the Bank, including management of market and liquidity risk management in general, the results of management of the "nostro" securities portfolio of the Bank, including activity with other banks and with Bank of Israel. The segment includes also the Bank's share in the earnings of Israel Credit Cards Ltd.
   - **Subsidiary companies** - The segment includes the results of operation of its banking subsidiaries- Otzar Hachayal Bank and Massad 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-other segment or in any one of the Corporate Division segments.
  - The results of operation of certain commercial customers under the responsibility of the Corporate Division are included both in the Corporate Division-commercial customers segment and in the Banking Division-other segment.
  - The results of operation of certain small business customers under the responsibility of the Banking Division are included both in the Banking Division-other segment and in the Corporate Division-small business segment.
  - The results of operation of certain commercial customers under the responsibility of the Customer Assets Division are included both in the Customer Assets Division segment and in the Banking Division-other segment or in any one of the Corporate Division segments.

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

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

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

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 noncontrolling interests	24	(5)	49	17	1	33	26	39	(39)	145
Attributed to noncontrolling interests	-	-	-	-	-	-	-	(8)	-	(8)
Attributed to shareholders of the Bank	24	(5)	49	17	1	33	26	31	(39)	137
Average balance of assets	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

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

(NIS million)

	For the three months ended March 31, 2017 (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	57	180	95	52	8	48	41	158	(77)	562
Non-interest income	4	160	51	19	15	164	52	79	(156)	388
Total income	61	340	146	71	23	212	93	237	(233)	950
Expenses (income) in respect of credit losses	(3)	27	(9)	16	1	2	-	13	(13)	34
Operating and other expenses	27	320	71	40	12	170	11	179	(176)	654
Operating profit (loss) before taxes	37	(7)	84	15	10	40	82	45	(44)	262
Provision for taxes (tax saving) on operating profit (loss)	14	(3)	31	5	4	15	30	16	(15)	97
Operating profit (loss) after taxes	23	(4)	53	10	6	25	52	29	(29)	165
Bank's share in operating profit of investee company after taxes	-	-	-	-	-	-	10	-	-	10
Net profit (loss)										
Before attribution to noncontrolling interests	23	(4)	53	10	6	25	62	29	(29)	175
Attributed to noncontrolling interests	-	-	-	-	-	-	-	(9)	-	(9)
Attributed to shareholders of the Bank	23	(4)	53	10	6	25	62	20	(29)	166
Average balance of assets	22,094	15,043	20,629	6,849	1,003	5,019	42,288	24,732	(9,183)	128,474
Balance of credit to the public at the end of the reported period	22,200	15,429	20,720	6,950	1,068	5,193	-	16,909	(9,649)	78,820
Balance of deposits from the public at the end of the reported period	-	50,169	19,716	4,757	2,527	84,639	-	23,165	(78,775)	106,198

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

	For the year ended December 31, 2017 (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	246	758	384	220	27	219	160	639	(351)	2,302
Non-interest income	15	635	227	78	30	645	127	340	(647)	1,450
Total income	261	1,393	611	298	57	864	287	979	(998)	3,752
Expenses (income) in respect of credit losses	(2)	74	(36)	18	4	(8)	-	74	(3)	121
Operating and other expenses	111	1,283	277	143	45	671	40	722	(685)	2,607
Operating profit before taxes	152	36	370	137	8	201	247	183	(310)	1,024
Provision for taxes on operating profit	52	12	126	47	3	69	85	59	(95)	358
Operating profit after taxes	100	24	244	90	5	132	162	124	(215)	666
Bank's share in operating profit of investee company after taxes	-	-	-	-	-	-	54	-	-	54
Net profit										
Before attribution to noncontrolling interests	100	24	244	90	5	132	216	124	(215)	720
Attributed to noncontrolling interests	-	-	-	-	-	-	-	(42)	-	(42)
Attributed to shareholders of the Bank	100	24	244	90	5	132	216	82	(215)	678
Average balance of assets	22,465	15,624	20,797	7,171	471	5,102	44,086	24,277	(9,505)	130,488
Balance of credit to the public at the end of the reported period	22,947	16,225	20,751	7,469	490	5,229	-	17,695	(9,590)	81,216
Balance of deposits from the public at the end of the reported period	-	51,822	24,413	5,196	2,418	91,244	-	23,987	(85,569)	113,511

NOTE 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, 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	**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	**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**

	For the three months ended March 31, 2017 (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	501	115	231	847	-	847
Expenses in respect of credit losses	31	-	7	38	-	38
Accounting write-offs	(73)	(2)	(30)	(105)	-	(105)
Collection of debts written off in accounting in previous years	24	-	23	47	-	47
Net accounting write-offs	(49)	(2)	(7)	(58)	-	(58)
Provision for credit losses at end of the period	483	113	231	827	-	827
Changes in provision in respect of off-balance sheet credit instruments						
Provision at beginning of the year	57	-	14	71	-	71
Decrease in the provision	(4)	-	-	(4)	-	(4)
Provision in respect of off-balance sheet credit instruments at end of the period	53	-	14	67	-	67
Total provision for credit losses - debts and off-balance sheet credit instruments	536	113	245	894	-	894

(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, 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**	**23,151**	**-**	**23,453**	**-**	**23,453**
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**

	March 31, 2017 (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	33,640	-	207	33,847	2,855	36,702
Examined on a collective basis	4,972	22,058	17,943	44,973	-	44,973
Of which: provision for which was calculated according to the extent of arrears	250	22,058	-	22,308	-	22,308
Total debts	38,612	22,058	18,150	78,820	2,855	81,675
Provision for credit losses in respect of debts(1)						
Examined on an individual basis	429	-	27	456	-	456
Examined on a collective basis	54	113	204	371	-	371
Of which: provision for which was calculated according to the extent of arrears	1	(2)113	-	114	-	114
Total provision for credit losses	483	113	231	827	-	827

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, 2017 (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	33,954	-	226	34,180	3,300	37,480
Examined on a collective basis	4,982	22,848	19,206	47,036	-	47,036
Of which: provision for which was calculated according to the extent of arrears	293	22,848	-	23,141	-	23,141
Total debts	38,936	22,848	19,432	81,216	3,300	84,516
Provision for credit losses in respect of debts(1)						
Examined on an individual basis	407	-	33	440	-	440
Examined on a collective basis	64	115	219	398	-	398
Of which: provision for which was calculated according to the extent of arrears	1	(2)115	-	116	-	116
Total provision for credit losses	471	115	252	838	-	838

(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 82 million (31.3.17 - NIS 78 million, 31.12.17 - NIS 81 million).

(3) The balance of commercial debts include housing loans in the amount of NIS 2,772 million, combined in the framework of transaction and collateral of the commercial borrowers or that have been granted to purchase groups at construction stages (31.3.17 - NIS 2,298 million, 31.12.17 - NIS 2,500 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, 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**

(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 89 million (31.3.17 - NIS 97 million) were classified as unimpaired problematic debts.
(6) Includes a balance of housing loans, in the amount of approximately NIS 4 million (31.3.17 - NIS 5 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, 2017 (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	3,694	28	61	3,783	4	5
Construction and real estate - real estate activities	4,574	8	26	4,608	1	1
Financial services	7,019	36	228	7,283	-	2
Commercial - other	21,413	541	326	22,280	24	38
Total commercial	36,700	613	641	37,954	29	46
Private individuals - housing loans	21,900	[6]147	11	22,058	133	214
Private individuals - others	17,828	238	84	18,150	39	51
Total public - activity in Israel	76,428	998	736	78,162	201	311
Banks in Israel	670	-	-	670	-	-
Israeli government	648	-	-	648	-	-
Total activity in Israel	77,746	998	736	79,480	201	311
Borrower activity abroad						
Public - commercial						
Construction and real estate	53	-	-	53	-	-
Other commercial	597	-	8	605	-	-
Total commercial	650	-	8	658	-	-
Private individuals	-	-	-	-	-	-
Total public - activity abroad	650	-	8	658	-	-
Banks abroad	1,537	-	-	1,537	-	-
Governments abroad	-	-	-	-	-	-
Total activity abroad	2,187	-	8	2,195	-	-
Total public	77,078	998	744	78,820	201	311
Total banks	2,207	-	-	2,207	-	-
Total governments	648	-	-	648	-	-
Total	79,933	998	744	81,675	201	311

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, 2017 (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	3,862	19	54	3,935	5	5
Construction and real estate - real estate activities	4,771	7	40	4,818	1	5
Financial services	8,003	16	1	8,020	-	-
Commercial - other	20,636	446	344	21,426	28	57
Total commercial	37,272	488	439	38,199	34	67
Private individuals - housing loans	22,676	[6]165	7	22,848	156	206
Private individuals - others	19,096	248	88	19,432	40	47
Total public - activity in Israel	79,044	901	534	80,479	230	320
Banks in Israel	1,305	-	-	1,305	-	-
Israeli government	675	-	-	675	-	-
Total activity in Israel	81,024	901	534	82,459	230	320
Borrower activity abroad						
Public - commercial						
Construction and real estate	5	-	-	5	-	-
Other commercial	724	-	8	732	-	-
Total commercial	729	-	8	737	-	-
Private individuals	-	-	-	-	-	-
Total public - activity abroad	729	-	8	737	-	-
Banks abroad	1,320	-	-	1,320	-	-
Governments abroad	-	-	-	-	-	-
Total activity abroad	2,049	-	8	2,057	-	-
Total public	79,773	901	542	81,216	230	320
Total banks	2,625	-	-	2,625	-	-
Total governments	675	-	-	675	-	-
Total	83,073	901	542	84,516	230	320

(1) Credit to the public, credit to 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 114 million were classified as unimpaired problematic debts.
(6) Includes a balance of housing loans, in the amount of approximately NIS 3 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.

