BANK LEUMI OF ISRAEL LTD. AND ITS INVESTEE COMPANIES

ANNUAL REPORT 2017

The Bank has received the consent of the Supervisor of Banks to publish of the Annual Financial Report on a consolidated basis only, with condensed statements of the Bank (not consolidated) in Note 35 to the financial statements.
The figures of the Bank alone are available on request from the Bank's offices at 34 Yehuda Halevi Street, Tel Aviv or on its website: www.bankleumi.co.il.
This is a translation from the Hebrew and has been prepared for convenience only. In the case of any discrepancy, the Hebrew will prevail.

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Message from the Chairman of the Board of Directors

The financial statements presented to you herein summarize the 2017 results of the Leumi Group. This is the story of a Group which applies – in a consistent and determined manner – the strategy outlined by its Board of Directors; the strategy has been implemented exceptionally well by the Bank's management and employees.

Leumi ended 2017 with a net income of NIS 3,172 million and a 9.8% return on equity. The majority of the income and profitability come from the Group's core business, which did not incur any material one-time expenses. The year's highlight was dividend distribution: After six years, Leumi is once again distributing dividends of up to 40% of its net income. The distribution was made possible following the Bank's impressive compliance with capital adequacy ratio requirements (Tier 1).

"Naturally flowing water never turn murky." In the spirit of our age - which is characterized by frequent and rapid changes - the Leumi Group and its various units are coping with the ecosystem in which it operates, positioning itself as a leader. Our goal is not only to adapt, but also to be pioneers in our field and continue to champion **innovative and proactive banking for our customers.** During 2017, we placed emphasis on several domains:

We continued to expand our mobile platform – PEPPER: During 2017, two groundbreaking banking applications were launched by Leumi: PEPPER – an innovative banking platform, and PEPPER PAY – a payment app. These are major initial milestones in developing personalized digital banking, which will be managed solely via mobile. The new applications allow users to enjoy a personalized, high-quality, state-of-the-art experience, which is available anytime, anywhere and tailored to their own individual needs and preferences.

Our Banking Division boasted impressive key indicator results, with emphasis on significant improvement in the return on equity, improved income and lower loan loss provisions; the division continued to carry out structural streamlining, which included transitioning from a geography-based organizational structure to a business line-based structure.

The Corporate Commercial Division – in April 2017, the Construction and Real Estate and Special Credit Units were merged into the Corporate Commercial Division. The merger proved successful in expanding the corporate credit portfolio, especially in light of the equity constraints of recent years. The Corporate Business Unit continued to divert operational activity to performance centers, in addition to improving and enhancing service provided to commercial customers, while migrating to the new era. The Division achieved growth by expanding its customer base and credit portfolio. LeumiTech continued to boost its activity in Israel and around the world, positioning itself as the financial home of the Israeli high-tech community in Israel, the US and London.

We created a special-purpose division – the Strategy and Regulation Division - dedicated to supporting the Group's management and Board of Directors in defining, planning and validating the Bank's and Group's strategies, and for examining and analyzing topics with strategic impact and leading key projects in the Bank (including the implementation of the Strum Committee recommendations and streamlining workflows). The Division is also responsible for the Group's foreign offices' activity. Following the Bank's decision to reduce its global presence – according to which it wound up branches and offices in 14 countries - the Bank decided to sell its holdings in Bank Leumi Romania, which are immaterial to its activity. In addition, following the successful implementation of the strategic plan in Bank Leumi USA, the Bank signed an agreement with strategic investors in the US, which will allow Leumi to further boost its US operations. In this context, we note the activity of our China office – the first such office of an Israeli Bank – which is expanding its activity inter alia by cooperating with leading local banks in various ways.

The Capital Markets Division – as part of the Bank's policy to put customers at the center – a structural change was made, in which the Bank merged its forex trading room with its Israeli and foreign securities trading room, and workflows were introduced, to create a one-stop-shop for all customer needs.

In 2017, the **Human Resources Division** continued to implement the Efficiency Plan. During the year, the number of positions in the Group fell by 435, following a reduction of 1,057 positions in 2016. During the past six years, the number of employees decreased by 2,913.

We attribute great importance to responsible business conduct, which combines significant contribution to the business domain in which we operate and to the society in which we live. We continued our corporate responsibility activity and to create shared value for us and our stakeholders – customers, employees, shareholders, the community and the environment in which we live. We were cited for our responsible procurement practices by Maala (Israel's CSR standards-setting organization).

We enhanced our customers' knowledge, skills and capabilities through digital products for small businesses, capital market investors, family businesses and women entrepreneurs.

We continued our work to advance the generation of tomorrow, emphasizing cooperation with NGO Aharai – Youth Leading Change – which fosters leadership among youth from Israel's social and geographic periphery; with NGO Atidim – which promotes excellence and science in the periphery; with NGO Etgarim – which promotes empowerment and inclusion of children with disabilities. A total of 3,800 employees volunteered during 2017 in a wide range of activities. We are proud of these endeavors activity and will continue to expand and enhance our activity in these areas.

World markets continued to bounce back in 2017. The recovery of the European economy included some of the countries hit hard by the crisis. The US carried out three interest rate hikes, 0.25% at a time. It appears this pattern will continue through 2018. The European Central Bank (ECB) began to scale back its quantitative easing. Israel's negative real interest rate during the reporting year was a negative 0.2%. An initial interest rate hike should be expected in late 2018. The process of raising the Bank of Israel's interest rate will normalize slowly over the next few years (similarly to the conservative approach of the ECB and the Bank of England, as opposed to that of the Federal Reserve) and is expected to be correlated to economic recovery in Israel and around the world.

I would like to thank the Group's employees for their blessed work, commitment and unrelenting professionalism; the Group's employees are its beating heart. We, the managers and employees of Leumi Group, will continue to provide our customers - out of commitment to the cause and our path - the best possible banking services.

David Brodet

Chairman of the Board of Directors

March 5, 2018

Board of Directors and Management Report

General Review, Goals and Strategy

Description of the Leumi Group's Business Activities

Bank Leumi and its subsidiaries constitute one of the largest banking groups in Israel, continuing activities that began 116 years ago. The Bank's predecessor, the Anglo Palestine Company, was established in London in 1902 by Otsar Hityashvuth HaYehudim Jewish Colonial Trust Limited, the predecessor of Otsar Hityashvuth HaYehudim B.M.[1]

The Bank is defined as a banking corporation under the Banking (Licensing) Law, 1981, and holds a banking license under that law. As a "bank" and a "banking corporation" the Bank's activities are governed and delineated by a system of laws, orders and regulations, including, *inter alia,* the Banking Ordinance, the Bank of Israel Law, the Banking (Licensing) Law and the Banking (Service to Customer) Law, as well as by directives, rules, instructions and position papers of the Supervisor of Banks.

As a leading banking group in Israel, aiming to achieve adequate long-term profitability levels, Leumi constantly scrutinizes trends and changes in the business environment in which it operates and formulates a strategy to deal with these changes.

To implement its strategy, the Bank is organized into three main lines of business, concentrating on different market segments, with each business line specializing in providing banking and financial services to a particular customer segment, alongside activity of the subsidiaries abroad and in Israel.

1. **Retail Banking** focuses on providing banking services, mainly to households (including mortgages), wealthy customers (Private Banking) and small businesses. Retail Banking is structured to enable personal adaptation to the needs of the customers, by providing an integrative multi-channel customer experience, via the branches and direct channels (mobile, Internet, Leumi Call, terminals, information kiosks and ATMs).

2 **Corporate and Commercial Banking** concentrates on providing services to Israeli and international corporations with various scopes of operations and in a variety of areas of activity. Its goal is to service all customer types with the range of financial and banking services they require, promoting the involvement of units in the Leumi Group in Israel and abroad, as a means to increase the range of products and services offered to customers.

3. **Capital Market and Financial Management** is engaged in managing the Bank's nostro account and, in addition, operating the Bank's trading rooms with a view to providing service to customers who are active in the capital and financial markets, including institutional customers. Management of the non-bank investment is done mainly through Leumi Partners.

In addition to the lines of business, Leumi operates through subsidiaries in Israel and abroad.

Activity of subsidiaries in Israel – mainly includes credit card activity by Leumi Card, merchant banking activity, underwriting and investment banking by Leumi Partners. Under the Law on Minimizing Market Centralization and Promoting Economic Competition, Leumi is required to sell its holdings in Leumi Card by January 2020 (and subject to certain conditions, by January 2021).

Activity of subsidiaries abroad – is carried out by Leumi U.S.A, Leumi U.K. and Leumi Romania, whose main activity is granting credit to corporates, commercial customers, and small businesses. In addition, the Bank has an office in China.

The Leumi Group operates in a competitive market in all of its operating segments. Its main competitors are other Israeli banks. However, in certain segments, there are additional competitors whose numbers are constantly growing, such as foreign banks, non-bank competitors, other institutional entities and technology-based solutions (FinTech companies).

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[1] Otsar Hityashvuth HaYehudim Ltd. was the controlling shareholder of the Bank prior to equalization of voting rights in the Bank in 1991. In 1993, most of the shares of the Bank passed to the ownership of the State, under the Bank Shares Arrangement Law (Temporary Provision), 1993. On September 3 2007, the company ceased to be an interested party in the Bank.

Main financial data and main performance indicators for 2013-2017:

Main performance indicators (%):

:Financial data summary and main performance indicators for 2013-2017
Main performance indicators (in %):

	2017	2016	2015	2014	2013
Main performance indicators:					
Return on Equity	**9.8**	9.3	10.3	5.5	8.0
Net income to total average assetse	**0.7**	0.6	0.7	0.4	0.5
Tier 1 capital to risk-weighted assets[f]	**11.43**	11.15	9.58	9.09	9.19
Leverage ratio[g]	**6.94**	6.77	6.27		
Liquidity coverage ratio[g]	**122**	132	105		
Income[b] to average assets[e]	**3.07**	2.99	3.29	2.89	3.49
Efficiency ratio	**63.09**	66.34	65.87	74.94	68.95
Net interest income to total average assets	**1.84**	1.74	1.75	1.96	2.01
Commisions to average assets	**0.94**	0.92	1.00	1.11	1.14
Additional performance indicators					
Total capital to risk-weighted assets[a]	**15.02**	15.21	13.74	13.90	14.59
Capital (not including rights which do not confer control) to balance sheet	**7.4**	7.1	6.9	6.5	6.6
Rate of tax provision on profit before tax	**35.2**	38.3	38.6	48.0	37.3
Provision for credit losses to net loans to the public[c]	**0.06**	(0.05)	0.08	0.19	0.11
of which: collective provision for credit losses to net loans to the public[c]	**0.19**	0.24	0.17	0.22	0.11
Net Interest income to total interest- bearing assets (NIM)	**2.05**	1.94	2.00	1.89	2.24
Total income to assets under Group management[c,d]	**0.95**	1.02	1.11	1.02	1.10
Total operating and other expenses to assets under Group management[c,d]	**0.60**	0.68	0.73	0.77	0.76
Main credit quality indicators:					
Net credit loss allowance to balance of loans to the public	**1.38**	1.50	1.57	1.75	1.59
Impaired loans to the public and loans to the public in arrears of 90 days or more to balance of loans to the public	**1.41**	1.75	1.83	2.23	2.58
Net accounting write-offs of averageloans to the public	**(0.14)**	**(0.02)**	**(0.20)**	**(0.12)**	**0.21**

a. Capital – with the addition of non-controlling interests and other adjustments.

b. Total income – net interest income and noninterest income.

c. On an annual basis.

d. Including off-balance sheet activity.

e. The average assets and the total balance sheet assets and other income generating assets.

f. Effective 2014 the capital adequacy ratio was calculated in accordance with Basel III regulations. Until 2013 (inclusive) it was calculated in accordance with Basel II regulations.

g. In accordance with Bank of Israel regulations the leverage ratio and the liquidity coverage ratio were calculated beginning from the second quarter of 2015. Accordingly, comparative data is not shown.

For additional information regarding leverage ratio, please see Structure and Development of Assets, Liabilities, Capital and Capital Adequacy, Article Capital and Capital Adequacy. For additional information regarding liquidity coverage ratio, please see Risk Exposure and Management Methods.

Main data from income statement report for the year

	2017	2016	2015	2014	2013
	NIS millions				
Net income due to the Bank's shareholders	**3,172**	2,791	2,835	1,413	1,988
Net interest income	**8,046**	7,526	7,118	7,363	7,357
Provision for credit losses	**172**	-125	199	472	268
Noninterest income	**5,428**	5,408	6,297	5,141	5,431
of which: commissions	**4,138**	3,967	4,092	4,167	4,188
Operating expenses and others	**8,501**	8,580	8,836	9,371	8,817
of which: salaries and related expenses	**5,272**	5,422	5,544	5,253	5,070
Earnings per share for the year attributed to the Bank's shareholders (NIS):					
Basic earnings per share	**2.08**	1.85	1.92	0.96	1.35
Diluted earnings per share	**2.08**	1.84	1.92	0.96	1.35

Main data from balance sheet, for year-end

	2017	2016	2015	2014	2013
	NIS millions				
Total assets	**450,838**	438,603	416,499	396,984	374,804
of which: Cash and deposits with banks	**82,067**	74,757	60,455	60,615	44,351
Securities	**77,299**	77,201	69,475	52,113	63,735
Net loans to the public	**267,952**	261,957	261,399	252,480	240,874
Total liabilities	**417,285**	406,889	387,392	370,846	349,657
of which: Deposits from the public	**362,478**	346,854	328,693	303,397	286,003
Deposits from banks	**5,156**	3,394	3,859	4,556	4,310
Debentures, bonds and subordinated notes	**15,577**	22,640	21,308	23,678	25,441
Sharehholders' equity, attributed to the Bank's shareholders	**33,167**	31,347	28,767	25,798	24,807
Additional data:					
Share price (in NIS)	**21.00**	15.86	13.50	13.38	14.18
Dividend per share (in NIS)	**63.60**	-	-	-	-
Average number of positions	**11,661**	12,257	13,059	13,388	13,704

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

The Director's Report includes, as mentioned above, in addition to data relating to the past, information that relates to the future, which is defined in the Securities Law, 1968, ("the Law") as "forward-looking information". Forward-looking information relates to a future event or matter, the realization of which is not certain and is not within the Bank's exclusive control.

Forward-looking information is generally drafted with words or phrases such as "the Bank believes", "the Bank foresees", "the Bank expects", "the Bank intends", "the Bank plans", "the Bank estimates", "the Bank's policy", "the Bank's programs", "the Bank's forecast", "expected", "strategy", "aims", "likely to affect" and additional phrases testifying to the fact that the matter in question is a forecast of the future and not a past fact.

Forward-looking information included in the Directors' Report is based, *inter alia*, on forecasts of the future regarding various matters related to economic developments in Israel and abroad, and especially to the currency markets and the capital markets, to legislation, to directives of regulatory bodies, to the behavior of competitors, to technological developments and to personnel matters.

As a result of the inability to foresee with certainty that these forecasts will be realized, and the fact that in reality events may turn out differently from those forecasted, readers of the Report should relate to information defined as "forward-looking" with caution, since reliance on such information involves risks and uncertainty and the future financial and business results of the Leumi Group are likely to be materially different.

The Bank does not undertake to publish updates of the forward-looking information in these reports.

Principal Risks inherent in the Bank's Operations

Credit risk is the Bank's risk of a loss as a result of the possibility that a counterparty does not fulfill its obligations vis-à-vis the banking corporation, as agreed.

This risk is in accordance with the Group's core business and is reflected in activity with corporate, commercial and retail customers, as well as *nostro* account activity. The Bank implements an overall policy for credit risk management, in accordance with the provisions of Proper Conduct of Banking Business Regulation No. 311.

For more information on credit risk and its management, see Credit Risk

Market risk including liquidity risk - The routine management of market risks is intended to support the achievement of business targets, while estimating the forecast profit against the damage likely to emanate from exposure to these risks. Exposures to market risk are managed dynamically as a part of the system of restrictions established by the Board of Directors and the risk committees at different levels which delineates the impact of market's exposure on the economic value, the accounting profit, capital reserve and liquidity position.

For more information on market risk and its management, please see Market Risk

The Bank's activity as a financial intermediary involves operational risk which also include, *inter alia*, information security and cyber risks, information technology risks, embezzlement and fraud risks, legal risk, compliance and business continuity risk. Operating risk is defined as the risk of a loss as the result of the lack of adequacy or a failure of internal procedures, personnel or systems, or as a result of external events including cyber incidents. The definition of risk does not include strategic risk or reputational risk.

Operational risk management is conducted in accordance with generally accepted ("best practice") standards in all parts of the Group, and whenever the risk environment changes, the Bank updates the tools for managing these risks. In recent years, as a result of the rapid development in technology, in general, and, as a corollary, in banking, and as a result of external changes to the Bank, the information security and cyber risks and the risks of embezzlements and frauds have increased, and the Bank continues to take steps to strengthen the risk management in this area.

For more information on operational risk and its management, please see Operating Risk

Targets and Business Strategy

Leumi's Vision

"Our vision is to conduct proactive and innovative banking for our customers"

At the basis of the vision is the aspiration to create a dynamic business ecosystem, which combines the Bank's values with product and technological innovation – a system that will be, for our customers, a place in which they can find the best and most suitable solution for their financial requirements, while striving for sound profitability, maintaining the Bank's stability and balancing employees' needs and shareholders' expectations. As a financial group with major impact over the business and public culture in Israel, Leumi considers its commitment to society to be a social and ethical anchor, which it will continue to nurture.

Leumi's Strategy

In light of the significant trends and changes in the operational environment, Leumi has identified two main courses of action, the combination of which forms the Group's strategic core. On the one hand, adapting traditional banking, with an emphasis on providing a professional and quality service to all types of customers according to their needs, preferences and rate of adopting digital innovativeness and on the other hand, building "New Banking", based on digital and technological innovation. These two courses of action are dependent on, and combined with the necessity to streamline and maximize capital utilization while achieving capital adequacy targets.

Adaptation of the "Traditional Banking" model

Leumi has been taking measures to adapt the Bank's activity model for a number of years. As a part of this process, the Bank merged Leumi Mortgage Bank, Leumi Financing and the Arab Israel Bank. In addition, it amalgamated the Corporate Division with the Commercial Division, and, recently also the Construction and Real Estate Department and Special Credit Department, which had previously belonged to the International Credit and Real Estate Division with the Corporate-Commercial Division. In addition, the Bank merged the Private Banking Department within the Banking Division. The Group has reduced its workforce in the past six years by approximately 2,400 positions and is continuing to implement a multi-year plan to merge branches, to adapt the teller and banker service model, and to replace the branch service model with a multi-channel vision.

As part of its strategy to reduce its international private banking activity, Leumi completed the closure of its foreign private banking operations engaged in the field. Currently, its foreign activity is mainly focused on providing commercial-corporate credit and credit to SMEs through subsidiaries in the U.S., the U.K. As to the sale of the Romanian operation, please see above.

In December, Leumi's China office signed a cooperation agreement with Bank of China to provide financing to Israeli companies.

These activities are intended to create a smaller, more flexible and nimble platform, to cope with the challenges of changes in the activity environment.

Boosting the New Banking Model

To adapt the Bank's business model to the New Banking Model, Leumi continued and intensified its digital banking activity and established itself as Israel's leading digital bank, inter alia, through continually upgrading the digital services provided in apps and on Leumi's website.

In addition, during the reporting period, Leumi launched banking app PEPPER and payments app PEPPER PAY; these are initial key milestones in the area of digital banking which will be managed by mobile.

PEPPER is the first mobile-only digital banking application of its kind in Israel and one of the first introduced worldwide: from opening an account to performing any common banking transaction, everything is done using a smartphone - applying for a credit card, ordering a checkbook, making money transfers, taking out a loan, depositing savings and checks, etc.

PEPPER is a feeless current account, based on a unique technology which assists customers in managing their money in the best possible way, while understanding what they spend it on and teaching them how to save and manage their finances more wisely. PEPPER's unique technology, based on artificial intelligence, studies each and every customer to adapt the content to his/her own unique characteristics, so as to provide him/her with a tailor-made banking experience, unlike anything we have been accustomed to so far.

PEPPER's user experience is similar to Facebook's newsfeed, featuring tailor-made content, consumer insights, comparisons with similar people, expense reports, weekly and monthly expense analyses, live updates, consumer tips, etc. – all in a simply and engaging language.

Another significant innovative feature: PEPPER allows customers to chat with a banker 24/6 (every day, except on Shabbat), in addition to a 24/6 call center, which is manned by bankers.

The procedure for opening a PEPPER bank account takes only 8 minutes (!), and can be made anytime, anywhere, via a video chat with a banker. When the process is completed, the customer receives an update, directly to his/her smartphone, about their approved current account and credit card credit lines. To complement the digital-only experience, the credit card and checkbooks - also free of charge - are delivered to the customer's home address by messenger.

In early 2017, Banking app PEPPER was joined by the free PEPPER PAY payment app.

The feeless state-of-the-art payment app targets customers of all banks. As opposed to existing apps, the payment experience offered by PEPPER PAY is swift, user friendly and fun. Users only need to enter the amount they wish to pay and who to pay – out of their mobile contact list – add an animation GIF (from a GIF library specially designed to make the moment of payment an enjoyable one). With PEPPER PAY, you no longer need to walk around with a wallet full of cash or forget to pay the babysitter, a friend who picked up the tab for lunch, a kindergarten party, etc. You can also start a payment group and collect money as a group through a fun, shared experience.

During 2018, the Bank will gradually launch PEPPER INVEST - a securities trading app.

The new apps will allow users to enjoy a personal, quality and advanced customer experience based on a response to their needs, in a user-friendly, fair and personally-tailored way "any time, any place."

Realizing the Group's strategy is achieved in accordance with the risk appetite approved by the Board of Directors, using advanced processes and tools to manage various risks and complete preparations for implementing regulatory requirements.

It should be noted that, in strategic planning, there is a considerable degree of uncertainty with the realization of long-term strategic plans dependent on several variable factors: the market situation in Israel and abroad, the security situation, and the effects of continuous regulatory changes - the scope and focus of which is yet undetermined over several years.

Some of the information in this chapter is "forward looking information." For the meaning of the term, see Forward-Looking Information.

Main trends in the operating environment

The Bank operates in a competitive and complex business environment, and is influenced by diverse exogenic factors. For more information regarding the macro-economic environment in Israel and around the world, please see Principal Developments in the Economy.

Increased regulation

The impact of regulation on the banking sector continues to increase. The growing number of regulations and complexity limit the sources of income, leading to increased costs to comply with the provisions of the regulations and requires ongoing improvement in the level of service and innovation. The regulatory changes are shifting the banking domain and are expected to continue to do so in the coming years.

The Bank is also subject to international and local regulation, including PSD2/OPEN API, the Credit Data Law, the requirement to separate credit card companies from the major banks, and comply with FATCA, CRS, tax offense as predicate offense, etc.

Therefore, regulation has a direct impact on several business and strategic decisions made by the Bank, including the Bank's various areas of activity.

For more information regarding the regulatory environment and the implications of the central initiatives, please see Legislation and Regulations relating to the Banking System.

Consumer Environment

Economic, social and technological changes, with an emphasis on the increasing use of mobile, broad information sharing on social networks, and the constant improvement in customer experience by hi-tech companies and retail chains, with an emphasis on convenience and "anywhere, anytime" availability, simplicity, personal customization and fairness and transparency, continue to increase consumer awareness and materially change consumption habits.

Non-bank entities, predominantly FinTechs, continue to develop innovative solutions (products), mainly for retail, but also in other areas. These solutions create a new benchmark in the customer experience, directly competing with banks in various areas. More and more banks around the world operate with FinTechs in various ways.

In addition, during the past year, GAFA (Google, Amazon, Facebook, Apple) have intensified their direct financial dealings with customers, especially – but not limited to - in the payments area. Various regulators are addressing this threat in different ways, and it is too soon to determine how regulation in this area will evolve.

Competitive Environment

Domestic banks

In 2017, the trend of increased competition in all banking segments continued. Domestic banks are taking steps to recruit new customers and increase the scope of activity, while focusing efforts on developing innovative digital services, launching value propositions based on customer clubs, establishing new multi-channel service models and improving their operating efficiency, *inter alia*, by changing the branch deployment model (merging branches, etc.).

Non-bank competitors

Loans by institutional entities – In recent years, there has been a clear trend of institutional entities granting loans to the business sector, including financing infrastructure projects and rental properties, and even financing construction of residential projects.

In addition, on the back of recent regulatory changes - which encourage non-bank financial entities to grant credit to individuals and businesses - there has been steady growth in the activity of non-bank entities, some of whom have enjoyed direct and indirect investments by institutional entities.

Along with the increased use of advanced technology by consumers (particularly through smartphones) there has been an increase in the supply and quality of ventures/developments offered by FinTechs.

Main Changes in the Past Year

Voluntary Retirement Plan

In July 2017, as part of the efficiency steps and cost savings made by the Bank following the Board of Directors' approval on July 11 2017, a voluntary retirement plan was launched The benefits offered to plan participants, depending on the employees' age, were as follows: (a) an early pension plan until lawful retirement age for those eligible for non-contributory pension from the Bank and who meet certain criteria defined in the Plan or (b) Increased severance pay of 245%-265%, under certain criteria set out in the Plan.

The total cost of the Efficiency Plan was NIS 310 million (hereinafter: the "Cost of the Plan").

The main points of the accounting treatment are as follows:

1. The cost of the plan constitutes an actuarial loss recorded under OCI in 2017.
2. In subsequent periods, the Plan's costs will be amortized to profit or loss under Actuarial Gains and Losses using the straight line method over the average remaining working period of participating employees.

The effect of the efficiency plan on capital adequacy is estimated at approximately 0.1%, which will be gradually deducted from capital adequacy over five years.

Four hundred and fifty employees signed up for the plan, and most left the Group by December 31 2017. During the next five years, approximately 480 additional employees are expected to leave their positions after reaching retirement age. The Bank is preparing for their retirement, investing efforts to adapt organizational structures, close critical professional gaps, as well as train and preserve knowledge through methodologies and plans developed in this area.

The Bank continues to increase efficiency by various means, improving operational and organizational workflows, to allow for further reduction of its workforce, while preserving a proper level of service and risk management.

Sale of a property

On June 18 2017, the Bank's Board of Directors approved the sale of a property on the corner of Yehuda Halevi and Herzl Streets in Tel Aviv to Canada Acro in the City Limited Partnership. The property currently serves as the Bank's main branch in Tel Aviv. The consideration of the sale is NIS 277 million, and the profit recorded in Q4 2017 on completion of the sale is NIS 265 million before taxes.

PEPPER

In June 2017, Leumi launched PEPPER, a mobile-only consumer digital platform. This was preceded by PEPPER PAY, a payment solution for customers of all banks launched in Q1.

This is an important leap in digital banking in Israel, which operates mostly via mobile. The new apps provide customers with a personalized, easy-to-use and convenient platform, which meets their needs in a user-friendly, uniquely designed platform, available anytime, anywhere, with no current account fees.

Trends, Phenomena, Developments and Material Changes

Principal Developments in the Economy[1]

In 2017, the Israeli economy grew by 3.3% in real terms, as compared with 4.0% in 2016, with non-employment declining to an annual average of 4.2%, compared with 4.8% in 2016. All key GDP components grew, however in terms of GDP per capita, the economy grew 1.4% in real terms, less than the average OECD rate.

The global economy

In January 2018, the International Monetary Fund (IMF) revised its global growth development estimates for 2017 and its estimates for the next few years, forecasting that the global economy will grow by 3.7% in 2017 in real terms, a 0.1% increase over its October 2017 forecast and 3.2% year on year. These figures are based on a higher growth rate in global trade and investment. The US growth for 2017 was also revised upwards (from 2.2% to 2.3%). A significant upward revision of the 2017 growth figures was made for the Euro Zone (from 2.1% to 2.4%) against the backdrop of positive and surprising economic activity figures in numerous countries, published in 2017.

The state budget and its financing

In 2017, the Government's budget deficit amounted to NIS 24.8 billion, about 2.0% of GDP. This compared with a planned annual deficit of NIS 36.6 billion (2.9% of GDP). In December 2017, the deficit reached NIS 21.5 billion. The difference between the planned and actual deficit stems from a significant unexpected increase in income from taxes as a result of the disposal of companies and following a dividend tax rate reduction for principal shareholders.

On April 18 2017, the Ministry of Finance announced its Net Family plan, which includes tax benefits for working families, subsidized daycare and customs exemptions. The cost of the plan is estimated at NIS 4 billion per annum; it is within budget and will not increase the deficit.

Foreign trade and capital movements

In 2017, Israel's trade deficit was $15.0 billion, a $2.1 billion increase over the deficit for 2016. The increase in the trade deficit is due to a greater increase in imports vs. exports, mainly impacted by the increase in energy product values (following price increases).

In January to November 2017, direct investments in Israel by non-residents via the banking system reached $7.9 billion and financial investments by non-residents reached $3.8 billion. On the other hand, overseas investments by Israelis (direct investments through Israeli banks and financial investments) totaled NIS 6.7 billion, so that incoming investments were significantly higher than outgoing investments in foreign currency.

Exchange rate and foreign currency reserves

In 2017, the shekel appreciated against the US dollar by 9.8% and depreciated against the euro by 2.7%.

Foreign currency reserves in the Bank of Israel as at the end of December 2017 totaled $113.0 billion, as compared to $98.4 billion as at the end of December 2016.

During 2017, foreign currency purchases by the Bank of Israel – as part of a program of purchases to offset the effect of natural gas production on the exchange rate - totaled $1.5 billion. In total, the Bank of Israel purchased foreign currency totaling $6.6 billion during this period.

Inflation and monetary policy

The Israeli consumer price index ("published for the month") increased in 2017 by 0.4%. This rate is below the lower limit of the Government's price stability target range of 1%-3% and reflects a very low inflationary environment. Most of the increase in the CPI is attributed to the housing item, which increased by 2.4% (the item constitutes about one quarter of the CPI).

The consumer price index ("last published CPI") rose by 0.3% in 2017.

During 2017, the Bank of Israel's interest rate remained at 0.1%, which was also maintained in the interest rate announcement from January 2018. The Monetary Committee has stated it intends to leave monetary policy unchanged as long as necessary to maintain the inflationary environment within the target area.

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

The Israeli capital market

The shares and convertible securities index fell by 1.1% during 2017, mainly due to pharmaceutical companies' stock price decreases.

The average daily trading volumes of shares and convertible securities rose 10.6% year-on-year, totaling NIS 1.4 billion.

The Government bond market was characterized during 2017 by price increases. The price of CPI-linked government bonds rose by 3.4%, while unlinked government bonds increased by 3.6% (the fixed interest bond indices was up 4.2%, while the variable interest (*Gilon*) bond index recorded a slight increase of 0.6%).

In the CPI-linked non-government debenture index (corporate bonds), there were price increases of 6.2%, following a 4.1% price increase in 2016.

Financial assets held by the public

The value of the public's financial asset portfolio at the end of December 2017 was NIS 3,615 billion, a 5.0% year-on-year increase. The proportion of shares (in Israel and abroad) in the Israeli public's monetary asset portfolio was 22.6% at the end of December 2017, compared with 22.4% as at the end of December 2016.

Developing risks in the activity environment

After reviewing the environment for various risks, we note that there were no significant changes during the year in the risks and threats map, although there were changes in the relative strength of various risks.

Among the various risks to which the banking system is exposed, the following have increased in the recent period:

- Macro-economic risk
- Regulatory risk
- Information security and cybersecurity risk
- Technology risk
- Conduct risk (fair banking risk)

For more information about these risks, please see Exposure to Risk and Methods of Risk Management in the Risk Report.

Material changes in financial statements items

Net income due to the Bank's shareholders (hereinafter: "net income") in 2017 was NIS 3,172 million, compared with NIS 2,791 million in the corresponding period last year, a 13.7% increase.

The net income was affected by the sale of a building in Q4 2017 and by one-time salary costs, with the overall effect on the pre-tax gain totaling NIS 189 million.

The net income last year was affected by a number of material non-recurring items totaling NIS 288 million, net of tax – income from the sale of Visa Europe, income from an insurance refund in respect of the arrangement with overseas authorities regarding U.S. customers, one-time salary expenses, income tax due to liquidation proceedings and sale of subsidiaries and a decrease in deferred tax due a fall in the corporate tax rate.

Excluding these non-recurring items, the net income grew by 20.6%.

The improved net income arises from an increase in income and decrease in expenses.

Return on equity in 2017 was 9.8%, compared with 9.3% in 2016. The return on equity in 2017, excluding the one-time items, is 9.3%. The return on equity last year, net of the abovementioned non-recurring items, was 8.4%. The significant improvement in the return on equity arises from the increase in net income, despite an 8.3% year-on-year increase in average equity.

Common Equity Tier 1 capital to risk-weighted assets ratio improved materially during the reported period. This ratio stood at 11.43% on December 31, 2017, compared with 11.15% on December 31, 2016. For more information, please see Note 25B.

1. On March 5, 2018, the Bank's Board of Directors approved a dividend distribution of 40% of the fourth quarter's net income. The approved quarterly dividend totaled NIS 342 million. The dividend for 2017 totaled NIS 969 million.
2. A share buy-back plan in the amount of up to NIS 700 million - The Board of Directors believes that the buy-back plan will allow the Bank to manage its equity in a more efficient way. For more information, please see Capital and Capital Adequacy below.

Net interest income increased by NIS 520 million in 2017, a 6.9% year-on-year increase. The increase in net interest income was due to higher interest spreads, the effect of the CPI, and an increase in the average balance of interest-bearing monetary assets (loans to the public and bank deposits) as well as redemption of debentures and capital notes.

Provision for credit losses in 2017 reflect a provision rate of 0.06% of net loans to the public compared with a 0.05% income from net loans to the public in 2016. The income from credit losses last year arose mainly from significantly higher collections than in 2017.

Noninterest financing income totaled NIS 919 million, compared with NIS 1,282 million last year. The decrease is mainly due to the inclusion of the proceeds of the Visa Europe sale (NIS 378 million) in last year's figures.

Operating commissions increased by NIS 171 million over the previous year, mainly in light of increased volumes of credit card and securities activity.

Other income totaled NIS 371 million compared with a total of NIS 159 million in 2016. The increase is mainly due to the sale of a building in Q4 2017, as described above.

Operating expenses fell by NIS 79 million. Excluding non-current salary expenses as detailed below and excluding an insurance refund following the arrangement with overseas authorities regarding the U.S customers in 2016, expenses decreased by NIS 297 million, a 3.4% year-on-year decline.

Salary expenses fell by NIS 150 million. Excluding non-recurring salary expenses as detailed above, salary expenses were down 2.5%. Most of the decrease was due to the reduced number of employees following the efficiency processes.

Other operating expenses, excluding the abovementioned insurance refund, decreased by 4.8%

Tax expense was NIS 1,692 million, compared with NIS 1,717 million last year. The tax expense last year was affected by the recording of income totaling NIS 195 million in respect of liquidation proceedings, sale of subsidiaries and tax expenses totaling NIS 303 million due to a decrease in the deferred tax balance last year, as a result of a decrease in the corporate tax rate.

Basic net income per share due to the Bank's shareholders in the reported period reached NIS 2.08, compared with NIS 1.85 in 2016.

For more information regarding results by quarter, please see the Consolidated Income Statement Appendix per quarter – multi-quarter information.

Principal Developments in Income, Expenses and Other Comprehensive Income

Net income due to the Bank's shareholders (hereinafter "Net Income") of the Leumi Group in 2017 amounted to NIS 3,172 million, compared with NIS 2,791 million in 2016 – A 124.5% increase.

Year-over-year comparison of changes in profit and loss:

	For the year ended December 31			
	2017	2016	Change	
	NIS millions		NIS millions	%
Net interest income	**8,046**	7,526	520	6.9
Provision for credit losses	**172**	(125)	297	+
Noninterest income	**5,428**	5,408	20	0.4
Operating and other expenses	**8,501**	8,580	(79)	(0.9)
Profit before tax	**4,801**	4,479	322	7.2
Tax expense	**1,692**	1,717	(25)	(1.5)
Profit after tax	**3,109**	2,762	347	12.6
Bank's share in profits of associate companies	**92**	66	26	39.4
Net income due to non-controlling interests	**(29)**	(37)	8	21.6
Net income due to the Bank's shareholders	**3,172**	2,791	381	13.7
Return on equity (in %)	**9.8**	9.3		
Basic net income per share (in NIS)	**2.08**	1.85		

Net interest income

Net interest income of the Leumi Group in 2017 amounted to NIS 8,046 million, compared with 7,526 million in 2016. The 6.9% increase in net interest income in 2017 over last year is attributable to an increase in the average balance of interest-bearing monetary assets (loans to the public, securities and deposits) and an increase in interest spreads. It should be noted, that the CPI effect is approximately NIS 141 million.

The net interest income to the average balance of income-bearing assets (net return on income-bearing assets) ratio was 2.05%, compared with 1.94% in the corresponding period last year.

Total interest spread in 2017 was 1.85%, compared with 1.75% in 2016.

Data on interest margins by segment:

In the unlinked NIS segment, interest margin in 2017 was 2.11%, compared with 2.05% last year. In the foreign currency segment, the interest margin was 0.98%, compared to 1.17% last year. In the index-linked segment, the interest spread was 0.80%, compared with 0.61% in the corresponding period last year.

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

Provision for credit losses

Provision for credit losses

	For the year ended December 31			
	2017	2016	Change	
	NIS millions		NIS millions	%
Individual provision for credit losses	(329)	(757)	428	56.5
Collective provision for credit losses	501	632	(131)	(20.7)
Total provision for credit losses	172	(125)	297	+
Ratios (%)				
Individual provision for credit losses to net total loans to the public	(0.13)	(0.29)		
Collective provision for credit losses to net total loans to the public	0.19	0.24		
Total provision for credit losses to net total loans to the public	0.06	(0.05)		

Provision for credit losses of the Leumi Group amounted to NIS 172 million in 2017, compared with a NIS 125 million income in 2016. Income from credit losses in 2016 arose from higher collections made during the year compared with 2017.

It is further noted that the Group's provision for credit losses was down 20% year-on-year, mainly on the back of an improved mix in the retail portfolio.

For information on provision for credit losses, please see Credit Risk, Disclosure, Assessment, Classification and Rules of Credit Loss Allowance, Note 13 and Note 30.

Noninterest Income

	For the year ended December 31			
	2017	2016	Change	
	NIS millions		NIS millions	%
Noninterest financial income	919	1,282	(363)	(28.3)
Commissions	4,138	3,967	171	4.3
Other income	371	159	212	+
Total	5,428	5,408	20	0.4

Noninterest income breakdown

	For the year ended December 31			
	2017	2016	Change	
	NIS millions		NIS millions	%
Net income for derivates and exchange rate differences, net	779	487	292	60.0
Net gains from sale of available-for-sale	115	357	(242)	(67.8)
Gains from investments in shares including	61	510	(449)	(88.0)
Net gains for loans sold	9	44	(35)	(79.5)
Realized and unrealized gains (losses) from adjustments to fair value of debentures and shares for trading, net[a]	(45)	(116)	71	61.2
Total	919	1,282	(363)	(28.3)

(a) In 2016, including a NIS 378 million income from the sale of Visa Europe.