(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. The Bank also uses additional indications such as customer rating and status of collateral managed by computer systems in accordance with the credit risk management policy determined by the Board of Directors.

(NIS million)

B. Debts (1)(Cont'd)

2. Additional information regarding impaired debts

	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**	

(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, 2017 (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	45	27	16	61	850
Construction and real estate - real estate activities	11	3	15	26	543
Financial services	228	10	-	228	925
Commercial - other	197	105	129	326	1,946
Total commercial	481	145	160	641	4,264
Private individuals - housing loans	-	-	11	11	11
Private individuals - others	71	21	13	84	165
Total public - activity in Israel	552	166	184	736	4,440
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	552	166	184	736	4,440
Borrower activity abroad					
Public - commercial					
Construction and real estate	-	-	-	-	-
Other commercial	-	-	8	8	83
Total commercial	-	-	8	8	83
Private individuals	-	-	-	-	-
Total public - activity abroad	-	-	8	8	83
Banks abroad	-	-	-	-	-
Government abroad	-	-	-	-	-
Total activity abroad	-	-	8	8	83
Total public	552	166	192	744	4,523
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total(*)	552	166	192	744	4,523
(*) Of which:					
Measured at the present value of cash flows	552	166	123	675	
Debts in troubled debt restructuring	357	37	65	422	

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, 2017 (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	50	20	4	54	795
Construction and real estate - real estate activities	19	4	21	40	623
Financial services	1	1	-	1	775
Commercial - other	289	111	55	344	1,516
Total commercial	359	136	80	439	3,709
Private individuals - housing loans	-	-	7	7	7
Private individuals - others	78	26	10	88	170
Total public - activity in Israel	437	162	97	534	3,886
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	437	162	97	534	3,886
Borrower activity abroad					
Public - commercial					
Construction and real estate	-	-	-	-	-
Other commercial	-	-	8	8	70
Total commercial	-	-	8	8	70
Private individuals	-	-	-	-	-
Total public - activity abroad	-	-	8	8	70
Banks abroad	-	-	-	-	-
Government abroad	-	-	-	-	-
Total activity abroad	-	-	8	8	70
Total public	437	162	105	542	3,956
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total(*)	437	162	105	542	3,956
(*) Of which:					
Measured at the present value of cash flows	425	161	45	470	
Debts in troubled debt restructuring	225	64	38	263	

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

NOTE 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					
	2018			2017		
	(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	**46**	**-**	**-**	63	-	-
Construction and real estate - real estate activities	**41**	**-**	**-**	28	-	-
Financial services	**1**	**-**	**-**	115	-	-
Commercial - other	**334**	**-**	**-**	354	1	-
Total commercial	**422**	**-**	**-**	560	1	-
Private individuals - housing loans	**9**	**-**	**-**	9	-	-
Private individuals - others	**87**	**1**	**-**	84	-	-
Total public - activity in Israel	**518**	**1**	**-**	653	1	-
Banks in Israel	**-**	**-**	**-**	-	-	-
Israeli government	**-**	**-**	**-**	-	-	-
Total activity in Israel	**518**	**1**	**-**	653	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	**526**	**1**	**-**	661	1	-
Total banks	**-**	**-**	**-**	-	-	-
Total governments	**-**	**-**	**-**	-	-	-
Total	**526**	(4)**1**	**-**	661	(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 15 million was recorded in three months ended March 31, 2018 (for three months ended March 31, 2017 - NIS 15 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, 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.

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, 2017 (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	7	-	-	1	8
Construction and real estate - real estate activities	8	-	-	1	9
Financial services	228	-	-	-	228
Commercial - other	74	-	-	24	98
Total commercial	317	-	-	26	343
Private individuals - housing loans	-	-	-	-	-
Private individuals - others	49	-	-	22	71
Total public - activity in Israel	366	-	-	48	414
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	366	-	-	48	414
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	374	-	-	48	422
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	374	-	-	48	422

(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)

	December 31, 2017 (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	22	-	-	1	23
Construction and real estate - real estate activities	6	-	-	4	10
Financial services	1	-	-	-	1
Commercial - other	124	-	-	23	147
Total commercial	153	-	-	28	181
Private individuals - housing loans	-	-	-	-	-
Private individuals - others	53	-	-	21	74
Total public - activity in Israel	206	-	-	49	255
Banks in Israel	-	-	-	-	-
Israeli government	-	-	-	-	-
Total activity in Israel	206	-	-	49	255
Borrower activity abroad					
Public - commercial					
Construction and real estate	-	-	-	-	-
Other commercial	8	-	-	-	8
Total commercial	8	-	-	-	8
Private individuals	-	-	-	-	-
Total public - activity abroad	8	-	-	-	8
Banks abroad	-	-	-	-	-
Governments abroad	-	-	-	-	-
Total activity abroad	8	-	-	-	8
Total public	214	-	-	49	263
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	214	-	-	49	263

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

NOTE 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					
	For the three months ended March 31					
	2018			2017		
				(unaudited)		
C. Troubled debt restructuring (Cont'd)	**Number of contracts**	**Debt balance before restructuring**	**Debt balance after restructuring**	**Number of contracts**	**Debt balance before restructuring**	**Debt balance after restructuring**
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	**5**	**-**	**-**	6	1	1
Construction and real estate - real estate activities	**1**	**1**	**1**	-	-	-
Financial services	**1**	**1**	**1**	2	227	227
Commercial - other	**58**	**16**	**16**	68	9	8
Total commercial	**65**	**18**	**18**	76	237	236
Private individuals - housing loans	**-**	**-**	**-**	-	-	-
Private individuals - others	**256**	**10**	**10**	230	10	10
Total public - activity in Israel	**321**	**28**	**28**	306	247	246
Banks in Israel	**-**	**-**	**-**	-	-	-
Israeli government	**-**	**-**	**-**	-	-	-
Total activity in Israel	**321**	**28**	**28**	306	247	246
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	**321**	**28**	**28**	306	247	246
Total banks	**-**	**-**	**-**	-	-	-
Total governments	**-**	**-**	**-**	-	-	-
Total	**321**	**28**	**28**	306	247	246

(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			
	2018		2017	
			(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**	**-**	3	-
Construction and real estate - real estate activities	**-**	**-**	-	-
Financial services	**1**	**1**	-	-
Commercial - other	**30**	**3**	28	2
Total commercial	**36**	**4**	31	2
Private individuals - housing loans	**-**	**-**	-	-
Private individuals - others	**141**	**3**	118	3
Total public - activity in Israel	**177**	**7**	149	5
Banks in Israel	**-**	**-**	-	-
Israeli government	**-**	**-**	-	-
Total activity in Israel	**177**	**7**	149	5
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	**177**	**7**	149	5
Total banks	**-**	**-**	-	-
Total governments	**-**	**-**	-	-
Total	**177**	**7**	149	5

(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 debts 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, 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%	**16,576**	**362**	**10,067**	**1,090**
- Over 60%	**6,561**	**82**	**4,256**	**492**
Secondary lien or no lien	**14**	**-**	**9**	**-**
Total	**23,151**	**444**	**14,332**	**1,582**

	March 31, 2017 (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%	15,757	395	9,646	801
- Over 60%	6,243	93	4,122	308
Secondary lien or no lien	58	1	33	9
Total	22,058	489	13,801	1,118

	December 31, 2017 (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%	16,310	371	9,919	860
- Over 60%	6,523	87	4,236	337
Secondary lien or no lien	15	-	11	1
Total	22,848	458	14,166	1,198

* Ratio of the approved credit facility, when the facility was provided, to the value of the asset, as approved by the Bank when the facility was provided.

NOTE 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		
	31.3.18	31.3.17	31.12.17	31.3.18	31.3.17	31.12.17
	(unaudited)	(unaudited)	(audited)	(unaudited)	(unaudited)	(audited)
Transactions the balance of which represents credit risk:						
Documentary credit	**520**	130	244	**1**	-	-
Guarantees securing credit	**884**	900	886	**9**	9	8
Guarantees to home purchasers	**2,814**	2,855	2,498	**10**	10	9
Guarantees and other liabilities	**3,923**	3,839	3,714	**19**	17	15
Unutilized credit lines for derivatives instruments	**2,379**	2,663	2,510	**-**	-	-
Unutilized revolving credit and other on-call credit facilities	**10,454**	10,397	10,432	**16**	17	12
Irrevocable commitments to grant credit, not yet executed	**4,417**	4,359	3,829	**4**	4	8
Unutilized credit lines for credit card facilities	**7,197**	6,512	7,048	**4**	4	4
Facilities for the lending of securities	**414**	312	279	**-**	-	-
Required guarantees and collateral in respect of the Stock Exchange and Maof Clearing Houses	**165**	143	182	**-**	-	-
Commitments to issue guarantees	**1,674**	1,618	1,601	**6**	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**	105	89	**-**	-	-

(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, 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)

	Israeli currency		Foreign currency(1)				March 31, 2017 (unaudited)
	Non-linked	Linked to the consumer price index	U.S. dollar	Euro	Other	Non-monetary items(2)	Total
Assets							
Cash and deposits with banks	28,236	131	1,255	324	309	-	30,255
Securities	6,041	1,594	5,440	1,339	79	182	14,675
Securities which were borrowed	492	-	-	-	-	-	492
Credit to the public, net(3)	63,331	9,933	2,855	935	455	484	77,993
Credit to the government	30	618	-	-	-	-	648
Investee company	-	-	-	-	-	518	518
Premises and equipment	-	-	-	-	-	1,113	1,113
Intangible assets and goodwill	-	-	-	-	-	240	240
Assets in respect of derivative instruments	572	52	220	22	29	445	1,340
Other assets	522	46	30	2	8	394	1,002
Assets held for sale	27	-	88	31	95	1	242
Total assets	99,251	12,374	9,888	2,653	975	3,377	128,518
Liabilities							
Deposits from the public	80,372	6,065	15,165	2,981	1,117	498	106,198
Deposits from banks	422	51	188	44	11	-	716
Deposits from the Government	523	-	68	1	1	-	593
Bonds and subordinated capital notes	703	4,872	-	-	-	-	5,575
Liabilities in respect of derivative instruments	703	48	200	37	30	429	1,447
Other liabilities	4,574	129	64	11	35	409	5,222
Liabilities held for sale	42	-	413	160	76	-	691
Total liabilities	87,339	11,165	16,098	3,234	1,270	1,336	120,442
Difference	11,912	1,209	(6,210)	(581)	(295)	2,041	8,076
Hedging financial instruments							
Derivative instruments (not including options)	225	-	-	-	(225)	-	-
Non-hedging derivatives							
Derivative instruments (not including options)	(7,182)	(245)	6,290	581	556	-	-
Options in the money, net (in terms of underlying asset)	(69)	-	103	(46)	12	-	-
Options out of the money, net (in terms of underlying asset)	29	-	(39)	16	(6)	-	-
Total	4,915	964	144	(30)	42	2,041	8,076
Options in the money, net (present value of stated amount)	(216)	-	196	(2)	22	-	-
Options out of the money, net (present value of stated amount)	(285)	-	254	54	(23)	-	-

(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, 2017 (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	37,381	65	1,241	209	290	-	39,186
Securities	2,639	1,021	4,609	1,663	110	196	10,238
Securities which were borrowed	813	-	-	-	-	-	813
Credit to the public, net(3)	65,849	9,710	3,207	909	244	459	80,378
Credit to the government	57	618	-	-	-	-	675
Investee company	-	-	-	-	-	565	565
Premises and equipment	-	-	-	-	-	1,095	1,095
Intangible assets and goodwill	-	-	-	-	-	235	235
Assets in respect of derivative instruments	405	57	151	102	14	613	1,342
Other assets	541	4	194	2	3	442	1,186
Assets held for sale	-	-	-	-	-	4	4
Total assets	107,685	11,475	9,402	2,885	661	3,609	135,717
Liabilities							
Deposits from the public	87,253	6,037	15,714	2,942	1,099	466	113,511
Deposits from banks	899	52	161	18	3	-	1,133
Deposits from the Government	589	319	50	1	1	-	960
Bonds and subordinated capital notes	714	4,535	-	-	-	-	5,249
Liabilities in respect of derivative instruments	402	40	132	130	9	605	1,318
Other liabilities	4,468	118	89	11	10	466	5,162
Total liabilities	94,325	11,101	16,146	3,102	1,122	1,537	127,333
Difference	13,360	374	(6,744)	(217)	(461)	2,072	8,384
Non-hedging derivatives							
Derivative instruments (not including options)	(7,253)	(268)	6,850	168	503	-	-
Options in the money, net (in terms of underlying asset)	(40)	-	13	26	1	-	-
Options out of the money, net (in terms of underlying asset)	57	-	(65)	7	1	-	-
Total	6,124	106	54	(16)	44	2,072	8,384
Options in the money, net (present value of stated amount)	(223)	-	182	39	2	-	-
Options out of the money, net (present value of stated amount)	(155)	-	231	(78)	2	-	-

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

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

(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	90,047	19,431	112,124
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 in respect of derivative instruments	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	92,214	22,968	123,749
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

(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 13,703 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.

(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, 2017 (unaudited)
	Stated in the Balance Sheet				Fair value[(1)]
		(1)	(2)	(3)	Total
Financial assets					
Cash and deposits with banks	30,255	568	29,618	73	30,259
Securities[(2)]	14,675	7,464	7,138	119	14,721
Securities which were borrowed	492	-	492	-	492
Credit to the public, net	77,993	2,991	1,367	73,578	77,936
Credit to the government	648	-	23	618	641
Assets in respect of derivative instruments	1,340	563	481	296	1,340
Other financial assets	495	375	-	120	495
Assets held for sale	240	-	-	240	240
Total financial assets	[(3)]126,138	11,961	39,119	75,044	126,124
Financial liabilities					
Deposits from the public	106,198	2,589	86,990	16,753	106,332
Deposits from Banks	716	-	640	89	729
Deposits from the Government	593	192	331	84	607
Bonds and non-convertible subordinated capital notes	5,575	5,001	-	803	5,804
Liabilities held for sale	1,447	563	835	49	1,447
Other financing liabilities	4,218	690	1,367	2,159	4,216
Liabilities held for sale	691	-	-	691	691
Total financial liabilities	[(3)]119,438	9,035	90,163	20,628	119,826
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)]	1,135	-	-	1,135	1,135

* 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 17,828 million and liabilities of NIS 4,934 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, 2017 (audited)				
	Stated in the Balance Sheet				Fair value(1)
		(1)	(2)	(3)	Total
Financial assets					
Cash and deposits with banks	39,186	585	38,533	70	39,188
Securities(2)	10,238	3,629	6,568	119	10,316
Securities which were borrowed	813	-	813	-	813
Credit to the public, net	80,378	3,542	1,366	75,544	80,452
Credit to the government	675	-	41	633	674
Assets in respect of derivative instruments	1,342	731	335	276	1,342
Other financial assets	707	423	-	284	707
Total financial assets	(3)133,339	8,910	47,656	76,926	133,492
Financial liabilities					
Deposits from the public	113,511	2,657	92,613	18,477	113,747
Deposits from Banks	1,133	-	1,077	80	1,157
Deposits from the Government	960	708	188	75	971
Bonds and non-convertible subordinated capital notes	5,249	4,716	-	754	5,470
Liabilities in respect of derivative instruments	1,318	730	546	42	1,318
Other financing liabilities	4,082	521	1,366	2,193	4,080
Total financial liabilities	(3)126,253	9,332	95,790	21,621	126,743
Off balance sheet financial instruments					
Transaction were the balance represents credit risk	33	-	-	33	33
In addition, the liability in respect of employee rights, gross - pension and severance pay (4)	1,166	-	-	1,166	1,166

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

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

(3) Of which: assets of NIS 14,116 million and liabilities of NIS 5,202 million, the stated balance of which is identical to their fair value (instruments reflected in the balance sheet at fair value). For further information regarding instruments measured at fair value on a recurring basis and on a non-recurring basis, see note 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

Deposits with banks, bonds and non-marketable securities and credit to the Government - By discounting future cash flows according to interest rates used by the Bank in similar transactions close to the reporting date.

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

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

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

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

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

Cash flows in respect of mortgages have been assessed according to the premature repayment forecast, which is based on a statistical model. Capitalization of the said cash flow, according to the anticipated repayment dates instead of the contractual repayment dates, increased the fair value of the mortgages by an amount of NIS 32 million (31.12.17 - NIS 46 million). In accordance with the original cash flow, which does not take into account premature repayments, the average period to redemption of assets in the non-linked shekel segment at March 31, 2018, was 0.59 years, in the CPI linked shekel segment the average period to redemption was 3.16 years (31.12.17 - 0.54 years and 3.22 years, respectively), compared with 0.54 years and 3.09 years, respectively (31.12.17 – 0.46 years and 2.55 years, respectively) after considering premature payments. The comparative data as of March 31, 2017, has not been reclassified.

Deposits and subordinate capital notes - By discounting future cash flows according to interest rates used by the Group in raising similar deposits (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.

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, 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					
Securities available for sale:					
Government bonds - Israeli government	2,080	3,014	-	-	5,094
Government bonds - Foreign governments	-	1,347	-	-	1,347
Bonds of financial institutions in Israel	93	-	-	-	93
Bonds of foreign financial institutions	-	461	-	-	461
Mortgage backed (MBS)	-	297	-	-	297
Bonds of others in Israel	259	120	-	-	379
Bonds of foreign others	-	948	-	-	948
Shares of others	107	-	-	-	107
Total available for sale securities	2,539	6,187	-	-	8,726
Trading Securities:					
Government bonds -Israeli Government	265	-	-	-	265
Bonds of foreign financial institutions	-	63	-	-	63
Bonds of others in Israel	47	-	-	-	47
Shares of others	6	-	-	-	6
Total trading securities	318	63	-	-	381
Credit in respect of security borrowing	3,115	-	-	-	3,115
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	-	-	22	-	22
Interest rate contract: other	12	227	9	-	248
Foreign currency contracts	105	85	297	-	487
Shares contracts	426	5	-	-	431
Commodities and other contracts	1	-	-	-	1
Total assets in respect of derivative instruments	544	317	328	-	1,189
Assets in respect of MAOF activity	298	-	-	-	298
Total assets	6,814	6,567	328	-	13,709
Liabilities					
Deposits in respect of borrowing between customers	2,645	-	-	-	2,645
Deposits from the Government	302	-	-	-	302
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	-	-	2	-	2
Interest rate contract: other	12	215	-	-	227
Foreign currency contracts	105	191	15	-	311
Shares contracts	426	5	-	-	431
Commodities and other contracts	1	-	-	-	1
Total liabilities in respect of derivative instruments	544	411	17	-	972
Other liabilities					
Liabilities in respect of activity in the MAOF market	298	-	-	-	298
Short selling of securities	305	-	-	-	305
Total other liabilities	603	-	-	-	603
Total liabilities	4,094	411	17	-	4,522

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

(NIS million)