(b) Realized and unrealized gains (losses) from adjustment to the fair value of debentures and shares for trading, net, also included a foreign exchange difference effect.

Commissions breakdown

	For the year ended Decembe			
	2017	2016	Change	
	NIS millions		NIS millions	%
Account management	**701**	715	(14)	(2.0)
Activity in certain securities and derivates	**675**	592	83	14.0
Credit cards	**1,075**	1,023	52	5.1
Credit handling	**183**	177	6	3.4
Financial products distribution	**307**	287	20	7.0
Conversion differences	**338**	327	11	3.4
Financing transactions	**541**	534	7	1.3
Other commissions	**318**	312	6	1.9
Total commissions	**4,138**	3,967	171	4.3

The 4.3% year-on-year increase in commissions in 2017 derives mainly from an increase in credit card and securities activity volumes. The income from commissions constitutes about 49% of Operating and other expenses, similar to last year.

Other income breakdown:

	For the year ended December 31			
	2017	2016	Change	
	NIS millions		NIS millions	%
Gains from severance pay fund	**41**	34	7	20.6
Other income including buildngs and	**330**	125	205	+
Total	**371**	159	212	+

The increase in Other income derives mainly from the sale of a building, which generated a pre-tax income of NIS 265 million.

Operating and other expenses

	For the year ended December 31			
	2017	2016	Change	
	NIS millions		NIS millions	%
Salaries and related expenses	**5,272**	5,422	(150)	(2.8)
Depreciation and amortization	**646**	663	(17)	(2.6)
Buildings and equipment maintenance	**1,015**	1,034	(19)	(1.8)
Other expenses	**1,568**	1,461	107	7.3
Total operating and other expenses	**8,501**	8,580	(79)	(0.9)

Total operating and other expenses of Leumi Group in 2017 amounted to NIS 8,501 million, a 0.9% decrease. Excluding one-time salary expenses and an insurance refund in respect of the arrangement with overseas authorities for the US customers in 2016, the expenses were down NIS 297 million from last year, a 3.6% decrease.

The operational expenses represent 63.1% of total income, compared with 66.3% last year.

The total operating and other expenses constitute 1.89% of the balance sheet total, compared with 1.96% last year.

Salary expenses

	For the year ended December 31			
	2017	2016	Change	
	NIS millions		NIS millions	%
Salary and related expenses	**4,189**	4,374	(185)	(4.2)
Pension, severance pay and voluntary retirement expenses, net of fund gains	**1,007**	955	52	5.4
Total current salary expenses	**5,196**	5,329	(133)	(2.5)
Grants not in ordinary course of business and cancellation of Jubilee grants last year[a]	**76**	93	(17)	(18.3)
Total salary expenses	**5,272**	5,422	(150)	(2.8)

(a) In 2016, the item includes a signing-on bonus to employees participating in the Efficiency Plan.

Salary expenses, excluding non-recurring bonuses, fell, compared with the corresponding period last year by NIS 150 million. The decrease, of 2.5%, derives from a reduced number of positions, a change in the mix of the employees and the closure of the offices in Switzerland and Luxembourg. This decrease was partly offset due to the one-time effects of the salary agreement in 2015 and the signing-on bonus granted in 2016.

For more information, please see Note 23L.

Salary and related expenses account for 62% of total operating expenses as compared to 63.2% in 2016.

Operating and other expenses (excluding salaries)

Operating and other expenses, excluding salary, amounted to NIS 3,229 million in 2017, compared with NIS 3,158 million in 2016, a 2.2% increase. The increase is due to an insurance refund in respect of the arrangement with the overseas authorities in respect of the US customers, which was recorded last year. Net of the refund, operating and other expenses were down by 4.8% as compared to previous year.

Tax expense

The Leumi Group's provision for taxes in 2017 amounted to NIS 1,692 million, compared with NIS 1,717 million in 2016. The provision rate in 2017 was 35.2% of the pre-tax profit, compared with 38.3% in 2016, a decrease of 3.1 basis points.

The effective year-on-year decrease in tax rate is mainly due to the NIS 303 million tax expense recorded last year due to a decrease in the net deferred tax balance on the back of a decrease in the corporate tax rate from 26.5% to 24% in 2017 and 23% from January 2018 onwards, and on the other hand, a NIS 195 million tax effect due to liquidation and sale of subsidiaries, which reduced the tax rate.

It should be noted that following the decrease in tax rate in the United States, the US office recorded tax expenses. The effect on the consolidated financial statements is immaterial.

Expenses and investments related to the Information Technology Unit

The following are expenses and investments related to the Information Technology Unit

	For the year ended December 31, 2017			
	NIS millions			
	Software	Hardware	Other	Total
Information Technology unit expenses, as included in income statement				
Salary and related expenses	406	201	-	607
Expenses related to acquisitions or licenses not capitalized to assets	162	56	31	249
Outsourcing expenses	73	-	4	77
Depreciation expenses	456	159	10	625
Other expenses	42	19	5	66
Total expenses	1,139	435	50	1,624
Additions to assets related to the Information Technology unit not charged as an expense				
salaries and related costs	243	-	-	243
outsourcing costs	164	-	-	164
Acquisition costs or license fees	160	147	-	307
Equipment, buildings and real estate costs	0	0	12	12
Total costs	567	147	12	726
Balance of assets related to the Information Technology unit				
Total depreciated cost	776	438	338	1,552

	For the year ended December 31, 2016			
	NIS millions			
	Software	Hardware	Other	Total
Information Technology unit expenses, as included in income statement				
Salary and related expenses	366	189	-	555
Expenses related to acquisitions or licenses not capitalized to assets	146	29	32	207
Outsourcing expenses	66	34	5	105
Depreciation expenses	406	166	10	582
Other expenses	50	43	6	99
Total expenses	1,034	461	53	1,548
Additions to assets related to the Information Technology unit not charged as an expense				
salaries and related costs	152	-	-	152
outsourcing costs	132	-	-	132
Acquisition costs or license fees	276	108	-	384
Equipment, buildings and real estate costs	0	0	14	14
Total costs	560	108	14	682
Balance of assets related to the Information Technology unit				
Total depreciated cost	803	321	326	1,450

(a) Including communications infrastructures.

(b) Costs of acquisition or use licenses for the IT Unit which were not classified as property, plant and (equipment, buildings and land costs) but rather as a prepaid expense.

(c) Including purchases and use licenses of software and hardware for all the division of the banking corporation

Summary of Other Comprehensive Income (OCI)

	For the year ended December 31, 2017						
	OCI before attribution to non-controlling interest holders						
	Adjustments for presentation of available-for-sale securities at fair value	Net translation adjustments[a], after effect of hedges[b]	Bank's share in OCI of companies held by the balance sheet value method	Adjustments for employee benefits[c]	Total	Other Comprehensive Loss due to non-controlling interest holders	Other Comprehensive Income (Loss) due to the Bank's shareholders
	NIS millions						
Balance at January 1, 2015	394	(65)	22	(1,904)	(1,553)	(4)	(1,549)
Net change during the year	(327)	(2)	16	414	101	-	101
Balance at December 31, 2015	67	(67)	38	(1,490)	(1,452)	(4)	(1,448)
Net change during the year	(153)	(12)	(20)	(679)	(864)	-	(864)
Balance at December 31, 2016	(86)	(79)	18	(2,169)	(2,316)	(4)	(2,312)
Net change during the year	**161**	**(116)**	**(3)**	**(781)**	**(739)**	**-**	**(739)**
Balance at December 31, 2017	**75**	**(195)**	**15**	**(2,950)**	**(3,055)**	**(4)**	**(3,051)**

(a) Adjustments from the translation of financial statements of foreign activities which, from the nature of their activity differs from the Bank's functional currency, including adjustments in respect of associate companies.
(b) Net gains (losses) in respect of net hedging of investment in foreign currency.
(c) The adjustments for employee benefits in 2017 includes cost estimates of the voluntary retirement plan published in July 2017.

Structure and Development of Assets and Liabilities, Capital and Capital Adequacy

Total Assets of the Leumi Group on December 31, 2017 amounted to NIS 450.8 billion, compared with NIS 438.6 billion at the end of 2016, a 2.8% increase. The Bank's total assets on December 31 2017 amounted to NIS 426.7 billion, compared with NIS 413.0 billion at the end of 2016, a 3.3% increase.

The value of assets denominated in or linked to foreign currency was NIS 87.2 billion, 19.3% of the Group's Total Assets. In 2017, the NIS appreciated against the U.S. dollar by 9.8% and depreciated by 2.7% against the euro. The change in the exchange rates of the NIS against foreign currencies contributed to a 1.6% decrease in the Group's total balance sheet; i.e., net of the effect of the shekel's appreciation, the total balance sheet increased to NIS 457.8 billion.

Total assets under the Group's management – The total balance sheet and customers' securities portfolios, provident funds and supplementary training funds for which operational management and deposit management services are provided – amounted to NIS 1,425 billion, compared with NIS 1,262 billion at the end of 2016, a 12.9% increase ($411 billion and $328 billion, respectively).

1. Development of main balance sheet items

1. Development of main balance sheet items

	Consolidated			
	December 31			
	2017	2016	Change	
	NIS millions			%
Total balance sheet	**450,838**	438,603	12,235	2.8
Cash and deposits with banks	**82,067**	74,757	7,310	9.8
Securities	**77,299**	77,201	98	0.1
Net loans to the public	**267,952**	261,957	5,995	2.3
Buildings and equipment	**2,986**	3,147	(161)	(5.1)
Deposits from the public	**362,478**	346,854	15,624	4.5
Deposits from banks	**5,156**	3,394	1,762	51.9
Debentures, notes and subordinated notes	**15,577**	22,640	(7,063)	(31.2)
Equity due to the Bank's shareholders	**33,167**	31,347	1,820	5.8

2. Development of main off-balance sheet items

	Consolidated			
	December 31			
	2017	2016	Change	
	NIS millions			%
Net credit certificates	**1,202**	1,418	(216)	(15.2)
Nnnnnet guarantees for securing loans	**5,400**	5,730	(330)	(5.8)
Net guarantees for apartment purchasers	**19,297**	19,538	(241)	(1.2)
Net guarantees and other commitments	**15,702**	15,623	79	0.5
Derivatives[a]	**635,790**	644,454	(8,664)	(1.3)
Options of all types	**155,751**	91,986	63,765	69.3

(a) Including "forward" transactions, financial swap transactions, futures, swaps and credit derivatives

For further information, see Note 28A and 28B

3. Development of balances of customers' off-balance sheet financial assets with the Leumi Group

	December 31			
	2017	2016	Change	
	NIS millions		NIS millions	%
Securities portfolios[a]	692,085	613,213	78,872	12.9
Assets for which operating services are provided:[a,b,c]				
Mutual funds	51,425	47,636	3,789	8.0
Provident and pension funds	118,564	78,189	40,375	51.6
Supplementary training funds	112,356	84,774	27,582	32.5

(a) Including a change in market value of securities and the value of securities of mutual and provident funds held in custody, in respect of which operational management and custodial services are provided.
(b) The Group in Israel does not manage mutual funds, provident funds or supplementary training funds.
(c) Assets of customers for which the Group provides operational management services, including fund balances of customers who receive advice from Leumi.

Net loans to the public

Loans to the public in the Leumi Group at the end of 2017 amounted to NIS 268.0 billion, compared with NIS 262.0 billion at the end of 2016. Loans to the public constitute 59.4% of total assets, compared with 59.7% at the end of 2016.

The change of the exchange rate of the NIS against all foreign currencies adversely affected total loans to the public by 1.1%. Excluding the effect of the appreciation, there was a 3.4% increase in total loans to the public, so that excluding the effect of the shekel's appreciation, total loans to the public reached NIS 270.8 billion.

In addition to loans to the public, the Group invests in corporate securities, which amounted to NIS 13,241 million at the end of 2017, compared with NIS 13,968 million at the end of 2016. These investments also embody credit risk.

Total loans to the public granted by the Group in Israel amounted to NIS 244.7 billion at the end of 2017, compared to NIS 238.3 billion at the end of 2016.

Loans to the public in unlinked NIS represented, at December 31, 2017, 70.0% of total credit, while at December 31, 2016, it represented 68.6% of total credit. As opposed to the increase in the weight of the unlinked credit, there was a decrease - mainly in index-linked credit, which, at December 31 2017, represented 15.6% of total credit, compared with 16.9% at December 31, 2016.

Development of loans to the public by main market sector, before credit loss allowance

	December 31				
	2017	2016	Change		Change excluding exchange rate differential effect
	NIS millions			%	
Individuals - housing loans	77,506	78,658	(1,152)	(1.5)	(1.4)
Individuals - other	38,160	37,770	390	1.0	1.3
Construction and real estate	52,513	48,308	4,205	8.7	10.2
Commercial	26,775	26,980	(205)	(0.8)	0.5
Industry	19,098	18,053	1,045	5.8	8.5
Other	53,900	52,188	1,712	3.3	0.8
Total	267,952	261,957	5,995	2.3	3.4

For more information on the development of credit and credit risks by market sector, please see Credit Risk.

Problem credit risk

Problem credit risk after individual and collective allowances

	December 31					
	2017			2016		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
	NIS millions					
Impaired debts	**2,408**	**100**	**2,508**	2,986	176	3,162
Substandard debts	**775**	**49**	**824**	1,013	74	1,087
Special mention debts	**2,398**	**876**	**3,274**	2,233	1,190	3,423
Total	**5,581**	**1,025**	**6,606**	6,232	1,440	7,672

	December 31	
	2017	2016
	NIS millions	
Commercial problem credit risk	**6,583**	7,984
Retail problem credit risk	**1,413**	1,427
Total	**7,996**	9,411
Credit loss allowance	**1,390**	1,739
Problem credit after credit loss allowance	**6,606**	7,672

For more information on problem credit, please see Credit Risk and Note 30 to the Financial Statements.

Securities

Policy for managing investments in securities (nostro)

The Group's policy for managing securities investments (*nostro*) is defined in the framework of its annual and multi-year work program. The policy defines the approved risk appetite for attaining the business targets. The risk appetite includes principles and quantitative limits for losses which the Group is willing to absorb in scenarios at various levels of severity. The main restrictions refer to the amounts of investment, level of risk and credit rating, interest duration, etc., exposure to issuer to investment manager/fund manager, geographic exposure, etc. All investments are made based on a permitted list of investment instruments.

The *nostro* portfolios are managed out of an overall view at the Bank and the Group level, being a central component in management of liquidity and market risks.

The overall view reflects, in principle, the investment preferences with a partial/low correlation with the rest of the Bank's and Group's activity. Accordingly, the advantage inherent in the *nostro* investments in foreign currency in securities issued abroad, which contribute to the diversification of risks outside the Israeli economy are taken into account.

The risk diversification in the *nostro* portfolio is multi-dimensional including geographical diversification, market sectors, investment managers, investment instruments, etc.

Investments are made on the basis of risk-adjusted profitability taking into account the appropriate capital requirements.

In investment considerations, particular emphasis is placed on avoidance of significant losses (tail risk).

The *nostro* activity focuses mainly on key markets, which function under a well-developed and active regulatory environment.

The approval of the permitted investment instruments takes into account various aspects, such as, transparency and the ease of access to an independent and reliable source for re-measurement/value pricing, and a minimizing the complexity and operating and legal risk.

The Group’s investments in securities at December 31, 2017 amounted to NIS 77.3 billion, compared with NIS 77.2 billion in 2016, an increase of 0.1%.

Securities in the Group are classified into three categories: securities for trading, available-for-sale securities, and held-to-maturity securities.

The Bank classifies the securities it purchases to either the available-for-sale, trading or held-to-maturity securities portfolios at the date of purchase, and is carried out in accordance with the Bank's intended use of the securities. Securities purchased for trading (or with the goal of hedging other components of the trading portfolio), for the purposes of market-making or within the framework of the dealing room, are classified to the trading portfolio; securities purchased as part of managing the Bank's assets and liabilities are classified in the available-for-sale portfolio; while securities purchased with the aim of being held until their maturity are classified in the held-to-maturity securities portfolio.

Securities for trading are presented in the balance sheet at fair value, and the difference between fair value and adjusted cost is charged to the income statement. Available-for-sale securities are presented in the balance sheet at fair value, with the difference between fair value and adjusted cost presented as a separate item in shareholders' equity in other overall profit, called "adjustments for presentation of available-for-sale securities at fair value" less the related tax. Held-to-maturity securities are presented in the balance sheet at amortized cost. Whenever the impairment is other than temporary in nature in the available-for-sale portfolio and the held-to-maturity portfolio, the difference is charged to the profit and loss.

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

Method of calculating fair value

The fair value of Israeli securities is based mainly on prices quoted on the Tel-Aviv Stock Exchange and the fair value of foreign securities on prices received from external sources.

Israeli debentures which are denominated in NIS and are not tradable have been revalued using a model, as there is no active market for them.

Classification of the securities item in the consolidated balance sheet

	December 31							
	2017				2016			
	Securities held to maturity	Available-for-sale securities[a]	Trading securities[b]	Total	Securities held to maturity	Available-for-sale securities[a]	Trading securities[b]	Total
	NIS millions							
Debentures								
Government of Israel	35	36,633	3,204	39,872	-	35,409	5,091	40,500
Foreign governments	-	10,755	82	10,837	-	11,449	2,458	13,907
Financial institutions in Israel	-	11	90	101	-	23	159	182
Foreign financial institutions.	-	9,653	142	9,795	-	7,460	104	7,564
Asset-backed (ABS) or mortgage-backed (MBS)	353	8,529	268	9,150	-	9,749	280	10,029
Others in Israel	-	70	111	181	-	296	132	428
Others abroad	478	2,352	299	3,129	-	2,362	286	2,648
Shares and mutual funds	-	2,927	1,307	4,234	-	1,942	1	1,943
Total securities	866	70,930	5,503	77,299	-	68,690	8,511	77,201

(a) Includes unrealized gains (losses) from adjustments to fair value of gains amounting to NIS 146 million which were recorded in other comprehensive income (December 31 2016 – losses of NIS 92 million)

(b) Includes unrealized gains (losses) from adjustments to fair value amounting to profits of NIS 9 million, which were recorded in profit and loss (December 31 2016 – gains of NIS 9 million)

(c) Most debentures of foreign financial institutions are supernational or government-backed.

At December 31 2017, 91.8% of the Group’s *nostro* portfolio was classified as available-for-sale securities and 7.1% as the trading portfolio. 5.5% of the securities' value represents investments in shares of companies that are not presented according to the equity method, but rather at cost or according to the shares' price.

For more information on the value of securities by valuation method, please see Note 33A.

Available-for-sale portfolio

1. In 2017, there was an increase in the OCI in respect of available-for-sale securities. amounting to NIS 259 million (before the tax effect), compared with a decrease in the OCI in respect of available-for-sale securities amounting to NIS 281 million (before tax) in 2016.
2. NIS 115 million was recorded in profit and loss, in respect of net gains from the sale of available-for-sale debentures, compared with gains of NIS 357 million in 2016.

The accumulated net balance of adjustments to fair value of securities held in the available-for-sale portfolio at December 31, 2017, amounted to a negative NIS 75 million (after the tax effect) compared with a negative NIS 86 million at the end of 2016. These amounts represent net gains which had not been realized at the dates of the financial statements.

For more information regarding adjustment to fair value of available-for-sale securities charged to equity, please see Note 12.

Trading portfolio

On December 31, 2017, there was NIS 4.2 billion in debentures in the trading portfolio, as compared with NIS 8.5 billion on December 31, 2016. As of December 31 2017, the trading portfolio constitutes 7.1% of the Group's total *nostro* portfolio, compared to 11.0% at December 31 2016.

In respect of trading debentures, realized and unrealized gains of NIS 74 million were recorded in the income statement, compared to losses of NIS 84 million in 2016; in respect of shares and funds, realized and unrealized losses of NIS 29 million were recorded, compared with losses of NIS 32 million in 2016. The losses in 2017 were due to exchange rate differences charged to the securities in the trading portfolio, offset by exchange rate gains.

For more information about the portfolio's composition, please see Note 12.

Investments in securities issued abroad

A. Investments in asset-backed securities issued abroad

The Group's asset-backed securities portfolio (both mortgage-backed and non-mortgage-backed) - all of which is rated investment grade - amounted to NIS 9.2 billion ($2.7 billion) at December 31, 2017, compared with NIS 10.0 billion at December 31, 2016. Of the said portfolio, as of December 31, 2017, NIS 8.5 billion ($2.5 billion) is classified to the available-for-sale portfolio and the remaining amount – to the trading portfolio and held-to-redemption portfolio.

The available-for-sale portfolio of investments in foreign asset-backed securities at December 31, 2017 includes an investment in mortgage-backed debentures amounting to NIS 6.9 billion. 95% of the total mortgage-backed debentures in the available-for-sale portfolio was issued by US federal agencies (GNMA, FHLMC and FNMA) and is rated AAA at the report date.

At December 31 2017, the accumulated net impairment charged to shareholders' equity resulting from the mortgage-backed securities portfolio was NIS 70 million.

The total of the asset-backed debentures, which are not in the U.S. State guarantee and are not covered by U.S. federal institutions amounted to NIS 397 million.

The projected term to maturity for the entire mortgage-backed securities portfolio is an average of 3.8 years. In addition to mortgage-backed securities, the Group's available-for-sale portfolio also includes other securities backed by assets other than mortgages (car financing loans and other types of loans), amounting to some NIS 1.6 billion. Of these, CLO-type debentures amount to NIS 1.6 billion. The projected term to maturity of the debenture portfolio backed by assets other than mortgages is 3.9 years on average.

For more information on investments in asset-backed debentures, please see Note 12.

B. Investments in non-asset backed securities issued abroad

The Group's securities portfolio at December 31, 2017 includes NIS 29.4 billion ($8.5 billion) of non-asset-backed securities issued abroad. Of these securities, NIS 27.2 billion ($7.8 billion) are classified in the available-for-sale portfolio, and the remaining amount – in the trading portfolio and held-to-redemption portfolio. 99% percent of all securities are investment grade, and mainly include securities issued by the US government, banks and financial institutions, as well as investment-grade corporate bonds, and the remainder – comprise mainly of securities issued by the Israeli government.

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

At December 31 2017, the aggregate increase in value of shareholders' equity in respect of non-asset-backed securities issued abroad in the available-for-sale portfolio, reached NIS 47 million (NIS 31 million after tax).

As stated above, in addition to the available-for-sale portfolio, the securities portfolio also includes non-asset backed securities in the trading portfolio and held-to-redemption portfolio. This includes mainly securities of states, banks and financial institutions; 97% of the securities in the trading portfolio are investment grade.

The value of the non-asset backed trading portfolio as of December 31, 2017 amounted to NIS 1.8 billion ($0.5 million). The difference between the fair value and adjusted cost, if any, is recorded in profit and loss.

Investments in debentures issued in Israel

Investments in debentures issued in Israel amounted to NIS 38.1 billion on December 31 2017, of which NIS 37.8 billion was in shekel-denominated debentures issued by the Israeli government, with the remainder being Israeli government debentures denominated in foreign currencies and corporate debentures. 28.7% of the investments in corporate debentures - amounting to NIS 0.1 billion - were included in the available-for-sale portfolio, and the remainder - in the trading portfolio.

Corporate debentures in the available-for-sale portfolio amounting to NIS 0.1 billion includes a positive capital reserve amounting to NIS 4 million.

All of the corporate debentures in the trading portfolio are listed and traded on the Tel Aviv Stock Exchange.

Investments in shares and funds

Total investments in shares and funds amounted to NIS 4,234 million on December 31, 2017, of which NIS 3,243 million was in listed shares and NIS 991 million - in non-listed shares. Of the total investment, NIS 2,927 million is classified in the available-for-sale portfolio and NIS 1,307 million - in the trading portfolio.

The capital required in respect of these investments at December 31, 2017 was NIS 529 million.

For more information, please see Note 12.

Risk management objectives and policy with regard to investment in shares

Investment policy:

The Bank defined the Group's investment policy including limits set for the volume of overall investment and in a single company, the investment mix, and the various levels of risk between types of non-banking investments.

Definition of the aim of the investment:

- Achieving a higher return in comparison with a *nostro* financial investment;
- Maximizing the value of the investment and achieving better investment terms by leveraging the reputation of Leumi Group;
- Widening the risk diversification and varying the Group's revenue sources;
- Moderating the volatility of the *nostro* portfolio (time gaps).

The structure of the portfolio is divided into 3 sub-groups:

- Strategic investments which the Bank plans to hold for the long term;
- Medium-term investments;
- Investments in growth companies (start-up companies).

Main changes in investments in shares in 2017

Kenon

In the first quarter of 2017, the Bank sold its remaining shares in Kenon Holdings Ltd. – 3.7 million shares, which constitute 7.0% of Kenon's issued and paid up capital. The profit before tax recorded by the Bank in respect of the sale of the shares amounted to NIS 13.5 million.

For more information regarding a lien on securities, please see Note 27.

Deposits from the public

The Group's Deposits from the public were NIS 362.5 billion at the end of 2017, an increase of 4.5%, compared with NIS 346.9 billion at the end of 2016.

The change in the shekel's exchange rate against all foreign currencies decreased total deposits by the public by 2.4%, so that, excluding the effect of exchange rate changes, deposits by the public increased by 6.9%.

Mix of deposits from the public by deposit type and linkage basis

	December 31, 2017			
	On demand	Short-term	Savings plans	Total
	NIS millions			
Israeli currency:				
Unlinked	151,179	83,252	-	234,431
CPI-linked	-	16,778	2,177	18,955
Foreign currency:				
Including linked to foreign currency	65,312	43,277	-	108,589
Non-monetary	42	461	-	503
Total	216,533	143,768	2,177	362,478

	December 31, 2016			
	On demand	Short-term	Savings plans	Total
	NIS millions			
Israeli currency:				
Unlinked	126,241	89,939	-	216,180
CPI-linked	-	18,119	2,270	20,389
Foreign currency:				
Including linked to foreign currency	65,248	44,529	-	109,777
Non-monetary	-	508	-	508
Total	191,489	153,095	2,270	346,854

Developments in the various deposit types

- Unlinked NIS deposits from the public increased by NIS 18.3 billion, compared with December 31, 2016, mainly due to on-demand deposits.
- Deposits from the public denominated in, or linked to, foreign currencies decreased by NIS 1.2 billion, a 1.1% year-on-year decrease, and were up 6.5% net of the effect of the shekel exchange rate changes.
- CPI-linked NIS deposits decreased by NIS 1.4 billion compared with December 31, 2016, mainly in fixed term deposits.

Deposits from governments

Deposits from governments amounted to NIS 452 million at the end of 2017, a NIS 448 million decrease compared to 2016.

This item includes deposits made by foreign governments with the Group's foreign offices, which, at the end of 2017, amounted to NIS 305 million, compared with NIS 722 million at the end of 2016.

Deposits with banks and deposits from banks

A. Deposits with banks (central and commercial):

	December 31, 2017		December 31, 2016	
	Central banks	Commercial banks	Central banks	Commercial banks
	NIS millions			
Israeli currency:				
Unlinked	66,406	2,179	60,371	590
CPI-linked	-	-	-	247
Foreign currency including linked to foreign currency	3,219	6,806	6,425	4,361
Total deposits with banks	69,625	8,985	66,796	5,198

Total deposits with banks were up by 9.2%.

B. Deposits from banks (central and commercial):

	December 31, 2017		December 31, 2016	
	Central banks	Commercial banks	Central banks	Commercial banks
	NIS millions			
Israeli currency:				
Unlinked	-	1,398	-	987
CPI-linked	-	10	-	18
Foreign currency including linked to foreign currency	41	3,707	-	2,389
Total deposits with banks	41	5,115	-	3,394

By law, the Bank of Israel is permitted to provide loans to banking corporations against collateral. The Bank uses its deposits with the Bank of Israel for this purpose, as well as a pledge against its securities portfolio.

On December 31, 2017, the Group's deposits with the Bank of Israel amounted to NIS 67 billion, against which there were no loans from the Bank of Israel.

As may be seen from these tables, the Group's liquidity position is very high, and the Group has net deposits with banks amounting to NIS 73.5 billion.

Debentures, capital notes and subordinated notes

	December 31			
	2017	2016	Change	
	NIS millions		NIS millions	%
Debentures and capital notes	6,497	6,444	53	0.8
Subordinated notes	9,080	16,196	(7,116)	(43.9)
Total	15,577	22,640	(7,063)	(31.2)

Early redemption of deposits / deferred capital notes

On January 26, 2017, the Bank's Board of Directors resolved to redeem, during June-July 2017 - by way of full early redemption – non-marketable, CPI-linked deposits / deferred capital notes at a par value of NIS 400,000,000, issued in 2002. As a result, during June and July 2017, NIS 534 million in capital notes were redeemed.

Capital Resources and Capital Adequacy

Capital attributable to the Bank's shareholders at December 31 2017 reached NIS 33,167 million, compared with NIS 31,347 million at the end of 2016, an increase of 5.8%. The increase is mainly due to the increased net income for the period, which was offset against net other comprehensive income and the dividend distribution during the year.

This capital serves as the basis for calculating the regulatory capital which, in turn, serves as the basis for calculating the Bank's capital adequacy in addition to capital instruments and regulatory adjustments set forth in the Banking Supervision Department's Proper Conduct of Banking Business Regulation 202.

Capital to total assets at December 31, 2017 reached 7.4%, compared to 7.1% at December 31 2016.

Capital adequacy structure

	December 31	
	2017	2016
	NIS millions	
Capital for purposes of calculating capital ratio		
Common Equity Tier 1, after regulatory adjustments and deductions	**34,653**	32,586
Tier 2 capital, after deductions	**10,888**	11,850
Total capital	**45,541**	44,436
Weighted balances of risk-weighted assets		
Credit risk	**277,344**	266,534
Market risk	**4,464**	4,788
Operational risk	**21,484**	20,843
Total weighted balances of risk-weighted assets	**303,292**	292,165
Capital to risk components ratio		
Common Equity Tier 1 to risk components ratio	**11.43%**	11.15%
Total capital to risk components ratio	**15.02%**	15.21%

Regulatory capital structure

In May 2013, the Banking Supervision Department issued final directives for the implementation of Basel III in Israel, by an amendment to Proper Conduct of Banking Business Regulation 201-211. These directives came into effect on January 1 2014, subject to the transitional provisions included in the Banking Supervision Department's Proper Conduct of Banking Business Regulation 299.

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

1. Tier 1, including Common Equity Tier 1 capital and additional Tier 1 capital;
2. Tier 2 capital.

The sum of these tiers is called "Capital basis for capital adequacy" or "Regulatory capital" or "Total capital".

Tier 1 capital including Common Equity Tier 1 capital and additional Tier 1 capital:

Common Equity Tier 1 capital includes the capital attributable to the Bank's shareholders, with the addition of minority interests and non-controlling interests in the capital of consolidated subsidiaries, net of goodwill, intangible and other assets and regulatory adjustments and other deductions, all as set forth in Proper Conduct of Banking Business Regulation No. 202 "Measurement and Capital Adequacy – Regulatory Capital" and subject to the transitional provisions of Proper Conduct of Banking Business Regulation No. 299 Capital Measurement and Adequacy – Regulatory Capital – Transitional Directive.

In addition to the above, adjustments to Common Equity Tier 1 capital are included, arising from the implementation of an operating efficiency plan and from the method of calculating of discount rate used to compute the obligation for employee benefits, as detailed below.

Additional Tier 1 capital, which comprises capital instruments complying with the criteria determined in Proper Conduct of Banking Business Regulation No. 202. There are no capital instruments in this tier in the Leumi Group. Any additional Tier 1 capital instruments issued in the future will be required to comply with the criteria set forth in Proper Conduct of Banking Business Regulation No. 202.

Tier 2 capital:

Tier 2 capital includes mainly capital instruments and the balance of a collective credit loss allowance before the effect of the related tax, up to a ceiling of 1.25% of total credit risk-weighted assets.

With regard to the capital instruments which were included in the Tier 2 capital on December 31, 2013, the transitional provisions and the asset recognition ceiling were set, so that the actual amount recognized in respect of the capital instruments is the lower of the instruments' amortized amount and the recognition ceiling, which is based on the remaining capital instruments which were included in the Tier 2 capital at December 31, 2013, is amortized at the beginning of each year by 10% until January 1 2022. In 2017, the recognition ceiling is 50%.

To be included in capital, capital instruments issued from the beginning of 2014 must comply with all the criteria set forth in Proper Conduct of Banking Business Regulation No. 202. The main criteria are that the instrument should include the following: (1) a mechanism for absorbing the losses of the reserve by conversion to ordinary shares or the amortization of the instrument when the Bank's Common Equity CET1 Ratio falls below 5%; (2) an item determining that, on the occurrence of the defining event for non-compliance (as defined in Appendix E to Proper Conduct of Banking Business Regulation 202), the instrument will be converted immediately to ordinary shares or will be expunged.

A description of the main features of regulatory capital instruments which have been issued is presented in the Bank's website: http://leumi.co.il/ in the chapter regarding >Financial information > Disclosure according to Pillar 3 of Basel and Addition Information on Risk.

Restrictions on capital structure

Proper Conduct of Banking Business Regulation No. 202 provides restrictions on capital structure:

- Tier 2 capital must not exceed 100% of Tier 1 capital, after the required deductions from this capital.
- The capital instruments eligible to be included in Tier 2 capital must not exceed 50% of Tier 1 capital after the required deductions from Tier 1. This restriction does not apply to capital instruments included prior to the inception of this directive in Upper Tier 2 capital, this at the amount of the balance of those instruments as of December 31 2013, and in accordance with the transitional provisions provided in Proper Conduct of Banking Business Regulation 299 - Capital Measurement and Adequacy – Transitional Directive)

Capital adequacy

Capital ratios are calculated as the ratio of capital to risk-weighted assets. The CET1 capital ratio is calculated as the ratio of CET1 capital to risk-weighted assets, and the Total capital ratio is calculated as the ratio of Total capital to risk-weighted assets.

Capital adequacy targets prescribed by the Bank of Israel:

Pursuant to Proper Conduct of Banking Business Directive No. 201, Measurement and Capital Adequacy – Introduction, Incidence and Calculation of Requirements, a large bank, whose total consolidated assets constitute at least 20% of the assets in the banking system in Israel are required to comply with a minimum CET1 capital ratio of 10%, and a minimum total capital ratio of 13.5% as of January 1, 2017. This requirement applies to Leumi.

Furthermore, pursuant to an amendment to Proper Conduct of Banking Business Directive No. 329 -Restrictions on the Grant of Housing Loans, the Bank is required to increase the CET1 target and total capital target at a rate of 1% of the balance of housing loans. This requirement was implemented gradually over eight quarters through January 1, 2017, with the effect of an increase of 0.25% in the capital adequacy ratio.

Accordingly, the minimum capital requirements which apply to the Bank as of December 31, 2017 were 10.25% for the CET1 ratio and 13.76% for the total capital ratio.

Capital planning and the capital adequacy targets prescribed by the Bank:

The Group's capital planning reflects a forward-looking assessment of the risk appetite and profile, the business strategy and the resulting capital adequacy required. Capital planning takes into account the growth in activity of the Group's various profit centers, and other factors affecting the Bank's compliance with the capital requirements, such as: gains forecasts, changes included in OCI, regulatory adjustments, the impact of the transitional provisions and the rate of increase in risk-weighted assets. The capital ratio forecast also undergoes sensitivity testing and various stress tests.

The Group policy approved by the Board of Directors is to maintain a level of capital adequacy higher than the minimum threshold that will be periodically specified by the Bank of Israel and will not be less than the capital adequacy ratio required for covering the risks estimated in the ICAAP process. In addition, the Group defined minimum thresholds in the event of a stress event.

As part of the regulatory review procedure, the Banking Supervision Department directed the banks to set out internal capital targets, which will match the bank's risk profile. As a result, the Board of Directors approved an increase in the Bank's internal CET1 target, such that from December 31 2017, it will stand at 10.5%.

Adjustments to Common Equity Tier 1 capital

Measurement of liabilities in respect of employee benefits

The standards regarding employee benefits which were initially implemented in January 2015 have had a significant impact on Leumi's Common Equity Tier 1 capital, mainly because the measurement of the liability relies on market interest rates, which are at historically low levels and because of the high volatility that such measurement imposes on in the Bank's regulatory capital.

In July 2016, the Bank received specific approval from the Bank of Israel regarding the method of calculating the discount rate, to be used in calculating the liability for employee benefits for the purpose of measuring regulatory capital. Pursuant to the approval, the discount rate is calculated according to a moving average of the market yield for a period of eight quarters ending on the reporting date. The change is being implemented from the financial statements for the period ended June 30, 2016 and through the financial statements for December 31, 2020 (inclusive). The change of method has significantly moderated the fluctuations in the Bank's regulatory capital arising from discount rate changes.

For more information on the discounting methodology, please see Accounting Policy and Estimates on Critical Subjects

Relief in respect of operating efficiency plans

In January 2016, the Banking Supervision Department published a letter titled, Operating Efficiency of the Banking System in Israel. According to this letter, banks that meet the established conditions will receive a relief allowing them to spread the effects of the plan on the capital ratios and on the leverage ratios over five years on a straight-line basis.

In June 2016, the Board of Directors approved an efficiency plan, at a cost of NIS 438 million (after tax). As of December 31 2017, 30% of the costs of this Plan were attributed to regulatory capital.

In June 2017, the Banking Supervision Department published an additional letter titled, Operating Efficiency in the Banking System in Israel – Efficiency in the Real Estate Sector. The letter extended the effective term of the relief in respect of streamlining the workforce through the end of June 2018. In July 2017, the Board of Directors of the Bank approved an additional efficiency plan at a cost of NIS 204 million (after tax) and the effect of which on the capital adequacy ratios and leverage ratio will be spread over five years on a straight-line basis, on a quarterly basis. As of December 31 2017 – 10% of the costs of this plan are attributed to the regulatory capital.

Additional regulatory changes:

Developments in the Basel Committee on Banking Supervision's guidance on measuring capital adequacy

During December 2017, the Basel Committee on Banking Supervision completed the updating of the capital adequacy framework. As part of the updates, (also known as Basel IV), significant changes were made to the method of calculating risk-weighted assets for which Pillar I required to calculate the capital requirements. Among other things, changes were made to the method of calculating the capital requirements in accordance with the standard approach to credit risk, a unified standard approach regarding operational risk was established, and changes were made to the market risk measurement framework. According to the provisions of the Basel Committee, these changes are scheduled to become effective gradually, beginning from January 1 2022, until

January 1 2027. At this point, it is unclear how and when these provisions will be adopted by the Bank of Israel's Banking Supervision Department.

Capital requirements in respect of exposures to key counterparties

In October 2015, the Banking Supervision Department published a letter titled Capital Requirements in respect of Exposures to Key Counterparties. The letter sets forth the new directives which will apply to exposures to key counterparties resulting from OTC derivatives, transactions in derivatives tradable on the stock exchange and securities financing transactions. At this stage, the directives do not alter the treatment of the Bank's exposures to customers in respect of transactions in derivatives tradable on the stock exchange in Israel, to which the Bank continues to apply the scenario method.

In July 2017, the Banking Supervision Department approved the Tel Aviv Stock Exchange Clearinghouse and the Maof Clearinghouse as eligible key counterparties for the purposes of calculating capital requirements in respect of exposures to eligible key counterparties, as stated in Regulation 203.

For more information, please see Note 25B.

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

- A change in the volume of risk-weighted assets – Leumi's risk-weighted assets amounted to NIS 303.3 billion at the end of December 2017. Every 1% increase in risk-weighted assets (about NIS 3 billion) will reduce the CET1 ratio by 0.11%, and the total capital ratio by 0.15%.
- Accrued profit or a change in the capital reserve – Leumi's CET1 was NIS 34.7 billion at December 31 2017. The total capital amounts to NIS 45.5 billion. Each accrual of net income and/or positive change in the capital reserve of NIS 1 billion will improve the CET1 ratio and the total capital ratio by 0.33%.
- Liabilities for employee benefits –The actuarial liability for employees is discounted according to a moving average of eight quarters of market yields, which are influenced by the Government of Israel debenture curve and by the U.S. AA corporate debenture spread. A change of 0.1% across the discount rate curve, under the assumption that the curve rises and falls uniformly, means a cumulative effect of 0.07% on the CET1 ratio and in the Total capital ratio. Of this, according to a moving average calculation for eight quarters, an increase of 0.01% in the CET1 ratio and in the total capital ratio for the current quarter.

The above information regarding capital adequacy policy and management refers to the Bank's future activities, and is defined as "forward-looking information". For the meaning of the term, please see Forward-Looking Information.

Dividend distribution policy

On March 29 2017, the Bank's Board of Directors approved a dividend distribution policy, effective as of the Q1 2017 financial statements publication date. Pursuant to this policy, each quarter, the Bank will distribute a dividend amounting to 20% of the Bank's net income according to the Bank's financial statements for the previous quarter and subject to, among other things, compliance with its capital adequacy targets after the distribution of the dividend.

On November 20 2017, the Bank's Board of Directors approved a change in the dividend distribution policy - from a rate of 20% each quarter to a rate of up to 40% per quarter, of the quarterly net income, beginning from the profits of the third quarter of 2017. In accordance with this policy, the Bank will distribute, every quarter, a dividend at a rate of up to 40% of its net income according to the financial statements of the Bank for the preceding quarter and subject to, inter alia, the Bank's meeting its capital adequacy targets after the dividend distribution. The actual dividend distribution is subject to the specific resolutions of the Board of Directors prior to each distribution, and subject to the provisions of the law which apply to a distribution of dividends, including the provisions of the Companies Law and directives of the Bank of Israel.

In accordance with the revised policy, on March 5 2018, the Board of Directors approved, in respect of Q4 2017, a dividend of 40% of the net income of the quarter. The dividend approved amounted to NIS 342 million, which is 22.416 agorot per share of NIS 1 par value. The Board of Directors determined that March 19 2018 will be the determining date for purposes of payment of the dividend and March 28 2018 will be the payment date. The aggregate dividend in respect of 2017 was NIS 969 million.

Details regarding dividend payout

Announcement date	Payment date	Dividend per share	Dividend paid in cash
		in agorot	NIS millions
May 25 2017	June 22 2017	8.168	124
August 15 2017	September 11 2017	11.504	175
November 21 2017	December 21 2017	21.515	328

The Bank's share buy-back plan

On March 5 2018, the Bank's Board of Directors approved a plan to buy back the Bank's shares for a total of up to NIS 700 million, from April 1 2018 to March 31 2019. The buy-back is subject to meeting - at each buy-back date - a Tier 1 Equity ratio of no less than 10.9%, in accordance with the most recent financial statements, after having taken into account the buy-back plan, and subject to the Bank's three-year capital adequacy planning meeting the differential Tier 1 equity ratio set for the Bank, in addition to a buffer. The Board of Directors believes the buy-back plan will allow the Bank to manage its equity in a more efficient way. The buy-back plan is subject to the provisions applicable to dividend distribution, including the Companies Law and the directives of the Bank of Israel.

For more information, please see the immediate report dated March 6 2018.

Operating Segments – Management Approach

According to management's approach – an operating segment is a component in a banking corporation which is engaged in activities from which it may generate income and incur expenses, the results of the operations are regularly examined by management and the Board of Directors for the purpose of making decisions regarding resource allocation and performance assessments. There is also separate financial information in respect of that component.

The reporting of the operating segments according to the management approach presents the Bank's results divided into lines of business, pursuant to the Bank's organizational structure

The business lines specialize in providing service to customer segments having similar characteristics and needs.

The Bank in Israel is organized into six business lines:

1. Banking – providing banking services to private and small business customers. The business line includes the Mortgage and Private Banking Departments. The structure comprises four business lines: Small Businesses, Private Banking, Premium Banking and Retail Banking. The service and products are adjusted to each customer segment in a differential manner, according to the nature of its banking activity, characteristics and needs.
2. Commercial - providing banking and financial services to middle-market companies and interested parties in these companies.
3. Corporate - providing banking and financial services to large companies and international corporations, with their activity in Israel and abroad.
4. Real estate - providing banking and financial services to the real estate and construction segment.
5. Capital Markets – managing the Bank's nostro, assets and liabilities, and investments and financial assets.
6. Other – activities not attributed to other business lines.

The results of operations are attributed to the business line in which the customer's account is managed.

- Net interest income - the business line is credited with interest received from loans that it extended, less the cost of raising the sources (transfer cost). In addition, the business line is credited with the transfer cost for deposits that were raised less the interest that was paid to the customer.
- Noninterest income (noninterest financing income, commissions and other income) – is attributed to the business lines as per the customer's activity.
- Business line expenses – include the direct expenses of the business lines, and also expenses of headquarters' units providing services which are charged to the business lines.

The results of the business lines' operations, both on the balance sheet side and on the income statement side, are regularly examined by the Board of Directors and management. The results are compared to targets set out as part of the annual work plan and in relation to the corresponding period in the previous year. Additionally, a variety of other metrics are specifically applied to each business line.

Condensed operating results according to management approach

Condensed operating results by Management operating segments

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

	For the year ended December 31, 2016										
	NIS millions										
	Bank								Subsidiaries in Israel	Foreign subsidiaries	
	Banking without Mortgages	Mortgages	Total Banking	Commercial	Corporate	Real estate	Capital Markets	Other and Adjustments	Other and Adjustments		Total
Net interest income	3,007	754	3,761	895	521	526	650	(1)	237	937	7,526
Noninterest income	1,761	7	1,768	401	209	343	863	686	1,130	8	5,408
Total income	4,768	761	5,529	1,296	730	869	1,513	685	1,367	945	12,934
Provision for credit losses	758	(3)	755	(72)	(376)	(392)	(55)	(20)	37	(2)	(125)
Total operating and other expenses	4,227	278	4,505	701	356	176	380	611	907	944	8,580
Profit before tax	(217)	486	269	667	750	1,085	1,188	94	423	3	4,479
Tax expense (benefit(	(78)	174	96	240	269	389	426	10	218	69	1,717
Net income due to the Bank's shareholders	(139)	312	173	427	481	696	768	84	228	(66)	2,791
Balance at December 31, 2016											
Net loans to the public	57,762	79,394	137,156	33,705	29,898	21,020	3,676	5,529	7,406	23,567	261,957
Total assets	191,156	-	191,156	41,698	19,772	7,702	59,696	41	68	26,721	346,854
Deposits from the public	191,156	-	191,156	41,698	19,772	7,702	59,696	41	68	26,721	346,854
Assets under management	176,638	-	176,638	26,781	18,607	1,814	365,544	25,502	189,682	19,244	823,812

Comment: in 2017, a structural change was made in the Banking Division. The comparative results were not adjusted.

Regulatory operating segments

A regulatory operating segment – a component of a banking corporation which engages in certain activities or which combines customers from various classes which have been defined by the Supervisor of Banks.

Description of the main operating segments according to Bank of Israel directives

1. Households segment - Private individuals, except customers included in Private Banking.
2. Private Banking segment -Private individuals with a financial asset portfolio at the Bank which (including monetary deposits, securities portfolio and other monetary assets) exceeds NIS 3 million.
3. Small and micro-businesses segment - Businesses whose activity turnover (annual total sales or annual total income) is less than NIS 50 million.
4. Mid-sized business segment - Businesses whose activity turnover is greater than or equal to NIS 50 million and less than NIS 250 million.
5. Large businesses segment - Businesses whose activity turnover is greater than or equal to NIS 250 million.
6. Institutional entities – including provident funds, mutual funds, pension funds, training funds, insurance companies, according to the definition of the Supervisor of Banks.
7. Financial management segment - Includes the following activities:
    a. Trading activity – Investment in securities for trading, market-making activity in securities and derivative instruments, activity in derivative instruments non-designated for hedging and not part of the management of the assets and liabilities of the banking corporation, repurchase and lending transactions of securities for trading, short selling of securities, underwriting of securities services.
    b. Asset and liability management activity – Including investment in available-for-sale debentures and debentures held to maturity, that are not attributed to other activity segments (with a borrower having no indebtedness to the Bank, apart from securities), hedging derivative instruments and derivative instruments which are part of asset and liability management, deposits in banks and from banks in Israel and around the world, hedging or protective exchange rate differences of investments in foreign offices, deposits in and of governments.
    c. Non-bank investment activity – Investment in available for sale shares and investment in associate companies of businesses.
    d. Other – Management, operating, trust and custody services for banks, consultancy services, selling activity and credit portfolio management, and financial product development activities.
8. Other segment - Including discontinued activities, designated profits and other results connected to employee benefits not attributed to the other activity segments, activities not attributed to other segments, and adjustments between the total of all the items attributed to the segments and the total of all the items in the consolidated financial statements.

For more information, please see Note 29A.

Condensed operating results by regulatory operating segment

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

	For the year ended December 31, 2016									
	NIS millions									
	Activity in Israel								Foreign activity	
	Households	Private Banking	Small and micro businesses	Mid-sized businesses	Large businesses	Instituional entities	Financial management	Other		Total
Net interest income	2,486	84	1,699	583	1,144	55	571	–	904	7,526
Noninterest income	1,712	157	727	312	653	160	1,297	147	243	5,408
Total income	4,198	241	2,426	895	1,797	215	1,868	147	1,147	12,934
Provision for credit losses	447	1	187	(108)	(614)	(33)	(40)	–	35	(125)
Total operating and other expenses	4,047	124	1,442	503	633	246	256	383	946	8,580
Profit before tax	(296)	116	797	500	1,778	2	1,652	(236)	166	4,479
Tax expense (benefit)	(133)	41	282	179	631	–	634	13	70	1,717
Net income due to Bank's shareholders	(197)	75	512	320	1,144	2	1,085	(246)	96	2,791
Balance at December 31, 2016										
Net loans to the public	110,906	613	57,773	24,588	41,590	713	–	–	23,788	259,971
Deposits from the public	113,473	26,097	41,581	25,950	41,939	55,889	–	–	26,563	331,492
Assets under management	76,890	48,079	29,791	15,775	75,807	524,562	33,664	–	19,244	823,812

Data by Geographic Area[a]

Principal data by geographic area

	Total balance sheet			Net loans to the public			Loans to the public		
	December 31			December 31			December 31		
	2017	2016	Change	**2017**	2016	Change	**2017**	2016	Change
	In NIS millions		%	In NIS millions		%	In NIS millions		%
Israel	**418,070**	400,708	4.3	**244,748**	238,389	2.7	**337,178**	320,133	5.3
USA	**24,378**	28,428	(14.2)	**17,267**	17,329	(0.4)	**19,896**	20,423	(2.6)
UK	**7,292**	8,224	(11.3)	**5,216**	5,566	(6.3)	**4,777**	5,572	(14.3)
Switzerland	**44**	73	(39.7)	**-**	-	-	**-**	-	-
Luxemburg	**12**	21	(42.9)	**-**	-	-	**-**	-	-
Romania	**1,038**	1,133	(8.4)	**721**	672	7.3	**627**	726	(13.6)
Others abroad	**4**	16	(75.0)	**-**	1	(100.0)	**-**	-	-
TOTAL	**450,838**	438,603	2.8	**267,952**	261,957	2.3	**362,478**	346,854	4.5

Net income by geographic area

	Net income (loss)			
	For the year ended December 31			
	2017	2016	Change	
	In NIS millions		amount	%
Israel	**2,949**	2,857	92	3.2
USA	**147**	107	40	37.4
UK	**44**	(147)	191	(129.9)
Switzerland	**13**	(58)	71	+
Luxemburg	**-**	24	(24)	+
Romania	**17**	(9)	26	(289)
Others abroad	**2**	17	(15)	(88.2)
TOTAL	**3,172**	2,791	381	13.7

(a) Classified by office location

For more information, please see Major Investee Companies, Credit Risk, and Note 29A.d.

Major Investee Companies[1]

The Leumi Group operates in Israel and abroad through subsidiaries, including: banks, financing companies and financial service companies. The Group also invests in non-bank entities.

The Bank's total investments in investee companies (including investment in capital notes) were NIS 11.5 billion in December 31 2017, compared with NIS 11.4 billion at December 31 2016, and the contribution of investee companies to the Group's net income was NIS 528 million, compared with net income of NIS 183 million in 2016.

For more information on investments in investees and the latter's' contribution to the Group's gains, please see Note 15.

Consolidated companies in Israel

The Bank's total investments in consolidated companies in Israel amounted to NIS 7,166 million on December 31 2017, compared with NIS 6,832 million on December 31 2016. The investees' contribution to the Group's net operating gains was NIS 333 million in 2017, compared with NIS 244 million in 2016, an increase of 36.5%. The Group's return on its investment in consolidated companies in Israel was 5.6% in 2017 as compared with 4.2% in 2016.

Leumi Card

Leumi Card Ltd. (hereinafter: "Leumi Card") is a credit card company engaged in issuing credit cards, clearing credit card transactions, credit card operations and providing payment solutions and financial products.

The income of Leumi Card totaled NIS 1,217 million in 2017, compared with NIS 1,126 million in 2016.

Leumi Card ended 2017 with a net income of NIS 143 million. Net of a one-time effect due to a special bonus granted to the company's employees and in respect of a voluntary retirement plan was NIS 190 million, compared with NIS 184 million in 2016. In 2017, Leumi Card's net income constituted 3.7% of the Group's total net income. Excluding the one-time effect, Leumi Card's net income in 2017 constituted 5.2% of the Group's total net income in 2017.

Issuance segment – Leumi Card issues cards under the brand names Visa and MasterCard, through which businesses that accept these brands in Israel and around the world may be paid. Leumi Card issues two types of credit card:

Credit cards issued jointly with Bank Leumi and Bank Mizrahi Tefahot to their customers, and credit cards issued, usually jointly with business entities to customers of all banks ("non-bank credit cards").

The number of valid cards held by Leumi Card customers at the end of 2017 was 2.66 million (of which 1.65 million were bank cards and 1.01 million were non-bank cards), compared with 2.58 million cards (of which 1.66 million were bank cards and 920 thousand were non-bank cards at the end of 2016), – a 3.3% increase. The percentage of active cards was 83% of the total valid cards (for this purpose, "active cards" are valid cards with which at least one transaction has been made in the course of the last quarter).

Leumi Card's total card turnover in 2017 – i.e., the total transaction turnover in all of the company's Card's cards during the period, excluding cash withdrawals in Israel and net of refunds - was NIS 80.4 billion (of which NIS 58.5 billion was for bank cards and NIS 21.9 billion for non-bank cards), compared to NIS 74.0 billion in 2016 (of which NIS 54.5 billion was for bank cards and NIS 19.5 billion for non-bank cards) – an 8.7% increase.

Clearing sector – Leumi Card clears Visa and MasterCard credit cards, and since May 2012, also clears Isracard credit cards.

The clearing services include the securing of payment to businesses with which Leumi Card is connected in clearing agreements in respect of transaction vouchers executed by credit cards of the types that Leumi Card clears, this, in exchange for a commission collected by Leumi Card from the business ("business commission"). In addition, Leumi Card offers businesses credit products and financial solutions, such as loans, discounting of vouchers and advance payments.

Pursuant to the Law on Minimizing Market Centralization and Promoting Economic Competition (Legislative Amendments), 2017, the Bank is required to sell subsidiary Leumi Card. The expected tax effect to apply if and when the Bank sells Leumi Card at its equity value in the books is estimated to be NIS 71 million, according to the tax rate known at the publication date of the financial statements.

Pursuant to the Law on Minimizing Market Centralization and Promoting Economic Competition (Legislative Amendments), 2017, as of February 2019, the Bank shall be required to operate the issuance of new credit cards issued to the Bank's customers through at least two issuance operators, with any issuance operator's share reaching a maximum of 52% of the new cards issued by the Bank. Under this provision, the Bank negotiated with three credit card companies (Leumi Card, Isracard, and C.A.L.) regarding entering agreements to operate the issuance of new cards beginning in 2019. Shortly after the publication of the report, the Bank reached agreements with some of the companies on most of the material details, towards signing issuance operating agreements.

In 2006, Leumi Card entered into an agreement with Shufersal Ltd. (hereinafter, "Shufersal") to issue credit cards to Shufersal customers. For the purpose of operating the venture, pursuant to the agreement, "Shufersal Finances Limited Partnership" (hereinafter, "Shufersal Finances") was established, incorporating the activity related to Shufersal credit cards. The agreement detailed, inter alia, the income sharing between the parties, with Leumi Card's share in the partnership being 16%.

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

As of December 31 2017, the number of valid credit cards held by the club's customers was about 503 thousand cards. In addition, on October 19 2017, Shufersal announced its intention to take steps to exercise a call option to purchase all of Leumi Card's holdings in Shufersal Finances according to a valuation of Shufersal Finances to be made by an agreed assessor. The procedure of exercising the said option has not been completed. According to immediate reports published by Shufersal and Paz, as part of a concurrent procedure to dispose of Paz's holdings in Shufersal Finance, an appraisal of the partnership's value was made. The appraisal cites the value as ranging between NIS 730 million and NIS 865 million for the partnership. At this point, it is impossible to assess the consideration Leumi Card shall obtain for disposing of its holdings in Shufersal Finance.

On January 16 2017, the Bank of Israel announced its intention to gradually decrease the interchange fee charged in deferred debit transactions. Shortly afterwards, the Antitrust Authority published a draft of the conditions to obtaining the local clearance exception, directed at the credit card companies. According to the exception conditions draft, transferring funds from an issuer to a clearing entity for transactions made as a single payment, shall take place no later than one day after the transaction was carried out. On February 25 2018, the Bank of Israel announced the revision of the outline published in its previous announcement regarding reducing the interchange fees in deferred payment transactions, as well as a gradual decrease of the interchange fees in immediate debit transactions.

For more information regarding the Bank of Israel's announcement and the publication by the Antitrust Authority, please see Note 26.G.

On January 21 2018, Leumi Card and the Fox – Wizel Ltd. Group signed an agreement to issue and operate non-bank credit cards for Fox's customers, based on the Dream Card Club, which currently comprises 1.4 million customers.

Leumi Partners Ltd.

Leumi Partners is Leumi Group's investment banking vehicle.

Leumi Partners ended 2017 with a profit of NIS 180 million, which arose mainly from investments and income from commissions, compared with a profit of NIS 154 million in 2016.

Shareholders' equity at December 31 2017 totaled NIS 1,641 million, compared with NIS 1,472 million at the end of 2016.

Leumi Partners engages in four main areas of activity:

1. **Managing Leumi Group's non-banking investment portfolio**

   Leumi Partners (hereinafter – the Company) engages in initiating, identifying and carrying out direct and indirect investments in companies, projects and private investment funds.

   The non-banking investment policy of Leumi Group is in line with its risk appetite and the restrictions of the Banking (Licensing) Law, and therefore, includes minority holdings only (up to 20% of all means of control, and without control). The Company focuses on investments with a medium to long-term horizon, appropriate to the policy which has been established. The non-bank investment strategy has determined a preference for private companies and for a high feasibility of realization.

Pursuant to a directive received from the Bank of Israel on March 23 2015 on the maximum amount of non-bank investment must be contracted through January 1 2017 to NIS 2.5 billion. On January 1 2017, the total of non-bank investments was within this limit. On January 24 2017, the Bank contacted the Bank of Israel with a request to make a gradual increase in the level of non-bank investment in Leumi Group up to a maximum amount of NIS 3.5 billion.

During 2017, the Company invested NIS 152 million in companies and extended a mezzanine loan of NIS 118 million. In addition, it undertook further investments and loans amounting to NIS 266 million. The balance of the Company's liabilities for investment in private investment funds amounted to NIS 346 million at December 31 2017. The balance of non-bank investments was NIS 2.2 billion at December 31 2017.

On December 24 2017, Leumi Partners entered into a binding agreement with Direct Insurance - Financial Investments Ltd. (hereinafter: "Direct Insurance"), as follows. Subject to the following preconditions, Leumi Partners and additional investors, it shall bring (hereinafter: the "Additional Investors", and jointly, the "Investors") shall purchase ordinary shares of Direct Insurance, which shall comprise – following their issue – 20% of Direct Insurance's issued and paid-up capital (with Leumi Partners' post-issue share being 10% of the issued and paid-up capital), according to a company valuation of NIS 1.56 billion, as detailed in the immediate report dated December 13 2017.

2. Underwriting, consulting and management of private and public offerings in Israel

   Through subsidiary Leumi Partners Underwriters, the Company provides a wide range of services in the area of underwriting and consulting to companies and interested parties.

   In 2017, Leumi Partners Underwriters was one of the leading underwriters in Israel: Leumi Partners Underwriters participated in public offerings amounting to NIS 42 billion and led 28 public offerings which raised NIS 15 billion.

3. Mergers and Acquisitions (M&As) and public offerings - consulting and management

   The services are provided to Israeli and foreign companies wishing to effect strategic expansion through M&As, or to investors or controlling shareholders interested in selling or reducing their holdings.

   These services include: Assistance in defining the client-company's needs and strategic objectives, determining the nature of an optimal investment/investor to achieve these objectives, identifying target investments/investors worldwide, assistance in contacting the target company, involvement in negotiations until their conclusion, deal structuring to support the customer objectives, and assistance in accessing financing resources for the transaction.

   Leumi Partners cooperates with investment houses and other entities in Israel and abroad.

4. Economic analyses and appraisals

   Through subsidiary Leumi Partners Research, the Company offers economic analyses and appraisals, mainly to the Leumi Group but also to outside economic entities.

LeumiTech Ltd.

LeumiTech was established in January 2014 as Leumi Group's high-tech banking arm, out of recognition of the Israeli high-tech as the Israeli economy's growth engine. The company is wholly owned by Bank Leumi of Israel and its aim is to continue establishing Leumi's position as the leading bank in Israel financing and developing products and services adapted to the industry's needs.

After four years of activity, Leumi is the leading banking group for the high-tech industry in Israel. Over the past years, Leumi has achieved significant growth in the scope of its activity with high-tech industry customers.

In 2017, a significant leap was achieved with the high-tech customers, with the establishment of the Leumi Business Center as part of the Corporate Department.

LeumiTech business Center currently serves thousands of high-tech customers – from start-up companies to venture capital funds, incubators, investors, etc., with a one-stop-shop model, adapted to each customer's specific needs.

At the same time, LeumiTech established Leumi Group's leadership through its foreign offices in high-tech hubs abroad – New York, Palo Alto and London. The activity in China, which focuses on creating value for Israeli companies through connections to the Chinese giants, completes the Group's global deployment in technology hubs.

In October 2017, a first cooperation agreement of its kind was signed between the NASDAQ Stock Exchange and Israeli growth companies wishing to trade on the NASDAQ.

In January 2018 the agreement with the EIF (European Investment Fund) was renewed, with LeumiTech assistance. As part of the agreement with the European Union's investment fund, Leumi may grant NIS 200 million in credit to businesses investing in technological innovation, with partial backing by the Fund. The agreement is effective until August 2020.

Bank Leumi of Israel Trust Company

The Company was established in 1939 and is wholly-owned by Leumi. The company is engaged in providing trust services to individuals, business customers and capital market customers.

On February 22, the Bank entered a binding agreement with Hermetic Trust (1975) Ltd. For the sale of the control over the Trust Fund, as detailed in the immediate report dated February 2018.

Consolidated companies (offices) abroad

The Bank's total investments in foreign units (including capital notes) at the end of 2017 amounted to NIS 4,143 million, compared with NIS 4,416 million at the end of 2016. In 2017, Leumi's foreign units contributed NIS 191 million to the Group's net gains in NIS, compared with a NIS 67 million loss in 2016.

The Bank has offices in New York, London and Romania. In addition, the Bank operates a representative office in China.

For more information about the foreign offices' contribution to the Group's gains, see Note 15.

Bank Leumi U.S.A

Bank Leumi U.S.A (BLUSA), incorporated in 1968, holds a commercial banking license from the State of New York and is a member of the FDIC (Federal Deposit Insurance Corp.).

BLUSA wholly owns LISI, which mainly engages in securities trading for BLUSA's customers.

BLUSA engages in commercial banking - primarily financing local middle-market businesses, in international banking - mainly with Israeli companies, as well as private banking for U.S. and non-U.S. residents. Its commercial activity mainly focuses on real estate, retirement and nursing homes, media financing and commerce. BLUSA operates through five branches in New York, California, Florida and Illinois.

On January 22 2018, the Bank entered into an agreement with? to bring strategic partners into BLUSA. Contingent on meeting the preconditions set out in the agreement, the strategic partners shall each acquire 7.5% of the share capital of Bank Leumi Corporation (hereinafter: "BLC"), an American corporation through which the Bank holds controlling interests in BLUSA, as detailed in an immediate report dated January 22 2018.

Principal data of BLUSA:

	As at December 31			
	2017	2016	Change	
	In millions USD			%
Total balance sheet	7,026	7,420	(394)	(5.3)
Loans to the public	4,925	4,462	463	10.4
Deposits from the public	5,286	6,132	(846)	(13.8)
Sharehholders' equity, attributed to the shareholders	678	636	42	6.6
Customers' securities portfolio	4,524	4,038	486	12.0
Net inccome	37	26	11	42.3
Return on equity (%)	7.38	4.02		

The increase in net income in 2017 compared with 2016 derives mainly from an increase in interest income from loans to the public as a result of an increase in BLUSA's loan portfolio in addition to an increase in noninterest income. The increase was partially offset by an increase in the tax provision on the back of the tax reform in the US, which decreased the corporate tax in the United States from 35% to 21% as of the 2018 tax year.

Bank Leumi U.K. (BLUK)

Bank Leumi U.K. plc was founded in 1959 and continues the Group's activity in England which commenced in 1902. Leumi U.K. has full control over Leumi ABL Ltd., which is mainly engaged in discounting and factoring of invoices.

Bank Leumi U.K. is engaged in commercial and private banking. The commercial banking activity includes real estate financing, international trade, financing of media - mainly in Europe, and Israel-related business of Israeli companies active in the U.K. The real estate financing is extended to a variety of operations in Western Europe, including investments and development of residential real estate and the financing of commercial real estate ventures (mainly hotels, retirement homes, and student dormitories). The financing is provided to both local and non-resident customers (mostly Israeli ones).

Bank Leumi U.K. is regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) - which are extensions of the Bank of England.

Principal data of Bank Leumi U.K.

	As at December 31			
	2017	2016	Change	
	In millions GBP			%
Total balance sheet	1,559	1,740	(181)	(10.4)
Loans to the public	1,113	1,175	(62)	(5.3)
Deposits from the public	1,043	1,201	(158)	(13.2)
Sharehholders' equity, attributed to the shareholders	208	184	24	13.0
Customers' securities portfolio	26	133	(107)	(80.5)
Net inccome	12	17	(5)	(29.4)
Return on equity (%)	6.32	11.51		

BLUK's net income in 2017 amounted to £12 million, a 29.4%, year-on-year decrease. The contribution to the NIS profit was NIS 48 million vs. a NIS 64 million loss last year.

Bank Leumi Romania

Leumi Romania is a banking corporation in Romania which was acquired in 2006. The bank operates 14 branches and engages in financial activity that includes, *inter alia*, taking deposits, extending credit, international trade and forex. The commercial banking activity includes real estate financing and extending credit to Israeli customers operating in Romania as well as to small and medium-sized local businesses.

On December 28 2017, Leumi signed an agreement in principle with British investment fund Argo Capital Management Limited (hereinafter: "Argo") for the sale of its entire stake in Leumi Romania. If closed, the transaction is expected close during 2018. The Bank's financial results are not expected to be materially impacted by the sale as detailed in the Immediate Report dated January 3 2018.

Principal data of Bank Leumi Romania:

	As at December 31			
	2017	2016	Change	-
	In millions RON			%
Total balance sheet	1,183	1,264	(81)	(6.4)
Loans to the public	809	753	56	7.4
Deposits from the public	704	813	(109)	(13.4)
Sharehholders' equity, attributed to the shareholders	179	162	17	10.5
Customers' securities portfolio	-	-	-	-
Net inccome	17	12	5	41.7
Return on equity (%)	9.60	7.45		

RON 1 = $0.257 (end of 2016 - $0.232)

Leumi Romania's net income in 2017 was RON 17 million, a 41.7% year-on-year increase. The increase in the net income is the result of income arising from the cancellation of the Group's provision for credit losses, which was recorded in 2016 and cancelled in 2017 due to a regulatory change.

Risk Exposure and Risk Management Methods

Risk management in Leumi

Risk management and the generation of an appropriate return against them are key to the Bank's business activity. The main risks managed by the Bank are financial ones: credit risk management are integral to the Bank's core business, as are market and liquidity risks. Alongside its business risks, the Bank's activity creates other related risks, the management of which is essential for meeting the Group's current and long-term targets. These risks are as follows: operational risk - including technological and cybersecurity risk, legal risk, regulatory risk, reputational risk, compliance risk, conduct risk (delivering fair customer outcomes) and strategic risk.

The main objectives of risk management in Leumi are maintaining the Group's stability and supporting the attainment of its business targets. These objectives are achieved through meeting the risk appetite which has been defined in the Bank's policies and the restrictions derived therefrom, which create the boundaries for the business activity. This framework is managed under proper control and reporting mechanisms.

The Bank continuously enhances its risk management infrastructure and analysis of the risk picture, so as to enable informed decision-making.

Leumi Group's risk management organizational structure

Leumi's risk management is based on three "lines of defense", as required by Proper Conduct of Banking Business Directive No. 310 – Risk Management.

1. First line of defense – The management teams of the business lines, including supporting functions, such as the IT Department's management, are fully responsible for managing risks embodied in products, activities, processes and systems under their purview and for the implementation of a proper control environment over their activities through identification, measurement, monitoring, control, mitigation and reporting processes.

2. Second line of defense – The Risk Management Division is an independent function responsible for planning and developing a comprehensive risk management framework for the Bank. The Risk Management Division's main areas of responsibility are in line with the requirements of the Proper Conduct of Banking Business Directive No. 310, including responsibility for risk management at the Group and Bank level, directing the preparation of Leumi's risk policy for all major risks, assisting the Board of Directors in establishing the Bank's risk appetite, and leading the process of evaluating the capital adequacy (ICAAP) process, including its various components.

   In addition, the Division has responsibility for authorities in credit and market activity, responsibility for monitoring and control of the main risk appetite limitations, responsibility for determining a working framework for managing conduct risks (fair conduct vis-à-vis the customers), development and validation of models, risk assessment and validation of the borrower's internal rating in specific portfolios in credit according to the stipulated thresholds, overall responsibility for the correctness of the classifications and allowances in credit and the computation for the collective allowance, involvement in the management of risks in central and strategic projects in real time, performance of independent analyses when making strategic decisions and approval processes of new products and forming an overall and up-to-date picture of the risk for making decisions.

   The second line of defense includes additional functions, such the Bank's Chief Legal Counsel, who is responsible for the management of legal risk and the management compliance risks and the Accounting Division which is responsible for financial reporting and SOX.

3. The third line of defense is the Internal Audit Division, which is directly subject to the Board of Directors. The Internal Audit is responsible for conducting an independent and objective review, challenging controls, processes and risk management systems in the banking corporation. The audit is usually conducted retrospectively on the first and second lines, ensuring implementation of the instructions of the management and the Board of Directors.

The Bank's Board of Directors is responsible, inter alia, for the formulation of an overall risk strategy, including the risk appetite, supervision of the risk management strategy in the Group, the approval of risk management policy for each of the material risks, regulating and challenging the risk levels to which the Group and the Bank are exposed, ensuring compliance with the risk appetite.

The Chief Risk Officer, who is a member of the Bank's Management and heads the Risk Management Division, is responsible for managing the Group's and Bank's main risks.

Reporting to the Chief Risk Officer are the directors of the following units – Credit Risk Unit, Operational Risk Unit, Total Return Risk Unit, and the director of the NSA Unit, who is responsible for credit risk at the individual transaction level. Each subsidiary in Israel and overseas has a chief risk manager, who is administratively subordinate to the subsidiary's manager and to the Group's Chief Risk Officer – who is his/her dotted line manager and is involved in his/her appointment, termination and compensation mechanism.

Main risks embodied in the Bank's activity

The main risks embodied in the Bank's activity are credit risk, market risk, liquidity risk and operational risk, which are outlined below.

Changes in the risk environment and their impact on the Group

In general, in the course of the year, there have been no significant changes in the map of risks and threats, although there have been changes in the relative force of the various risks. The banking system, in Israel and around the world, including Leumi Group, are profoundly impacted by the risks related to regulations and legislation, a volatile macroeconomic environment, changes occurring in the business model, including the transition to "new banking" which is based on the digital and social and consumer trends.

Internal Capital Adequacy Assessment Process (ICAAP)

The process of assessing capital adequacy serves to examine the capital required for supporting the various risks, both in the ordinary course of business, and under stress scenarios, to which the Group is exposed, in order to ensure that the Group's capital actually exceeds the said capital requirements at any time. As part of the process, the risk appetite and the risk-bearing capacity were defined, a comprehensive process of mapping and assessment of risks to which the Group is exposed was carried out.

From the performance of the process, it appears that the Bank has adequate capital and liquidity for dealing with all of the risks identified, both in the ordinary course of business, and in the materialization of serious stress scenarios.

The results of the process were formally collated in the ICAAP document which was submitted to the Supervisor of Banks in December 2017. This process will be examined by the Supervisor of Banks as part of the Supervisory Review Process (SREP).

The Group's risk appetite

The Group's risk appetite outlines the boundaries for business activity, both on a routine basis, and under a stress scenario. The risk appetite is adjusted from Leumi's strategy and to the boundaries of the business focus on which it has actually chosen to concentrate and from a forward-looking aspect. The risk appetite relates to the way in which Leumi conducts itself in identifying, measuring, controlling, managing and mitigating the risks, with this conduct having a direct impact on the Group's residual risk profile. The risk appetite limitations are examined each year and approved at the level of the Board of Directors within the framework of the ICAAP process. In December 2017, the risk appetite was approved by the Group as part of the ICAAP paper.

The risk appetite document represents a point of attribution to the specific policy documents in relation to each type of risk, and in which additional risk restrictions and risk management directives are set forth.

The declaration of the Group's risk appetite covers the scope and types of aggregate risk which the Bank is interested to bear in order to achieve its corporate goals, indices in various areas, both quantitative and qualitative, are determined, based on foreseeable assumptions which reflect the declarations of the Group's aggregate risk appetite.

When the outline of the risk appetite is calculated on a routine basis, the risk capacity – the maximum level of risk which the Group can bear without breaching the restrictions on capital, leverage, liquidity, liability and other regulatory limits, including from the point of view of the shareholders and customers. The risk capacity is examined, *inter alia*, using sensitivity testing and stress scenarios.

Use of stress tests for risk management

The performance of a uniform stress test is a generally accepted international standard in accordance with the recommendations of the Basel Committee, and contributes to an understanding of the risk focal points to which the banking system and a single bank is exposed. This process strengthens transparency in the banking system, facilitates the resistance of the banking corporations in a situation of the development of negative market conditions to be examined and compared. The process supports the improvement of the methodologies, and an understanding of the risk factors in the banking corporations and in the Banking Supervision Department.

Since 2012, Bank of Israel's Banking Supervision Department has conducted a macro-economic stress test for the banking system based on a uniform scenario. Within this context, Bank Leumi, like all other banks, uses a variety of models and methodologies that are also based on subjective "expert valuations" to evaluate its results.

At the basis of the uniform stress tests which are carried out once a year, banks have two macro-economic scenarios which were designed by the Bank of Israel – a basis scenario and a stress scenario, which varies from year to year. It is important to note that the scenarios taken into account should not be construed as a forecast, but rather hypothetical scenarios which are intended to examine the banks' compliance in a very harsh macro-economic environment.

The Banking Supervision Department integrates the results of the uniform stress test as a complementary component in the supervisory assessment processes (SREP), including quantitative and qualitative consideration. At the same time, the banking corporations are required to combine the uniform stress test in an internal process for assessing the ICAAP in the banks.

In the first quarter of 2017, Bank Leumi carried out a uniform stress scenario for 2016-2017 (a global stress scenario) according to the guidelines and requirements of the Bank of Israel.

In addition, Leumi Group has a set of internal stress scenarios, which is routinely updated, with the goal of assessing principal focal points of risk, in view of the various developments in the environment in which the Bank operates, such as changes in the business environment, regulatory requirements, etc. Leumi's set of scenarios include, *inter alia*, a global systemic scenario, a local systemic scenario, and various focused scenarios on a variety of topics.

The impact of the most severe stress scenarios is also applied to the Group's capital planning in order to ensure that the Group complies with all regulatory and internal restrictions established in connection with the scenarios' realization.

For more information, please see Risk Management in the Risk Management Report.

Credit Risk

Credit is a central core activity of the Bank and the Group, which is conducted in a number of business lines in a decentralized manner.

Credit risk is the Bank's risk of a loss as a result of the possibility that a borrower/counterparty does not meet its obligation vis-à-vis the banking corporation, as agreed.

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

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

The group-level Credit Policy and Credit Risks paper is the main manifestation of the Bank's credit risk strategy, outlining the framework and overriding principles governing the Bank's policy papers and those of each and every one of its subsidiaries, both in Israel and abroad. The paper also includes the credit restrictions, which are defined and managed at the group level.

Control and management processes

In the credit management domain, there are procedures for the monitoring and control of the risks, adapting them to the characteristics of the customers and the organizational units which deal with them. Further to the steps taken in recent years, such as the establishment of credit-related centers of expertise in the Retail Division and the merger of the mortgage activity into the Retail Division, in 2017, additional measures were carried out, which contributed to the improvement of the control and monitoring of credit risk. The main change was the move to operating via four departments to allow better focus on the various customer segments, in conjunction with the risk management method that best suits the unique characteristics of each segment.