A. Items measured at fair value on a recurrent basis (CONT'D)

	March 31, 2017 (unaudited)				
	Fair-value measurements using -				
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Effect of netting agreements	Balance sheet balance
Assets					
Securities available for sale:					
Government bonds - Israeli government	4,786	2,314	-	-	7,100
Government bonds - Foreign governments	-	2,003	-	-	2,003
Bonds of financial institutions in Israel	246	-	-	-	246
Bonds of foreign financial institutions	-	1,282	-	-	1,282
Mortgage backed (MBS)	-	316	-	-	316
Bonds of others in Israel	531	189	-	-	720
Bonds of foreign others	-	613	-	-	613
Shares of others	47	4	-	-	51
Total available for sale securities	5,610	6,721	-	-	12,331
Trading Securities:					
Government bonds - Israeli Government	691	-	-	-	691
Bonds of foreign financial institutions	-	51	-	-	51
Bonds of others in Israel	33	-	-	-	33
Bonds of foreign others	-	4	-	-	4
Shares of others in Israel	12	-	-	-	12
Total trading securities	736	55	-	-	791
Credit in respect of security borrowing	2,991	-	-	-	2,991
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	-	-	22	-	22
Interest rate contract: other	3	203	9	-	215
Foreign currency contracts	131	262	265	-	658
Shares contracts	428	16	-	-	444
Commodities and other contracts	1	-	-	-	1
Total assets in respect of derivative instruments	563	481	296	-	1,340
Assets in respect of MAOF activity	375	-	-	-	375
Total assets	10,275	7,257	296	-	17,828
Liabilities					
Deposits in respect of borrowing between customers	2,589	-	-	-	2,589
Deposits from the Government	192	-	-	-	192
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	-	-	1	-	1
Interest rate contract: other	3	245	-	-	248
Foreign currency contracts	131	590	48	-	769
Shares contracts	428	16	-	-	444
Commodities and other contracts	1	-	-	-	1
Total liabilities in respect of derivative instruments	563	851	49	-	1,463
Other liabilities					
Liabilities in respect of activity in the MAOF market	375	-	-	-	375
Short selling of securities	315	-	-	-	315
Total Other Liabilities	690	-	-	-	690
Total liabilities	4,034	851	49	-	4,934

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

(NIS million)

A. Items measured at fair value on a recurrent basis (CONT'D)

	December 31, 2017 (audited)				
	Fair-value measurements using -				
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Effect of netting agreements	Balance sheet balance
Assets					
Securities available for sale:					
Government bonds - Israeli government	1,610	2,533	-	-	4,143
Government bonds - Foreign governments	-	1,932	-	-	1,932
Bonds of financial institutions in Israel	106	-	-	-	106
Bonds of foreign financial institutions	-	511	-	-	511
Mortgage backed (MBS)	-	300	-	-	300
Bonds of others in Israel	234	124	-	-	358
Bonds of foreign others	-	853	-	-	853
Shares of others	75	-	-	-	75
Total available for sale securities	2,025	6,253	-	-	8,278
Trading Securities:					
Government bonds -Israeli Government	442	-	-	-	442
Bonds of foreign financial institutions	-	28	-	-	28
Bonds of others in Israel	38	-	-	-	38
Bonds of foreign others	-	21	-	-	21
Shares of others	2	-	-	-	2
Total trading securities	482	49	-	-	531
Credit in respect of security borrowing	3,542	-	-	-	3,542
Assets in respect of derivative instruments:					
Interest rate contract: NIS-CPI	-	-	22	-	22
Interest rate contract: other	4	199	10	-	213
Foreign currency contracts	122	128	244	-	494
Shares contracts	604	8	-	-	612
Commodities and other contracts	1	-	-	-	1
Total assets in respect of derivative instruments	731	335	276	-	1,342
Assets in respect of MAOF activity	423	-	-	-	423
Total assets	7,203	6,637	276	-	14,116
Liabilities					
Deposits in respect of borrowing between customers	2,657	-	-	-	2,657
Deposits from the Government	708	-	-	-	708
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	-	-	2	-	2
Interest rate contract: other	4	225	-	-	229
Foreign currency contracts	121	321	40	-	482
Shares contracts	604	8	-	-	612
Commodities and other contracts	1	-	-	-	1
Total liabilities in respect of derivative instruments	730	554	42	-	1,326
Other liabilities					
Liabilities in respect of activity in the MAOF market	423	-	-	-	423
Short selling of securities	98	-	-	-	98
Total other liabilities	521	-	-	-	521
Total liabilities	4,616	554	42	-	5,212

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

B. Items measured at fair value on a non-recurrent basis

	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)**

	March 31, 2017 (unaudited)				
	Level 1	Level 2	Level 3	Total fair value	Total profit (loss) for the three months ended March 31, 2017
Impaired credit the collection of which is contingent on collateral	-	-	68	68	2

	December 31, 2017 (audited)				
	Level 1	Level 2	Level 3	Total fair value	Total profit (loss) for the year ended December 31, 2017
Impaired credit the collection of which is contingent on collateral	-	-	52	52	(13)

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, 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:								
Interest rate contract: NIS-CPI	**22**	**-**	**-**	**-**	**-**	**-**	**22**	**-**
Interest rate contracts: Other	**10**	**1**	**-**	**(2)**	**-**	**-**	**9**	**1**
Foreign currency contracts	**244**	**485**	**16**	**(448)**	**-**	**-**	**297**	**174**
Total assets	**276**	**486**	**16**	**(450)**	**-**	**-**	**328**	**175**
Liabilities								
Liabilities in respect of derivative instruments:								
Interest rate contract: NIS-CPI	**2**	**-**	**-**	**-**	**-**	**-**	**2**	**-**
Foreign currency contracts	**40**	**-**	**-**	**(25)**	**-**	**-**	**15**	**1**
Total liabilities	**42**	**-**	**-**	**(25)**	**-**	**-**	**17**	**1**

	For the three months ended March 31, 2017 (unaudited)							
	Fair value as at December 31, 2016	Profits (losses) realized and unrealized Included in the profit and loss statement (1)	Purchases	Payments	Transfers to level 3, gross	Transfer from level 3, gross	Fair value as at March 31, 2017	Unrealized profits (losses) in respect of instruments held as at March 31, 2017
Assets								
Assets in respect of derivative instruments:								
Interest rate contract: NIS-CPI	23	2	-	(3)	-	-	22	2
Interest rate contracts: Other	10	1	-	(2)	-	-	9	1
Foreign currency contracts	215	370	13	(333)	-	-	265	146
Total assets	248	373	13	(338)	-	-	296	149
Liabilities								
Liabilities in respect of derivative instruments:								
Interest rate contract: NIS-CPI	3	-	-	(2)	-	-	1	-
Foreign currency contracts	39	(8)	-	1	-	-	48	(8)
Total liabilities	42	(8)	-	(1)	-	-	49	(8)

(1) Realized profits (losses) are included in the profit and loss statement in the item non interest financing income.

NOTE 14C - CHANGES IN ITEMS MEASURED AT FAIR VALUE ON A RECURRENT BASIS INCLUDED IN LEVEL 3 (CONT'D)

(NIS million)

	For the year ended 31, December 2017 (audited)							
	Fair value as at December 31, 2016	Profits (losses) realized and unrealized Included in the profit and loss statement (1)	Purchases	Payments	Transfers to level 3, gross	Transfer from level 3, gross	Fair value as at December 31, 2017	Unrealized profits (losses) in respect of instruments held as at December 31, 2017
Assets								
Assets in respect of derivative instruments:								
Interest rate contract: NIS-CPI	23	2	-	(3)	-	-	22	2
Interest rate contracts: Other	10	4	-	(4)	-	-	10	4
Foreign currency contracts	215	1,271	66	(1,308)	-	-	244	126
Total assets	248	1,277	66	(1,315)	-	-	276	132
Liabilities								
Liabilities in respect of derivative instruments:								
Interest rate contract: NIS-CPI	3	(2)	-	(3)	-	-	2	(2)
Foreign currency contracts	39	(2)	-	(1)	-	-	40	(2)
Total liabilities	42	(4)	-	(4)	-	-	42	(4)

(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

	Value Assessment technique	Unobservable inputs	Fair value	Average	Range
					As of March 31, 2018 (unaudited)
			(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**		

	Value Assessment technique	Unobservable inputs	Fair value	Average	Range
					As of March 31, 2017 (unaudited)
			(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	0.22	(0.14)-0.31
Interest rate contract: other	Discounted cash flow	Counter-party credit risk	9	1.86	1.50-1.95
Foreign currency contracts	Discounted cash flow	1. CPI-linked interest	56	(0.44)	(1.82)-0.04
		2. Counter-party credit risk	209	1.60	1.05-5.01
Liabilities					
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI-linked interest	1	(0.24)	(0.76)-0.04
Foreign currency contracts	Discounted cash flow	CPI-linked interest	48	(0.75)	(1.42)-(0.17)
B. Items measured at fair value on a non-recurrent basis					
Impaired credit the collection of which is contingent on collateral	Collaterals value		68		

NOTE 14D - QUANTITATIVE INFORMATION ON ITEMS MEASURED AT FAIR VALUE INCLUDED IN LEVEL 3 (CONT'D)

	As of December 31, 2017 (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	22	(0.32)	(0.42)-(0.30)
Interest rate contract: other	Discounted cash flow	Counter-party credit risk	10	1.90	1.30-4.96
Foreign currency contracts	Discounted cash flow	1. CPI-linked interest	60	(0.39)	(0.52)-0.42
		2. Counter-party credit risk	184	1.53	1.05-4.96
Liabilities					
Liabilities in respect of derivative instruments:					
Interest rate contract: NIS-CPI	Discounted cash flow	CPI-linked interest	2	(0.27)	(0.69)-2.29
Foreign currency contracts	Discounted cash flow	CPI-linked interest	40	(0.71)	(0.82)-(0.26)
B. Items measured at fair value on a non-recurrent basis					
Impaired credit the collection of which is contingent on collateral	Collaterals value		52		

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.