In addition to the treatment and control at the individual credit level, considerable resources are devoted to the management of credit portfolio as a whole, and segments within it, including monitoring and control of the relevant concentration focal points.

Credit risk reporting

The Bank is meticulous in maintaining routine and up-to-date reporting to members of the Bank Management, the Board of Directors and the Banking Supervision Department.

The lines of reporting are defined and are maintained at the level of the individual borrowers and at the level of monitoring the credit portfolio in its entirety and segments thereof.

Credit risk management tools

In managing credit risk, quantitative models are used for rating the borrower risk and for evaluating and monitoring risk at portfolio level. Internal rating serves as the main component in the decision-making and credit pricing process, and in monitoring its quality over the long-term.

Two main tools are used by the Bank to establish the internal rating of borrowers: A rating system for retail customers, based on customer's activity features over the long-term, and a rating system for corporate-commercial borrowers, based on structured expert questionnaires. The rating models carried out in the abovementioned systems are routinely validated and monitored.

Problem Credit Risk

	December 31, 2017		
	Balance sheet	Off-balance	Total
	NIS millions		
1. **Problem credit risk:**[a]			
Impaired credit risk	2,925	253	3,178
Subordinated credit risk	942	52	994
Special mention credit risk[b]	2,874	950	3,824
Total problem credit	6,741	1,255	7,996
Of which: unimpaired debts in arrears 90 days or more[b]	909	-	909
2. **Non-performing assets:**			
Impaired debts	2,257	-	2,257
Assets received for repaid loans	13	-	13
Total non-performing assets	2,270	-	2,270

	December 31, 2016		
	Balance sheet	Off-balance	Total
	NIS millions		
1. **Problem credit risk:** [(a)]			
Impaired credit risk	3,657	331	3,988
Subordinated credit risk	1,271	81	1,352
Special mention credit risk [(b)]	2,787	1,284	4,071
Total problem credit	7,715	1,696	9,411
Of which: unimpaired debts in arrears 90 days or more [(b)]	1,003	-	1,003
2. **Non-performing assets:**			
Impaired debts	3,223	-	3,223
Assets received for repaid loans	14	-	14
Total non-performing assets	3,237	-	3,237

Note: Balance sheet and off-balance sheet credit risk is presented before the effect of the allowances for credit losses and before the effect of deductible collateral for the indebtedness of a borrower and a group of borrowers.

(a) Credit risk, impaired, subordinate or under special supervision.

(b) Including in respect of housing loans in respect of which there is an allowance according to the extent of arrears and in respect of housing loans in respect of which there is no allowance according to the extent of arrears which are in arrears of 90 days or more.

Changes in impaired debts

	December 31	
	2017	2016
	NIS millions	
Balance of impaired debts at beginning of the year	3,653	3,921
Debts classified as impaired debts during the year	1,067	1,559
Debts reclassified as nonimpaired	(70)	(162)
Accounting write-offs	(381)	(292)
Collection of debts written-off in previous years	49	30
Other	(1,400)	(1,403)
Impaired debts balance at year end	2,918	3,653

(a) Net change in the balance of impaired debts as at the beginning of the year.

Credit risk metrics

	December 31	
	2017	2016
	%	
Impaired loans to the public to loans to the public	1.08	1.38
Nonimpaired loans to the public in arrears of 90 days or more to loans to the public	0.34	0.38
Problem credit risk for loans to the public to total credit risk to the public	2.48	2.90
Percentage of NPL-type impaired debts	0.83	1.21
Provision for credit losses for loans to the public to average balance of loans to the public	0.06	(0.05)
Net write-offs for loans to the public to average balance of loans to the public	(0.14)	(0.02)

Disclosure, assessment, classification and provision for credit loss rules

For the provision for credit losses and the classification of problem debts, the Bank follows the directives of the Supervisor of Banks, which came into effect on January 1 2011, and the updates of said directives since that date. The Bank's practice is to estimate, assess and update the amount of the credit loss allowance on a current basis, in accordance with economic forecasts, assessments regarding the various markets and past experience.

Credit loss allowance in relation to the credit portfolio may be divided into an individual allowance and a collective allowance.

Income in respect of credit losses for 2017 amounted to NIS 172 million, representing 0.06% of the portfolio of loans to the public. The percentage is affected by several key factors:

- A low rate of individual provisions in light of the lack of provisions in respect of prominent customers.
- The significant amounts of collections, including in respect of debts written off.

For more information, please see Note 13.

Provision for credit loss risk

	December 31	
	2017	2016
	%	
Credit loss allowance for loans to the public to loans to the public	1.4	1.5
Credit loss allowance for loans to the public to impaired loans to the public	128.4	109.0
Credit loss allowance for loans to the public to impaired loans to the public and loans to the public in arrears of 90 days or more	97.9	85.5
Net write-offs for loans to the public to credit loss allowance for loans to the public	(10.2)	(1.2)

For more information regarding the provisions governing the measurement and disclosure of impaired debts, credit risk and credit loss provisions, please see Critical accounting policy, provision for credit losses and classification of problem debts."

Credit concentration

Concentration risk is defined as a single exposure or group of exposures with a common denominator and a potential for causing significant losses. Concentration risk management is conducted by determining restrictions and monitoring and controlling compliance therewith. The aspect of concentration is also reflected in the pricing of credit which reflects the risk.

The sources of concentration relevant to the Bank's credit portfolio are as follows: industries, individual borrowers and groups of borrowers.

The concentration risk is managed by adhering to all regulatory restrictions, as well as by defining and ongoing monitoring of compliance with all internal restrictions (which are stricter than the regulatory ones).

Diversification of the credit portfolio among various market sectors

In order to diversify the risk inherent in industries characterized by high concentration, the Bank's credit portfolio varies across market sectors. In the market sectors characterized by a relatively low level of risk, we strive to achieve a high rate of financing from our share in the system.

The Bank's credit policy with regard to various operating segments and different market sectors varies from time to time in accordance with the business environment, the Bank's business focus, the Bank's risk appetite and the specific and general directives of the Bank of Israel.

Overall credit risk for loans to the public by market sector

	December 31, 2017									
	Overall credit risk[a]			Debts[b] and off-balance sheet credit risk (excluding derivatives)[c]						
								Credit losses[d]		
					[1]Of which:					
	Total	Credit performance score	Problematic[e]	Total[1]	Debts[b]	Problematic[e]	Impaired	Provision for credit losses	Net accounting write-offs	Credit loss allowance
	(NIS millions)									
Borrowers in Israel, public-commercial, by activity										
Agriculture	2,184	2,027	157	2,183	1,883	156	69	9	2	(59)
Mining and quarrying	959	958	1	932	514	1	-	-	-	(1)
Industry	23,004	21,990	1,014	22,771	14,956	1,010	579	104	146	(463)
Construction and real estate - construction[(g)]	49,689	48,492	1,197	49,628	18,936	1,197	304	72	45	(350)
Construction and real estate - real estate activity	27,700	26,952	748	27,617	24,444	748	613	(302)	(255)	(394)
Electricity and water	4,264	3,919	345	4,184	2,803	345	237	(7)	6	(54)
Commerce[h]	27,478	26,762	716	27,350	22,703	712	202	56	82	(288)
Hotels, accomodation and food services	3,232	3,070	162	3,206	2,753	162	59	(6)	(8)	(28)
Transport and storage	8,160	7,703	457	8,099	6,792	450	149	38	21	(62)
Communications and computer services	5,169	5,108	61	4,964	3,582	60	49	(28)	3	(38)
Financial services	21,721	21,707	14	14,021	11,189	8	3	(76)	(56)	(188)
Other business services	9,966	9,833	133	9,940	7,154	133	52	42	38	(152)
Public and community services	8,924	8,864	60	8,910	7,440	60	17	28	20	(60)
Total commercial	192,450	187,385	5,065	183,805	125,149	5,042	2,333	(70)	44	(2,137)
Private individuals - housing loans	79,034	78,313	721	79,034	77,448	722	-	(10)	8	(443)
Private individuals - other	68,649	67,992	657	68,643	38,395	657	139	189	217	(790)
Total public - in Israel	340,133	333,690	6,443	331,482	240,992	6,421	2,472	109	269	(3,370)
Israeli banks	3,921	3,921	-	1,701	1,650	-	-	2	-	(3)
Government of Israel	41,161	41,161	-	129	129	-	-	-	-	-
Total - in Israel	385,215	378,772	6,443	333,312	242,771	6,421	2,472	111	269	(3,373)

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

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

(c) Credit risk of off-balance sheet financial instruments as calculated for the purpose of single borrower debt limitation, except in respect of derivative instruments.

(d) Including in respect of off-balance sheet credit instruments (shown in the balance sheet under "other liabilities").

(e) Impaired, substandard, or special mention balance sheet credit risk, including in respect of housing loans for which there is a provision by extent of arrears, and housing loans for which there is no provision by extent of arrears that are in arrears of 90 days or more.

(f) Credit risk whose credit rating on the report date corresponds with the credit rating for making new credit in accordance with the Bank's policy.

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

(h) The balance of commercial debts includes the balance of housing loans, amounting to NIS 1,606 million, which were extended to purchasing groups in the process of construction.

Overall credit risk for loans to the public by market sector (cont.)

	December 31, 2017									
	Overall credit risk[a]			Debts[b] and off-balance sheet credit risk (excluding derivatives)[c]						
								Credit losses[d]		
					[1]Of which:					
	Total	Credit performance score	Problematic[e]	Total[1]	Debts[b]	Problematic[e]	Impaired	Provision for credit losses	Net accounting write-offs	Credit loss allowance
	NIS millions									
Borrowers abroad by sector, public-commercial										
Agriculture	100	100	-	98	60	-	-	-	-	(1)
Mining and quarrying	35	35	-	35	30	-	-	-	-	-
Industry	7,564	7,249	315	6,420	4,567	315	78	(5)	5	(32)
Construction and real estate[(g)]	14,223	13,313	910	13,496	9,748	910	431	19	80	(136)
Electricity and water	260	260	-	87	22	-	-	-	-	-
Commerce	6,371	6,350	21	6,203	4,406	21	21	19	3	(71)
Hotels, accomodation and food services	2,250	2,250	-	2,234	2,056	-	-	5	1	(15)
Transport and storage	84	63	21	67	50	21	21	18	8	(15)
Communications and computer services	1,829	1,808	21	1,596	875	21	21	8	-	(9)
Financial services	16,071	15,992	79	2,135	1,527	79	79	(5)	1	(43)
Other business services	6,430	6,279	151	6,160	5,411	151	14	6	15	(28)
Public and community services	627	627	-	618	441	-	-	-	-	(17)
Total commercial	55,844	54,326	1,518	39,149	29,193	1,518	665	65	113	(367)
Private individuals - housing loans	510	480	30	509	509	30	29	(3)	1	(7)
Private individuals - other	608	603	5	608	522	5	5	(1)	-	(4)
Total public - abroad	56,962	55,409	1,553	40,266	30,224	1,553	699	61	114	(378)
Foreign banks	31,247	31,247	-	11,251	10,214	-	-	-	-	-
Foreign governments	12,047	12,047	-	1,210	586	-	-	-	-	-
Total abroad	100,256	98,703	1,553	52,727	41,024	1,553	699	61	114	(378)
Total	485,471	477,475	7,996	386,039	283,795	7,974	3,171	172	383	(3,751)

(a) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments, including debts, bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments as calculated for borrower debt limitations in the sum of NIS 41,022, 32,963, -, 6,294, 19,977 million, respectively.

(b) Credit risk to the public, loans to governments, deposits with banks and other debts, except for bonds and securities borrowed or purchased under agreements to resell.

(c) Credit risk of off-balance sheet financial instruments as calculated for the purpose of single borrower debt limitation, except in respect of derivative instruments.

(d) Including in respect of off-balance sheet credit instruments (shown in the balance sheet under "Other liabilities").

(e) Impaired, substandard, or special mention balance sheet credit risk, including in respect of housing loans for which there is a provision by extent of arrears, and housing loans for which there is no provision by extent of arrears that are in arrears of 90 days or more.

(f) Credit risk whose credit rating on the report date corresponds with the credit rating for making new credit in accordance with the Bank's policy.

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

Overall credit risk of loans to the public by market sector (cont.)

	December 31, 2016									
	Overall credit risk[a]			Debts[b] and off-balance sheet credit risk (excluding derivatives)[c]						
					[1]Of which:			Credit losses[d]		
	Total	Credit performance score	Problematic[e]	Total[1]	Debts[b]	Problematic[e]	Impaired	Provision for credit losses	Net accounting write-offs	Credit loss allowance
	NIS millions									
Borrowers in Israel by sector, public-commercial										
Agriculture	2,168	1,975	193	2,165	1,863	192	93	23	9	(53)
Mining and quarrying	726	717	9	703	290	9	-	-	-	-
Industry	20,837	19,559	1,278	20,531	13,941	1,281	460	(189)	(202)	(521)
Construction and real estate - construction[g]	45,662	44,106	1,556	45,588	15,576	1,556	380	(7)	26	(327)
Construction and real estate - real estate activity	26,440	25,313	1,127	26,373	23,878	1,127	751	(303)	(65)	(426)
Electricity and water	4,849	4,483	366	4,569	3,060	366	269	23	4	(67)
Commerce[h]	28,011	26,960	1,051	27,842	22,685	1,033	252	33	15	(315)
Hotels, accomodation and food services	2,587	2,364	223	2,566	2,307	223	94	(74)	(76)	(28)
Transport and storage	7,872	7,613	259	7,739	6,789	254	169	(52)	(52)	(39)
Communications and computer services	5,707	5,495	212	5,445	4,067	208	197	(15)	(1)	(68)
Financial services	19,520	19,037	483	14,605	10,854	482	476	(82)	(23)	(218)
Other business services	8,908	8,762	146	8,876	6,264	146	50	95	43	(140)
Public and community services	8,524	8,469	55	8,500	7,148	55	13	5	(3)	(48)
Total commercial	181,811	174,853	6,958	175,502	118,722	6,932	3,204	(543)	(325)	(2,250)
Private individuals - housing loans	80,570	79,850	720	80,570	78,645	719	-	(10)	25	(462)
Private individuals - other	67,691	67,035	656	67,683	38,141	656	108	458	293	(818)
Total public - in Israel	330,072	321,738	8,334	323,755	235,508	8,307	3,312	(95)	(7)	(3,530)
Israeli banks	4,370	4,370	-	1,801	1,742	-	-	(2)	-	(1)
Government of Israel	41,992	41,992	-	206	206	-	-	-	-	-
Total in Israel	376,434	368,100	8,334	325,762	237,456	8,307	3,312	(97)	(7)	(3,531)

(a) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments, including debts, bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments as calculated for borrower debt limitations in the sum of NIS 237,456, 41,059, 1,284, 3,298, 93,337 million, respectively.

(b) Credit risk to the public, loans to governments, deposits with banks (in 2014 except for deposits in the Bank of Israel) and other debts, except for bonds and securities borrowed or purchased under agreements to resell.

(c) Credit risk of off-balance sheet financial instruments as calculated for the purpose of single borrower debt limitation, except in respect of derivative instruments.

(d) Including in respect of off-balance sheet credit instruments (shown in the balance sheet under "Other liabilities").

(e) Impaired, substandard, or special mention balance sheet credit risk, including in respect of housing loans for which there is a provision by extent of arrears, and housing loans for which there is no provision by extent of arrears that are in arrears of 90 days or more.

(f) Credit risk whose credit rating on the report date corresponds with the credit rating for making ne credit in accordance with the Bank's policy.

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

(h) The balance of commercial debts includes the balance of housing loans, amounting to NIS 909 million, which were extended to purchasing groups in the process of construction.

Overall credit risk of loans to the public by market sector (cont.)

	December 31, 2016									
	Overall credit risk[a]			Debts[b] and off-balance sheet credit risk (excluding derivatives)[c]						
								Credit losses[d]		
					[1]Of which:					
	Total	Credit performance score	Problematic[e]	Total[1]	Debts[b]	Problematic[e]	Impaired	Provision for credit losses	Net accounting write-offs	Credit loss allowance
	NIS millions									
Borrowers abroad by sector, public-commercial										
Agriculture	85	84	1	83	58	1	1	(1)	-	(1)
Mining and quarrying	12	12	-	11	5	-	-	-	-	-
Industry	8,630	8,427	203	7,229	4,613	205	45	(18)	18	(45)
Construction and real estate[g]	13,722	13,193	529	13,342	9,540	529	326	(34)	2	(189)
Electricity and water	169	169	-	80	45	-	-	-	-	-
Commerce[h]	7,015	6,969	46	6,888	4,659	46	39	16	2	(89)
Hotels, accomodation and food services	1,995	1,991	4	1,978	1,705	4	-	(1)	-	(9)
Transport and storage	131	79	52	115	101	52	43	13	33	(5)
Communications and computer services	2,011	2,011	-	1,810	898	-	-	-	-	(1)
Financial services	16,305	16,201	104	1,972	1,465	104	104	(7)	(3)	(53)
Other business services	6,402	6,357	45	6,330	5,488	45	18	8	-	(24)
Public and community services	1,311	1,269	42	824	463	42	42	(4)	(4)	(19)
Total commercial	57,788	56,762	1,026	40,662	29,040	1,028	618	(28)	48	(435)
Private individuals - housing loans	494	448	46	494	486	46	46	1	6	(11)
Private individuals - other	486	481	5	486	416	5	5	(1)	-	(5)
Total public - abroad	58,768	57,691	1,077	41,642	29,942	1,079	669	(28)	54	(451)
Foreign banks	25,423	25,423	-	10,385	9,654	-	-	-	-	-
Foreign governments	14,740	14,740	-	833	436	-	-	-	-	-
Total activity abroad	98,931	97,854	1,077	52,860	40,032	1,079	669	(28)	54	(451)
Total	475,365	465,954	9,411	378,622	277,488	9,386	3,981	(125)	47	(3,982)

(a) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments, including debts, bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments as calculated for borrower debt limitations in the sum of NIS 40,032, 34,200, -, 7,361, 17,338million, respectively.

(b) Credit risk to the public, loans to governments, deposits with banks and other debts, except for bonds and securities borrowed or purchased under agreements to resell.

(c) Credit risk of off-balance sheet financial instruments as calculated for the purpose of single borrower debt limitations, except in respect of derivative instruments.

(d) Including in respect of off-balance sheet credit instruments (shown in the balance sheet under "Other liabilities").

(e) Impaired, substandard, or special mention balance sheet credit risk, including in respect of housing loans for which there is a provision by extent of arrears, and housing loans for which there is no provision by extent of arrears that are in arrears of 90 days or more.

(f) Credit risk whose credit rating on the report date corresponds with the credit rating for making ne credit in accordance with the Bank's policy.

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

Activity and risk restrictions in the construction and real estate sector

Construction and real estate is the area of activity in which the Bank has the greatest exposure of all the corporate market sectors. As with other market sectors, methodologies and parameters for financing transactions in each of the sub-sectors of the real estate industry are defined for the real estate sector as part of the credit risk policy.

The emphasis Leumi gives to the financing of real estate sector is reflected, inter alia, in the fact that a significant part of the Bank's activity is concentrated in a specifically designated system specially adapted for dealing with customers in this area. The Construction and Real Estate Department supports large and/or complex transactions in the area, reflecting the expertise and practical experience of the credit officers manning it.

A significant part of the construction financing is done in a "closed project" (construction loan) format which is characterized by periodic examination and a close review of the relevant parameters (such as the rate of sales, progress of construction, adherence to budget, etc.) relying on and with the assistance of qualified external building supervisors.

The real estate loan portfolio is closely monitored. In addition to the test of compliance with the internal and regulatory limits (see below), the trends and development of the risk are tested, including the macroeconomic features of the economy and secondary sectors, including a breakdown of internal ratings, the allocation between the various business lines, central parameters, forward-looking assessment regarding the expected level of risk, etc.

In addition, the risk in respect of the real estate sector is analyzed using a key stress scenario, which is examined by the Bank, with credit losses segmented by sub-segments and assessed against the risk assessment and risk appetite.

Development of indebtedness to the construction and real estate sector (in Israel and abroad):

	December 31			
	2017	2016	Change	
	NIS millions		NIS millions	%
Balance sheet credit risk	53,861	49,368	4,493	9.1
Guarantees to apartment purchasers[a]	8,082	8,421	(339)	(4.0)
Other off-balance sheet credit risk	29,669	28,035	1,634	5.8
Total	91,612	85,824	5,788	6.7

(a) Weighted according to balance sheet value.

The credit risk of the construction and real estate sector in Israel constitutes 22.75% of total credit risk in Israel.

According to the calculation rules established by the Bank of Israel for determining the rate of the economy sector's concentration, in accordance with Proper Conduct of Banking Business Directive No. 315 Supplementary Provision for Doubtful Debts, total indebtedness in the sector at the Bank amounts to some 19.03% of total indebtedness in Israel.

On March 8 2016, an agreement was completed with international reinsurers with high international-rating to purchase insurance for the portfolio of guarantees by virtue of the Sales Law (Apartments) and to the liability portfolio to take out guarantees as aforesaid. The insurance policy ensures the Bank in the event that it will have to pay due to the realization of the guarantees, all according to the terms of the policy. The purchase of the insurance policy enables reduction of the restricted capital in respect of the risk of the credit deriving from the guarantees, while using the policy as a "credit risk mitigation policy". The insurance is for projects which begin by August 1 2018.

In addition to the regulatory restriction and in order to effectively manage the internal mix of the credit risk, the Bank makes sure to diversify the geographical areas in which projects are being built according to demand, and between the various sub-sectors.

At December 31 2017, the Bank was within the regulatory limit and the internal limits, which conform to the Bank's assessment of risk in the various sub-sectors.

The rate which represents each of the main sub-sectors out of the Bank's overall indebtedness to the real estate area as of the end of 2017:

- Residential construction development – 45%
- Real estate activities (mainly rental properties) – 34%
- Building and infrastructure contractors – 11%
- Purchase groups – 4%
- Infrastructure projects, trading in products for construction and manufacturing construction products – 6%

Below is the breakdown of credit granted by the Bank to the construction and real estate sector, by borrower:

Volume of loans to a single borrower in thousands of NIS		December 31	
		2017	2016
		Balance of loans	
From	To	NIS millions	
-	300	**1,777**	1,512
300	600	**1,846**	1,762
600	1,200	**3,012**	3,141
1,200	2,000	**2,338**	2,332
2,000	4,000	**3,483**	3,468
4,000	8,000	**4,309**	4,432
8,000	20,000	**6,614**	6,547
20,000	40,000	**6,624**	5,826
40,000	200,000	**22,504**	21,264
200,000	400,000	**12,752**	10,501
400,000	800,000	**11,520**	11,995
800,000	1,200,000	**3,045**	2,787
1,200,000	1,600,000	**1,232**	-

Below are additional data on total loans

Breakdown of total loans to the public and off-balance sheet credit risk by size of loan to a single borrower

Loan ceiling (NIS thousands)		December 31, 2017			December 31, 2016		
		Percentage of total number of borrowers	Percentage of total balance sheet credit	Percentage of total off-balance sheet credit	Percentage of total number of borrowers	Percentage of total balance sheet credit	Percentage of total off-balance sheet credit
From	To	%					
-	80	**80.9**	**6.2**	**20.5**	81.0	6.0	19.8
80	600	**15.7**	**21.8**	**11.6**	15.3	20.6	11.9
600	1,200	**2.3**	**14.3**	**3.5**	2.5	15.2	4.0
1,200	2,000	**0.6**	**6.5**	**2.2**	0.7	7.2	2.4
2,000	8,000	**0.4**	**9.0**	**4.9**	0.4	9.4	5.3
8,000	20,000	**0.1**	**6.6**	**4.5**	0.1	6.7	4.8
20,000	40,000	**0.04**	**6.5**	**5.3**	0.04	6.2	5.3
40,000	200,000	**0.04**	**16.8**	**17.9**	0.04	17.3	18.5
200,000	800,000	**0.01**(a)	**9.4**	**20.1**	0.01(a)	8.6	22.4
Above 800,000		**0.001**(b)	**2.9**	**9.5**	0.001(b)	2.8	5.6
Total		**100.00**	**100.0**	**100.0**	100.00	100.0	100.0

(a) In 2017 - 134 borrowers in 2016 – 128 borrowers

(b) In 2017 - 16 borrowers in 2016 – 12 borrowers

For more information on the allocation of credit by size – please see Note 30C.

Credit risk by size of loans per borrower whose scope exceed NIS 800 million

		December 31, 2017					
		Number of borrowers	Balance sheet Credit	Off-balance sheet credit	Number of borrowers	Balance sheet Credit	Off-balance sheet credit
Loan ceiling (NIS millions)		Total	Total	Total	Total	Total	Total
From	To	NIS millions					
800	1,200	11	4,266	6,264	9	3,849	4,690
1,200	1,600	4	2,633	2,974	1	869	432
1,600	2,000	-	-	-	2	2,895	789
2,000	2,248	1	1,126	1,122	-	-	-
Total		16	8,025	10,360	12	7,613	5,911

There are no related parties in respect of which the credit and off-balance sheet credit exceeds NIS 800 million.

Borrower groups[1]

Restrictions on indebtedness of a borrower or group of borrowers

1. At December 31 2017, the Group had no exposure to a group of borrowers whose indebtedness exceeds 15% of the Bank's capital (as defined in Proper Conduct of Banking Business Directive No. 313).
2. As of December 31 2017, the Group has no credit exposure to large borrowers, groups of borrowers and banking groups of borrowers whose debt exceeds 10% of the Bank's capital. The aggregated regulatory limit is 120% of the Bank's capital.

Geographic distribution

Exposure to foreign countries

Pursuant to the Directive of the Supervisor of Banks, exposure to foreign countries is shown on an end-risk basis, as follows:

1. The accounting balance of a debt is to be dealt with as the amount of exposure to the legal country of residence of the debtor bearing the end risk, after the effect of guarantees, liquid collateral and credit derivatives.
2. The accounting balance of an investment in shares is to be dealt with as the amount of exposure to the country of residence of the issuer of the security.
3. Off-balance sheet credit risk is shown as an off-balance sheet exposure to the country of residence of the counterparty to the transaction, as calculated for the purpose of single borrower debt limitations.

From the aspect of determining end-risk, collateral is to be considered as follows:

1. Third party guarantees - according to the country of residence of the guarantor.
2. Securities - the country of residence is that of the issuer of the security.
3. The directive makes it clear that real estate and debtors' balances do not represent collateral for purposes of determining end-risk.
4. For purposes of determining end-risk, only specific collateral was taken into account.

[1] A group of borrowers is defined as all the following together: the borrower, a person controlling it or anyone controlled thereby. When a corporation is controlled by more than one individual, it is required to include in one group of borrowers those controllers for which the controlled corporation is material (e.g., from a capital perspective), including the controlled corporation and anyone controlled by them; an investee corporation which is material for a holder who has no control and anyone controlled by them; borrowers related in such a way that the impairment in the financial stability of any of them is likely to have implications for the financial stability of the other, or that those factors are likely to have implications for the financial stability of both of them.

Part A – Information on total exposure to foreign countries and on exposure to countries whose total individual exposure exceeds 1% of total assets or exceeds 20% of total equity for the purpose of calculating capital ratios, whichever the lower.

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

	December 31, 2017					
	Balance sheet exposure[a]					
					Cross-Border balance sheet exposure	
					Repayment period	
	Total balance sheet exposure	Balance sheet problem credit risk	Of which: Balance of impaired debts	Of which: Off-balance sheet problem credit risk	Up to one year	Over one year
	NIS millions					
Country						
United States	30,937	1,190	418	-	6,667	13,535
United Kingdom	11,911	160	160	-	4,289	3,320
France	2,846	13	12	-	1,551	1,295
Switzerland	1,359	-	-	-	766	590
Germany	3,958	-	-	-	2,211	1,747
Others	14,803	117	111	-	7,043	7,227
Total exposure to foreign countries	65,814	1,480	701	-	22,527	27,714
Total exposure to LDC countries	3,022	96	93	-	393	2,107
Total exposure to GIIPS countries[d]	775	-	-	-	659	116

Part A – Information on total exposure to foreign countries and on exposure to countries whose total individual exposure exceeds 1% of total assets or exceeds 20% of total equity for purposes of calculating capital ratios, whichever the lower (cont.).

	December 31 2016					
	Balance sheet exposure[a]					
	Cross-border balance sheet exposure			Balance sheet exposure of the banking corporation's foreign offices to local residents		
	To governments	To banks	To others	Balance sheet exposure before deducting local liabilities	Deduction for local liabilities	Net balance sheet exposure net of local liabilities
	In NIS millions					
Country						
USA	10,013	2,003	9,193	26,847	13,879	12,968
UK	252	2,534	3,656	6,838	1,567	5,271
France	810	1,350	304	-	-	-
Switzerland	-	576	888	62	29	33
Germany	-	2,201	354	-	-	-
Other	2,726	5,232	4,637	1,164	633	531
Total exposure to foreign countries	13,801	13,896	19,032	34,911	16,108	18,803
Total exposure to LDC countries	397	1,227	679	1,146	633	513
Total exposure to GIIPS countries	372	10	166	-	-	-

	December 31 2016						
	Balance sheet exposure[a]			Off balance sheet exposure[a]			
						Cross-border balance sheet exposure	
						Repayment period	
	Total balance sheet exposure	Balance problem credit risk	Of which impaired debt balance	Total balance sheet exposure	Of which off-balance problem credit risk	Up to 10 months	More than 12 months
	In NIS m						
Country							
USA	34,177	703	297	7,816	-	5,198	16,011
UK	11,713	230	229	3,609	-	2,501	3,941
France	2,464	6	6	2,168	-	1,434	1,030
Switzerland	1,497	-	-	1,949	-	726	738
Germany	2,555	-	-	1,990	-	1,806	749
Other	13,126	172	165	2,779	-	5,195	7,400
Total exposure to foreign countries	65,532	1,111	697	20,311	-	16,860	29,869
Total exposure to LDC countries	2,816	127	119	1,878	-	397	1,906
Total exposure to GIIPS countries	548	-	-	173	-	407	141

(a) Balance sheet and off-balance sheet risk, problem commercial credit risk and impaired debts are stated before the effect of a credit loss allowance and before the effect of collateral permitted for deduction for the purpose of indebtedness of a borrower and a group of borrowers and before the effect of a bilateral offset in respect of derivatives.

(b) Before the effect of a bilateral offset in respect of derivatives.

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

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

Notes:

1. The line "Total exposure to LDC countries" includes the total exposure to countries defined as less developed countries (LDC) in Proper Conduct of Banking Management Directive No. 315 "Supplementary Allowance for Doubtful Debts".
2. Balance sheet exposure to a foreign country includes cross-border balance sheet exposure and balance sheet exposure of Bank's offices in Israel to foreign residents of the country and balance sheet exposure of the Bank's foreign offices to residents who are not residents of the country in which the office is located. Balance sheet exposure of the office of the Bank in a foreign country, to local residents include balance sheet exposure of the office of the Bank in that foreign country to its residents, net of liabilities of those offices. (The deduction is made up to the level of exposure.)

Part B – At December 31 2017 and December 31 2016, there was no aggregate balance sheet exposure to foreign countries whose total individual exposure was between 0.75% and 1% of total consolidated assets or between 15% and 20% of equity, whichever the lower.

Part C – The exposure to foreign countries with liquidity problems as defined by the Bank of Israel (a country receiving financial aid from the IMF or whose obligations are rated with a credit rating of CCC or lower) amounts to NIS 610 million and relates to 9 countries (at December 31 2016, this amounted to NIS 656 million and related to 11 countries).

Credit exposure to foreign financial institutions

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

The exposure mainly comprises short-term deposits in foreign banks of up to one week and bonds of up to five years' duration. The Bank closely monitors the financial position of other banks around the world and frequently analyzes their robustness. It keeps a small list of high-quality banks, with which the Bank and its foreign offices place deposits.

Credit exposure to foreign financial institutions(a):

	December 31, 2017		
	Balance sheet credit risk[b]	Current off-balance sheet credit risk[c]	Current credit exposure
	NIS millions		
External credit rating[d]			
AAA to AA-	14,983	913	15,896
A+ to A-	3,747	613	4,360
BBB+ to BBB-	281	298	579
BB+ to B-	10	11	21
Below B-	14	18	32
Unrated	396	1	397
Total current credit exposure to foreign financial institutions	19,431	1,854	21,285
Problem debt balances	-	-	-

	December 31, 2016		
	Balance sheet credit risk[b]	Current off-balance sheet credit risk[c]	Current credit exposure
	NIS millions		
External credit rating[d]			
AAA to AA-	13,721	2,508	16,229
A+ to A-	1,985	12	1,997
BBB+ to BBB-	571	395	966
BB+ to B-	4	27	31
Below B-	18	-	18
Unrated	347	-	347
Total current credit exposure to foreign financial institutions	16,646	2,942	19,588
Problem debt balances	-	-	-

(a) Foreign financial institutions include banks, investment banks, dealers/brokers, insurance companies and institutional bodies.

(b) Deposits in banks, loans to the public, securities that were borrowed or purchased in the context of buy-back (resale) agreements and other derivative assets (fair value of derivatives) and investments in debentures including subordinated bank debentures amounting to NIS 253 million at December 31 2017 and NIS 478 million at December 31 2016.

(c) Mainly guarantees and undertakings for the provision of credit (excluding off-balance sheet derivatives).

(d) The Bank only uses the rating of Moody's and S&P credit rating agencies to rate the foreign financial institutions to which there is a credit exposure.

Notes:

1. Credit exposures do not include investments in asset-backed securities. (See Note 12)
2. Some of the banks have received government support of various types, including direct investment in the Bank's capital, government guarantees of certain asset portfolios of the banks, guarantees enabling the banks to raise sources of financing, etc.
3. For further information regarding the composition of the credit exposure in respect of derivatives *vis-à-vis* banks and broker/dealers (local and abroad), see Note 28B to the financial statements.

Risks in the Housing Loan Portfolio

Credit risk developments

2017 saw a decrease in demand for housing – both for residential and investment purposes.

On the back of the recent years' trends, and to ensure effective risk management, the Bank regularly monitors its housing loan portfolio, analyzing the trends in the risk characteristics and focal points, especially the following: financing ratios, monthly repayment capacities, credit ratings in accordance with the Bank's internal statistical model.

The Bank upholds a balanced underwriting policy, which takes into account the borrower's repayment capacity, the financing ratio, the linkage and interest rate, etc., while complying with all the requirements of the Supervisor of Banks.

As part of extending housing loans, the Bank also extends individual loans to purchase group members. Providing loans as part of purchase groups meets a market demand for private initiatives, historic land ownership, etc. From a risk point of view, the financing is extended to various, widely-dispersed population groups, after each borrower undergoes a repayment capacity assessment for that particular loan.

Data on performance of new and refinanced loans for the purchase of residential apartments, and mortgages on residential apartments in Israel

Performance of new and refinanced loans - for purchase and mortgage of residential apartments

	2017	2016	Change
	Annual Total	Annual Total	
	NIS millions		%
From Bank funds	**7,976**	9,730	(18.0)
From Ministry of Finance funds:			
Directed loans	**69**	16	331.3
Bullet loans	**13**	21	(38.1)
Total new loans	**8,058**	9,767	(17.5)
Refinanced loans	**1,198**	1,871	(36.0)
Total performance	**9,256**	11,638	(20.5)

Disclosure of housing loans

The following are data relating developments in the housing loans portfolio.

Development of net housing loan portfolio balance in Israel:

	Crerdit portfolio	Growth
	NIS millions	%
December 2015	80,616	8.5
December 2016	78,656	(2.4)
December 2017	**77,005**	**(2.1)**

In 2017, housing loans fell, as a result of a decrease in the volume of loans extended and as a result of joint loan extension with an institutional entity.

Data relating to new housing loans

In 2017, the Bank extended new housing loans amounting to NIS 8.1 billion of the Bank's funds.

The average loan extended by the Bank in 2017 was NIS 529 thousand, compared with NIS 555 thousand in 2016 and NIS 623 thousand in 2015.

Development of net housing loan balance in Israel, by linkage basis:

	Unlinked	Percentage of credit portfolio	CPI-linked	Percentage of credit portfolio	Foreign currency	Percentage of credit portfolio	Total portfolio
	NIS millions	%	NIS millions	%	NIS millions	%	NIS millions
December 2015	44,649	55.4	34,511	42.8	1,456	1.8	80,616
December 2016	45,427	57.8	31,986	40.7	1,243	1.5	78,656
December 2017	**45,588**	**59.2**	**30,407**	**39.5**	**1,010**	**1.3**	**77,005**

Development of housing loan portfolio balance in Israel, at variable and fixed interest:

	Fixed		Variable			Total portfolio
	Unlinked	CPI-linked	Unlinked	CPI-linked	Foreign currency	
	NIS millions					
December 2015	13,062	12,477	31,587	22,034	1,456	80,616
December 2016	14,178	11,792	31,249	20,194	1,243	78,656
December 2017	**13,858**	**12,002**	**31,730**	**18,405**	**1,010**	**77,005**

Development of new housing loan balance by interest track in Israel

The development of new credit according to variable and fixed interest tracks (a variable interest loan is a loan where the interest that it bears is likely to change over the life of the loan):

	2017				2016	2015
	4th quarter	3rd quarter	2nd quarter	1st quarter	Annual average	Annual average
	Percentage of loans granted					
	%					
Fixed – linked	**13.9**	**15.9**	**15.1**	**16.6**	18.7	18.6
Variable every 5 years and above - linked	**15.7**	**16.9**	**16.8**	**16.1**	13.3	13.3
Variable up to 5 years - linked	**0.1**	**0.1**	**0.1**	**0.2**	0.6	.1.2
Fixed – not linked	**31.8**	**28.5**	**30.0**	**28.0**	30.2	32.1
Variable every 5 years and above - not linked	**7.0**	**6.4**	**7.0**	**7.3**	7.7	6.0
Variable up to 5 years - not linked	**31.0**	**32.0**	**30.8**	**31.2**	29.2	28.3
Variable – Foreign currency	**0.5**	**0.2**	**0.2**	**0.6**	0.3	0.5

The percentage of new loans extended by the Bank in variable interest housing loans during 2017 stood at 55%, compared with 51% in 2016. The figures relate to all of the various interest paths and linkage segments, including loans in which the interest varies each period of five years and more. Excluding the effect of loans in which the rate of interest is variable, which varies each period of five years and more, which the directive of the Banking Supervision Department excludes from the definition of variable interest loans, the percentage of housing credit at variable interest which stood at 31.8% during 2017, compared with 30% in 2016.