NOTE 15 – PURCHASE OF THE SHARES HELD BY MINORITY SHAREHOLDERS IN OTZAR HACHAYAL

On January 14, 2018, the Bank offered all shareholders of Otsar Hahayal (not being the Bank), including Chever Regular Servicemen and Pensioners Ltd. (hereinafter - "Chever") to purchase their shares in Otsar Hahayal, of whatever class, within the framework of proceedings in accordance with Section 341 of the Companies Act, 1999 (hereinafter - "the Companies Act"), in consideration for a total amount of NIS 340 million, a price equal to the exercise price stated in the terms of the PUT option granted to Chever, in accordance with arrangements made in 2006 and updated from time to time (hereinafter - "the Chever option).
In accordance with this process, the acquisition by the Bank of the holdings of Chever in Otsar Hahayal was completed on January 16, 2018, following which, the option held by Chever expired. On April 22, 2018, the Bank completed the purchase of the shares held by all the minority shareholders in Otzar Hachayal in accordance with Section 341 of the Companies Act and the dates and terms stated therein, following which the Bank holds 100% of the voting rights and equity rights in Otzar Hachayal.

NOTE 16 – EVENTS SUBSEQUENT TO BALANCE-SHEET DATE

On May 23, 2018 an agreement for the sale of Otzar Hachayal rights in the building where the management of the company operates, was signed.The profit after tax effect expected from the transaction amounts to NIS 37 million and will be recorded upon the conclusion of the transaction anticipated in the second quarter of the year.

LIST OF TABLES -CORPORATE GOVERNANCE

Corporate Governance, Additional Information and Appendices to the Annual Report

CORPORATE GOVERNANCE

DISCLOSURE OF THE INTERNAL AUDITOR

Details regarding the Internal Auditor of the Bank (which also serves as the Internal Auditor in the Banking subsidiaries in the Bank's group), 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 2017.
The report of the internal audit for the year 2017 was discussed in the audit committee of the Bank on March 27, 2018.

MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

During January-March 2018, the Bank's Board of Directors held 8 meetings in plenary session and 14 meetings of its various Board Committees.

APPOINTMENTS AND RETIREMENTS

On March 2018, Mrs. Dalia Lev retired from office as Director of the Bank.
The Board of Directors of the Bank thanks Mrs. Dalia Lev for her contribution to the work of the Board of Directors and its 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 2017.

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 2017.

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 2017.

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 2017 (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, 2018	**152**	**-**	**-**	**152**	**450**	**-**	**-**	**-**	**602**
December 31, 2017	77	-	-	77	450	-	-	-	527

Deposits	March 31, 2018		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)	**8,883**	**27,461**	3,098	4,535

(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 2017.

In accordance with FIBI's reports as of date of this financial report, the holdings of the controlling stakeholders in FIBI (in equity and voting) are as follows: Binohon - 38.29%, Instanz No. 2 Ltd. - 15.66% and Dolphin Energies Ltd - 11.68%.

ADDITIONAL INFORMATION

LABOR RELATIONS AT THE BANK

Two labor organizations exist at the Bank: the union of managers and signatories numbering approximately 800 employees and the clerks union numbring approximately 1,900 employees. Collective labor agreement are in effect at the Bank, which link to a certain extent, the employment terms of the clerks and managers to those agreed upon by the Management of Bank Leumi Le'Israel Limited (hereinafter - "Bank Leumi") and the unions of its employees.

A. The managers and signatories of the Bank filed on September 28, 2016, a party motion regarding the dispute concerning the collective employment agreement. It is argued in the motion that under the linkage to Bank Leumi employment terms agreement, the managers and signatories are entitled to an award equal to one month's salary per person, following such a payment made by Bank Leumi to its employees on June 2, 2016, being a "harnessing" award in respect to its efficiency program that included the voluntary retirement of 700 Leumi employees. On April 10, 2018, the Regional Labor Tribunal admitted the party motion. The Bank filed an appeal against this decision with the Labor Tribunal together with a motion for a stay of execution Order. The hearing of the appeal is fixed for November 15, 2018, and a stay of execution Order was received on May 17, 2018.

B. The clerks of the Bank also filed on November 17, 2016, a party motion regarding the dispute concerning the collective employment agreement. It is argued in the motion that under the linkage to Bank Leumi employment terms agreement, the clerks are entitled to an award equal to one month's salary per person, following such a payment made by Bank Leumi to its employees on June 2, 2016. Following the hearing of evidence on November 30, 2017, the summing-up stage has been concluded. Following admittance of the appeal regarding the conversion of unused sick leave (as stated in item C below), the Bank requested to attach the verdict given in the said appeal to the summing-up brief. The clerks have been given the right to respond to this request by May 21, 2018, and if they do so, the Bank may respond to it by May 23, 2018.

C. On March 23, 2017, the Regional Labor Tribunal in Tel Aviv admitted the claim of the clerks in the party motion served by them regarding the collective dispute, stating that they are entitled to the conversion of unutilized sick leave days to vacation days for actual utilization upon retirement on grounds of age, following an agreement made at Bank Leumi in January 2015. The Bank appealed the above decision, and on April 25, 2018, the appeal was admitted.

D. The managers and signatories submitted on March 14, 2017, a party motion in the collective dispute, in which they request temporary and permanent relief against the continuing efficiency measures at the Bank, while requesting the Tribunal to instruct the Bank to enter into negotiations with them towards the signing of a collective agreement as regards everything relating to the implications of the efficiency measures on the managers and signatories. The parties exchanged claims briefs, and the hearing of evidence is fixed for June 20, 2018.

E. On May 16, 2018, the MAOF Federation of Labor declared a labor dispute with respect to MATAF employees (hereinafter – "the declaration"). The principal issues in dispute relate to the conduct of the collective negotiations regarding the regularization of employment terms of MATAF employees. In accordance with the declaration, MATAF employees have the right to adopt organizational measures as from June 1, 2018 and thereafter.

F. The employment terms agreement at Otzar Hachayal Bank expired on March 31, 2018, and Otzar Hachayal has started negotiations with the representative committee of the employees. On May1, 2018, the Board of Directors of the Bank authorized Management of the Bank to begin negotiations with the Federation of Labor and with the representative committee of Otzar Hachayal employees regarding the possibility of merging Otzar Hachayal with and into the Bank and/or other structural changes at Otzar Hachayal, required in order to improve the operational efficiency of Otzar Hachayal. A similar resolution was adopted by the Board of Directors of Otzar Hachayal on May 17, 2018.

   On May 23, 2018, the MAOF federation of Labor declared a labor dispute at Otzar Hachayal. The main issues in dispute relate to the announcement made by the Bank and by Otzar Hachayal regarding the possibility of merger of Otzar Hachayal with and into the Bank and/or other structural changes at Otzar Hachayal. In accordance with the declaration, Otzar Hachayal employees may adopt as from June 10, 2018, organizational measures in accordance with guidelines of the Federation of Labor.

LIMITATIONS REGARDING LEGISLATION, STANDARDS AND SPECIAL CONSTRAINTS AFFECTING THE BANK GROUP

Set out below are brief details of legislative changes and legislative initiatives relevant to the period of the report, which have an effect on or are likely to have a material effect on the Bank's activity.

BANKING

Announcement by the Governor of Bank of Israel regarding an outline for the reduction in cross-commission fees

The Governor of Bank of Israel announced on January 16, 2018 her intention to reduce the cross-commission fees applying to deferred debit transactions that its final details will be determined following a study of comments made by the public. After such comments had been studied, Bank of Israel published on February 25, 2018 an updated outline for the reduction in the cross-commission fees, summarized as follows:

The cross commission fees applying to deffered debit transactions will be reduced from the present rate of 0.7% to a rate of 0.5%. The reduction would be made in five installments during the coming years, beginning on January 1, 2019, with a reduction to 0.6%, followed by additional annual reductions of 0.025% starting from January 1, 2020, the last of which taking effect on January 1, 2023, thus reducing the cross commission to 0.5%.

The cross commission fees applying to immediate debit transactions will be reduced from the present rate of 0.3% to a rate of 0.25%. The reduction would be made in two installments during the coming years, beginning on January 1, 2021, with the second installment taking effect on January 1, 2023.

The reduction in the rate of the cross-commission fees is expected to have a certain effect on the income of the Bank Group from credit card operations.

Decision of the Antitrust Authority in the matter of the terms for local clearing exemption

On April 25, 2018, the Deputy Antitrust Commissioner made a decision regarding a request for exemption filed under Section 14 of the Antitrust Act, 1988, with respect to the agreement of principles, which regularizes issues relating to cross commission, and which was signed on May 9, 2007, by the Bank and by Leumi Card Ltd., Bank Leumi LeIsrael BM, Israel Credit Cards Ltd., Israel Discount Bank Ltd. and by IsraCard Ltd. (hereinafter - "the Agreement of Principles"). The Deputy Commissioner granted the Agreement of Principles a conditional exemption, under the following terms: the credit card companies would allow any issuer, clearing agent or another entity wishing to do so, to join the Agreement of Principles on an equal basis and at no cost, and would provide him with all the information required to do so, and would make all reasonable adjustments, where required, to enable him to join the Agreement; an issuer having a large volume of operations (as this term is defined in the Banking Act (Licensing), 1981 [hereinater - "the Banking Act Licensing"]) shall not discriminate clearing agents or customers on grounds of the identity of the clearing agent of the trading house in which the transaction had been made; a credit card company, comprising also a clearing agent having a large volume of operations, as defined in the Banking Act Licensing, shall not relate its clearing operations with a particular trading house to its engagement with that same trading house with respect to its operation as an issuer, and also shall not relate the clearing of charge cards issued by a party to the Agreement of Principles to the clearing of charge cards issued by an entity that is not a party to the Agreement of Principles; a credit card company, comprising also a clearing agent having a large volume of operations shall also not be a party to agreements that limit discounts granted to customers of a trading house dependent on the means of payment used by them; as from January 1, 2019, credit card companies are not permitted to connect between types of charge card transactions that are cleared by it; furthermore, as from July 1, 2021, the transfer of funds between an issuer and the clearing agent in respect of single payment transactions, shall be made no later than one day following the date of transmission of the transaction by the trading house.