Past due housing loan portfolio balance of more than 90 days in arrears, in Israel

	Recorded debt balance	Amount of credit in arrears	% of problem debt
	NIS millions		%
December 2015	80,402	768	1.0
December 2016	78,667	749	1.0
December 2017	**77,414**	**752**	**1.0**

Credit loss allowance at December 31 2017, including the collective allowance on housing loans (hereinafter: "the overall allowance") was NIS 449 million, representing 0.58% of the housing credit balance, compared with the balance of the allowance at December 31 2016, amounting to NIS 463 million, representing 0.59% of the housing credit balance.

Development of the financing ratios, in new loans, above 60%, in Israel

The development of new loans extended by the Bank at a rate of financing higher than 60%: (The rate of financing is the ratio between the rate of credit approved for a borrower, even if all or part thereof has not yet been actually extended) and the value of the asset mortgaged, at the time of extending the credit facility.)

	2017				2016	2015
	4th quarter	3rd quarter	2nd quarter	1st quarter	Annual average	Annual average
Rate of financing	%					
Above 60% and up to 70%	19.8	19.8	16.9	15.7	16.1	18.8
Above 70% and up to 80%	16.8	15.9	17.8	14.3	14.7	16.7
Above 80%	0.17	0.08	0.04	0.10	0.12	1.10

Development of the financing ratios, loan portfolio balance, in Israel

The average rate of financing of the loan portfolio balance at December 31 2017 was 46.0%, compared to 47.0% in 2017.

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

Loans made in 2017 in which the repayment ratio is lower than 2.5 at the date of approval, stood at 1.4% of the total new extensions to new loans.

This calculation complies with the Bank of Israel directives for the purposes of reporting pursuant to Proper Conduct of Banking Business Regulation No. 876.

Development of new loans, for which the repayment dates extend beyond 25 years

The percentage of the new credit of housing loans in 2016, in which repayment dates according to loan contracts longer than 25 years, stood on average at 35% of the total of new loans extended, compared to 36% in 2016 and 30% in 2015.

Credit risk for individuals (excluding housing loans)

Private loans, the repayment capacity of which is primarily based on a household's earnings capacity, are characterized by an extremely wide diversification of borrowers, a range of loan products (various types of loans, current accounts, credit cards) and (on average) a low level of loans to a single customer.

Most of the private customer activity is concentrated in the Banking Division.

In order to contend with the growth in the levels of private credit and with the wide extent of control which is necessary to manage it and in order to implement proper corporate governance, several functions were expanded and strengthened in recent years, both in the Banking Division, which serves as a first line of defense, and in the Risk Management Division, which constitutes the second line of defense.

Designated specialist units have been operating in the Banking Division for a number of years, chief of which include:

Credit management and risk centers – coordinate the handling of all applications beyond the authority of branches, creating a separation between the customer manager and the factor testing the provision of credit; constitute a professional anchor for the credit personnel in the branches; maintain a routine of monitoring and control, the results of which are mirrored both in branches and in the divisional management.

Early-collection units and problem-debt centers – coordinate the handling of debts for which a delay in payments is detected prior to classifying a borrower as problematic, and of customers which have been classified as such. These units provide a professional service for the processes of dealing with the debts, arrangements and collection procedures, including through the use of outside law firms.

Monitoring and control of the second line are conducted; they include, inter alia, testing trends and segments in the private credit portfolio, monitoring the predictive quality of the models for estimating the risk of borrowers, examining the quality and completeness of the control procedures of the business factors, testing samples of individual portfolios, as necessary, etc.

The private credit policy, formulated by the Risk Management Division in collaboration with the Banking Division, represents a crucial layer in outlining risk appetite and directing routine management of this activity. The following are some of the main principles of the private credit policy: Estimating the credit risk per borrower, basing underwriting decisions on a borrower's debt-to-income ratio, to maintaining a well-defined and structured authority structure, emphases on fair business conduct (transparency and information submission, adapting products to each customer's needs, fair pricing, addressing customer grievances), adapting the credit to each customer's needs and capacity, and increased awareness of any compliance issues which may arise from extending credit.

In view of the increase in the level of borrowing by Israeli households, and since this trend is expected to continue - in addition to the strict underwriting processes, management and control at the single borrower level - the routine monitoring of credit provision was also extended and increased at the aggregate level. See below, Development of the credit balances in the past three years.

A set of measures were developed both for developments at the portfolio level ("inventory") and for the new credit risk profile, which are monitored on a regular basis, at least quarterly. The criteria developed embody numerous aspects and characteristics which reflect different and complementary points of view on the risk inherent in the portfolio and new credit. Although we are referring to red flags rather than to restrictions (under their formal definition), they reflect the desired limits of the risk appetite at the private credit portfolio level. In view of the continuing consumption trends in the Israeli economy and, as a consequence, in the level of leverage per household, as reflected also, inter alia, in an increase in the total and percentage of problem debts in Leumi (see table below), and in light of management's and the Board of Directors' decision to refrain from increasing the risk appetite in this segment, this portfolio was very closely monitored for developments in 2017. These steps are reflected in the development of the private credit balances during 2017, as well as in other criteria, as outlined below.

Development of private credit risk balances in the Bank (activity in Israel, excluding housing loans)

	December 31	
	2017	2016
	NIS millions	-
Deposits from the public	**104,850**	106,275
Securities portfolios	**75,498**	72,395
Total of financial assets	**180,348**	178,670
Total liability t customers with a financial portfolio asset	**38,087**	39,564

Breakdown of private credit risk in the Bank (activity in Israel, excluding housing loans)

	December 31			
	2017		**2016**	
	NIS millions	share of portfolio	NIS millions	share of portfolio
Up to one year	**5,975**	**19.5%**	**5,927**	18.6%
One to three years	**5,245**	**17.1%**	**5,582**	17.6%
Three to five years	**9,360**	**30.5%**	**9,470**	29.8%
Five to seven years	**6,578**	**21.5%**	**6,818**	21.5%
Over seven years	**566**	**1.9%**	**853**	2.7%
No maturity date[a]	**2,927**	**9.5%**	**3,104**	9.8%
Total	**30,651**	**100.0%**	**31,754**	100.0%

(a) This balance includes current account debit balances.

Breakdown of private credit risk in the Bank by size of credit to a single borrower (activity in Israel, excl. housing loans)

The diversification is significant, is was even higher in 2017 compared with 2016.

		December 31, 2017		December 31, 2016	
From	To	NIS millions	Percentage of loan book	NIS millions	Percentage of loan book
-	25	5,043	10.4%	5,062	10.1%
25	50	7,268	15.0%	7,489	15.0%
50	75	6,782	14.0%	7,023	14.0%
75	100	6,031	12.4%	6,221	12.5%
100	150	8,623	17.8%	8,817	17.6%
150	200	5,440	11.3%	5,356	10.7%
200	300	5,293	10.9%	5,423	10.9%
Over 300		3,997	8.2%	4,596	9.2%
Total		48,477	100.0%	49,987	100.0%

Breakdown of debts and problem credit risk from the total of debts to private individuals in the Bank (activity in Israel, excluding housing loans)

	December 31, 2017		December 31, 2016	
	NIS millions	percentage of portfolio	NIS millions	percentage of portfolio
Current accounts and balance utilized in credit cards	7,365	15.2%	7,395	14.8%
Loans to purchase motor vehicles (on liens)	2,257	4.6%	2,584	5.2%
Other loans	21,029	43.4%	21,775	43.5%
Total balance sheet credit risk	30,651	63.2%	31,754	63.5%
Unutilized current account facility	6,870	14.2%	6,992	14.0%
Unutilized credit card facility	10,617	21.9%	10,905	21.8%
Other off balance sheet credit risk	339	0.7%	336	0.7%
Total off-balance sheet credit risk	17,826	36.8%	18,233	36.5%
Overall total credit risk	48,477	100.0%	49,987	100.0%

Breakdown of balance sheet credit risk to individuals, by linkage segments and interest bases (activity in Israel, excluding housing loans)

	December 31, 2017				
	Unlinked	Linked	Foreign currency	Total credit risk on balance sheet	% of portfolio
	NIS millions				
Current accounts - balances	2,464	-	12	2,476	8.1%
Credit cards - utilized balances	4,846	-	43	4,889	15.9%
Other variable interest loans	21,975	33	18	22,026	71.9%
Total variable interest loans	29,285	33	73	29,391	95.9%
Loans at fixed interest	1,166	61	33	1,260	4.1%
Total on balance credit risk	30,451	94	106	30,651	100%

	December 31, 2016				
	Unlinked	Linked	Foreign currency	Total credit risk on balance sheet	% of portfolio
	NIS millions				
Current accounts - balances	2,669	-	16	2,685	8.5%
Credit cards - utilized balances	4,673	-	37	4,710	14.8%
Other variable interest loans	23,494	5	26	23,525	74.1%
Total variable interest loans	30,836	5	79	30,920	97.4%
Loans at fixed interest	715	101	18	834	2.6%
Total on balance credit risk	31,551	106	97	31,754	100%

Balance of financial assets of the Bank's private persons with overall credit risk (activity in Israel, excluding housing loans)

	December 31	
	2017	2016
	NIS millions	-
Deposits from the public	**104,850**	106,275
Securities portfolios	**75,498**	72,395
Total of financial assets	**180,348**	178,670
Total liability t customers with a financial portfolio asset	**38,087**	39,564

Distribution of the balance sheet credit risk for private people at the Bank by regular income to the account[a] (activity in Israel, excluding housing loans)

	December 31			
	2017		2016	
Income	NIS millions	in percentage	NIS millions	in percentage
Accounts without a regular income to the account	**2,697**	**8.8**	3,275	10.3
of which: accounts with payable credit	**1,985**	**6.4**	2,606	8.2
less than NIS 10,000	**9,783**	**31.9**	10,069	31.7
Above NIS 10,000 and below NIS 20,000	**9,765**	**31.9**	9,598	30.2
NIS 20,000 and above	**8,406**	**27.4**	8,812	27.8
Total	**30,651**	**100.0**	31,754	100.0

(a) Regular income to the account (by ID number) includes the regular credits to the customer's account, including wages, transfers from another bank or account, cash and check deposits, etc. The monthly regular income is calculated based on the average income during several consecutive months, net of unusual credits.

(b) Accounts with payable credits are accounts in which the only activity is repayment of a loan, whereas most of the customer's current activity takes place in another bank.

As aforesaid, the Bank's credit policy for private people is based on their income to debt ratio. As a result, over 90% of the balance sheet credit is in respect of people with a regular income, with close to 60% (with a slight increase in the rate since last year) among people with a regular income of over NIS 10,000 per month.

Distribution of balance sheet credit risk to private persons (in Israel, without housing loans)

	December 31		
	2017	2016	2015
	NIS millions		
Non-problem debt	**30,329**	31,369	28,166
Unimpaired problem debt	**212**	294	161
Impaired problem debt	**110**	91	44
Total balance sheet credit risk	**30,651**	31,754	28,371
Problem credit risk percentage out of total balance sheet credit risk for individuals	**1.1%**	1.2%	0.7%

Bank's exposure to leveraged finance

Proper Conduct of Banking Business Directive No. 311 provides that a bank's credit policy should relate, *inter alia*, to leveraged finance. The Bank operates according to unique principles in a credit policy for this segment, including from the aspect of financial parameters, authorities, etc.

On January 1 2016, Proper Conduct of Banking Business Directive No. 323 (Restrictions on the Financing of Capital Transactions) and Proper Conduct of Banking Business Directive No. 327 (Leveraged Loan Management) came into force. The Bank complies with the provisions of these new directives.

As of December 31 2017, leveraged financing is defined by the Bank complying with and expanding the updated directives, including loans / borrowers meeting one of the following criteria:

1. Credit for the purpose of a capital transaction, as defined for the purpose of the limitation in Proper Conduct of Banking Business Directive. No. 323, with credit to finance the purchase the means of control or against the means of control held without the right of recourse included in any rate of financing (even if lower than that defined in the directive)
2. Financing holding companies, whose activity is entirely or mainly the holding of subsidiaries (without significant independent activity) as defined in the Bank's policy.
3. Financing a borrower in the various segments of the defined industry sectors, characterized in significant exceptional values of certain parameters in relation to norms in the area of the relevant market sector, such as the ability to service an insufficient debt compared to norms established by the Bank, a low shareholders' equity to total assets ratio.

As of December 31 2017, the balance of gross indebtedness of the leveraged credit according to the Bank's definition, stands at NIS 2.2 billion, a decrease of NIS 1.7 billion over the end of last year.

Aggregate balances of credit to leveraged borrowers*:

	December 31	
	2017	2016
Market sector	NIS millions	
Supply of electricity	699	705
Mining and quarrying	442	877
Hotels, lodging and food	380	377
Transport and storage	280	-
Commerce	223	434
Financial services	211	541
Construction and real estate	-	596
Industry	-	409
Total	2,235	3,939

For more quantitative and qualitative information about credit risk, please see the Risk Management Report.

Market Risk

Market risk is defined as the risk of a loss in balance sheet and off-balance sheet positions arising from a change in the fair value of a financial instrument as a result of a change in market conditions (a change in price levels in various markets, fluctuations in interest rates, exchange rate, inflation, share prices and commodities and other economic indices). Exposure to market risks is reflected in the business results, the fair value of assets and liabilities, shareholders' equity and cash flows.

The following are the market risks to which the bank is exposed:

a. Interest risk is the risk for loss as a result of changes in risk-free interest rates in various currencies.

b. Basis risk (in respect of foreign currency and CPI) is the risk of loss as a result of changes in the consumer price index (CPI) and foreign exchange rates due to the difference between the value of the assets and liabilities, including the effect of future transactions in each linkage segment.

c. Marketable credit risk, which results from volatility in credit spreads deriving from the instrument issuer's repayment capacity and from differences in the overall risk level of marketable debt instruments.

d. Investment risk in shares and funds, which arises from an impairment of the investment in shares or funds or a decline in gains or dividends transferred to the Group.

The Bank applies the directives of the Banking Supervision Department on the subject of the Group's market risk management, including Proper Conduct of Banking Business Regulation No. 333 regarding Interest Risks Management and No. 339 regarding Market Risk Management as part of the implementation of these directives, basic principles for the method of risk management and control were determined, including the responsibility of the management and the Board of Directors, the definition of the means of control and the tools for measuring the risks and the means of control and supervision of these risks, while implementing corporate governance, which includes the three "lines of defense."."

Market risk management policy

Market risk management reflects the Group's market risk strategy, alongside the existing procedures for detecting, measuring monitoring developing and controlling the market risks. The policy for managing market risks is intended, on the one hand, to support the achievement of business goals by assessing the risks and the prospects that can result from exposure to the risks, in comparison with the forecast profit from them, and on the other hand, to reduce the level of risk deriving from the Bank's ongoing activity, including maintaining a high liquidity level.

The policy represents an important tool in defining the Bank's risk appetite in the *nostro* field, dealing rooms and market exposure, throughout the Bank Leumi Group. The policy defines the corporate governance, the allocation of organizational responsibility and escalation mechanisms.

As part of the market risk management policy, restrictions of the Board of Directors have been determined for every material market risk factor. In addition, restrictions have been set at the level of the Chief Risk Officer and additional restrictions which complement these restrictions. These restrictions are intended to limit the damage that could incur as a result of unforeseen changes in the existing various risk factors in the markets, such as, interest rates, inflation, exchange rates, tradable credit margins and share prices.

Exposures to market risks are routinely managed at the Group level. The foreign subsidiaries determine policy for the management of market risk corresponding to the Group policy and the risk framework approved therein. Information on the actual state of exposure according to the frameworks so determined is received from the subsidiaries and taken into account in the overall management of the Group exposure.

Market risk management is handled by two main risk centers – the banking portfolio and the trading portfolio. Definition of the trading portfolio is derived from the Basel directives and includes the Bank's securities trading portfolio and derivative transactions in trading activity. The banking portfolio includes transactions that are not included in the trading portfolio.

For more information on activity by portfolio, please see Risk Management Report on the Bank's website.

Exposure to market risk arising from obligations for employee pensions

The Bank implements U.S. generally accepted accounting principles regarding employee benefits, as stipulated by the Bank of Israel. Market risk management in respect of the commitment to employees is executed partly within the framework of the banking portfolio and partly managed separately and independently as a part of the "plan assets", which are intended to carry a yield over the long-term, with the aim of servicing the liability value. The actuarial commitment for employees has a long duration, and is significantly affected by changes in the discount rate. The rate of capitalization used in computing the actuarial liability for employee benefits is made on the basis of the Government of Israel debenture yield in addition to the fixed spread curve of corporate bonds rated AA with the same average duration as that of the obligations for employee benefits.

The Bank's Market Risk

A. Interest rate risk

Interest rate risk is the risk of a loss as a result of changes in risk-free interest rates in various currencies, due to several sources, such as differences between the dates of interest rate changes or the repayment date of the assets and liabilities in each of the linkage segments (whichever is earlier) and the basis spread risk.

The interest rate exposure policy restricts the extent of exposure to possible changes in interest on the potential erosion of economic value[1] and financing profit for the coming year.

Interest rate risk is actually measured and managed on the basis of various behavioral assumptions with regard to the repayment times of the assets and liabilities. In accordance with past experience, the Bank considers part of the current account balances as a long-term liability. In addition, there are assumptions relating to early repayments of mortgages based on a statistical model which attempts to forecast early repayments depending on the interest rate. These assessments are crucial in Interest rate risk management, inter alia due to the significant increase in balances in recent years.

The measurement of exposure to changes in interest rates is carried out for both an increase and a decrease in interest rates in each linkage segment. This measurement is intended to examine the sensitivity of the existing asset and liability value structure to changes in interest rates, and therefore, the computation is made without altering the asset and liability structure.

Summary of exposures to unexpected interest rates changes at the Group level (before tax, in NIS millions)* the potential change in economic value as a result of the scenario-:

	December 31 2017			December 31 2016		
Scenario	Increase of 1%	Decrease of 1%	Change of 0.1%	Increase of 1%	Decrease of 1%	Change of 0.1%
In Israeli currency:						
Banking portfolio	**(411)**	**306**	**(41)**	(12)	(227)	10
Trading portfolio	**(38)**	**25**	**(3)**	37	(45)	4
In foreign currency:						
Banking portfolio	**175**	**(249)**	**22**	(42)	(143)	-
Trading portfolio	**32**	**47**	**2**	52	(49)	5

the potential change in profit and loss as a result of a 1% increase in interest rates:**

	December 31			
	2017		2016	
	NIS	Foreign Currency	NIS	Foreign Currency
Total	**417**	**391**	523	215

* The extent of exposure does not take into account the existence of an interest rate floor of 0% on the deposits. The further the interest falls and approximates to zero, the higher the impairment in financial margin – as all of the interest reduction by the Bank of Israel is reflected only in the lowering of the interest rate on the credit and therefore, in the reduction of margins and the erosion of profits in the Bank.

** With the fall in interest rates, a loss of a similar amount is expected.

[1] The economic value of the capital is defined as the difference between the current value of assets and liabilities. In calculating present value, cash flows are deducted from the risk-free credit yield curve and the foreign currency LIBOR flows.

The exposure of capital to an immediate increase/decrease in interest rates (before the effect of tax):

	Exposure in Israeli currency			Exposure in foreign currency		
	December 31 2017					
	Increase of 1%	Decrease of 1%	Change of 0.1%	Increase of 1%	Decrease of 1%	Change of 0.1%
Exposure of capital to an immediate increase/decrease in interest*	**1,615**	**(2,083)**	**180**	**(349)**	**352**	**(34)**
	December 31 2016					
	Increase of 1%	Decrease of 1%	Change of 0.1%	Increase of 1%	Decrease of 1%	Change of 0.1%
Exposure of capital to an immediate increase/decrease in interest*	1,537	(1,978)	176	(435)	268	(40)

* This measure includes exposure to an immediate change in the interest of the nostro portfolios which have been remeasured at market value and the actuarial commitment to employees. This does not include the effect of the sensitivity of the plan assets to changes in interest which is estimated as of December 31 2017 as a decrease in the value of the assets amounting to NIS 134 (as of December 31 2016, NIS 117 million) in the scenario of a 1% increase in interest. In addition, the measurement does not include the effects of the transitional provisions of the standard on employee rights, according to which the capital adequacy ratio is computed.

During 2017, the Group complied with all interest rate exposure restrictions set by the Board of Directors.

For more information, please see the Report on Risks on the Bank's website.

Sensitivity of the fair value of assets and liabilities to interest rates

The effect of potential changes in interest rates on the fair value of the financial instruments of the Bank and its consolidated subsidiaries, except for non-monetary items, according to accounting principles:

The net fair value of financial instruments, before the effect of changes in interest rates:

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

	December 31, 2016					
	Israeli currency		Foreign currency, including Israeli currency linked to Foreign currency			
	Unlinked	CPI-linked	Dollar	Euro	Others	Total
	NIS millions					
Financial assets	278,940	48,232	69,263	8,061	8,561	413,057
Amounts receivable for derivative financial and off-balance sheet instruments	252,169	6,790	214,767	55,373	28,222	557,321
Financial liabilities[a]	231,563	55,451	91,577	15,107	7,038	400,736
Amounts payable for derivative financial and off-balance sheet instruments	276,575	8,526	193,704	48,587	30,473	557,865
Net fair value of financial instruments	22,971	(8,955)	(1,251)	(260)	(728)	11,777

(a) Including the fair value of actuarial liabilities to employees and does not include the value of the plan assets.

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

	December 31, 2017							
	Israeli currency		Foreign currency, including Israeli currency linked to Foreign currency[a]				Change in fair value	
	Unlinked	CPI-linked	Dollar[b]	Euro	Others	Total	Total	Total
	NIS millions						NIS millions	%
Immediate corresponding increase of 1%	**24,819**	**(8,690)**	**(2,511)**	**(310)**	**(670)**	**12,638**	**167**	**1.34**
Immediate corresponding increase of 0.1%	**25,771**	**(10,222)**	**(1,975)**	**(313)**	**(759)**	**12,507**	**36**	**0.29**
Immediate corresponding decrease of 1%	**26,912**	**(12,610)**	**(1,373)**	**(288)**	**(809)**	**11,832**	**(639)**	**(5.12)**

	December 31, 2016							
							Change in fair value	
	Israeli currency		Foreign currency, including Israeli currency linked to Foreign currency[a]					
	Unlinked	CPI-linked	Dollar[b]	Euro	Others	Total	Total	Total
	NIS millions						NIS millions	%
Immediate corresponding increase of 1%	22,574	(7,363)	(1,820)	(281)	(720)	12,390	613	5.21
Immediate corresponding increase of 0.1%	22,937	(8,771)	(1,304)	(262)	(728)	11,872	95	0.81
Immediate corresponding decrease of 1%	23,260	(11,050)	(849)	(239)	(736)	10,386	(1,391)	(11.81)

(a) This measurement includes the exposure to an immediate change in the interest rate of the nostro portfolios which have been revalued at market value and the actuarial obligation to employees. This measurement does not include the effect of the sensitivity of the plan assets to changes in interest, in which at December 31, 2017 were estimated to have decreased in value by NIS 134 million (NIS 117 million as at December 31 2016) under a scenario of a 1% increase in interest rate. In addition, the measurement does not include the effects of the transitional provisions of the employee rights standard, according to which the capital adequacy ratio is calculated.

(b) Of which, the effect of complex financial assets: an immediate corresponding increase of -1% – NIS (283) million (on December 31 2016 – NIS (345) million, a corresponding immediate decrease of -1% - NIS 199 million (on December 31 2016 – NIS 171 million).

An immediate corresponding increase of -2% NIS (592) million (on December 31 2016 – NIS (701) million), a corresponding immediate decrease of -2% NIS 317 million (on December 31 2016 – NIS 401 million, respectively).

* Excludes an estimate of income from early repayment fees. For more information on the assumptions used to calculate the fair value of financial instruments, please see Note 1.G

Exposure to interest rate changes

Exposure to changes in the Interest Rate

	December 31, 2017												December 31, 2016		
	On demand up to one month	Over one month to three months	Over three months to one year	Over one year to three years	Over three years to five years	Over five years to ten years	Over ten years to twenty years	Over twenty years	Without fixed maturity	Total fair value	Internal rate of return	Effective average duration[b]	Total fair value	Internal rate of return	Effective average duration[b]
	NIS millions										%	Years		%	Years
Israeli currency - unlinked															
Financial assets, amounts receivable for derivatives and off-balance sheet financial instruments															
Financial assets[a]	**219,508**	**9,523**	**29,375**	**16,214**	**8,627**	**6,893**	**2,154**	**540**	**582**	**293,416**	**2.97**	**0.59**	278,940	3.30	0.56
Derivative financial instruments (excluding options)	**43,641**	**57,845**	**34,974**	**38,428**	**18,165**	**18,121**	**215**	**56**	**-**	**211,445**	**-**	**1.48**	247,093	-	1.50
Options (by underlying asset)	**762**	**1,667**	**3,068**	**2,339**	**27**	**6**	**50**	**-**	**-**	**7,919**	**-**	**0.76**	5,076	-	1.10
Off-balance sheet financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-	-	-
Total fair value	**263,911**	**69,035**	**67,417**	**56,981**	**26,819**	**25,020**	**2,419**	**596**	**582**	**512,780**	**2.97**	**0.96**	531,109	3.30	0.99
Financial liabilities, amounts payable for derivative instruments and off-balance sheet financial instruments															
Financial liabilities[a]	**208,915**	**8,319**	**9,295**	**15,867**	**3,043**	**2,475**	**71**	**-**	**12**	**247,997**	**0.85**	**0.27**	231,563	1.00	0.42
Derivative financial instruments (excluding options)	**52,164**	**66,498**	**42,840**	**34,994**	**16,074**	**18,578**	**189**	**28**	**-**	**231,365**	**-**	**1.34**	273,646	-	1.44
Options (by underlying asset)	**512**	**2,376**	**2,600**	**1,617**	**374**	**3**	**27**	**-**	**-**	**7,509**	**-**	**0.77**	2,905	-	0.61
Off-balance sheet financial instruments	**-**	**-**	**30**	**-**	**-**	**-**	**-**	**-**	**-**	**30**	**-**	**0.50**	24	-	0.50
Total fair value	**261,591**	**77,193**	**54,765**	**52,478**	**19,491**	**21,056**	**287**	**28**	**12**	**486,901**	**0.85**	**0.79**	508,138	1.00	0.97
Net Financial instruments															
Exposure to interest rate changes in the segment	**2,320**	**(8,158)**	**12,652**	**4,503**	**7,328**	**3,964**	**2,132**	**568**							
Accumulated exposure in the segment	**2,320**	**(5,838)**	**6,814**	**11,317**	**18,645**	**22,609**	**24,741**	**25,309**							
Israeli currency – CPI-linked															
Financial assets, amounts receivable for derivatives and off-balance sheet financial instruments															
Financial assets[a]	**2,405**	**1,941**	**8,805**	**13,357**	**9,287**	**4,807**	**2,589**	**1,845**	**41**	**45,077**	**2.42**	**4.09**	48,232	2.44	3.82
Derivative financial instruments (excluding options)	**442**	**302**	**1,947**	**2,267**	**1,041**	**1,059**	**-**	**-**	**-**	**7,058**	**-**	**2.38**	6,790	-	2.65
Options (by underlying asset	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-	-	-
Off-balance sheet financial instrument	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-	-	-
Total fair value	**2,847**	**2,243**	**10,752**	**15,624**	**10,328**	**5,866**	**2,589**	**1,845**	**41**	**52,135**	**2.42**	**3.85**	55,022	2.44	3.68
Financial liabilities, amounts payable for derivatives and off-balance sheet financial instruments															
Financial liabilities[a]	**1,322**	**798**	**4,715**	**14,879**	**6,950**	**3,089**	**881**	**-**	**-**	**32,634**	**0.47**	**2.97**	38,888	0.82	2.91
Derivative financial instruments (excluding options)	**349**	**468**	**2,229**	**5,693**	**2,197**	**1,234**	**-**	**-**	**-**	**12,170**	**-**	**2.57**	8,391	-	2.78
Options (by underlying asset	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-	-	-
Off-balance sheet financial instruments	**-**	**-**	**127**	**-**	**-**	**-**	**-**	**-**	**-**	**127**	**-**	**-**	135	-	-
Total fair value	**1,671**	**1,266**	**7,071**	**20,572**	**9,147**	**4,323**	**881**	**-**	**-**	**44,931**	**0.47**	**2.85**	47,414	0.82	2.88
Net financial instruments															
Exposure to interest rate changes in the segment	**1,176**	**977**	**3,681**	**(4,948)**	**1,181**	**1,543**	**1,708**	**1,845**							
Accumulated exposure in the segment	**1,176**	**2,153**	**5,834**	**886**	**2,067**	**3,610**	**5,318**	**7,163**							

(a) Except for book balances of derivative financial instruments, fair value of off-balance sheet financial instruments and fair value of compound financial instruments in the "without maturity period" column the non-discounted book balances are presented including balances whose repayment has passed in the amount of NIS 1,006 million.

(b) Weighted average according to fair value of effective duration.

Exposure to interest rate changes (cont.)

Interest Rate Fluctuations Exposure (contd.)

	December 31, 2017												December 31, 2016		
	On demand up to one month	Over one month to three months	Over three months to one year	Over one year to three years	Over three years to five years	Over five years to ten years	Over ten years to twenty years	Over twenty years	Without fixed maturity	Total fair value	Internal rate of return	Effective average duration[b]	Total fair value	Internal rate of return	Effective average duration[b]
	NIS millions										(%)	(Years)		(%)	(Years)
Foreign currency and foreign currency linked[d]															
Financial assets, amounts receivable for derivates and off-balance sheet financial instruments															
Financial assets[a]	**42,351**	**11,820**	**12,591**	**5,925**	**4,942**	**5,707**	**1,187**	**160**	**692**	**85,375**	**2.21**	**1.21**	85,885	2.48	1.26
Of which; compound financial instruments	**2,758**	**864**	**207**	**1,128**	**1,888**	**1,715**	**555**	**35**	**-**	**9,150**	**2.60**	**3.49**	10,029	2.83	3.44
Derivative financial instruments (excluding options)	**82,166**	**71,188**	**59,411**	**34,624**	**6,845**	**18,986**	**523**	**44**	**-**	**273,787**	**-**	**1.05**	291,443	-	0.96
Options (by underlying asset)[d]	**855**	**3,302**	**3,318**	**(27)**	**(24)**	**50**	**8**	**-**	**-**	**7,482**	**-**	**0.32**	6,919	-	0.50
Off-balance sheet financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-	-	-
Total fair value	**125,372**	**86,310**	**75,320**	**40,522**	**11,763**	**24,743**	**1,718**	**204**	**692**	**366,644**	**2.21**	**1.07**	384,247	2.48	1.01
Financial liabilities, amounts payable for derivatives and off-balance sheet financial instruments															
Financial liabilities[a]	**88,224**	**8,033**	**12,404**	**1,777**	**266**	**245**	**4**	**1**	**2,059**	**113,013**	**1.83**	**0.14**	113,337	1.08	0.18
Derivative financial instruments (excluding options)	**57,560**	**65,743**	**59,187**	**35,052**	**9,095**	**20,885**	**529**	**396**	**-**	**248,447**	**-**	**1.29**	263,660	-	1.19
Options (by underlying asset)[d]	**1,059**	**2,126**	**2,351**	**1,724**	**25**	**94**	**406**	**-**	**-**	**7,785**	**-**	**1.21**	9,090	-	1.01
Off-balance sheet financial instruments	**-**	**-**	**16**	**-**	**-**	**-**	**-**	**-**	**-**	**16**	**-**	**0.50**	14	-	0.50
Total fair value	**146,843**	**75,902**	**73,958**	**38,553**	**9,386**	**21,224**	**939**	**397**	**2,059**	**369,261**	**1.83**	**0.94**	386,101	1.08	0.87
Net financial instruments															
Exposure to interest rate fluctuations	**(21,471)**	**10,408**	**1,362**	**1,969**	**2,377**	**3,519**	**779**	**(193)**							
Accumulated exposure in the segment	**(21,471)**	**(11,063)**	**(9,701)**	**(7,732)**	**(5,355)**	**(1,836)**	**(1,057)**	**(1,250)**							
Total exposure to interest rate fluctuations															
Financial assets, amounts receivable for derivatives and off-balance sheet financial instruments															
Financial assets[a,c]	**264,264**	**23,284**	**50,771**	**35,496**	**22,856**	**17,407**	**5,930**	**2,545**	**7,081**	**429,634**	**2.60**	**1.06**	416,301	2.78	1.09
Derivative financial instruments (excluding options)	**126,249**	**129,335**	**96,332**	**75,319**	**26,051**	**38,166**	**738**	**100**	**2,355**	**494,645**	**-**	**1.26**	547,007	-	1.23
Options (by underlying asset[d]	**1,617**	**4,969**	**6,386**	**2,312**	**3**	**56**	**58**	**-**	**240**	**15,641**	**-**	**0.55**	12,132	-	0.75
Off-balance sheet financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-	-	-
Total fair value	**392,130**	**157,588**	**153,489**	**113,127**	**48,910**	**55,629**	**6,726**	**2,645**	**9,676**	**939,920**	**2.60**	**1.16**	975,440	2.78	1.15
Financial liabilities, amounts payable for derivatives and off-balance sheet financial instruments															
Financial liabilities[a,c,e]	**298,461**	**17,150**	**26,414**	**32,523**	**10,259**	**5,809**	**956**	**1**	**3,750**	**395,323**	**0.77**	**0.46**	385,128	0.93	0.60
Derivative financial instruments (excluding options)	**110,073**	**132,709**	**104,256**	**75,739**	**27,366**	**40,697**	**718**	**424**	**3,129**	**495,111**	**-**	**1.35**	547,167	-	1.34
Options (by underlying asset)[d]	**1,571**	**4,502**	**4,951**	**3,341**	**399**	**97**	**433**	**-**	**48**	**15,342**	**-**	**0.99**	11,995	-	0.91
Off-balance sheet financial instruments	**-**	**-**	**173**	**-**	**-**	**-**	**-**	**-**	**191**	**364**	**-**	**0.09**	353	-	0.06
Total fair value	**410,105**	**154,361**	**135,794**	**111,603**	**38,024**	**46,603**	**2,107**	**425**	**7,118**	**906,140**	**0.77**	**0.95**	944,643	0.93	1.02
Net financial instruments															
Exposure to interest rate fluctuations	**(17,975)**	**3,227**	**17,695**	**1,524**	**10,886**	**9,026**	**4,619**	**2,220**							
Accumulated exposure in the segment	**(17,975)**	**(14,748)**	**2,947**	**4,471**	**15,357**	**24,383**	**29,002**	**31,222**							
In addition, exposure to interest rates for employee rights' gross - pension and severance pay liabilities	**80**	**157**	**708**	**1,697**	**1,471**	**3,856**	**5,542**	**4,484**	**-**	**17,995**	**2.36**	**14.24**			

Exposure to interest rate fluctuations (cont.)

Notes:

(a) Except for book balances of derivative financial instruments, fair value of off-balance sheet financial instruments and fair value of compound financial instruments in the "without maturity period" column the non-discounted book balances are presented including balances whose repayment date has passed in the amount of NIS 1,006 million.

(b) Weighted average according to fair value of effective duration.

(c) Including non-monetary items shown in the "Without maturity period" column.

(d) Including Israeli currency linked to foreign currency.

(e) Including fair value of actuarial liability to employees – not including the value of plan assets.

General notes:

1. In this table, the data by periods represent the present value of future cash flows, discounted at the internal rate of return used for discounting to the fair value included in respect of the financial instrument, consistent with the assumptions used in calculating 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 33A in the Annual Financial Report.
2. The internal rate of return is the interest rate for discounting the cash flows expected from a financial instrument to the fair value included in respect of it.
3. The effective duration of a group of financial instruments constitutes an approximation of the percentage change in the fair value of the group of financial instruments that would be caused as a result of a small change (an increase of 0.1%) in the internal rate of return of each of the financial instruments.
4. The effect of hedging transactions is included in total assets or total liabilities, as applicable.
5. In calculating the duration of assets and liabilities in the CPI-linked segment an estimate was taken into account of early redemptions and withdrawals at exit points in savings plans, in accordance with a model estimating expected early redemptions based on the behavior of savers. The duration of total assets according to the original cash flow of the savings plans is higher and reached 4.55 years, the duration of total liabilities reaches 2.93 years, and the gap in the internal rate of return (hereinafter – IRR) amounts to 1.54%. In the NIS non-linked segment, the assets' average duration is 0.96, the liabilities' average duration is 1.08 and the RRI difference is 2.20%. In addition, in managing interest exposures, the Bank treats some of the current account balances in shekels and foreign currencies as a long-term liability (over a year to ten years), rather than up to one month, according to the Reporting Directives.
6. For more information regarding the exposure to interest risk changes in each segment of the financial assets and financial liabilities, by various balance sheet line times, will be provided upon request.

Additional quantitative and qualitative information regarding interest risk in the banking portfolio, please see Interest Rate Risk in the Risk Management Report on the Bank's website.

B. Basis risk (from foreign exchange and the CPI)

A basis risk is the risk of loss as a result from changes in the consumer price index (CPI) and foreign exchange rates due to a difference between the value of the assets and the value of the liabilities, including in respect of the effect of futures contracts in each linkage segment.

Leumi operates in currency markets using spot and forward transactions and options both for its customers and nostro account activity. Derivatives are mainly used to economically hedge the balance sheet activity. However, according to the accounting principles, these are not considered perfect hedges and therefore affect the accounting profit and loss, as a result of the difference in accounting for the balance sheet assets and liabilities and the derivatives. This effect is managed, monitored and reported through the Investment Committee and Asset and Liability Management Committee.

The linkage basis exposure is managed under Board of Directors' limitations.

The following is the actual group-level economic exposure; data presented as percentage of the active financial capital:

	Actual position	
	December 31	
	2017	2016
	%	
Unlinked	**(10.7)**	(19.0)
CPI-linked	**9.6**	17.7

Foreign currency	**1.1**	1.3

* The exposure does not take into account the effect of the index floor on the capital invested in the sector.

In 2017, the percentage of capital invested on average over the year in the index-linked segment was 15.5%. During the year, the percentage ranged from a surplus of 8.5% to 22.3% of the exposed capital. Capital was channeled to the foreign currency sector at a relatively low rate, and therefore, the effect of the change in exchange rate on profit was not material.

For more quantitative information on the linkage basis balances, please see Note 31, Assets and Liabilities by Linkage Basis in the financial statements.

Sensitivity to changes in the exchange rate of the main foreign currencies as of December 31 2017. The measurement relates to the effect of changes in the Bank's capital and includes activity in balance sheet and off-balance sheet instruments:

	Dollar	Euro	Pound sterling	Swiss franc	Yen
	NIS millions				
Increase of 10% in exchange rate	86	(5)	4	1	0
Decrease of 10% in exchange rate	(41)	18	(7)	(1)	3

Sensitivity to changes in the CPI as of December 31 2017. The measurement relates to the effect of changes in the Bank's capital and includes activity in balance sheet and off-balance sheet instruments

	Impact of changes on Bank's capital
	NIS million
3% increase in CPI	223
3% decrease in CPI	(725)

C. Investment risk in shares and funds

The Bank has defined the Group's policy for investing including restrictions on the amount of the total investment and in a single company, the investment mix and the various levels of risk between the types of non-banking investments.

Exposure to investment in shares in funds in the banking portfolio

Balance sheet balance & fair value

	December 31	
	2017	2016
	NIS million	
Marketable shares in available-for-sale portfolio	**1,936**	961
Non-marketable shares in available-for-sale portfolio	**991**	981
Total	**2,927**	1,942

For more quantitative and qualitative information on share price risk, please see Investment in shares and funds in the Risk Management Report on the Bank's website.

For additional quantitative and qualitative information on market risk, please see the Risk Management Report on the Bank's website.

Liquidity and Financing Risk

Liquidity risk

Liquidity risk is the risk created as a result of uncertainty relating to the possibility of raising funds and/or unexpectedly realizing assets within a short period, without incurring any material loss. The policy of liquidity risk management constitutes an integral part of the strategic business management of Leumi Group which has been adjusted to the requirements of Proper Conduct of Banking Business Regulation No. 342 regarding liquidity risk management and the requirements Proper Conduct of Banking Business Regulation no. 221 regarding "Liquidity coverage ratio", which adopts the Basel III Committee's recommendations for calculating minimal liquidity ratio liquidity coverage ratio ("LCR"), while making adjustments to the Israeli economy. As of January 1, 2017, the Bank is required to comply with a 100% liquidity coverage ratio.

Leumi maintains a proper liquidity level by investing the nostro portfolio in quality and dispersed assets in NIS and foreign currencies which will enable it to meet all liquidity needs in a variety of stress scenarios, and by raising policy of diversified and stable sources with various period ranges with an emphasis on raising deposits from retailers and issuing long term debentures.

Leumi monitors its liquidity position on an ongoing basis, using indicators designed to alert on liquidity changes, inter alia by using a regulatory model as well as an internal model developed by Leumi in accordance with the directives of the Bank of Israel with and globally-accepted standards.

The Bank's liquidity coverage ratio (the regulatory model) is calculated on the basis of the average daily observations.

	For the year ended December 31	
	2017	2016
	%	
Consolidated .a		
Liquidity coverage ratio	**122**	132
Minimum regulatory liquidity coverage ratio	**100**	80
Banking corporation .b		
Liquidity coverage ration	**122**	130
Minimum regulatory liquidity coverage ratio	**100**	80

The Bank has prepared a contingency plan to deal with a liquidity crisis which includes a system of red flags that may indicate a change in the Bank's liquidity position. On the appearance of a red flag, a designated forum shall be convened to assess the position and examine the need for activating the plan depending on the level of severity. The plan includes detailed operative measures relating to, *inter alia*, the order by which assets are realized, policies for dealing with customers and reporting systems to all the corporate factors, Board of Directors and the Bank of Israel.

For more quantitative and qualitative information on liquidity risk, please see Liquidity risk in the Report on Risk on the Bank's website and Note 32, Asset and liabilities by currency and repayment period.

Financing risk is the risk for building an inadequately stable structure of sources in the long term in a way that does not serve the planned use.

For many years, the Bank has managed an extensive and diversified infrastructure of stable financing sources for different terms. The Bank's primary financing source is deposits from retail customers. In addition, the Bank finances its activity through deposits of commercial and business customers and by issuing notes. The management of sources is conducted on a daily basis separately in NIS and in foreign currency. Some 31.6% deposits are raised in foreign currency. The sources from abroad are invested by the offices in credit and liquid assets, mainly in low-risk debentures. The Bank has a broad range of foreign currency sources from foreign resident customers, local retail, business and financial customers. Last year, the stability of the volume of deposits in this sector of the Bank has been maintained. The surplus of deposits over credit in foreign currency is invested in liquid assets and short time swap transactions.

As stated above, there was a significant increase in NIS deposits. Due to low interest rates, the trend of growth in customers' current accounts balances continued. In order to maintain an infrastructure of stable and diversified financing sources, the Bank markets a variety of attractive deposits for varying time periods.

The concentration of financing sources is managed and monitored by risk management indicators and models. The Bank performs a follow-up on the concentration of sources under several categories: customer size and type, single depositor, duration of deposit and characteristic behavior over time. The routine management of the composition of sources includes delineating policy for diversification of sources and financing periods. The centralization of the sources is controlled and managed within the framework of the liquidity risks management in the Bank. Ongoing daily measuring of the liquidity indices, minimal coverage ratio and follow-up on warning lights enable dynamic managing and follow-up on stable and diversified sources, control and supervision of the liquidity status and development of trends.

For additional quantitative and qualitative information on financing risk, please see Financing risk in the Report on Risk on the Bank's website.

Linkage Position, Repayment Periods and Liquidity Position

A. Linkage

In accordance with the policy for the management of assets and liabilities on a linkage basis, the available capital – which is defined as the total of capital sources and certain reserves, less investment in consolidated companies and fixed assets – is invested in unlinked NIS assets, CPI-linked assets, foreign currency and foreign currency-linked assets. The financing of all of the Bank’s foreign investments from foreign currency sources, back-to-back, prevents basis exposure in respect thereof.

Summary of the linkage balance sheet position, as it appears in Note 31 to the financial statements:

	December 31					
	2017			2016		
	Unlinked	CPI linked	Foreign currency[b]	Unlinked	CPI linked	Foreign currency[b]
	NIS millions					
Total assets[a]	308,030	45,279	116,881	293,216	48,573	119,752
Total liabilities[a]	276,310	47,731	119,837	265,263	49,057	121,733
Surplus (deficit) of assets in the segment	31,720	(2,452)	(2,956)(c)	27,953	(484)	(1,981)(c)

(a) Includes futures and options.

(b) Includes foreign currency linked.

(c) The excess of liabilities in foreign currency derives mainly from a hedging transaction against the tax exposure in respect of investments in Bank's foreign units, investment in shares and reserves classified as a noninterest-monetary item.

Day-to-day management and reporting of the Bank's exposure to basis risks is conducted according to the economic approach including adjustments and additions to the accounting approach shown above. The basis exposure, calculated according to the economic approach, is detailed in the chapter, "Methods of Risk Management".

In 2017, there was an increase of NIS 8.6 billion in total deposits from the public (including subordinated notes and capital notes). In total loans to the public, there was an increase of NIS 6 billion. Investments in securities and debentures decreased by some NIS 2.2 billion, and credit to banks increased by some NIS 5.5 billion.

The main changes in principal activity in 2017 by linkage segments were as follows:

The unlinked NIS segment

The percentage of financial assets in the unlinked NIS segment to total financial assets is some 65%.

Most of the activity in the segment is for short periods.

Total loans to the public increased by some NIS 7.8 billion, or 4.3 %.

Total cash and deposits in banks, net, increased by NIS 8 billion, and the total investment in securities decreased by NIS 0.8 billion.

In 2017, total NIS deposits increased by NIS 16 billion, or 7.2%. This increase includes a net decrease of NIS 2.3 billion in subordinated notes.

Total net balance of derivative transactions in the segment at December 31 2017, was some NIS 19.3 billion, a NIS 4.9 decrease since December 2016.

The CPI-linked segment

In 2017, loans to the public fell by some NIS 2.4 billion, some 5.5%. Total investment in securities fell by NIS 0.6 billion.

CPI-linked deposits, including subordinated notes, were down by NIS f6.2 billion.

The net balance of derivative transactions in the segment at December 31 2017 amounted to some NIS 5 billion, an increase of NIS 3.5 billion compared to December 2016.

Foreign currency and foreign currency linked segment

The percentage of financial assets in the foreign currency segment as a percentage of total financial assets was 25%.

Loans to the public in the segment, constitutes 35% of the total deposits from the public. In 2017, credit decreased by NIS 0.6 billion or 1.6%.

Investments in securities in foreign currency amounted to NIS 35.4 billion, a decrease of NIS 0.8 billion in comparison to December 2016.

Net deposits in banks increased by some NIS 2 billion.

From the beginning of 2017, total deposits from the public in foreign currency decreased by NIS 1.2 billion, 1.1%.

The balance of future transactions, net, in foreign currency against NIS amounted to some NIS 25 billion as of December 31 2017, a decrease of some NIS 0.3 billion, compared with December 2016.

B. Repayment periods

During 2017, as in recent years, the Bank was characterized by a high level of liquidity in NIS. This was partially as the result of a policy directed by the Bank to raise stable and varied sources of funds, by means of raising deposits from a large number of customers for various periods including long-term, and its share of an increase in liquidity surpluses in NIS in the banking system.

Some 31.7% of the Bank's total assets are deposited for short periods in banks and invested in marketable securities, mainly in government debentures.

In 2017, the Bank complied with all liquidity limits for the various scenarios. This was in accordance with the policy whose aim is to ensure stability also in extreme theoretical stress scenarios.

The future cash flow of assets and liabilities according to repayment periods and according to basis of linkage (including derivative instruments and not including non-monetary items) is set forth below. (For more information, please see Note 32 to the financial statements).

Pursuant to Bank of Israel directives, cash flows in respect of liabilities with a number of repayment dates were classified according to management's assessment at its discretion or the earliest forecast repayment date.

According to a Bank of Israel circular from September 2013, a banking corporation is required to present the cash flows in respect of assets and liabilities distinguishing between Israeli currency (including Israeli currency linked to foreign currency) and foreign currency. In addition, cash flows in respect of cleared derivative instruments, net, will be classified to Israeli currency or to foreign currency according to the currency in which the clearing shall be made. Off-balance sheet amounts of these derivative instruments should not be reported.

Excess of assets over liabilities*

	December 31, 2017		
	Israeli currency	Foreign Currency	Total
	NIS millions		
Time to maturity			
Up to one month	(94,651)	(52,737)	(149,164)
One month to one year	5,233	16,045	21,278
One to five years	69,058	18,484	87,542
five to ten years	38,610	13,481	52,091
Over 10 years	41,928	5,386	47,314
No maturity date	2,882	1,836	4,718
Total	61,284	2,495	63,779

	December 31, 2016		
	Israeli currency	Foreign Currency	Total
	NIS millions		
Time to maturity			
Up to one month	(89,319)	(48,402)	(137,721)
One month to one year	(2,336)	13,048	10,712
One to five years	65,800	22,061	87,861
five to ten years	39,385	12,544	51,929
Over 10 years	47,129	5,351	52,480
No maturity date	3,169	1,579	4,748
Total	63,828	6,181	70,009

* After offsetting surplus (deficit) balances in respect of derivatives.

For a description of the policy's key points, the means of monitoring and implementing the policy, and the limits used in the management of market risks, including basis and liquidity risks, please see Chapter on Market risk.

C. Liquidity Position and Funding

Liquidity position and raising funds by the Bank

The surplus liquidity of the Israel banking system continued to be high in 2017. In order to absorb the surpluses, each day, week and liquidity period, the Bank of Israel holds monetary tenders.

In 2017, the Bank of Israel purchased foreign currency in the amount of $6.5 billion, of which $1.5 billion was purchased as part of a program to offset the effect of gas royalties on the exchange rate.

The foreign currency purchases of the Bank of Israel have an extensive impact on liquid NIS surpluses in the banking system, as do the surplus redemptions on issues of short-term loans in 2017.

The composition of the Bank's assets and liabilities continues to indicate a high level of liquidity. This is the result of a deliberate policy of raising stable and diversified sources, while placing importance on the raising of sources from a large number of customers, various customer segments, for varying periods, in various currencies.

Leumi monitors, on an ongoing basis, its liquidity status via indices intended to warn of changes in the liquidity position, *inter alia*, by using a regulatory model, and internal models developed by Leumi pursuant to a directive of the Bank of Israel, and pursuant to the standard generally accepted around the world. The various assumptions forming the basis of the internal models are examined and updated regularly according to developments in the major relevant parameters.

The total balances of the banking system (current accounts and monetary deposits) with the Bank of Israel at the end of December 2017 stood at NIS 235 billion, compared with NIS 207 billion at the end of 2016.

Leumi's total balances (current accounts and monetary deposits) with the Bank of Israel at the end of December 2017 stood at NIS 66 billion, compared with NIS 60 billion at the end of 2016.

At December 31 2017, the net balance of cash and deposits with banks amounted to NIS 76.0 billion, compared with NIS 69.7 billion at the end of 2016, an increase of some 9%.

In addition, the Bank has a securities portfolio of NIS 71 billion, invested mainly in Israeli government debentures, foreign government debentures, and foreign bank debentures. This is in comparison to the balance at December 31 2016 amounting to NIS 70 billion. During the reported period, the total off-balance sheet monetary assets of the customers increased by NIS 81 billion to NIS 696billion.

The balance of total deposits for the three largest depositor groups reached NIS 21,565 million at December 31 2017.

The main regulatory restrictions on the transfer of liquid resources between the Group companies in Israel and abroad are:

1. The Bank of Israel does not restrict the placement of deposits by the Bank in the Group companies in Israel and abroad. However, it imposed restrictions on capital investments and notes by the Bank in foreign companies. Any increase of investment or decrease of a holding by any type of means of control under 80% requires the advance approval of the Bank of Israel.
2. The U.S. offices - Directives of authorities in the U.S. restrict local banks in the extent of exposures of any type vis-à-vis related companies. The maximum rate of exposure to a related company is 10% of the Bank's capital in the U.S., and vis-à-vis the Group of which the Bank in the U.S. is part, the maximum rate is 20% of its capital.
3. The U.K/ office - Directives of authorities in the U.K. restrict local banks in the extent of exposures of any type vis-à-vis related companies. The maximum rate of exposure of the bank in the U.K. vis-à-vis the companies of the Group (except Bank Leumi of Israel Ltd.) is 25% of the Bank's capital in the U.K. Under a waiver granted by the U.K. regulator, the U.K. subsidiary may increase its exposure to Bank Leumi of Israel Ltd. to a maximum rate of 100% of the Bank's capital in the U.K.
4. The Romanian office – the Romanian authorities restrict local banks' exposures to associates. Leumi Romania's maximum exposure rate to the Group, Including Bank Leumi of Israel Ltd., is 25% of the bank's capital in Romania.

Operational Risk

Operational risk is defined as the risk of a loss resulting from inadequate or failed internal processes, people, systems, or external events.

Leumi Group has a wide range of financial activity, and, accordingly, is exposed to operational risks, including, *inter alia*, information security and cybersecurity risks, business continuity risks, and embezzlement and fraud risks.

The Leumi Group's operational risk management is conducted by three lines of defense and is based on a proactive process of identifying, assessing, measuring, controlling, mitigating, monitoring and reporting of the material risks carried out in all of the Bank's divisions.

Operational risk management system and policy

The Group's operational risk management policy reflects Leumi's operational risk management approach, including: risk management directed and adapted to the various business lines' activities for risk with the potential for significant implications.

In order to enable appropriate corporate governance, an operational risk tolerance level has been established which is reflected in the form of quantitative restrictions and qualitative declarations.

The operational risk profile is monitored periodically and reported on a quarterly basis to the Board of Directors, as a basis for decision-making.

The Bank revises the operational risk map on an ongoing basis. The revision is made by the first line units, with the guidance, challenging, and assistance of the Risk Management Division. The process includes the identification and (qualitative and quantitative) assessment of the risks and recommendations for minimizing the risks (mitigation plans). In addition, there is a system supporting risk reporting, implementation and documentation of controls, mitigation plans and failure events.

The Bank manages risks in material new projects and products on the basis of a methodology which includes the identification of risks and preparation to minimize them while aiming to comply with Leumi's business and operating goals.

Since the operational risks are cross-organizational, the Risk Management Division is taking steps to instill an advanced operational risk management culture, including the reporting of incidents and drawing conclusions.

The regulatory capital in respect of operational risk is calculated using the standard Basel approach.

To minimize potential damage in the event of risks materializing, the Leumi Group has purchased insurance policies covering a range of operational risks, including, inter alia, a cybersecurity insurance policy and a banking insurance policy.

Main risk areas in operational risk

Information security and cybersecurity risk

The shift to digital banking and the information revolution have led to the adoption of new technologies and products, including cloud products, which constitute significant means to achieving the business targets. The multiple systems and interfaces and the growing dependence on technology increases the exposure to information security and cybersecurity threats and risks.

Cyberspace is highly dynamic in terms of the type, extent and force of the attacks. These risks may expose the Bank to business and reputational damage.

The cybersecurity strategy and policy are updated according to the continuous changes in the business-financial environment and the threat map. The information security and cybersecurity approach focuses the allocation of security resources differentially according to the level of the risk, and in relation to the technological, business, human and physical aspect.

Protection of the sensitive data is carried out on a number of plains: in the databases, information systems, in the granting of authorizations to access the systems and their day-to-day management, through physical security means and the raising of awareness among all personnel.

In 2017, due to constant changes in the financial business environment and the threat map in cyberspace, Leumi developed a cybersecurity policy that reflects an integrative holistic approach to coping with cybersecurity threats and incorporates the cybersecurity strategy and cybersecurity risk management framework.

In 2017, no cybersecurity incidents or embezzlements were discovered which affected the Bank's financial statements.

Technology risk

Bank Leumi champions and initiates technological innovation. To offer its customers advanced services, the Bank requires advanced digital infrastructures which, on the one hand, create business opportunities, while on the other hand, raise its level of exposure to technology risks in the business and operating processes. The IT environment is complex, changes rapidly and dependency on it is ever-increasing.

The Bank attributes great significance to having a stable, durable and robust technology infrastructure. As a result, the Bank invests resources in reducing the number of technological failures and minimizing the potential damage to the business and operational activities.

In addition, Leumi contracts suppliers and subcontractors to develop new products and for ongoing operation. Its dependence on the suppliers exposes the Bank to business continuity issues, which may lead to disruptions and information leaks. Such risks are managed on an ongoing basis in the procurement, information security and cybersecurity workflows.

During October 2017, the scoping stage of the core system replacement project began, during which the project's scope, resources, schedule and complexity will be evaluated.

Business continuity risk

The Bank manages and implements processes for business continuity, pursuant to which it prepares itself for recovering from disaster events and the continuity of its business activity. The processes include:

- A business continuity policy that defines corporate governance, principles, the key processes in emergencies;
- A working framework that includes business continuity plans, business impact analysis, recovery strategies and practice drills'
- Technological infrastructures - the Bank's computer system is based on two computing systems and additional backup center;

Embezzlement and fraud

The digital workplace environment increases the intensity of embezzlement and fraud risks in identity theft and stealing money, as well as from the aspect of information, exposure of customer information and the misuse of information.

Leumi invests significant resources in identifying and mitigating risks – employing ongoing and focused monitoring.

Other risk

Regulation and compliance risks

Regulation risk

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

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

Compliance risk

A. Compliance risk, prohibition of money laundering and the financing of terrorism

To effectively manage compliance risk, Leumi has in place a compliance and enforcement array, headed by the Chief Compliance Officer. The latter is responsible for managing the compliance risks, while the responsibility for the ongoing management of compliance risks and taking steps to mitigate the risks is that of the division managers, subsidiaries' managers and the foreign offices' managers. The Chief Compliance Officer is responsible, among other things, for meeting the obligations pursuant to the legislative directives regarding the prohibition of money laundering and the financing of terrorism. The Chief Compliance Officer is also in charge of enforcement in the area of securities law and is a responsible officer in respect of FATCA.

The activity of the Compliance Department is performed by a professional team with extensive knowledge and understanding in the field of compliance, and based on work processes, risk-based controls and automated systems.

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

The complexity and development of the banking activity, requires the Bank to strictly comply with all duties applied to the banking corporation, relations with its customers, by virtue of primary legislation, bylaws, orders, permits and Bank of Israel's directives, as well as global regulations and standards relevant to the Bank's activities.

Proper Conduct of Banking Business Directive No. 308 "Compliance and Compliance Function in Banking Corporation" became effective on January 1, 2016. The directive extends the area of responsibility of compliance formally and at the Group level. The directive outlines the definition of compliance regulations and stipulates that "compliance risk" is derived from laws, by-laws, directives, regulation, internal procedures, behavior rules and authority positions. The directive stipulates that it is required to assess the effectiveness of the compliance risk management, and find means for its measurement, while, as stated above, the compliance risk is derived from the overall legislation relevant to the Bank's activity.

The directive provides that the compliance function will be responsible for at least the compliance risk derived from the core regulations (such as: the fairness of the Bank towards its customers, money laundering and the financing of terror, customer advice, a conflict of interests, privacy protection, aspects of taxation relevant to products or services to customers, and so forth). Where the risk is derived from the other regulations applicable to the banking corporation, it can be managed by other functions from the second line of defense.

Pursuant to the directive, a comprehensive policy document, revised and approved by the Board of Directors every year, is prepared. As part of the policy document, corporate governance, including the areas of responsibility of the Bank, the management and Board of Directors and the Chief Compliance Officer and the allocation of responsibility of the three lines of defense from the aspects of compliance is established. A new methodology for risk assessment in regulatory directives (compliance directives as defined by the new regulation) has been stipulated. Pursuant to the directive, the Compliance Department prepares a multi-year and risk-oriented work plan, including time budgeting for tasks and activities.

Retention of a fair compliance culture, throughout the organization, requires the existence of an effective control and enforcement framework, which will be secured in work processes and will enable fulfilment of all the compliance regulations. For this purpose, regulated compliance and enforcement processes have been determined for all work processes and the compliance risks inherent in them. The purpose of the control and enforcement framework is, among other things, to locate existing and potential gaps and exposures in order to examine the need to update the work processes, procedures, training and assimilation. The control processes are based, inter alia, on an analysis of the compliance regulations, internal and external audit findings, complaints of the public considered relevant, legal proceedings against the Bank or other banks that can indicate possible compliance exposures, the analysis of trends and events in Israel and around the world.

The Department is in regular contact with subsidiaries in Israel and abroad, for the purpose of monitoring the implementation of compliance matters, in its entirety and the implementation of the collective compliance policy.

Pursuant to the developing trends around the world, the Bank deals with a range of issues on the matter of compliance, including the prohibition of money laundering and the prohibition of the financing of terrorism and aspects of taxation.

Among other things, the Bank focuses on risk areas in financial technology domains (such as FinTech, P2P, hedge funds, virtual currencies, etc.) – managing compliance risk and prohibition on money laundering risk in a developing financial technology environment which is characterized by a lack of well-defined and highly experienced regulation on the one hand, and on the other hand – by professional complexity and the lack of practices incorporated into the control processes due to the novelty of the issues at hand.

B. Administrative enforcement

In January 2011, the Efficiency of Enforcement Procedures in the Securities Authority Law (Legislative Amendments), 2011, was passed in the Knesset. The object of the law is the improvement of efficiency of enforcement over the legislative provisions in the area of securities laws. In the context of this legislation, it will be possible to impose various sanctions on a corporation, including officers and employees committing violations, and breaches of the relevant provisions.

Further to the law, the Securities Authority published a document of criteria for recognition of an internal enforcement program in the field of securities and investment management (hereinafter: "document of criteria").

In the document of criteria, the Securities Authority instructs the corporation to appoint an officer to be in charge of enforcement. His function, according to the document of criteria, is to be responsible for the implementation of the enforcement program.

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

C. Foreign Account Tax Compliance Act – FATCA

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

The Bank implements a declared money policy while ensuring that no funds managed by the Bank are undeclared to the relevant tax authorities. In this context, various measures were taken to locate and identify the relevant target audiences, and reports were made to the tax authorities in accordance with the FATCA rules, as agreed between Israel and the US tax agencies.

The Banks acts on several levels to ensure the compliance of Leumi Group and individuals therein with the provisions of the legislation, including: the appointment of a compliance officer to assume the function of "responsible officer", the adoption of appropriate policy and work procedures, the development of automated tools supporting the working processes, the formulation of training and assimilation, inspection control and operation mechanisms which are required for complying with the directives and instructing the subsidiaries in the Group towards the appropriate preparedness.

D. Common Reporting Standard (CRS)

The OECD published a uniform standard for implementing the Automatic Exchange of Information regarding intergovernmental financial accounts (hereinafter: the "standard"). The standard is formulated in the spirit of the U.S. FATCA and is intended to increase transparency and supervision of tax reporting by residents of the countries holding financial accounts outside their countries of residence. In July 2016, the Law for the Amendment of the Income Tax Ordinance (No. 227) regarding the implementation of the FATCA and the standard was published. Regulations for implementing the CRS have yet to be published.

Leumi is prepared for complying with the requirements of the law. The offices of Bank Leumi in the U.K. and in Romania commenced implementing the standard on January 1 2016 pursuant to the provisions of local regulation to which they are subject.

E. The subsidiaries and foreign offices

According to the Bank's policy, compliance risk is managed at the Group level. In this context, various steps are taken to supervise and control and foreign offices and subsidiaries in order to monitor compliance issues as a whole and implementation of the Group's compliance policy.

Legal risk

Legal risk is defined as the risk of loss as a result of inability to legally enforce an agreement or contingent liabilities, including in respect of claims against, and demands from, the Bank. The definition includes risks arising from legislation, regulations, court rulings and directives issued by authorities, risk emanating from activity that is not covered by adequate agreements, without legal advice or according to faulty legal advice, as well as a result of interpretation of the rights of parties to agreements between the Bank and its customers.

Legal risk derives from five main areas:

- Legislation risk - risk attributable to the Bank's activity, if it does not comply with a primary or secondary legislative directive, a regulation of the Bank of Israel or a directive of other qualified authorities;
- Contractual risk - risk attributable to the Bank's activity with customers, suppliers and other factors with whom the Bank contracts in various agreements, if it is not backed by an agreement fully regulating the Bank's interests, or that the agreement is not fully enforceable or includes illegal terms and conditions;
- Court ruling risk – risk deriving from the Bank's activity if it does not comply with a precedential court ruling;
- Risk attributable to legal proceedings conducted against the Bank;
- Risk deriving from changes in enforcement policy.

Legal risk policy and management framework

The Chief Legal Counsel, who is a member of the Bank's management and Head of the Legal Division, is responsible for leading legal risk management.

The Group implements a program for managing legal risk, which aims to detect, prevent, manage and minimize the legal risk. The program includes policy documents and an interface between the Legal Division and units of the Bank, as well as internal procedures applicable to the Legal Division, the purpose of which is to ensure that legal counseling provided in the Bank is professional and up-to-date. The policy document has been updated periodically over the years, including in 2017.

With regard to the Bank’s subsidiaries in Israel and abroad, a general policy has been determined to manage legal risk in the framework of designated policy documents, according to which the companies have prepared an internal procedure for managing legal risk that correspond with their activity and the Group policy on the subject. The internal procedures have been approved by the Legal Division and in the boards of the subsidiaries. According to the policy documents, the subsidiaries are required to refer certain subjects for appropriate legal advice. In addition, the companies send periodic reports to the Legal Risk Officer, as well as immediate reports, as required by the policy paper. The reports were sent in a consistent format prepared in the Legal Division. In 2017, the policy papers for legal risk management in the foreign subsidiaries were updated. A legal stress scenario was updated as well.

In the context of the legal risk management program, the following points have been emphasized:

- Preventing and minimizing legal risk;
- Identifying sources of material legal risk and their treatment;
- Preparing appropriate agreements, guidelines and procedures;
- Examining statutory provisions (including case law) and regulatory directives, and their implications on the work of the Bank;
- Drawing conclusions on various matters and implementing of these conclusions drawn in legal documents used in the Bank, as well as disseminating opinions on these subjects to the relevant units in the Bank.

In order to conduct the legal risk management program, various officials and committees operate in the Legal Counsel Division, headed by the Chief Legal Counsel (who is the Legal Risk Officer), whose function is to examine legislative matters and legal rulings that have repercussions for the work of the Bank and coordinate and examine the way with which they will be handled

The Regulation Unit in the Strategy and Regulation Division is engaged in locating and, if necessary, dealing with the new regulatory directives (primary legislation, secondary legislation, directives from authorities), even at the stage of being a relevant proposed law or the regulation.

The activity of each of the abovementioned officials and committees is organized in an internal work procedure of the Legal Division. The procedures stipulate, *inter alia*, the information flow among each of the abovementioned officials and the management of the division and the legal risk team which operates in the division.

General legal exposure

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

In addition, there is exposure due to regulatory changes and directives of the Banking Supervision Department, the Israel Securities Authority and other regulators to which the Bank is subjected. Engagements with customers are, in part, engagements which last many years, in the course of which changes in policy are likely to occur, in regulations and in trends in the law, including in court rulings. The Bank and the consolidated companies take steps by means of complex automated systems, which, in light of the changes as aforesaid, there is a need to adapt them on a regular basis. All these create an increased operating and legal exposure.

There is also a general exposure deriving from the fact that, from time to time, complaints against the Bank and the consolidated companies are made to the Banking Supervision Department, which, in certain circumstances, are liable to result in legal proceedings against the Bank. When this happens, it is not possible to assess whether there is exposure in respect of these complaints and it is not possible to assess whether a broad decision of the Banking Supervision Department on the matter of the abovementioned complaints and/or whether class or other actions will be brought as a result of such proceedings, and it is not possible to assess the potential exposure for the abovementioned complaints. Accordingly, no provision is included in respect of the said exposure.

Reputational Risk

Risk of damaging the trust of a stakeholder of the Bank (customers, shareholders, employees, etc.) following the publication or public disclosure of a transaction or practice, business results and other events related to the Group.

Strategic Risk

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

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

Several functions are involved in managing strategic risk: The Strategy and Regulation Division, the Risk Management Division and the Finance Division. These functions are responsible for identifying, mapping out, assessing and monitoring the risk vis-à-vis all of the Bank's units, including the business lines, management and the Board of Directors.

Macroeconomic Risk

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

The Bank is assessing its ability to withstand negative developments in the microeconomic environment using systemic stress scenarios. In addition, ongoing monitoring and follow up of market developments are conducted in order to prepare in advance and adapt the activity, as needed.

Conduct Risk

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

Bank Leumi adheres to transparent and fair practices in an effort to provide its customers with valuable services and products. This principle is reflected in the Bank's vision – to lead proactive, high-quality banking for its customers. In addition, the proactive and sale processes are subject to procedures and controls which ensure proper conduct. These processes are assessed on a regular basis, with the aim of upgrading them.

During the reporting year, the Bank developed and approved a policy for managing conduct risk vis-à-vis the Bank's retail customers.

Risk profile - Definition of severity of the risk factors

The methodology for classifying the degree of severity of exposures to the various risks, as outlined in the table of severity of risk factors, is based on a subjective estimate of the quantification of the impact of the materialization of various scenarios on the Group's capital, i.e., its stability. The degrees of severity represent the level of risk as divided into five levels. This is a function of the extent of impairment in relation to the Group's Common Equity Tier 1 capital adequacy in the event of the risk materializing and, subjective assessments are made regarding the risks which are complicated to quantify. A disruption that would cause the Group's Common Equity Tier 1 capital adequacy to be below 6.5% is defined as high-risk.

It is important to note that the said methodology for assessing the severity of the risk factors is also based on subjective expert assessments by relative functions in the Bank. When no quantitative measure, according to our assessment, gives sufficient expression to the severity of the risk factor, more weight is given to a qualitative assessment.

The subjective assessment includes various considerations, such as: Risk management processes, the impact of interrelationships vs. other risks and changes to the external risk environment, which could increase or decrease the severity assessment of the risks beyond that which is evident in the quantitative capital impairment assessment.

We should also note that none of Leumi's exposures to risk factors are defined as high, and the resulting risk distribution is in line with the Group's risk appetite and targets.

In light of the foregoing, we shall emphasize that various banks use different methods of assessing the impact of the various risk factors, so special care should be exercised when making various comparisons.

Some of the information in this chapter is "forward looking information." For the meaning of the term, see Forward-Looking Information.

Table of severity of risk factors:

	Risk	Definition	Degree of severity *
1	Overall credit risk	Risk of a loss as a result of the possibility that a counterparty does not comply with its obligations. With regard to the Bank, the reference is to balance sheet and off balance sheet credit	Medium
1.1	Quality of borrower and securities risk	Risk in respect of a borrower/counterparty going into default, resulting in non-fulfilment of contractual monetary obligations. A borrower/counterparty's entering default in derivatives and the residual risk in respect of the inability to realize collateral.	Medium
1.2	Large borrower and group of borrowers concentration risk	Credit risk arising from the relative size of borrowers in the credit portfolio of the Bank.	Low
1.3	Industry and sector concentration risk	Credit risk arising from concentration of credit to borrowers in certain sectors and segments of the economy.	Medium
2	Overall market risk	Risk of exposure of the Group's assets to changes in exchange rates, interest, inflation and asset prices, the correlation between them and their volatility levels.	Low-medium
2.1	Base risk	Risk due to fluctuations of the exchange rate, including inflation (trading portfolio and banking portfolio).	Low
2.2	Interest rate risk	Risk due to fluctuation in interest rates (trading and banking portfolio)	Low-medium
2.3	Margin and share prices risk	Risk as a result of fluctuations in share and bond prices in the commercial portfolio and in the banking portfolio for assets re-measured at market price.	Low-medium
3	Liquidity risk	The risk of inability to withstand the uncertainty in relation to the possibility of raising funds and/or realizing assets, in an unexpected manner and within a short time-frame, without incurring a material loss.	Low
4	Operating risk	Risk of loss that can arise from weaknesses or failures in processes, large projects, people, systems, or external events, including cyber events.	Medium
5	Legal and regulatory risk	The risk of regulations composed of the three interrelated legal risk, compliance risk and regulation and legislation risk	Medium
6	Compliance risk	Risk as a result of non-compliance of legislation and mandatory regulations.	Medium
7	Reputational risk	The risk that negative publicity will lead to a decrease in customer base, a decrease in income, in liquidity or high legal costs.	Low-medium
8	Pension risk	All of the risks related to various obligations to employees	Low-medium
9	Strategic risk	Business risk, including the current and future implications for capital, profits and goodwill or status emanating from erroneous business decisions. the improper implementation of the decisions or the absence of response to sectoral, economic regulatory and technological changes.	Low-medium
10	Global systemic risk	The risks caused as a result of global external events that could lead to the materialization of a number of risks simultaneously.	Medium-high
11	Local systemic risk	The risks caused as a result of local events that could lead to the materialization of a number of risks simultaneously.	Medium

* In relation to potential impairment in capital adequacy and the subjective assessment of the impact of risks that are difficult to quantify, the level of risk does not reflect the probability of its realization, but rather the impairment in the Bank if the scenario were to occur.

Accounting Policies and Estimates on Critical Subjects

General

The preparation of consolidated financial statements, in accordance with generally accepted accounting principles and the directives of the Supervisor of Banks, requires Management to make estimates and assessments that affect the reported amounts of assets and liabilities and the amounts of income and expenses.

The estimates and assessments are generally based on economic forecasts, assessments regarding the various markets and past experience, while exercising discretion, which management believes to be reasonable at the time of signing of the financial statements.

The actual results relating to these items may differ from the estimates and/or the assumptions.

The principal accounting policies applied in the Leumi Group are set out in detail in Note 1 to the financial statements.

Set out below is a brief description of the major critical accounting subjects which involve Management's estimates and assessments and which have been discussed by the Board of Directors, Management and the joint auditors:

Allowances for credit losses and classification of problem debts

Directives for the measurement and disclosure of impaired debts, credit risk and the credit loss allowance

Collective allowance

The collective credit loss allowance is applied to large groups of relatively small and homogenous debts, and in respect of debts that have been reviewed individually and found to be unimpaired. The measurement of the credit losses is based on the Public Reporting Directive. The collective in respect of off-balance sheet credit instruments is based on the rates of allowance determined for balance sheet credit, taking into account the rate of recovery for the expected credit of off-balance sheet credit risk.

The rate of realization for the credit of the off-balance sheet credit risk is calculated by the Bank based on conversion coefficients, as provided in the Proper Conduct of Banking Business No. 203, Measurement and Capital Adequacy – Credit Risk – the Standardized Approach, with certain adjustments in cases where the Bank has past experience indicating the rates of realization of the credit.

Classification of problem debts and individual allowance

The Bank examines the credit portfolio on an ongoing basis and in accordance with procedures, for the purpose of identifying, as early as possible, those borrowers whose risk level and exposure have risen and who require special management attention and close monitoring, either in light of the characteristics of the risk or as a result of the economic/market conditions that are likely to impact the borrowers' condition, so as to improve their position with regard to the corporate and commercial customers. An assessment of the extent of the problem is made while exercising business judgment by the business entities dealing with the borrower, by the credit risk management units in the Risk Management Division, as well as an objective evaluation, as far as possible, of the difficulties that have been identified, in order to determine their risk level.

In the Retail Division, customers with an obligo of more than NIS 1 million are individually identified and reviewed by authorized factors in the division for the purpose of their classification as problem debts, and the remainder is dealt with for this purpose as a group of homogenous and relatively small debts, making a collective allowance.

As part of the measures used by the Bank to manage credit risk, there is a methodology for detecting and identifying problem debts, which is applied in all lines of business (in each, in accordance with its characteristics). The methodology includes a structured quarterly work process in the context of which a thorough review of the credit portfolio is carried out on the basis of a number of criteria that give advance warning of a debt becoming problematic, as part of a process of dealing with customers defined as "sensitive customers". In the Corporate and Commercial Division which handles larger customers of the Bank and medium-sized business corporations, a quarterly credit review process is carried out, in which borrowers whose risk rating is higher than that requiring inclusion in the customer population defined as sensitive.

The methodology for dealing with problem debts requires, *inter alia*, a systematic examination of the appropriateness of the credit loss allowance in respect of the debts which are classified as "impaired". The allowance is assessed in accordance with the gap between the balance of the debt recorded and the present value of the expected future cash flows for servicing the debt from the customer's activity and the realization of collateral and other assets, discounted at the effective interest rate of debt. With regard to debts where their repayment is supported by collateral (debts conditional on collateral) and there are no other available and reliable sources of repayment, the allowance is determined on the basis of the fair value of the collateral, net of realization costs, and after the activation of security coefficients, in all matters related to the value of the security which will be realizable and from which repayment will be made.

An examination of the accuracy of the allowance is made every quarter, when the credit risk management (CRM) units in the Risk Management Division (or the corporate credit branch in the Banking Division, depending on where the customer belongs) approve the examination of the appropriateness of the allowance which is carried out by the corporate units. In addition, an examination is made of the ability to service the debt of customers classified by other debt indicators (debt under special mention and substandard debt).

The process described above for classifying debts and estimating potential losses in the credit portfolio involves, *inter alia*, subjective assessments which have an implication for the classification of debts and on the extent of the credit loss allowance.

Pursuant to the revisions in the Proper Conduct of Banking Business, the Risk Management Division has overall responsibility for the fairness of the classifications and the allowances, in addition to discussions which are held in the managements of the corporate divisions and representatives of the Risk Management Division. Discussion also takes place each quarter in the Bank's Allowances Committee, headed by the President and Chief Executive Officer, with regard to the aggregate total of allowances required for that quarter, and in relation to the classification of specific allowances (in excess of the stipulated threshold amount).