Payment Services Contract Bill, 2018

Following the recommendations contained in the report of the interministerial committee for the promotion of use of advanced means of payment, the ministers committee on legislation approved the said Bill in March 2018.

The proposed Bill is designed to replace the Charge Cards Act, 1986, with a more comprehensive and updated Act, compatible with the technological developments in this field, an is also based on the European regulations in accordance with the principles stated in the Payment Service Directive (PSD).

The Bill comes to regulate 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 Bill applies are the issuance of means of payment, clearing of a payment transaction and the management of a payment account.

The Bill 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), responsibility for the misuse of the means of payment, termination of the payment orders in particular circumsatamces, 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.

At this stage it is not possible to quantify the impact of the Bill on the Bank Group.

ONLINE BANKING

Draft Proper Conduct of Banking Business Directive in the matter of outsourcing

The updated draft was published by Bank of Israel on March 25, 2018, with the aim of determining principles for the outsourcing of different operations while minimizing exposure to potential risks inherent in outsourcing. The Directive is to apply 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 application of the Directive by a banking group shall be based on the risk assessment of the banking corporation.

In accordance with the draft Directive, outsourcing is not permitted with respect to the duties of the board of directors and senior management, as well as additional decisions, 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 draft 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 September 30, 2019.

Proper Conduct of Banking Business Directive No. 367 regarding online banking

An amendment to the Directive was published on December 25, 2017, within the framework of which were regulated mostly the rules for the implementation of the duty imposed on the banking corporations by the Increase in Competition and the Reduction in Centralization in the Banking Market in Israel, (Legislation amendemnts), 2017, to deliver to other financial bodies information regarding the current account balance of a customer. The date on which this instructions takes effect is July 31, 2018, and the Bank is preparing to implement it on the due date.

An additional amendment to the Directive was published on March 22, 2018, according to which, a new way was determined for the opening of an online account and the verification of the customers' identity by means of use of a technology for the distance visual identification and verification, subject to approval of the Supervisor of Banks. This amendment permits also the opening of an online account for a minor who reached the age of sixteen. Also permitted is the electronic mail operation with no coding, subject to risk assessment and additional controls.

Draft amendemnts of Proper Conduct of Banking Business Directive No. 367 regarding online banking and Directive No. 462 regarding customer investments in financial assets through portfolio managers

Draft updates of Proper Conduct of Banking Business Directives Nos. 367 and 462 were published on April 9, 2018, as well as an update of the letter of the Supervisor of Banks in the matter of bank accounts and conditions, if existing, for the waiver of the customer's signature on an agreement. The aim of these amendments is the online authorization and granting a power of attorney to an investment portfolio manager and allowing a portfolio manager to operate within the framework of an account that had been opened online.

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 consilidated 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 studying the implications of the reform and is preparing accordingly.

The Pledge Bill, 2015

On July 17, 2015, the Knesset passed, in first reading, the Pledge Bill.

The Bill proposes to establish a comprehensive reform of the pledge laws, 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

Regulation of Off-banking Loans Act (Amendment No. 5), 2017

Amendment No. 5 of this Act was published on August 9, 2017. Inter alia, the Amendment changed also the name of the Act to the Fair Credit Act, 1993 (hereinafter - "the Act").

The Amendment to the Act was passed on background of the recommendations of the team examining the increase of competition in the banking sector, with the aim of equalizing the norms applying to non-institutional lenders to those applying to institutional lenders, including banks. The Amendment states maximum amounts with respect to the cost of credit and maximum rates of interest appling to credit in arrears, and in addition, all the provisions of the Act, including instructions relating to the granting and collection of credit, apply now to the institutional bodies including the banks. The Amendment to the Act imposes criminal and administrative sanctions in respect of the different violations of the Act. The Act applies to individual borrowers only, though the Minister of Finance has the authority to expand its application also to corporations of a class to be determined. The Amendment takes effect at the end of fifteen months from date of publication thereof, and it applies to agreements signed as from the effective date of the Amendment. The Bank is preparing to implement the Act as from its due date.

The Economic Program Act (Legislation amendments for the implementation of the economic policy for the 2019 budget year), 2018, 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 dificult 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 Governor of Bank of Israel, with the consent of the Minister of Finance, may determine in the instructions, until the effective date, the classes of accounts, the financial activity conducted therein would be subject to the Act. Where the Governor has not determined as above, the Act shall apply to all classes of accounts, unless the Governor has determined, with the consent of the Minister of Finance, the classes of accounts to which the Act shall not apply.

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.

THE CAPITAL MARKET

A. Provident funds

The Ministry of Finance published on December 19, 2016, a draft of the Supervision over Financial Services Regulations (Provident funds) (Purchase, sale and holding of securities) (Amendment), 2016, which amends prior drafts in the same matter.

According to the draft amendment, an institutional investor being a member of a group of investors, where one of them has an agreement with a corporation for the provision of management or operating services ("the Operator"), may purchase or sell securities by means of the Operator, or by means of a related party thereof, provided that the rate of the purchase or sale commission shall not exceed 20% of the total purchase or sale commissions paid by the institutional investor during the year. Furthermore, conditions were stated, under which an institutional investor may purchase or sell securities by means of parties related to the institutional investor. The Draft amendment also adds a requirement for a competitive process, at least once in every three years, with respect to the holding of securities and states that an institutional investor who had engaged in a direct agreement with a global custodian (excluding a bank, a mortgage bank or a foreign bank holding a license from Bank of Israel) for the holding of securities, shall be exempted from the duty to hold a competitive process for obtaining holding services.

The final regulations that were published on October 31, 2017, do not include the above mentioned limitation of 20% with respect to the purchase and sale of securities by means of the Operator or by means of a related party thereof, as stated above. It is also determined that the competitive process relating to the holding of securities, shall be conducted once in every period of five years instead of three years, the requirement to conduct a competitive process, as stated, taking effect only after the termination of one year from date of publication of the Regulations.

It is still impossible to assess the implications of the Regulations on the income of the Group from this segment.

B. Proper Conduct of Banking Business Directive No. 330 - Management of credit risk involved in the trading activity of customers regarding derivative instruments and securities.

The Directive, which was published on October 23, 2017, includes principles for the management of credit risk involved in trading operations of customers regarding derivative instruments and securities, mainly with respect to speculative activity, including instructions regarding corporate governance, measurement of risk, management and control of risk and guidelines regarding management of operating and legal risks.

Among other things, the Directive states a requirement for liquid collateral in respect of OTC derivatives - variable collateral (regarding existing exposure) and primary collateral (regarding potential exposure). Most of the instructions are to be applied no later than July 1, 2018.

The demand in respect of collateral from customers will not apply, at this stage, on supervised customer (banking corporation, provident funds, insurance companies, trust funds and basket certificates), central bank or customer which is not involved in speculative activity, and they will be determined in later date.

The Bank is preparing for the implementation of the instructions.

CROSS BORDER ACTIVITY BY CUSTOMERS

The Income Tax Ordinance Amendment Act (No. 227), 2016

In order to be able to implement the bilateral agreement between the United States and Israel with respect to the implementation of FATCA ("the FATCA agreement") and agreements for the automatic exchange of information for tax purposes relating to financial accounts (CRS - Common Reporting Standard) to be signed by the competent authorities in Israel and the competent authorities in countries with which an agreement for the exchange of information had been signed, in the format determined by the OECD, the Income Tax Ordinance Amendment Act (No. 227), 2016 was published on July 14, 2016. The Act requires reporting Israeli financial institutions to collect and deliver information, as defined in the Act, everything as will be determined by the Minister of Finance in regulations to be published in this respect. In terms of the Act, a montary sanction may be imposed on reporting Israeli financial institutions in respect of unidentified details, or due to deficiencies in transmitting them, and this without derogating from the criminal responsibility of a person stemming from violation of an instruction, as stated, comprising an offence.

The Income Tax Regulations (Implementation of the FATCA Agreement), 2016

These Regulations, published on August 4, 2016, state the duties applying to financial institutions for the purpose of implementation of the FATCA Agreement, and regularize the various procedures that financial institutions have to apply in respect of a due diligence examination of financial accounts for the identification of the account holders and the classification thereof as accounts that should be reported under the agreement. The Regulations include also the duty of informing the customer regarding information provided to the Tax Authorities, the duty of reporting and withholding of tax imposed on financial institutions which are not participating in the implementation of the FATCA Agreement, and transitional instructions applying to the terms of recognition of an entity as a "public institution" by a reporting Israeli financial institution.

Regulations for the implementation of the CRS standard have not yet been published.