Derivative instruments

In accordance with the directives regarding financial reporting of the Supervisor of Banks, the Bank applies FAS 133, FAS 138, FAS 149 and FAS 157, all as amended, with regard to the treatment and presentation of derivatives.

Fair value is defined as an amount/price which would be received from the sale of an asset or would be paid for the transfer of a liability in a transaction between a willing buyer and a willing seller at the measurement date. Among other things, the standard requires for the purpose of the assessment of fair value to make maximum use of observable data and minimum use of unobservable data. Observable data represent information which is available in the market received from independent sources, while unobservable data reflect the banking corporation's assumptions.

The standard requires that the banking corporation reflects the credit risk and the non-performance risk in measuring the fair value of the debt, including derivative instruments, which were issued by it and measured at fair value. Non-performance risk includes the credit risk of the banking corporation, but not solely limited to this risk.

Specific directives regarding the methodology and data to be used in calculating the fair value of derivative instruments have been determined. The Bank computes the allowance in respect of credit risk at customer level, using a credit quality index, based on internal models or on market data.

In the 2017 Annual Report, the computation of the credit risk allowance using a complex model, including various scenarios of potential exposure.

In a few cases where the Bank does not have a mathematical model for revaluing a derivative, the fair value is determined on the basis of price quotations received from traders in such derivatives. Although these quotations are received from reliable brokers with whom the Bank has chosen to work, it is not certain that the price quoted reflects the price obtainable in an actual transaction in any amount, and especially a transaction in a large amount.

For more information about determining fair value, please see Note 1G.

Securities

Securities, other than debentures held to maturity, are presented in the balance sheet at fair value. Shares in respect of which the fair value is not available are presented at cost.

The fair value of Israeli securities is based primarily on prices quoted on the Tel Aviv Stock Exchange, and of foreign securities, on prices received from external sources. With regard to foreign securities, most of the portfolio is calculated on a daily basis by a reputable international body which is engaged in the business of calculating the fair value of financial assets for their disclosure in the financial statements. This organization is not dependent on the issuing houses or the marketing bodies. The calculation is based mainly on the transaction prices in active markets, and the revaluation of similar transactions. The calculation reflects the price that a knowledgeable, willing buyer in the market would pay for securities, based on current information available in the market. Since only a small portion of the securities is traded worldwide on a daily basis, the organization makes use the following valuation method: The appraiser bases his data for determining a price, using a pricing algorithm of actual transactions, indications for prices from global and local banks, brokers and stock exchanges. In the event that the market data is insufficient or nonexistent, the appraiser employs sophisticated valuation models, taking into account the identity of the issuer and the relevant industry.

In non-tradable securities of companies in Israel, fair value is based on data received from the "Mirvach Hogen" company. The Bank has validated the model and ensured with a reasonable degree of security the accuracy of the fair value.

Sometimes, for reasons of prudence, when there are indicators, the Bank adjusts the model and/or market price in order to establish a more accurate value.

For more information, please see Development of Assets, Liabilities, Capital and Capital Adequacy, under Securities.

For more information about determining fair value, please see Note 1G

Obligations for employee rights

The amounts of the obligations for pension are calculated using actuarial models. The discount rate used to calculate the actuarial liability of the Bank's employees' pension rights was used based on market yields in accordance with the method selected by the Bank from a number of alternatives provided by the Bank of Israel, in which the curve comprises Israel government bond yields in addition to the margin curve of corporate bonds rated internationally as AA and above.

In addition, the actuarial calculations take into account the forecast of the inflation-adjusted increase on the basis of past experience which varies with the age of the employee.

The following is a quantitative sensitivity analysis of the effect of main assumptions on the calculation of the actuarial liability

A decrease of 1.0% in the discount rate of the abovementioned liabilities will result in an increase of NIS 2.9 billion in total liabilities. A decrease of 1.0% in the increase of salary will result in a reduction of NIS 612 million in total liabilities. An increase of 5.0% in the life expectancy will result in an increase of NIS 294 million in total liabilities. All amounts are before the tax effect.

The actuarial models include assumptions regarding life expectancy tables, disability rates, leaving rates, the rate of leaving with preferred conditions, the rate of utilization of pension rights, the rate of withdrawal of severance pay and provident fund monies, etc. Although the parameters have been determined with appropriate care and professional expertise, a change in any or some of the actuarial parameters and/or the capitalization rate and/or the rate of increase in pay will cause a change in the level of the Bank’s obligations.

The actuary’s valuation of the employees’ rights may be found on the Israel Securities Authority’s website: www.magna.isa.gov.il.

As of December 31 2017, the balance of accumulated other comprehensive income in respect of employee benefits amounted to NIS 2,950 million, after the effect of tax, a decrease of NIS 781 million after the tax effect compared with December 31 2016.

The balance of the liabilities for employee benefits as of December 31 2017 shall be according to the discount rate based on Israeli corporate bonds (Deep Market according to the Israel Securities Authority's Approach) is less than NIS 266 million less than the actual balance of the liabilities.

The calculation of the capital requirements pursuant to the Basel III provisions will be made in accordance with the transitional provisions established in Proper Conduct of Banking Business Regulation No. 299, which provides that the balance of other comprehensive income or loss arising from adjustments in respect of employee benefits , and the amount carried directly to retained earnings as of January 1 2013 in respect of the effect of initial adoption will not be brought into account immediately, but will be subject to the transitional provisions, so that their effect will be spread as follows: 40% from January 1 2015, and a further 20% on January 1 of each year, until full implementation commencing January 1 2018.

Obligations in respect of legal claims

Among the Bank’s other obligations, there are provisions for various legal claims against the Bank, including applications for class actions. The provisions were determined in a conservative manner in accordance with Management’s assessments, based on legal opinions.

A quarterly discussion is held in the Bank's Allowance Committee, headed by the President and CEO, and in the Board of Directors in respect of provisions for claims above a certain amount that have been filed against the Bank.

To assess the risks in legal proceedings filed against the Bank, the Bank’s Management relies on the opinions of the outside counsel representing the Bank in these claims.

These opinions were given by the outside counsel in accordance with their most considered opinion on the basis of the facts presented to them by the Bank and on the basis of the known legal position (laws and case law) at the date of the assessment, and which are often open to possible conflicting interpretations and claims.

The assessment of risks inherent in requests for the approval of class actions is complex, since this is a field, the legal doctrine relating to which, even on important matters of principle, is still being formed and not yet entirely settled. There are also claims in respect of which, due to the stage of the proceedings, counsel is unable to estimate their inherent risk, even under the above-mentioned limitations.

In light of the above, it is possible that the actual results of claims may differ from the provisions made.

Taxes on income

Until December 31 2016, the Group implemented the International Accounting Standard (IAS) 12, as provided in the Public Reporting Directive "Taxes on Income" with effect from January 1 2012.

Deferred tax assets for tax-deductible transferred/reclassified assets, tax benefits and temporary differences are charged to the income statement if it's more likely than not that there will be a future income from which they may be deducted.

As of January 1 2017, the Group applies the US GAAP to income tax, following a circular published by the Supervisor of Banks on October 22 2015 entitled Reporting by Banking Corporations in Israel according to the Generally Accepted Accounting Practices in the US, and on October 13 2016 - Reporting by Banking Corporations in accordance with the Generally Accepted Accounting Practices in the US.

The current tax is the amount of tax expected to be paid (or received) on taxable income for the tax year, calculated at the tax rates applicable according to the laws enacted up to the balance sheet date.

Deferred taxes

The recognition of deferred taxes receivable/payable is with regard to temporary differences between the book value of assets and liabilities for financial reporting purposes and their value for tax purposes. Deferred taxes are measured at the tax rates expected to be applicable to the temporary differences at the date they are realized, based on the laws enacted until the balance sheet date.

A deferred tax asset in respect of carryforward losses, tax benefits and temporary differences allowable is recognized in the books when it is more likely than not that, in the future, there will be taxable income against which it will be possible to utilize them.

Until December 31 2016, the Group did not record deferred taxes in respect of profits from investments in investee companies which the Bank intends to hold rather than realize, and also in respect of dividends that are not expected to be distributed by investee companies.

The Group recorded deferred taxes in respect of gains from investee companies accumulated as of January 1 2017, even if the Bank intends to hold rather than realize them, as well as dividends which are not expected to be distributed by investee companies.

Controls and Procedures regarding Disclosure in the Financial Statements

The directives of the Supervisor of Banks apply the requirements of Sections 302 and 404 of the SOX Act to banking corporations. With regard to these sections, the SEC and the Public Company Accounting Oversight Board have provided directives as to management's responsibility for the determination and existence of controls and procedures with regard to disclosure and existence of internal control over financial reporting and the external auditors' opinion with regard to the audit of the internal control over financial reporting.

The Supervisor's directives provide that:

- Banking corporations shall apply the requirements of Sections 302 and 404 and also the SEC's directives that were published by virtue thereof.
- Proper internal control requires the existence of a control system in accordance with a defined and recognized framework, and the COSO (Committee of Sponsoring Organizations of the Treadway Commission) 1992 model meets the requirements and can be used to assess the internal control.

The Bank implements the directives in the Leumi Group.

In 2017, the Bank carried out a validation and update of material control processes and checks of the effectiveness of the entire internal control system on financial reporting.

Assessment of controls and procedures with regard to disclosure

The management of the Bank, together with the President and Chief Executive Officer, the Head of the Finance Division and the Chief Accounting Officer, has evaluated, at the end of the period covered by this report, the effectiveness of the disclosure controls and procedures of the Bank. On the basis of this evaluation, the President and Chief Executive Officer of the Bank, the Head of the Finance Division and the Chief Accounting Officer have concluded that, at the end of the said period, the disclosure controls and procedures of the Bank are effective for the recording, processing, summarizing and reporting of the information that the Bank is required to disclose in its financial statements, in accordance with the directives of the Supervisor of Banks on reporting to the public and at the time required in these directives.

Changes in internal control

During the fourth quarter ended December 31 2017, no material change to the internal control over financial reporting of the Bank occurred which had a material effect, or which could reasonably be expected to have a material effect, on the Bank's internal control over the financial reporting.

Board of Directors

During 2017, the Board of Directors held 30 plenary meetings and 74 committee meetings.

At the Board of Directors Meeting that took place on March 5 2018, it was decided to approve and publish the audited consolidated financial statements of the Group at December 31 2017 and for the period ended on that date.

The Bank's Board of Directors expresses its appreciation and gratitude to the employees and managers of the Bank and Group companies in Israel and abroad for their dedicated work and their contribution to the promotion of the Group's business.

David Brodet
Chairman of the Board of Directors

Rakefet Russak-Aminoach
President and Chief Executive Officer

March 5, 2018

Certification

I, Rakefet Russak-Aminoach, certify that:

1. I have reviewed the Annual Report of Bank Leumi of Israel Ltd. (the "Bank") for the year 2017 (the "Report").
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact that is necessary so that the statements included therein, in light of the circumstances under which such statements were included, are not misleading with reference to the period covered by the Report.
3. Based on my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations and changes in shareholders' equity and cash flows of the Bank for the dates and periods covered by the Report.
4. I and the Bank's other certifying officers are responsible for establishing and maintaining controls and procedures with regard to the Bank's disclosure and internal control of financial reporting (as defined in the Public Reporting Directives concerning "The Directors' Report"), and also:
   (a) We have established such controls and procedures, or caused such controls and procedures to be determined under our supervision, so as to ensure that material information relating to the Bank, including its consolidated corporations, is made known to us by others within the Bank and in those corporations, particularly during the period of preparation of the Report;
   (b) We have established such internal control over financial reporting, or caused such internal control to be established under our supervision, so as to provide a reasonable level of confidence regarding the reliability of financial reporting and that the financial statements for external purposes are prepared in accordance with accepted accounting principles and the directives of the Supervisor of Banks and his instructions;
   (c) We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented our conclusions regarding the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Report, based on our evaluation; and
   (d) We have disclosed in the Report any change in the Bank's internal control over financial reporting that occurred during the fourth quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and
5. I and the Bank's other certifying officers have disclosed to the Joint Auditors, the Board of Directors, and the Audit Committee of the Bank's Board of Directors, based on our most recent evaluation of internal control over financial reporting:
   (a) All significant deficiencies and material weaknesses in the establishment or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether material or immaterial, in which Management was involved or in which other employees were involved who have a significant role in the Bank's internal control over financial reporting.

The above does not derogate from my responsibility or the responsibility of any other person, pursuant to any law.

March 5, 2018

Rakefet Russak-Aminoach

President and Chief Executive Officer

Certification

I, Omer Ziv, certify that:

1. I have reviewed the Annual Report of Bank Leumi of Israel Ltd. (the "Bank") for the year 2017 (the "Report").

2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact that is necessary so that the statements included therein, in light of the circumstances under which such statements were included, are not misleading with reference to the period covered by the Report.

3. Based on my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations and changes in shareholders' equity and cash flows of the Bank for the dates and periods covered by the Report.

4. I and the Bank's other certifying officers are responsible for establishing and maintaining controls and procedures with regard to the Bank's disclosure and internal control of financial reporting (as defined in the Public Reporting Directives concerning "The Directors' Report"), and also:

   (a) We have established such controls and procedures, or caused such controls and procedures to be determined under our supervision, so as to ensure that material information relating to the Bank, including its consolidated corporations, is made known to us by others within the Bank and in those corporations, particularly during the period of preparation of the Report;

   (b) We have established such internal control over financial reporting, or caused such internal control to be established under our supervision, so as to provide a reasonable level of confidence regarding the reliability of financial reporting and that the financial statements for external purposes are prepared in accordance with accepted accounting principles and the directives of the Supervisor of Banks and his instructions;

   (c) We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented our conclusions regarding the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Report, based on our evaluation; and

   (d) We have disclosed in the Report any change in the Bank's internal control over financial reporting that occurred during the fourth quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and

5. I and the Bank's other certifying officers have disclosed to the Joint Auditors, the Board of Directors, and the Audit Committee of the Bank's Board of Directors, based on our most recent evaluation of internal control over financial reporting:

   (a) All significant deficiencies and material weaknesses in the establishment or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether material or immaterial, in which Management was involved or in which other employees were involved who have a significant role in the Bank's internal control over financial reporting.

The above does not derogate from my responsibility or the responsibility of any other person, pursuant to any law.

March 5, 2018

Omer Ziv

First Executive Vice President,

Head of Finance Division

Certification

I, Shlomo Goldfarb, certify that:

1. I have reviewed the Annual Report of Bank Leumi of Israel Ltd. (the "Bank") for the year 2017 (the "Report").
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact that is necessary so that the statements included therein, in light of the circumstances under which such statements were included, are not misleading with reference to the period covered by the Report.
3. Based on my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations and changes in shareholders' equity and cash flows of the Bank for the dates and periods covered by the Report.
4. I and the Bank's other certifying officers are responsible for establishing and maintaining controls and procedures with regard to the Bank's disclosure and internal control of financial reporting (as defined in the Public Reporting Directives concerning "The Directors' Report"), and also:
   (a) We have established such controls and procedures, or caused such controls and procedures to be determined under our supervision, so as to ensure that material information relating to the Bank, including its consolidated corporations, is made known to us by others within the Bank and in those corporations, particularly during the period of preparation of the Report;
   (b) We have established such internal control over financial reporting, or caused such internal control to be established under our supervision, so as to provide a reasonable level of confidence regarding the reliability of financial reporting and that the financial statements for external purposes are prepared in accordance with accepted accounting principles and the directives of the Supervisor of Banks and his instructions;
   (c) We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented our conclusions regarding the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Report, based on our evaluation; and
   (d) We have disclosed in the Report any change in the Bank's internal control over financial reporting that occurred during the fourth quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and
5. I and the Bank's other certifying officers have disclosed to the Joint Auditors, the Board of Directors, and the Audit Committee of the Bank's Board of Directors, based on our most recent evaluation of internal control over financial reporting:
   (a) All significant deficiencies and material weaknesses in the establishment or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether material or immaterial, in which Management was involved or in which other employees were involved who have a significant role in the Bank's internal control over financial reporting.

The above does not derogate from my responsibility or the responsibility of any other person, pursuant to any law.

March 5, 2018

Shlomo Goldfarb

First Executive Vice President

Chief Accounting Officer

Head of Accounting Division

Report of the Board of Directors and Management on Internal Control over Financial Reporting

The Board of Directors and Management of Bank Leumi of Israel Ltd. (henceforth: "the Bank"), are responsible for establishing and maintaining appropriate internal control over financial reporting (as defined in the Public Reporting Directives concerning "The Directors' Report"). The internal control system of the Bank has been designed to provide a reasonable level of confidence to the Board of Directors and Management of the Bank concerning the preparation and appropriate presentation of financial statements published in accordance with accepted accounting principles and the directives of the Supervisor of Banks and his instructions. Irrespective of the quality level of their design, all internal control systems have inherent limitations. Therefore, even if it is determined that they are effective, they can only provide a reasonable level of confidence with reference to the preparing and presentation of a financial statement.

The Management, under the supervision of the Board of Directors, maintains a comprehensive internal control system designed to ensure that transactions are executed in accordance with the authorizations of Management, that assets are protected, and that accounting entries are reliable. Furthermore, Management, under the supervision of the Board of Directors, takes steps to ensure that channels of information and communication are effective and monitor performance, including performance of internal control procedures.

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

The effectiveness of the Bank's internal control over financial reporting as at December 31 2017 was audited by the Bank's Auditors, Kost Forer Gabbay & Kasierer and Somekh Chaikin, as stated in their Report on page 120, which includes an unqualified opinion regarding the effectiveness of the Bank's internal control over financial reporting as at December 31 2017.

March 5, 2018

David Brodet

Chairman of the Board of Directors

Rakefet Russak-Aminoach

President and Chief Executive Officer

Omer Ziv

First Executive Vice President

Head of Finance Division

Shlomo Goldfarb

First Executive Vice President

Chief Accounting Officer

Head of Accounting Division

Report of the Joint Independent Auditors to the Shareholders of Bank Leumi of Israel Ltd. in accordance with Public Reporting Directives of the Supervisor of Banks regarding Internal Control over Financial Reporting

We have audited the internal control of Bank Leumi of Israel Ltd. and subsidiaries (hereinafter together: "the Bank") over financial reporting as of December 31 2017, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Bank's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of the Board of Directors and Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Bank's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) in the U.S. regarding the audit of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A bank's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and with the directives and guidelines of the Supervisor of Banks. A bank's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and transfers of the assets of the company (including dispositions); (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in Israel (Israeli GAAP), and the directives and guidelines of the Supervisor of Banks, and that receipt and payment of funds of the Bank are being made only in accordance with authorizations of the Management and The Bank's Board of Directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Bank's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Bank maintained, in all material respects, effective internal control over financial reporting as at December 31 2017, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with generally accepted auditing standards in Israel, and certain auditing standards, of which implementation in audit of banking institutions was required in directives and guidelines of the Supervisor of Banks, the consolidated balance sheets of the Bank and its subsidiaries as at December 31 2017 and 2016, the consolidated statements of profit and loss, the consolidated statements of comprehensive income, the consolidated statements of changes in equity, and the consolidated statements of cash flows for each of the three years ended December 31 2017, and our report of March 5, 2018 included an unqualified opinion on those financial statements, as well as drawing attention to that stated in Notes 26C, paragraphs 2 and 4.

Somekh Chaikin	Kost Forer Gabbay & Kasierer
Certified Public Accountants (Isr.)	Certified Public Accountants (Isr.)

Joint Independent Auditors

March 5, 2018

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

Annual Financial Statements

We have audited the accompanying consolidated balance sheets of Bank Leumi of Israel Ltd. ("the Bank") and its consolidated companies ("the Group") as at December 31 2017 and 2016, and the related consolidated statements of profit and loss, statements of changes in shareholders' equity and the consolidated statements of cash flows for each of the three years, the last of which ended December 31 2017. These financial statements are the responsibility of the Bank's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors (Manner of Auditor's Performance) Regulations, 1973 and certain auditing standards implementation of which in audit of banking institutions was required in directives and guidelines of the Supervisor of Banks. Such standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by Management of the Bank, as well as evaluating the appropriateness of the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as at December 31 2017 and 2016, and the results of operations, changes in shareholders' equity and cash flows of the Bank for each of the three years the last of which ended December 31 2017, in conformity with generally accepted accounting principles (Israeli GAAP). Furthermore, the above financial statements have, in our opinion, been prepared in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our above opinion, we draw attention to that stated in Note 26C, paragraph 2, regarding claims made against the Bank including petitions for their approval as class actions. The Bank is unable to estimate the implications of the above-mentioned matters on the Bank, if any, on its financial position and operating results, and whether or not they will be material.

We have also audited, in accordance with the standards of the PCAOB (Public Company Accounting Oversight Board) in the U.S. regarding the audit of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, internal control over financial reporting of the Bank as of December 31 2016, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report of March 5 2018 included an unqualified opinion on the effectiveness of internal control on financial reporting by the Bank.

Somekh Chaikin	Kost Forer Gabbay & Kasierer
Certified Public Accountants (Isr.)	Certified Public Accountants (Isr.)

Joint Auditors

March 5, 2018

Bank Leumi of Israel Ltd. and its Consolidated Companies

Consolidated Income Statement for the year ended December 31 2017

		2017	2016	2015
	Note	NIS Millions		
Interest income	**2**	**10,069**	9,552	8,784
Interest expenses	**2**	**2,023**	2,026	1,666
Net interest income	**2**	**8,046**	7,526	7,118
Provision for credit losses	**13,30**	**172**	(125)	199
Net interest income after provision for credit losses		**7,874**	7,651	6,919
Noninterest income				
Noninterest financing income	**3**	**919**	1,282	1,610
Commissions	**4**	**4,138**	3,967	4,092
Other income	**5**	**371**	159	595
Total noninterest income		**5,428**	5,408	6,297
Operating and other expenses				
Salaries and related expenses	**6**	**5,272**	5,422	5,544
Building and equipment maintenance and depreciatic	**16**	**1,661**	1,697	1,678
Amortization and impairment of intangible assets and goodwill	**17**	**-**	-	5
Other expenses	**7**	**1,568**	1,461	1,609
Total operating and other expenses		**8,501**	8,580	8,836
Profit before tax		**4,801**	4,479	4,380
Tax expense	**8**	**1,692**	1,717	1,691
Profit after tax		**3,109**	2,762	2,689
Bank's share in profits of associate companies after tax	**15**	**92**	66	177
Net income:				
Before attributing to non-controlling interest holders		**3,201**	2,828	2,866
Due to non-controlling interest holders		**(29)**	(37)	(31)
Due to the Bank's shareholders		**3,172**	2,791	2,835
Basic and diluted earnings per share (in NIS):				
Net income due to the Bank's shareholders	**9**	**2.08**	1.85	1.92
Diluted net income due to the Bank's shareholders	**9**	**2.08**	1.84	1.92

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

For the condensed financial statements of the Bank only, please see Note 35.

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David Brodet

Chairman of the Board of Directors

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Rakefet Russak-Aminoach

President and Chief Executive Officer

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Omer Ziv

First Executive Vice President,

Head of Finance Division

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Shlomo Goldfarb

First Executive Vice President,

Chief Accounting Officer,

Head of Accounting Division

Date of approval of the financial statements: March 5, 2018

Consolidated Comprehensive Income Statement for the year ended December 31 2017

	2017	2016	2015
	NIS Millions		
Net income before attributing to non-controlling interest holders	**3,201**	2,828	2,866
Less net income due to non-controlling interest holders	**29**	37	31
Net income due to the Bank's shareholders	**3,172**	2,791	2,835
Other comprehensive income (loss), before taxes:			
Adjustments for showing securities available for sale at net fair value	**259**	(281)	(423)
Adjustments for translation of financial statements, net[a], after the effect of hedges[b]	**(39)**	(11)	(9)
Adjustments for liabilities for employee benefits[c]	**(1,177)**	(928)	683
Bank's share of OCI of associate companies	**(10)**	(20)	11
Other comprehensive income (loss), before tax	**(967)**	(1,240)	262
Relevant tax effect	**232**	376	(161)
Other comprehensive income (loss) before attributing to non-controlling interest holders, after tax	**(735)**	(864)	101
Less OCI due to non-controlling interest holders	**-**	-	-
Other comprehensive income (loss) due to the Bank's shareholders, after tax	**(735)**	(864)	101
OCI before attributing to non-controlling interest holders	**2,466**	1,964	2,967
OCI due to non-controlling interest holders	**29**	37	31
OCI due to the Bank's shareholders	**2,437**	1,927	2,936

(a) Adjustments for translation of financial statements of foreign operations whose functional currency is different from the functional currency of the Bank.

(b) Hedges – net gains (losses) in respect of hedging a net investment in foreign currency.

(c) Reflects mainly adjustments in respect of actuarial estimates at year end of defined benefit pension plans and amortization of amounts previously recorded in OCI. See also Note 23.

See also Note 10 on accumulated OCI.

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

Consolidated Balance Sheet at December 31 2017

		December 31	
		2017	2016
	Note	NIS Millions	
Assets			
Cash and deposits with banks	**11**	**82,067**	74,757
Securities[a,b]	**12**	**77,299**	77,201
Securities borrowed or purchased under agreements to resell		**1,161**	1,284
Loans to the public	**13,30**	**271,216**	265,450
Credit loss allowance	**13,30**	**(3,264)**	(3,493)
Net loans to the public		**267,952**	261,957
Loans to the Government	**14**	**715**	642
Investments in associate companies	**15**	**807**	901
Buildings and equipment	**16**	**2,986**	3,147
Intangible assets and goodwill	**17**	**16**	17
Derivative assets	**28A,28B**	**9,573**	10,654
Other assets[a]	**18**	**8,262**	8,043
Total assets		**450,838**	438,603
Liabilities and equity			
Deposits from the public	**19**	**362,478**	346,854
Deposits from banks	**20**	**5,156**	3,394
Deposits from governments		**452**	900
Securities lent or sold under repurchase agreements		**558**	539
Debentures, bonds and subordinated notes	**21**	**15,577**	22,640
Derivative liabilities	**28A,28B**	**9,740**	10,677
Other liabilities[a,c]	**22,30D**	**23,324**	21,885
Total liabilities		**417,285**	406,889
Total equity due to the Bank's shareholders	**25A**	**33,167**	31,347
Non-controlling interest holders		**386**	367
Total equity		**33,553**	31,714
Total liabilities and equity		**450,838**	438,603

(a) For more information on amounts measured at fair value, please see Note 33A.

(b) For more information on securities pledged to lenders, please see Note 12.

(c) Of which: credit loss allowance for off-balance sheet credit instruments, NIS 484 million (December 31 2015 – NIS 488 million).

(d) Reclassified.

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

For the condensed financial statements of the Bank only – please see Note 35.

Bank Leumi of Israel Ltd. and its Consolidated Companies
Statement of Changes

		Capital reserves		
	Share capital	Premium	Share-based payment transactions and others[a]	Total share capital and capital reserves
	NIS Millions			
Balance at January 1, 2015	7,059	1,129	33	8,221
Net income	-	-	-	-
Net adjustments for associate companies	-	-	-	-
Employee benefit from share-based payment transactions	-	-	10	10
Net other comprehensive loss, after tax	-	-	-	-
Bank's shares	-	-	-	-
Dividend paid by consolidated companies	-	-	-	-
Changes in non-controlling interest holders	-	-	-	-
Balance at December 31, 2015	7,059	1,129	43	8,231
Net income	-	-	-	-
Loans to employees for purchase of the Bank's shares	50	593	(7)	636
Net OCI, after tax	-	-	-	-
Net adjustments for associate companies	-	-	-	-
Dividend paid by consolidated companies	-	-	-	-
Balance at December 31, 2016	7,109	1,722	36	8,867
New U.S. standard application	**-**	**-**	**-**	**-**
Net income	**-**	**-**	**-**	**-**
Share issuance	**1**	**7**	**(8)**	**-**
Employee benefit from share-based payment transactions	**-**	**-**	**10**	**10**
Other comprehensive loss, net after tax	**-**	**-**	**-**	**-**
Dividend paid by consolidated companies	**-**	**-**	**-**	**-**
Adjustments for translation of financial statements	**-**	**-**	-	-
Balance at December 31, 2017	**7,110**	**1,729**	**38**	**8,877**

(a) Including NIS 10 million of other capital reserves.

(b) Including NIS 3,338 million not available for distribution as dividend (December 31 2016 – NIS 2,372, December 31 2015 – NIS 1,849 million). The balance of the distributable amount is subject to Bank of Israel directives and the limitations set out in Proper Conduct of Banking Business Directives. Please see Note 25A.E.

(c) The effect of income tax arising from a change in the tax rates following the tax reform, which was reclassified from OCI to retained earnings.

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

Accumulated other comprehensive income (loss)	Retained earnings[b]	Loans to employees for purchase of the Bank's shares	Total	Non-controlling interest holders	Total equity
(1,549)	19,168	(42)	25,798	340	26,138
-	2,835	-	2,835	31	2,866
-	(19)	-	(19)	-	(19)
-	-	-	10	-	10
101	-	-	101	-	101
-	-	42	42	-	42
-	-	-	-	(10)	(10)
-	-	-	-	(21)	(21)
(1,448)	21,984	-	28,767	340	29,107
-	2,791	-	2,791	37	2,828
-	-	-	636	-	636
(864)	-	-	(864)	-	(864)
-	17	-	17	-	17
-	-	-	-	(10)	(10)
(2,312)	24,792	-	31,347	367	31,714
(14)	**14**	**-**	**-**	**-**	**-**
-	**3,172**	**-**	**3,172**	**29**	**3,201**
-	**-**	**-**	**-**	**-**	**-**
-	**-**	**-**	**10**	**-**	**10**
(725)	**(10)**	**-**	**(735)**	**-**	**(735)**
-	**-**	**-**	**-**	**(10)**	**(10)**
-	(627)	-	(627)	-	(627)
(3,051)	**27,341**	**-**	**33,167**	**386**	**33,553**

Consolidated Cash Flow Statement for the year ended December 31 2017

	2017	2016	2015
	NIS Millions		
Cash flows from operating activities			
Net income for the year	**3,201**	2,828	2,866
Adjustments:			
Group share in undistributed profits of associate companies [a]	**68**	(28)	666
Depreciation of buildings and equipment (including impairment)	**662**	663	655
Amortization	**-**	-	45
Provision for credit losses	**172**	(125)	199
Losses (profits) from assets transferred to group ownership	**-**	-	3
Profit on sale of loan portfolios	**(9)**	(44)	(11)
Net income on sale of available-for-sale securities	**(187)**	(857)	(1,075)
Realized and unrealized profit (loss) from adjustment to fair value of securities held for trading	**45**	116	(62)
Gain on realization of investments in associate companies	**-**	(7)	(522)
Gain on sale of buildings and equipment	**(278)**	(66)	(485)
Provision for impairment of shares available for sale	**11**	6	283
Expenses deriving from share-based payment transactions	**-**	10	10
Net deferred taxes	**(231)**	43	(278)
Severance pay and pension - increase in surplus of provision over fund	**(42)**	261	434
Interest received (and not yet received) in excess of interest accrued in the period for debentures available for sale	**100**	312	118
Unpaid interest for debentures and subordinated notes	**671**	782	722
Effect of exchange rate differentials on cash and cash equivalents	**447**	591	6
Other, net	**(2)**	-	13
Net change in current assets:			
Deposits in banks	**(1,085)**	(207)	888
Loans to the public	**(7,986)**	(2,986) (b)	(9,345)
Loans to the Government	**(73)**	(189)	76
Securities borrowed or purchased under agreements to resell	**123**	480	236
Derivative assets	**1,077**	595	5,664
Securities held for trading	**2,948**	3,322	1,112
Other assets	**(111)**	(179)	(807)
Net change in current liabilities:			
Deposits from banks	**2,094**	(447)	(708)
Deposits from the public	**17,817**	18,358	24,931
Deposits from the Government	**(387)**	156	275
Securities lent or sold under repurchase agreements	**19**	(399)	(300)
Derivative liabilities	**(915)**	(314)	(4,538)
Other liabilities	**317**	369	(869)
Net cash from operating activities	**18,466**	23,044	20,202

(a) After deducting dividends received.

(b) Reclassified.

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

For the condensed financial statements of the Bank only – please see Note 35.

Consolidated Cash Flows Statement for the year ended December 31 2017 (cont.)

	2017	2016	2015
	NIS Millions		
Cash flows from investment activities			
Purchase of available-for-sale debentures	**(74)**	-	-
Purchase of available-for-sale securities	**(90,845)**	(92,212)	(81,408)
Proceeeds from sale of available-for-sale securities	**42,394**	35,438	33,513
Proceeeds from redemption of available-for-sale	**45,187**	45,457	30,366
Proceeeds from redemption of available-for-sale	**128**	-	-
Proceeeds from sale of credit portfolios	**65**	2,723	317
Purchase of shares in associate companies	**17**	-	(20)
Proceeeds from disposal of investment in associate companies	**-**	73	711
Purchase of buildings and equipment	**(637)**	(634)	(627)
Proceeeds from disposal of buildings and equipment	**315**	99	562
Proceeeds from disposal of assets tarnsferred to the Group's ownership	**-**	2	3
Central severance pay fund	**373**	200	57
Net cash from investment activities	**(3,077)**	(8,854)	(16,526)
Cash flows from financing activities			
Issuance of debentures and subordinated notes	**-**	4,442	2,606
Redemption of debentures and subordinated notes	**(7,734)**	(3,892)	(5,698)
Dividend paid to shareholders	**(627)**	-	-
Dividend paid to minority shareholders in minority companies	**(10)**	(10)	(10)
additional purchase of shares in consolidated companies	**-**	-	(41)
loans to employees for purchase of the Bank's shares	**-**	-	42
Net cash from financing activities (for financing activities)	**(8,371)**	540	(3,101)
Increase (decrease) in cash and cash equivalents	**7,018**	14,730	575
Balance of cash and cash eqiuvalents at beginning of year	**72,269**	58,130	57,561
Effect of exchange rate differences on balance of cash and cash equivalents	**(447)**	(591)	(6)
Balance of cash and cash eqiuvalents at year end	**78,840**	72,269	58,130

Interest and taxes paid and/or received and dividends received

	2017	2016	2015
	NIS Millions		
Interest received	**10,057**	-	-
Interest paid	**(2,447)**	(3,041)	(3,209)
Dividends received	**176**	48	1,013
Income taxes paid	**(1,855)**	(1,629)	(1,419)

(a) Reclassified

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

For the condensed financial statements of the Bank only – please see Note 35.

Appendix A – Non-cash investment and financing transactions in the reporting period:

For the year ended December 31 2017

On January 1 2017, a balance of NIS 957 million was reclassified from the Available-for-sale securities portfolio to the Held- to-maturity bonds portfolio.

See Note 1.C.5.

On April 6, 2017, the Bank issued PSUs. As a result, NIS 10 million were reclassified from Other liabilities to Share-based payment transactions reserve.

See Note 24A.

For the year ended December 31 2016

During the year, fixed assets were acquired against liabilities to suppliers, in the amount of NIS 119 million,

and shares were issued against the conversion of rights accrued by employees in the amount of NIS 636 million.

For the year ended December 31 2015

During the year, fixed assets were acquired against liabilities to suppliers, in the amount of NIS 37 million.

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

For the condensed financial statements of the Bank only – please see Note 35.

Notes		Page

Note 1 – Significant Accounting Policies

A. General

The financial statements have been prepared in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and the directives and guidelines of the Supervisor of Banks relating to the preparation of annual financial statements of a banking corporation.

Publication of the financial statements is on the basis of the consolidated statements only. Condensed financial statements of the Bank on a single-entity basis appear in Note 35.

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

B. Definitions

In these financial statements –

The Bank- Bank Leumi of Israel Ltd.

The Group – the Bank and its subsidiaries.

Consolidated companies - companies of which the financial statements are fully consolidated, directly or indirectly, in the statements of the Bank.

Associate companies - companies, other than consolidated companies including a partnership or joint enterprise, in which the Bank's investment is included, directly or indirectly, in the financial statements on equity basis.

Investee companies - consolidated companies and associate companies.

Foreign units - representative offices, agencies, branches or consolidated companies of the Bank outside Israel.

Functional currency - the currency of the main economic environment in which the Bank generally operates. This is the currency of the environment where the corporation produces and spends most of its cash funds.

Reporting currency - the currency in which the financial statements are reported.

Related parties - as defined in Section 80 of the Public Reporting Directives.

Interested parties - as defined in Section 80 of the Public Reporting Directives.

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

Adjusted amount - historical nominal amount adjusted to the December 2003 CPI, in accordance with the provisions of Opinions 23 and 36 of the Institute of Certified Public Accountants in Israel.

Reported amount - amount adjusted to the transition date (December 31 2003) with the addition of amounts in nominal values that were added after the transition date and less amounts that were eliminated after the transition date.

Nominal financial reporting - financial reporting based on reported amounts.

Adjusted financial reporting - financial reporting in values adjusted according to the changes in the general purchasing power of the Israeli currency in accordance with the provisions of the opinions of the Institute of Certified Public Accountants in Israel.

Cost – cost in reported amount.

Fair value - the amount that would be received from the sale of an asset or that would be paid to transfer a liability in a transaction between a willing seller and a willing buyer at the measurement date.

Recorded debt balance – the recorded debt balance is defined as the outstanding debt after deducting accounting write-offs, but before deducting a credit loss allowance in respect of that debt. The recorded balance of debt does not include accumulated interest that was not recognized.

C. Basis for preparation of the financial statements

1. Reporting principles

The financial statements of the Bank have been prepared in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and the directives and guidelines of the Supervisor of Banks. In most matters, these directives are based on US GAAP. In other subjects that are less material, the directives are based on certain International Financial Reporting Standards (IFRS), interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and Israeli GAAP.

When International Financial Reporting Standards (IFRS) allow a number of alternatives, or do not include a specific reference to a certain situation, specific instructions for implementation have been determined in the directives of the Supervisor of Banks that are based mainly on US GAAP.

For details of the new accounting standards, accounting standards updates and new directives of the Banking Supervision Department that were implemented for the first time see paragraph V below.

2. Functional currency and reporting currency

The financial statements are reported in NIS rounded to the nearest million, unless stated otherwise.

The shekel is the currency representing the principal economic environment in which the Bank operates.

For more information on the functional currency of banking units operating aboard, please see paragraph (D) below.

3. Basis of measurement

3.1 General

The financial statements are shown in reported amounts in accordance with the accounting standards of the Israeli Accounting Standards Board and the directives of the Supervisor of Banks.

3.2 Balance Sheet

- Non-monetary and equity items (mainly buildings and equipment; investments in non-quoted shares; amortizable expenses relating to issuance of debentures, bonds and subordinated notes, deferred taxes, assets and liabilities in respect of employee benefits and non-current assets held for sale) are shown in reported amounts.
- Monetary items are shown in the balance sheet at historical nominal values as at the balance sheet date, except for derivative financial instruments and other financial instruments that are measured at fair value.
- An investment in associate companies is determined based on the financial statements of these companies in reported amounts or translated to NIS.