Circular letter of Bank of Israel regarding the management of risks associated with cross-border activity by customers

In accordance with the circular, published on March 16, 2015, in view of the growing risks involved in the activity regarding foreign residents, a banking corporation has to review and update its policy, procedures and controls with respect to operations of foreign residents. It is further stated in the circular that refusal to open a new account for a customer who does not cooperate with the banking corporation in the manner required for the implementation of the policy and procedures of that banking corporation with respect to the cross-border risks, and refusal to provide banking services with respect to an existing account, which expose the banking corporation to the risk of being considered a collaborator of the customer in evading the foreign legislation applying to the customer, shall be considered "reasonable refusal" in terms of the Banking Act (Customer service), 1981.

The Bank is aware of the risks involved in the operations of foreign residents and of the intensified regulation and enforcement exercised by the foreign tax authorities, including risks regarding possible tax evasion by customers subject to US tax laws. The Bank has a singular group policy in this respect and employs measures for the facing of risks involved in the activity with foreign residents, being part of the different procedures of the Bank, alongside the preparations for the implementation of the FATCA rules, as required.

Prohibition on money laundering

Reducing the Use of Cash Act

The Act was formally published on March 18, 2018, with the aim of reducing the "black economy" phenomenon in Israel, combating crime and money laundering and enabling the use of advanced and efficient means of payment. The law restricts cash transactions to transactions the price of which is NIS 11,000 per trader (the "transaction price" for the Bank as a trader is the price of the service, namely the commission fee payable), and NIS 50,000 for whoever is not a trader. Furthermore The Act prohibits the cashing of a check that does not state the name of the beneficiary, or an assigned check in an amount exceeding NIS 10,000, if it had been assigned more than once (or twice if the second assignment is to a supervised financial body), or if the names of the assignor and assignee and the ID number of the assignee are not stated therein.

Following one year from date of the Act becoming effective, the Minister of Finance shall examine the amounts stated in the first Addendum, and he is entitled to reduce them. A trader shall be required to keep a designated appliance used for

the reading of charge cards or the clearing of other electronic means, and shall be required also to document the means of payment used for making a payment or receiving a payment. The Act further 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 takes effect on January 1, 2019, excluding the ban on the cashing of checks and the monetary sanctions imposed on the violation thereof, which would take effect on July 1, 2019 (the later effective date). 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 violated the instructions once more.
The Bank is preparing for the implementation of the Act, as requires.

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+/Stable and its subordinated notes at ilAA and its subordinated notes with loss absorption mechanism ilA+.
- Midrug rated the Bank's internal finance resolution at aa3.il/positive, the Bank's short-term deposits P-1.il, its long-term deposits and senior debt Aa1.il/positive and its subordinated notes Aa2.il/positive, and its subordinated notes with loss absorption mechanism A1.il(hyb)/positive.
- Moody's rates the Bank as follows: long and short-term foreign-currency and local currency deposits "A3/Prime-2". The rating forecast is "stable".

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 2017, available for perusal on the Internet.

CONTRIBUTION TO THE COMMUNITY

"Believing in You" - the social-community project of the Bank - in cooperation with MATAN - Investing in the Community Organization - is in operation already for ten years. In its early years, the project focused on young persons that were expeled from different frameworks, with the aim of giving these young persons the oportunity to change their lives and live a normative life within the Israeli society. Within the framework of the program the young persons were integrated into business initiatives and different programs combining studies with work and grooming business enterpenuership by development of skills.

In continuance and in recent years the Bank approached additional populations, within the new project "believing in you", in order to expand the voluntiring activity among its employees, while creating social involvement with additional value such as "fathers and sons on the field" and cooperations with populations of childrens at risk.

In 2018 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 indicators for nonfinancial activity published at the beginning of 2018, continue to be positive indicating that the economy continued to grow also at the beginning of 2018, with the labor market continuing to demonstrate might, with relatively low unemployment rates and a forecasted trend of increasing growth over a period of time. In accordance with assessments published during April 2018 by the Central Bureau of Statistics (hereinafter - "the CBS"), the economy grew in the second half of 2017 by 3.9% (in annualized terms) following a growth of 2.4% in the first half of 2017. The growth in the product in the second half of 2017, reflects increases in the private consumption expenditure, in the public consumption expenditure, in the export of goods and services and in investments in fixed assets. An additional parameter indicating recovery is Bank of Israel's Composite State-of-the-Economy Index, which rose during the first months of 2018 by 0.6%.

The Research Division of Bank of Israel left in April 2018 the product growth forecast for 2018 at a level of 3.4%, and the product growth forecast for 2019 at 3.5%. Investments are expected to expand in 2019 on background of several large investments in different market segments (import inclined), Exports are expected to continue and expand, inter alia, because global trade is expected to continue its recovery.

State budget

In accordance with a preliminary assessment of the Ministry of Finance, a deficit of NIS 2.1 billion was measured in the budgetary activity of the Government for the first quarter of 2018, as compared with a deficit of NIS 2.3 billion, in the corresponding period last year. The planned deficit for 2018 amounts to NIS 38.5 billion, comprising 2.9% of GDP. In the last twelve months (April 2017 to March 2018) the deficit in the State budget amounted to 1.9% of the GDP. It should be noted, that this cumulative deficit includes the months of August to October 2017 in which exceptional tax revenues were collected, thus, as from August 2018 and later months, a growth is expected in the cumulative deficit for twelve months. The expenditure of the civilian Government offices increased by 9.6%, while expenditure of the Ministry of Defense increased by 8.1%, in comparison with the corresponding period last year.

Tax revenues in the first quarter of 2018 amounted to NIS 80.8 billion, an increase of 4% in comparison to the corresponding period last year, after elimination of the effect of legislation amendments, exceptional tax revenues and advancing the import of motor vehicles.

During the month of April 2018, the Fitch rating agency ratified the credit rating forecast of the State of Israel regarding the foreign currency debt at the level of "A+" with a stable forecast rating. The credit rating of the State of Israel is balanced between solid external accounts, solid macro-economic performance and institutional solidity on the one hand, and the ratio of Government debt to the GDP, which is still high in relation to reference countries, and political and security risks on the other hand.

Inflation

The inflationary environment in the economy continues at a relatively low level, following a decline of 0.1% in the Consumer Price Index in the first three months of 2018 (the CPI "for the month"). The "known" CPI dropped by 0.3% in the same period. Price decreases were mostly noted in the apparel and footwear item - a decrease of 8.8% and in the fruit and vegetables item - a decrease of 0.8%. Price increases were mostly recorded in the home furniture and appliance item - 0.9% and in the education, culture and entertainment item - 0.7%.

According to estimates of the Research Division of Bank of Israel of April 2018, the inflation in 2018 would reach a level of 1.1%, near to the lower edge of the targeted price stability range of the Government (1% to 3%), and that in 2019 the inflation rate would be 1.4%. The forecast reflects an assessment that inflation would rise slowly in the direction of the center of the targeted range. The main contribution is expected to arise from wage increases due to a tight labor market, though the continued growth in competition and the measures adopted by the Government to reduce the cost of living would slow it down.

As of April 2018, inflationary expectations for the coming twelve months, derived from the capital market, amount to a low rate of 0.6%.

Housing market

Recent publications reflect moderation in the rise in housing prices and in the volume of transactions. In accordance with the housing price index of the CBS published in April 2018, a reduction of 0.2% was recorded in housing prices in January-February 2018, in comparison with transaction prices in the months of December 2017-January 2018. Prices of transactions made in January-February 2018 were 0.8% higher than those of the corresponding period last year.

The construction of 46,300 new apartments began in 2017, a reduction of 14.1% in comparison with the year 2016, and construction of 47,400 apartments was completed in 2017, an increase of 3% in comparison to the year 2016.

5,180 new apartments were sold in the months of December 2017 to February 2018, a reduction of 7.8% in comparison to the number of new apartments sold in September to November 2017 (net of seasonal factors). The number of new apartments sold in the twelve months from March 2017 to February 2018 dropped by 20.4% in comparison with the previous twelve months.

Labor market

Unemployment data continue to be low, though a slight increase has been recorded recently. The rate of unemployment in February 2018 (for ages 15 and over) amounted to 3.8%, in comparison with 3.7% in January 2018. With respect to the main employable ages (ages 25-64), the rate of unemployed is low amounting to 3.2% in February 2018, in comparison with 3.1% in January 2018. According to the Research Division of Bank of Israel, pressure arising from the labor market being in a full employment environment, is expected to lead to price increases of domestic products and services.

Exchange rate

The exchange rate of the shekel as against the US dollar rose by 1.4% in the first quarter of 2018, while the exchange rate of the shekel as against the Euro rose by 4.2%.

In the course of the first quarter of 2018, Bank of Israel purchased an amount of US$2.3 billion (of which US$0.4 billion were intended to offset the effect on the exchange rate of the natural gas production in Israel).

In November 2017 Bank of Israel informed that, within the framework of the plan to offset the effect on the exchange rate of the natural gas production in Israel, it will purchase an amount of US$1.5 billion in 2018.

	Exchange rate as of			Rate of change	
	31.3.18	**31.12.17**	**31.3.17**	**Quarter I 2018**	**Quarter I 2017**
US dollar	**3.51**	3.47	3.63	1.4%	(5.5%)
Euro	**4.33**	4.15	3.88	4.2%	(4.0%)

Bank of Israel interest rate

Since February 2015, in which the Monetary Committee of Bank of Israel decided to reduce the interest rate for March 2015 to a level of 0.1%, the monetary interest in the economy remained stable. At the time, the Committee assessed that the monetary policy would remain expansionary so long as required, in order to establish the inflationary environment within the target range.

According to an assessment of the Research Division of Bank of Israel of April 2018, the interest rate is expected to remain at its present level until the third quarter of 2018, expected to rise to a level of 0.25% in the fourth quarter of 2018, continuing to rise to a level of 0.5% in the third quarter of 2019.

The global environment

A review of the International Monetary Fund of April 2018 expects that the global economic growth, the stringest since the year 2011, would continue also in the next two years.The global growth forecast for the years 2018 and 2019 amounts to 3.9%. The US growth forecast for 2018 amounts to 2.9% and for 2019 to 2.7%. Notwithstanding the above, the IMF expects for the long term a slowdown in global economic growth on background of rising interest rates forecasted around the world, the fading effect of budgetary incentives in the US and the continuing gradual slowdown in economic growth in China.

The data relating to the global economy, as reflected in recent indicators, point at the settling in of economic improvement, and the OECD has revised upwards the growth firecasts for the principal economies, mostly on background of the fiscal expansion in the US and the continuing growth in demand around the world. However, different indices indicate the slowdown of the momentum, uncertainty and increased risks. Concerns regarding "trade war" have increased, even though, the actions taken todate have a limited inflience, and it seems that the parties are trying to reach understandings; the geo-political tension has also increased. The tightening of financial conditions in the US comprise an additional risk to the global economy. The equities markets recorded price reductions with high fluctuations. Most of the principal central banks continue to adopt an expansionary monetary policy, and during the reported period, inflation slightly increased, though still remaining below the targeted range.

The US economy is in a near full employment situation and is expected to continue growing at a fare rate, on background of the expansionary fiscal policy adopted by the Administration in recent months, a fact that is expected to lead also to a growth in the budgetary deficit and in the public debt. As expected, the FED in its latest decision, has raised the interest rate by 25 percentage points and is expected to raise it twice more during 2018.

The relatively fast growth rate continued in the Eurozone and the ECB has not changed the expansionary monetary policy.

The Japanese economy continues to expand for the ninth consecutive quarter. Improvement in economic activity has been recorded also in the emerging markets, though China is being especially affected by the uncertainty regarding the "trade war".

The price of oil increased once again on background of increase in demand and in the geo-political risk.

Capital markets

A negative trend regarding the principal equities indices was recorded during the first quarter of 2018 in the local capital market: the TA 125 Index fell by 3.9% and the TA 35 Index fell by 4.9%. The general bond index fell by 0.1%.

The trade turnover in equities on the local Stock Exchange recorded a mixed trend. The average daily trade turnover of the TA 35 shares recorded a rise of 6.0%, while the TA 125 shares recorded a reduction of 1.7%.

The trade turnover of bonds recorded an increase of 3.6%.

	Rate of change		**Average daily trade turnover**	
	%		NIS millions	
	January - March		**January - March**	
	2018	**2017**	**2018**	**2017**
TA 35 Index*	**(4.9%)**	(5.0%)	**924**	872
TA 125 Index*	**(3.9%)**	(2.4%)	**1,141**	1,161
General bond Index	**(0.1%)**	0.6%	**4,097**	3,954

* The names of the indices were changed as from February 9, 2017, as follows: TA 25 was changed to TA 35, and TA 100 was changed to TA 125.

The total amount of capital raised during the first quarter of 2018 (both in shares and bonds) recorded a decrease of 6.1%, in comparison with the corresponding period last year. This decrease was due mainly to the decrease in the issueance of government and corporate bonds.

	Amount of capital raised		
	NIS millions		
	January - March 2018	**January - March 2017**	**Rate of change**
Shares and convertibles	**2,860**	2,771	3.2%
Government bonds	**12,095**	13,872	(12.8%)
Corporate bonds (incl. institutional)	**23,335**	24,150	(3.4%)
Total	**38,290**	40,793	(6.1%)

The S&P 500 Index fell during the first quarter of 2018 by 1.2%. In Europe the Eurostocks 600 Index fell by 4.7% and the developing countries index (the MSCI_EM Index) rose by 1.1%.

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, 2018			For the three months ended March 31, 2017		
	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	**74,674**	**611**	**3.31**	72,407	599	3.35
Total	**74,674**	**611**	**3.31**	72,407	599	3.35
Credit to the Government						
- In Israel	**652**	**-**	**-**	641	-	-
Total	**652**	**-**	**-**	641	-	-
Deposits with banks						
- In Israel	**3,776**	**3**	**0.32**	3,402	3	0.35
- Outside Israel	**14**	**-**	**-**	325	-	-
Total	**3,790**	**3**	**0.32**	3,727	3	0.32
Deposits with central banks						
- In Israel	**29,444**	**7**	**0.10**	21,507	5	0.10
Total	**29,444**	**7**	**0.10**	21,507	5	0.10
Securities borrowed or repurchased						
- In Israel	**622**	**-**	**-**	449	-	-
Total	**622**	**-**	**-**	449	-	-
Held to maturity or available for sale bonds(3)						
- In Israel	**9,967**	**32**	**1.29**	14,628	29	0.80
- Outside Israel	**-**	**-**	**-**	80	-	-
Total	**9,967**	**32**	**1.29**	14,708	29	0.79
Trading bonds						
- In Israel	**399**	**1**	**1.01**	917	2	0.88
Total	**399**	**1**	**1.01**	917	2	0.88
Assets held for sale						
Outside Israel	**-**	**-**	**-**	268	2	3.02
Total	**-**	**-**	**-**	268	2	3.02
Total assets bearing interest	**119,548**	**654**	**2.21**	114,624	640	2.25
Debtors regarding credit cards non-bearing interest	**2,537**			2,391		
Other assets non-bearing interest(4)	**13,862**			11,468		
Total assets	**135,947**			128,483		
Total assets bearing interest attributed to activity outside Israel	**14**	**-**	**-**	673	2	1.19

B. Average balances and interest rates - liabilities and capital

	For the three months ended March 31, 2018			For the three months ended March 31, 2017		
	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	**5,926**	**-**	**-**	5,736	-	-
Fixed-term	**58,185**	**47**	**0.32**	56,545	43	0.30
Total	**64,111**	**47**	**0.29**	62,281	43	0.28
Deposits from the Government						
- In Israel	**252**	**1**	**1.60**	291	1	1.38
Total	**252**	**1**	**1.60**	291	1	1.38
Deposits from banks						
- In Israel	**2,456**	**1**	**0.16**	2,050	1	0.20
Total	**2,456**	**1**	**0.16**	2,050	1	0.20
Bonds						
- In Israel	**5,098**	**20**	**1.58**	5,662	32	2.28
Total	**5,098**	**20**	**1.58**	5,662	32	2.28
Other liabilities						
- In Israel	**257**	**1**	**1.57**	267	1	1.51
Total	**257**	**1**	**1.57**	267	1	1.51
Total liabilities bearing interest	**72,174**	**70**	**0.39**	70,551	78	0.44
Deposits from the public non-bearing interest	**47,985**			43,441		
Creditors in respect of credit cards non-bearing interest	**2,537**			2,391		
Other liabilities non-bearing interest (6)	**4,968**			4,116		
Total liabilities	**127,664**			120,499		
Total capital resources	**8,283**			7,984		
Total liabilities and capital resources	**135,947**			128,483		
Interest spread			**1.82**			1.81
Net return on assets bearing interest (7)						
- In Israel	**119,534**	**584**	**1.97**	113,951	560	1.98
- Outside Israel	**14**	**-**	**-**	673	2	1.19
Total	**119,548**	**584**	**1.97**	114,624	562	1.98
Total liabilities bearing interest attributed to activity outside Israel	**-**	**-**	**-**	-	-	-

See notes in page 198.

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, 2018			For the three months ended March 31, 2017		
	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	**96,104**	**543**	**2.28**	88,864	517	2.35
Total liabilities bearing interest	**54,521**	**(25)**	**(0.18)**	51,012	(23)	(0.18)
Interest spread			**2.10**			2.17
Israeli currency linked to the CPI						
Total assets bearing interest	**10,948**	**46**	**1.69**	12,130	66	2.19
Total liabilities bearing interest	**10,166**	**(25)**	**(0.99)**	10,858	(41)	(1.52)
Interest spread			**0.70**			0.67
Foreign currency (including linked to f-c)						
Total assets bearing interest	**12,482**	**65**	**2.10**	12,957	55	1.71
Total liabilities bearing interest	**7,487**	**(20)**	**(1.07)**	8,681	(14)	(0.65)
Interest spread			**1.03**			1.06
Total activity in Israel						
Total assets bearing interest	**119,534**	**654**	**2.21**	113,951	638	2.26
Total liabilities bearing interest	**72,174**	**(70)**	**(0.39)**	70,551	(78)	(0.44)
Interest spread			**1.82**			1.82

See notes in page 198.

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, 2018 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	**19**	**(7)**	**12**
Total	**19**	**(7)**	**12**
Other interest bearing assets			
- In Israel	**3**	**1**	**4**
- Outside Israel	**(2)**	**-**	**(2)**
Total	**1**	**1**	**2**
Total interest income	**20**	**(6)**	**14**
Interest bearing liabilities			
Deposits from the public			
- In Israel			
Fixed-term	**1**	**3**	**4**
Total	**1**	**3**	**4**
Other interest bearing liabilities			
- In Israel	**(1)**	**(11)**	**(12)**
Total	**(1)**	**(11)**	**(12)**
Total interest expenses	**-**	**(8)**	**(8)**
Total interest income less interest expenses	**20**	**2**	**22**

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, 2018 in the amount of NIS 55 million, (for the three months ended March 31, 2017 balance of NIS 9 million, was added).

(4) Including derivative instruments, other non-bearing interest assets and after deduction of provision for credit losses.

(5) Fees in the amount of NIS 23 million and NIS 32 million were included in interest income for the three months ended March 31, 2018 and March 31, 2017, 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.