3.3 Income Statement

- Income and expenses that arise from non-monetary items (for example, depreciation and amortization and prepaid income and expenses) or from provisions included in the balance sheet are derived from the difference between the reported amount of the opening balance and the reported amount of the closing balance.

- The Bank's share in the operating results of investee companies and the share of external shareholders in the results of consolidated companies are determined based on the financial statements in reported amounts of these companies.
- Other components of the income statement are shown at their nominal values (for example, net interest income, and commissions).

4. Use of estimates

When preparing the financial statements, in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and directives and guidelines of the Supervisor of Banks, management is required to use estimates, evaluations and their discretion affecting the reported amounts of assets and liabilities, the disclosure relating to contingent assets and liabilities and amounts of income and expenses during the reporting period. It should be made clear that actual results may differ from such estimates.

When formulating accounting estimates used in preparing the Bank's financial statements, Bank management has to make assumptions concerning circumstances and events which involve significant uncertainty. In its consideration of the estimates, Bank management bases itself on past experience, various facts, external factors, and on reasonable assumptions in accordance with circumstances appropriate to each estimate.

Changes in estimates

The estimates and the assumptions on which they are based are reviewed on a routine basis. Changes in accounting estimates are recognized in the period in which the estimates were amended and for each period affected in the future.

Classification of securities

As of January 1 2017, the Bank may reinstate the classification of its debentures in the held-to-maturity portfolio. As a result, the Bank classified debentures from a foreign subsidiary in the amount of NIS 957 million from the available-for-sale portfolio to the held-to-maturity portfolio. According to the directives of the Bank of Israel, when reclassifying debentures from the available-for-sale portfolio to the held-to-maturity portfolio, an unrealized gain or loss from adjustments to fair value as of the transition date continues to be presented in equity, but from that day onwards, it is amortized to profit and loss over the debentures' remaining life. The loss amount in the capital reserve as of the transition date is NIS 35 million.

D. Foreign currency and linkage

Transactions in foreign currency

Assets and liabilities denominated in foreign currency or linked thereto are stated according to the representative rates of exchange published by Bank of Israel at the balance sheet date, or other appropriate date, as follows:

- Assets and liabilities denominated in foreign currency or linked thereto are translated to the functional currency at the rate of exchange prevailing on the reporting date.
- Non-monetary assets and liabilities in foreign currency or linked thereto that are measured at fair value, are translated into the functional currency at the rate of exchange prevailing on the date on which the fair value is determined. Non-monetary assets and liabilities denominated in foreign currency or linked thereto and measured at historical cost, are translated at the rate of exchange prevailing on the date of the transaction.

  Income and expenses in foreign currency are included in the income statement at current representative exchange rates at the transaction dates and exchange rate differentials on the assets and liabilities in respect of which the above income and expenses arose.

Exchange rate differentials resulting from translation to the functional currency are recognized in profit and loss except for the following differences recognized in OCI resulting from the translation of:

- Equity financial instruments classified as available for sale (except in the event of impairment when the translation differences recognized in OCI are reclassified to profit and loss).
- Financial liabilities hedging investments in a foreign operation in respect of the effective part of the hedge.

The functional currency of offices operating abroad

An entity's functional currency is the currency of the primary economic environment in which the entity operates. It is usually the currency used in the environment in which the entity generates cash.

The functional currencies of the foreign offices are determined according to the following criteria:

- The office generates and spends cash in a foreign currency and the office's NIS activity is marginal.
- The office recruits customers independently, such that the office's activity vis-à-vis the customers of the banking corporation or close parties is insignificant.
- The activity of the office vis-à-vis the banking corporation and related parties is insignificant, and, inter alia, the office has no dependence on the sources of funding of the banking corporation or its related parties.
- The activity of the office is essentially independent and stand-alone, and is not an extension of or complementary to the local activity of the banking corporation.

When one of the said criteria is clearly not fulfilled, this indicates that the office is to be treated as a foreign operation whose functional currency is the shekel.

In accordance with the above, the Bank has reclassified the US banking office as a foreign operation whose functional currency is other than the shekel.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments generated in an acquisition, have been translated to NIS at the exchange rate prevailing at the date of the transactions. Income and expenses of foreign operations have been translated to NIS at the exchange rates prevailing at the dates of the transactions.

Exchange rate differentials in respect of the translation are recognized in comprehensive income, and are shown in equity under "Adjustments for translation of financial statements".

On realization, including liquidation of a foreign operation leading to loss of control or substantial influence, the cumulative amount in the translation reserve resulting from the foreign operation is reclassified to profit and loss as part of the profit or loss on the realization.

In addition, when there are changes in the percentage of the Bank's holdings in a subsidiary company that includes foreign operations while retaining control of the subsidiary company, a proportionate part of the accumulated amount of exchange rate differences recognized in OCI is reattributed to non-controlling interests.

When the Group realizes part of the investment that is a subsidiary company that includes foreign operations while retaining material influence, the proportionate part of the accumulated amount of exchange rate differences is reclassified to profit and loss.

Hedging a net investment in a foreign operation

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

Exchange rate differences arising from translation of a financial liability hedging a net investment in a foreign operation are charged to OCI and shown as equity under "Adjustments for translation of foreign operations". The ineffective part is charged to profit and loss. When the investment for which the hedging was made is realized, the relevant amount accrued in "Adjustments for translation of financial statements" is transferred to profit and loss as part of the profit and loss from realization of the investment.

Index-linked assets and liabilities not measured at fair value

Assets and liabilities linked to the Consumer Price Index are included in accordance with the linkage terms determined for each balance.

Details of representative exchange rates and the CPI and the rate of change therein:

	December 31			Change in year		
	2017	2016	2015	**2017**	2016	2015
(NIS)						
Exchange rate of:						
USD	**3.467**	3.845	3.902	**(9.83)**	(1.46)	0.33
Euro	**4.153**	4.044	4.247	**2.69**	(4.780)	(10.11)
GBP	**4.682**	4.73	5.784	**(0.92)**	(18.310)	(4.61)
CHF	**3.555**	3.71	3.925	**(5.64)**	(4.01)	(0.11)
CPI	**(points)**					
November - Known Index	**100.3**	100.0	100.3	**0.3**	(0.3)	(0.9)

E. Basis of consolidation

1. Subsidiary companies

Subsidiary companies are entities controlled by the Bank. The consolidated financial statements include the financial statements of the Bank and of entities in which the Bank has control. The financial statements of subsidiary companies are included in the consolidated financial statements from the date control is obtained until the date control ceases. The accounting policy of subsidiary companies was amended as necessary in order to adapt it to the accounting policy adopted by the Bank, except in those cases when the Supervisor of Banks otherwise permitted.

Intercompany balances and transactions between consolidated companies are eliminated in the consolidated financial statements.

The financial statements of two wholly-owned real estate and service companies are consolidated in the financial statements of the Bank only.

Non-controlling interests

Non-controlling interests are the part of the equity of subsidiary companies, directly or indirectly, which are not attributable to the parent company. These rights, which grant the holder part of the net assets of the acquiree, are measured for fair value on the date of acquisition.

Profit or loss and any element of OCI are attributable to the Bank's shareholders and to non-controlling interests. The amount of profit, loss, and OCI attributable to the owners of the Bank and to non-controlling interests even if, as a result of this, the balance of non-controlling interests would be negative.

Transactions with non-controlling interests, while maintaining control, are treated as equity transactions. Any difference between the proceeds paid or received in the change of non-controlling interests is charged to the owners' share of the Bank, directly to retained earnings.

The amount for which non-controlling interests are adjusted is calculated as follows:

- When the holding percentage increases, according to the relative part acquired from the balance of the non-controlling interests in the consolidated financial statements prior to the transaction.

- When the holding percentage decreases, it is calculated according to the relative part realized by the owners of the bank in net assets of the subsidiary company including goodwill.
- When there are changes in the holding percentage in a subsidiary company, while retaining control, the Bank reapportions the aggregate amounts recognized under OCI, between the owners and the non-controlling interests.
- When there is a loss of control, the Bank deducts the assets and liabilities of the subsidiary company and other components of the capital attributed to the subsidiary company. If the Bank remains with some investment in the former subsidiary company, the balance of the investment is measured at fair value at the date of loss of control. The difference between the proceeds received and the fair value of the balance of the investment in the former subsidiary company and the balances deducted are recognized in profit and loss. The amounts that were recognized in equity by way of OCI relating to that subsidiary are reclassified to profit or loss.

2. Associate companies

Associate Companies are entities in which the Group has significant influence on financial and operational policy, without having achieved control over them. It is assumed that holding between 20% and 50% of an investee grants material influence. In addition, for purposes of determining material influence, qualitative criteria are examined which often supersede this quantitative assumption. When examining whether there is material influence, potential voting rights that are exercisable or immediately convertible to shares in the investee company, are to be taken into consideration.

The investment in shares of associate companies is dealt with according to the equity method and recognized initially at cost. The cost of the investment includes transaction costs. When the Bank achieves significant influence for the first time in an investment dealt with as an asset available for sale until the date significant influence is achieved, the equity method is applied retroactively.

Investments include goodwill calculated at the date of acquisition and shown after deducting accrued losses from impairment. The accounting policy of associate companies which is implemented by them is in accordance with generally accepted accounting principles in Israel or international accounting principles if the associate company is in a foreign country or is otherwise permitted by the Supervisor of Banks.

The financial statements of an associate company are prepared using a uniform accounting policy with the banking corporation with regard to similar transactions and events under similar circumstances; except for adjustments to accounting policy referring to subjects that are a core part of the banking business, that were implemented by a non-banking associate company.

The Bank's share in the operating results of the said companies is shown after amortization of the cost generated on their acquisition. Excess cost attributed to the assets and liabilities is amortized over the useful life of the asset. Positive goodwill is not amortized and is included in the book value of the investment, and negative goodwill is recognized in profit and loss at the acquisition date with the approval of the Supervisor of Banks.

The changes in shareholders' equity statement includes the Bank's share in "translation adjustments" of units held by associate companies, as units whose activity is in a functional currency differing from the functional currency of the Bank.

Profits or losses from the realization of associate companies are charged to profit and loss under "Noninterest financing income – profits or losses from investment in shares" as part of activities not for trading purposes.

When the Group share in losses exceeds the value of the rights of the Group in the company dealt with under the equity method, the book value of those rights is reduced to zero.

The Group does not recognize additional losses of the investee company unless the Group has an additional obligation to the investee company. When there is an increase in the percentage of the holding in the associate company that is being dealt with under the equity method while retaining significant influence, the acquisition method is applied only with respect to the additional percentages held, while the previous holding remains unchanged.

When there is a reduction in the percentage of the holding in the associate company that is being dealt with under the equity method while retaining significant influence, the Group reduces a relative portion of its investment and recognizes it in profit and loss on the sale. In addition, on the same date the relative portion of the amounts recognized in capital reserves through other comprehensive profit in reference to the said associate company, is reclassified to profit and loss or retained earnings.

When there is a loss of significant influence, the Group ceases to use the equity method as of the date it lost significant influence, and deals with the remaining investment as a financial asset. At this date it will recognize in OCI the difference between the fair value of the balance of the investment and the book value of the investment.

In addition, at the same date a relative part of the amounts recognized in capital reserves by way of OCI, with reference to that associate company, is reclassified to the income statement or to retained earnings.

The Bank reviews, in each reporting period, the need to record impairment of its investment in associate companies - see Subsection U.3 below.

F. Basis of recognition of income and expenses

Income and expenses are included on an accrual basis, except for the following:

- Income and expenses from securities held for trading and derivative financial instruments are recognized according to the changes in fair value.
- Interest accruing on problematic debts that were classified as non-accrual loans is recognized on a cash basis when there is no doubt with regard to collection of the remaining recorded debt balance of an impaired debt. In these situations, an amount collected on account of the interest that is recognized as interest income, is limited to the amount that would be accumulated in the reporting period on the remaining recorded balance of the debt according to the contractual interest rate. Interest income on a cash basis is classified in the income statement as interest income under the relevant heading. When there is doubt as to collection of the remaining recorded balance of debt, all payments collected serve to reduce the loan principal. In addition, interest on past-due amounts in respect of housing loans is recognized in the income statement on an actual collection basis.
- Credit origination commissions - Commissions charged for originating loans, excluding loans for a period up to three months, are not recognized immediately as income in the income statement, but are deferred and recognized over the life of the loan as an adjustment of the return. Income from the said commissions will be charged under the effective interest rate method and reported as part of interest income.
- Early repayment commissions – Income from Commissions charged for early repayment, performed before January 1 2014 and not yet amortized, are recognized over a period of three years or the remaining term of the loan, whichever is shorter. Commissions that were charged for early repayment performed after January 1 2014, are immediately recognized as part of interest income.
- Change in the terms of a debt - In cases of refinancing or restructuring of debts that are not problematic, the Bank considers whether the loan terms were changed significantly. In such cases all commissions not yet amortized and early repayment commissions collected from the customer due to change in loan terms are included as part of the net investment in the new loan and recognized as adjustments to the return as stated above.

- Credit allocation commissions are accounted for in accordance with the likelihood of the realization of the obligation to provide loans. If this is remote, the commission is recognized on a straight line basis over the term of the commitment, or the Bank defers recognition of income from such commissions until the date of exercise of the commitment or the date of expiry, whichever the earlier. If the commitment fee is recognized, then the commissions are recognized by way of adjusting the yield over the life of the loan as stated above. If the commitment expires unexercised, the commissions are recognized on the date of expiration and reported as part of income from commissions. For this purpose, the Bank assumes that the probability of realizing the commitment is not remote.
- Operating commissions for granting services are charged to profit and loss when the service is granted.
- In subsequent periods to an impairment which is other than of a temporary nature, interest income from investments in debt instruments will be recognized based on the excess of the amount of expected cash flows of the debt instrument.

G. Fair value of financial instruments

The Bank implements the rules set out in SFAS 157 (ASC 820) that defines fair value and establishes a consistent working framework for the measurement of fair value by defining fair value assessment techniques with regard to assets and liabilities, and by establishing a fair value hierarchy and detailed instructions for implementation. In addition, the Bank applies the directive of the Banking Supervision Department on Fair Value Measurement that integrates the principles set out in Accounting Standards Update ASU 2011-04 on Fair Value Measurement in the Public Reporting Directives.

Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." The Standard requires, *inter alia*, for purposes of fair value valuation, making maximum use of observable inputs, and minimizing the use of unobservable inputs. Observable inputs provide information available to the market received from independent sources, whereas unobservable inputs reflect assumptions by the bank.

SFAS 157 stipulates a hierarchy of measurement techniques based on the determination if the inputs used for purposes of determining fair value are observable or unobservable. These types of input create a fair value hierarchy detailed as follows:

- Level 1 inputs: quoted prices (not adjusted) in active markets for identical assets or liabilities.
- Level 2 inputs: prices quoted for similar assets or liabilities in active markets; prices quoted for identical assets or liabilities in inactive markets; prices derived from evaluation methods in which all the significant inputs are observable in the market, or are supported by observable market data.
- Level 3 inputs: unobservable inputs for the asset or the liability deriving from evaluation model for which one or more of the significant inputs are not observable.

This hierarchy requires the use of observable market data, where such exist. When this is possible, the Bank considers relevant observable data in its evaluation, the scope and frequency of the transactions, the size of the bid-ask margin, and the size of adjustment required when comparing similar transactions, are all factors taken into account when determining the level of market liquidity and the degree of relevance of observable prices in those markets.

The level in the scale of fair value to which the fair value measurement of the financial instrument belongs is to be determined on the basis of the lowest level of the figure that is significant for the fair value measurement as a whole.

Methods of assessment implemented by the Bank for measuring fair value are evaluated taking into consideration the relevant circumstances for the various transactions, including prices of recent transactions in the market, indicative prices of assessment services, and the results of back-testing of similar types of transactions.

Credit risk and non-performance risk assessment

The Standard requires to reflect credit risk and non-performance risk in the measurement of the fair value of debt, including derivative instruments, issued by the bank and measured at fair value. Non-performance risk includes the credit risk of the banking corporation, but is not limited to this risk only.

For more information regarding the methods and main assumptions used for purposes of estimating the fair value of financial instruments, please see Note 33A below, under Balances and fair value measurements of financial instruments.

Securities

The fair value of securities held for trading and available for sale securities is determined based on market prices quoted in the principal market. In those cases, where a quoted market price is not available, the fair value is based on the best available information with maximum use of observable data and taking into account the risks inherent in the financial instrument. Fair value is determined using generally accepted pricing models, based on evaluations obtained from experts in valuing financial instruments or based on an independent system of the Bank. Evaluation methods include the use of various parameters, such as interest curves, currency rates and standard deviations, taking into account the risks inherent in the financial instrument (market risk, credit risk, non-marketability, etc.).

Most of the portfolio is calculated each month by a well-known international institution which is engaged in the calculation of fair value and is independent of the issuing entities and the marketing entities. The calculation is based mainly on the prices of transactions in active markets. The balance of the portfolio is revalued based on quotes from brokers or from the makers of the instruments, or based on the Bank's system.

Derivative financial instruments

The fair value of derivative financial instruments that have an active market is determined based on market prices quoted in a principal market.

In those cases, where a quoted market price is not available, a fair value estimate is made by using models that take into account the risks inherent in the derivative instrument.

Non-derivative financial instruments

For most financial instruments in this category there is no active market in which they are traded. Accordingly, fair value is estimated using generally accepted pricing models, such as the present value of future cash flows discounted at an interest rate reflecting the level of risk inherent in the financial instrument. For this purpose, pursuant to Banking Supervision Department instructions, future cash flows for impaired debts and other debts have been calculated after deducting the effect of accounting write-offs and credit loss allowances in respect of the debts.

The Fair Value Option for Financial Assets and Financial Liabilities

FAS 159 (ASC 825-10) allows a banking corporation to elect, on defined dates, to measure financial instruments and certain other items (the eligible items) at fair value, which under the Public Reporting Directives are not required to be measured at fair value. Unrealized profits and losses in respect of changes in the fair value of the items for which the fair value alternative is selected, shall be reported in the income statement for each consecutive reporting period. In addition, prepaid costs and fees related to the items for which the fair value alternative is selected, shall be recognized in profit and loss on the date of creation, rather than deferred. The election to apply the fair value alternative, as noted above, shall be made instrument by instrument, and cannot be cancelled. In addition, FAS 159 establishes presentation and disclosure requirements aimed at facilitating comparisons between banking corporations that choose different bases for measurement of similar types of assets and liabilities.

Notwithstanding the above, it is clarified by the Banking Supervision Department that a banking corporation shall not elect the fair value alternative unless it has developed prior know-how, systems, procedures, and controls at a high level, which will enable it to measure the item to a high degree of reliability. Thus, a banking corporation shall not elect the fair value alternative with regard to any asset requiring classification as Level 2 or Level 3 of the fair value hierarchy, or with regard to any liability, unless it receives prior approval to do so from the Banking Supervision Department. The Bank did not designate financial instruments under the fair value option.

H. Impaired debts, credit risk and provision for credit loss

As of January 1 2011, in accordance with the Directive of the Supervisor of Banks on Measurement and Disclosure of Impaired Debts, Credit Risk, and the Credit Loss Allowance, the Bank applies the ASC310 (US Accounting Standards Codification), the positions of the US banking supervisory authorities and the Securities and Exchange Commission as adopted by the Supervisor of Banks in the Public Reporting Directives.

In addition, the Bank implements the directives of the Banking Supervision Department on updating the disclosure on credit risk and on the credit loss allowance as of January 1 2012.

The Directive has been implemented with regard to all debt balances such as deposits in banks, bonds, securities borrowed or purchased under repurchase agreements, loans to the public, loans to the government, etc. Credit to the public and other debt balances for which no specific rules were made in the Public Reporting Directives regarding the measurement of the credit loss allowance (such as loans to the government, deposits in banks, etc.) are reported in the books of the Bank according to the recorded debt balance. A recorded debt balance is defined as the balance of a debt after deducting accounting write offs but before deducting a credit loss allowance in respect of that debt.

The Bank has decided on the procedures required to maintain a credit loss allowance at a level appropriate to cover expected credit losses relating to its loan portfolio, including in respect of off-balance sheet credit risk. The allowance to cover expected credit losses in the loan portfolio is estimated in one of the following tracks:

Individual credit loss allowance

The allowance is made based on the measurement of the impairment of the debt, based on the present value of future expected cash flows, discounted at the effective rate of interest of the debt; or, when a debt is dependent on collateral (debt in which the repayment is expected to be made exclusively from the pledged collateral or other asset held by the borrower), or when an asset is expected to be seized, according to the fair value of the collateral pledged to secure such credit (less costs of sale).

To this end, the Bank defines a debt as conditional when its repayment is expected to be made solely from the collateral pledged to the Bank or when the Bank expects to be repaid from the asset held by the borrower even if there is no specific lien on the asset, and all when the borrower has no other material available and reliable sources of repayment.

The need for an individual allowance is assessed for each debt whose contractual balance (without deducting: accounting write-offs not involving a legal waiver, interest not recognized, credit loss allowances, and collateral) is NIS 1 million or more, and any other debt identified for individual assessment by the Bank. In some of the consolidated subsidiary companies, the assessment is made also for lower amounts. The individual allowance is calculated for each debt classified as impaired (see below).

Collective credit loss allowance – Balance sheet credit – its purpose is to reflect allowances for impairment due to credit losses that have not been identified individually and which are included in large groups of small debts with similar risk characteristics as well as in respect of debts that have been assessed individually and found not to be impaired. Measurement of credit losses is based on the principles set out in FAS 5 (ASC 450) – Accounting for Contingencies and the directives of the Supervisor of Banks, based on historical loss rates in the various sectors of the economy, divided between problem debts and non-problem debts in the years ranging from January 1 2011 up to the reporting date. In addition, for purposes of determining the appropriate rate of the provision, the Bank, for purposes of determining the appropriate rate of the provision, takes into account adjustment in respect of environmental factors such as: conditions of the sector, macroeconomic data, a general assessment of the quality of credit to sectors of the economy, changes in volume and the trend of balances in arrears and impaired balances, and the effect of the changes on credit concentrations.

Regarding consumer loans to private individuals, the rate of adjustment in respect of environmental factors shall not be less than 0.75% of the balance of unimpaired consumer loans. From the aforesaid was excluded the credit risk deriving from receivables in respect of banking credit cards without interest charge.

Off-balance sheet credit - the allowance is based on the rates of allowance determined for balance sheet credit, taking into account the percentage of off-balance sheet credit risk expected to be realized. The credit realization percentage is calculated by the Bank based on credit conversion coefficients as set out in Proper Conduct of Banking Business Directive No. 203 – Measurement and Adequacy of Capital – Credit Risk – Standardized Approach, with certain adjustments in cases where the Bank has prior experience indicating percentages for the realization of credit.

The minimum provision for doubtful debts in respect of housing loans is calculated according to a formula determined by the Supervisor of Banks, taking into account the extent of arrears, whereby the rates of the provision increase as the arrears grow. The application of the calculation of the provision according to the formula of the extent of arrears refers to all housing loans, except for loans not payable in regular installments and loans financing activity of a business nature. Similarly, a provision is made on the balance of housing loans not in arrears based on past statistics.

In addition, the Bank implemented the provisions of an update of Proper Conduct of Banking Business Directive 329 on "Restrictions on Granting Housing Loans". The Bank formulated a policy designed to ensure that it complies with the new requirements that, as of June 30 2013, the balance of the collective credit loss allowance for housing loans will not be less than 0.35% of the balance of the said loans at the reporting date in accordance with a Bank of Israel circular dated July 10, 2017, the above calculation is not mandated starting on January 1, 2018.

The Bank examines the overall appropriateness of the credit loss allowance based on management's judgment, taking into account the risks inherent in the loan portfolio.

The Bank also calculates a supplementary and general provision under the policy for the provision for doubtful debts before the implementation of the directives on impaired debts, credit risk, and the credit loss allowance.

These provisions are used only as an indicator for the collective allowance such that if the total collective allowance is less than the supplementary and general provision, the allowance is to be made using the higher of the two calculations.

Classification of problem debts

The Bank determined procedures for identifying problem credit and classifying debts as impaired. In accordance with these procedures, the Bank classifies the balance of its various problem debts as follows: special mention, substandard, or impaired.

As of July 1, 2017, the Bank implements the revised Questions and Answers and Examples of Implementation of Public Reporting Directives on Impaired Debts, Credit Risk, and the Allowance for Credit Losses.

According to the revised document, determining the right classification of a debt until the occurrence of a failure or when the occurrence of a failure has become highly probable is based on the borrower's repayment capacity, i.e., the expected robustness of the primary source of repayment, despite the support of secondary or tertiary sources of repayment.

Primary source of repayment – a source of cash that is stable over time which must be under the borrower's control and must be explicitly, or essentially, separate, to cover the debt. For a source of repayment to be considered primary, the Bank must show that the borrower is highly likely to generate, within a reasonable period of time, an adequate cash flow from continuing business operations which shall be used to repay all of the required payment in full and according to the payment schedule in the agreement.

Special mention credit

Special mention balance sheet credit is a debt which has potential weaknesses in respect of which special attention is required by the management of the corporation. Off-balance sheet credit is classified as special mention credit if realization of the liability contingent on this item is "possible", and if the debts which may be recognized as a result of the contingent realization are suitable for classification in this category.

Substandard credit

Substandard balance sheet credit is credit which is insufficiently protected by the current established value and the debtor's repayment ability, or by the pledged collateral, if any. Balance sheet credit risk classified as such has a well-defined weakness or weaknesses that put the realization of the debt at risk. Credit for which a credit loss allowance is recognized on a collective basis will be classified substandard when it becomes a debt with arrears of 90 days or more.

Impaired credit

Identifying and classifying impaired credit

Impaired debt is credit of which the banking corporation, based on current information and events, will probably not be able to collect the entire amount due (principal and interest), according to the contractual terms of the loan agreement. In particular, a debt is classified as impaired when its principal or interest is in arrears of more than 90 days, except if the debt is well secured or in collection proceedings. In addition, an impaired debt is also considered as a debt whose terms were changed due to problem debt restructuring, unless prior to and after the restructuring a minimum allowance was made for credit allowance by extent of arrears.

Reversing an impaired debt back to non-impaired status

An impaired debt reverts to being classified as a non-impaired debt if one of the following conditions is met:

- There are no components of principal or interest in regard thereof repayment has become due but have not been paid, and the Bank expects repayment of the remaining principal and interest in full under the terms of the contract (including accounting write-offs or amounts that have been provided for).
- When the debt has become well-secured debt and is in process of collection.
- A problem debt which has been restructured and thereafter the banking corporation and the debtor entered into an additional restructuring agreement (subsequent restructuring), the banking corporation is not required any longer to regard the debt as a restructured problem debt anymore, provided that the debtor no longer has financial difficulties at the time of the restructuring and that, in accordance with the subsequent restructuring terms, the banking corporation has not granted a waiver to the debtor. This paragraph applies to restructurings to be performed or renewed from December 31 2016.

The rules for reversing an impaired debt will not apply to debts classified as impaired as a result of problem debt restructuring, except for subsequent restructuring as mentioned above.

Changing an impaired debt back to an impaired accrual status

A debt for which after restructuring there is reasonable certainty that it will be repaid in accordance with its new terms, is changed back for treatment as a debt accruing interest income under terms of restructuring, and any accounting write-off carried out in the debt is supported by an updated appraisal as to the financial condition of the debtor, based on continuous repayments of at least six months and only after payments are received that significantly reduce (at least 20%) the recorded balance of debt determined after restructuring.

Problem debt restructuring

A debt which formally underwent a problem debt restructuring is defined as a debt in respect of which, for economic or legal reasons related to the debtor's financial difficulties, the Bank granted a waiver by way of modification of the terms of debt, in order to alleviate the burden for the debtor of near-term cash payments or by way of receipt of other assets as payment of the debt. For purposes of determining whether a debt agreement executed by the Bank comprises a problem debt restructuring, the Bank performs a qualitative examination of the totality of the terms of the arrangement and the circumstances under which it was made, in order to determine whether (1) the debtor is in financial difficulties and (2) the Bank granted a waiver under the arrangement to the debtor.

In order to determine whether the debtor is in financial difficulties, the Bank examines whether there are signs that point to the fact that the borrower is in difficulties at the time of the arrangement or the existence of a reasonable possibility that the borrower would get into financial difficulties if not for the arrangement.

The Bank examines, inter alia, the existence of one or more of the following circumstances:

- At the time of the debt arrangement the borrower is in default on any debt;
- With regard to debts which at the time of the arrangement are not in arrears, the Bank estimates if according to the current repayment ability it is likely that in the foreseeable future the borrower will get into a default situation, and will not meet the original contractual terms of the debt;
- The debtor was declared bankrupt, is under receivership, or there are significant doubts as to the borrower's continued existence as a going concern;
- Without changing the terms of the debt, the debtor will not be able to raise debt from other sources at market rates of interest for debtors not in default.

The debtor was granted a waiver, even if under the arrangement an increase was made in the contractual interest rate, if one or more of the following situations exist:

- As a result of restructuring, the Bank is not expected to collect all amounts outstanding (including accrued interest according to the contractual terms);
- The updated fair value of the collateral, in respect of debts conditional on collateral, does not cover the contractual balance of the debt and indicates the inability to collect all amounts due;
- The debtor has no possibility of raising resources at the rate prevailing in the market for a debt with terms and characteristics such as those of the debt granted under the arrangement.

In addition, the Bank will not classify debt as a restructured problem debt if, under the arrangement, the debtor was granted a stay of payments that is not material, given the frequency of the payments in the contractual repayment period and the expected duration of the original debt. In this regard, if several arrangements were made involving changes in the terms of the debt, the Bank takes into account the cumulative effect of the previous arrangements for the purpose of determining whether the stay of payments is not material.

Restructured debts, including those that prior to the restructuring were examined on a group basis, will be classified as impaired debt and will be evaluated on an individual basis for purposes of making a credit loss allowance, or an accounting write-off. As a rule, a problem debt which has been restructured will continue to be measured and classified as an impaired debt, until it is repaid in full, unless it met the conditions of reversal or impairment, as mentioned above.

Income recognition

At the time the debt is classified as impaired, the Bank defines the debt as a debt not accruing interest income, and ceases accruing interest income on it, except that stated above regarding certain impaired debts after restructuring. In addition, at the time the debt is classified as impaired, the Bank cancels all the interest income accrued but not yet collected, which was recognized as income in profit and loss. The debt remains classified as a debt not accruing interest income, as long as the impaired debt classification is not canceled. A debt that underwent a formal problem debt restructuring, and after the restructuring there is reasonable certainty that the debt will be repaid and will perform in accordance with its new terms, will be treated as an impaired debt accruing interest income. For more information regarding recognition of income on a cash basis for debts classified as impaired, please see paragraph F above.

Regarding debts assessed and provided for on a collective basis, which are in arrears of 90 days or more, the Bank continues to accrue interest income. These debts are subject to methods of evaluation for the credit loss allowance that ensure that the profit of the Bank is not overstated. Late-payment commissions for these debts are included as income on the date the Bank becomes entitled to receive them from the customer, provided that collection is reasonably secured.

Accounting write-off

The Bank makes an accounting write-off in the cases set out below:

- Any debt or part thereof examined on an individual basis that is considered uncollectible, or a debt which the Bank has made efforts to collect over an extended period (defined generally as a period exceeding two years) to collect the debt and for which individual credit loss allowances have been made.
- In the event of a debt whose collection in collateral-contingent, any part of a debt which exceeds the value of the collateral, which is identified as uncollectible will be written off immediately against the credit loss allowance.
- Problem debts in respect of which the allowance is measured based on a collective credit loss allowance when the period of arrears exceeds 150 days.

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

I. Securities

1. Securities in which the Bank invests are classified into three portfolios as follows:

a. Debentures held to maturity

Debentures which the Bank intends and is able to hold until redemption date. Debentures held to maturity are stated at cost with the addition of accrued interest, linkage and foreign currency differences, taking into consideration the proportion of the premium or discount and less provision for impairment in their value which is not of a temporary nature.

b. Securities held for trading

Securities which were acquired and are held with the aim of selling them in the near future, and securities for which the bank chose to make fair value measurement through the income statement. Securities held for trading are stated at fair value at the reporting date. Realized and unrealized gains and losses are included in the income statement.

c. Securities available for sale

Securities not classified as debentures held to maturity or as securities held for trading. Securities available for sale are stated in the balance sheet at their fair value on the reporting date, except for shares, and venture capital funds in respect of which the fair value is not available, in which case they are stated at cost.

Differences between the fair value and the amortized cost, less a reserve for tax, are shown in a separate item within shareholders' equity, under other comprehensive profit.

Impairment in value which is not of a temporary nature is charged to the income statement as detailed in paragraph 6 below.

Unrealized gains or losses from adjustments to fair value of available for sale securities designated as being hedged by fair value hedges, are charged to the income statement over the period of hedging the hedged risk.

2. Dividend income, accrued interest, linkage and price differences, amortization of premium or discount (in accordance with the effective interest method), as well as losses from impairment in value not of a temporary nature, are recorded to the income statement.

3. Interest income in respect of beneficial interests which have been acquired, such as asset-backed financial instruments, e.g., MBS, CLO, SCDO and CMO (except for high-quality loan instruments) is recognized using the prospective interest method (future interest that also anticipates future changes), adjusting the interest rate used for recognizing interest for changes in the estimate of future cash flows. High quality loan beneficial interests are beneficial interests issued under the guarantee of the U.S. government or agencies of the U.S. government, and asset-backed securities whose international credit rating is at least AA.

4. The Bank's investments in venture capital funds are dealt with according to fair value. If no rate is published, they will be shown at cost less losses from impairment of a nature other than temporary. Profits from venture capital investments are credited to the income statement when the investment is realized.

5. Fair value

For more information on determining fair value, please see Section G above.

6. Impairment

The Bank examines the necessity, in each reporting period, for making a provision for impairment of securities, in the available for sale portfolio, which is not of a temporary nature. The examination is carried out if there are indications that the value of the securities might be impaired. The criteria for determining if the impairment is not of a temporary nature are based on the following considerations and tests:

- Intention and ability to hold the security until the forecasted recovery of the cost in full.
- The assets and collaterals backing up the security.
- The percentage of impairment from the cost of the security.
- Duration of period in which the fair value of the security is lower than cost.
- Evaluation of repayment ability and rating.
- An adverse change in the situation of the issuer or in the state of the market as a whole.

The Bank's policy is to recognize the impairment of a security as having a nature other than temporary, at least in respect of the impairment of any security that fulfils one or more of the following conditions:

- A security which was sold before the publication of the report to the public.
- A security which the Bank intended to sell within a short period of time before the publication of the report to the public.
- A debenture for which there was a significant rating decrease between the rating of the debenture at the date of acquisition by the Bank and the rating of the debenture at the date of publication of the report. Only a rating decrease below BBB- is considered a significant rating decrease for purposes of this paragraph.
- A debenture which was classified as problematic by the Bank after its acquisition.

- A debenture in respect of which there was a credit failure which was not rectified within a reasonable period of time.
- A security whose fair value was lower than the purchase value for a period of time of at least nine months before the end of the period of the financial statement, and at the end of the statement period as well as at a date shortly before publication of the report was lower by 35% or more than the cost (in the case of a debenture – the depreciated cost).

  In this matter an exception is possible if the Bank has concrete objective evidence and a conservative analysis of all the relevant factors, to show with a high degree of certainty that the impairment is of a temporary nature. The objective evidence and the relevant factors include parameters such as: an increase in value after the date of the financial report, a high credit rating (group A or above), an analysis of stability in stress scenarios carried out by an independent external party or by the Bank, backing and direct government investment in shareholders' equity for purposes of ensuring the strength of the issuer.

  These principles are in accordance with the guideline issued by the Supervisor of Banks, except for the definitions of "significant rating" and "significant impairment" which were determined by the Bank.

  When impairment in value occurs not of a temporary nature, the cost of the security is reduced to the fair value and serves as a new cost basis. Losses from securities which are not of a temporary nature are charged to the income statement. Increases in value over the new cost basis in subsequent reporting periods, are included in a separate item in shareholders' equity under total other accumulated profit and is not charged to profit and loss.

J. Derivative financial instruments including hedge accounting

The Bank holds derivative financial instruments for purposes of hedging foreign currency risks and interest rate risks, and also carries out activity in derivatives not for hedging purposes, including embedded derivatives that have been separated.

Hedge accounting

The Bank, at the date the hedge is made, formally documents the hedging relationships between the hedging instrument and the hedged item, including the purpose of risk management and the Bank's strategy in creating the hedging transaction, and the manner in which the Bank will evaluate the effectiveness of hedging relationships. The Bank evaluates the effectiveness of hedging relationships both at the beginning of the hedge and also on an ongoing basis. In addition, the Bank applies hedge accounting in the "shortened" version which assumes full effectiveness in accordance with the provisions of the standard.

1. Fair value hedging

Changes in the fair value of derivative financial instruments designated to hedge fair value are charged to the income statement. The hedged item is also shown at fair value with reference to the risks hedged, and changes in fair value are charged to the income statement.

If the hedging instrument no longer fulfills the criteria of an accounting hedge, or expires, is sold, cancelled or realized, or the Bank cancels the designation of a fair value hedge, the Bank ceases utilization of hedge accounting.

On hedging a net investment in a foreign operation – please see Section D above.

2. Managing assets and liabilities

Hedge accounting is not applied with regard to derivative instruments serving as part of the Bank's asset and liability management system (ALM). Changes in the fair value of these derivatives are recognized in the income statement when incurred.

3. Other derivatives

Changes in the fair value of derivatives not used for hedging or covering exposures are charged immediately to profit and loss.

4. Embedded derivatives

Embedded derivative instruments are separated from the host contract and dealt with separately if: (a) there is no clear and close relationship between the economic characteristics and risks of the host contract and of the embedded derivative instrument, including credit risks attributable to certain embedded credit derivatives; (b) a separate instrument with the same conditions as the embedded derivative instrument would fulfill the definition of a derivative; and (c) the hybrid instrument is not measured according to fair value through profit and loss.

An embedded derivative that was separated is included in the balance sheet together with the host contract, and changes in fair value of separated embedded derivatives are charged on a current basis to profit and loss.

In certain cases, (such as in cases when the Bank is not able to separate the embedded derivative from the host contract), pursuant to US Accounting Standard FAS 155 (ASC 815-15), Accounting Treatment of Certain Hybrid Financial Instruments, the Bank elects not to separate the embedded derivative and to measure the hybrid instrument as a whole for fair value while reporting on changes in the fair value in the income statement when they occur. The above election is made at the date of purchase of the hybrid instrument or on the occurrence of certain events when the instrument is subject to re-measurement (a re-measurement event), such as a result of business combinations or material changes in the debt instrument. Such fair value election is irrevocable.

Fair value

With regard to the determination of fair value, please see paragraph G above.

K. Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

The Bank applies the measurement and disclosure principles prescribed in US Accounting Standard FAS 140 (ASC 860-10) - Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, amended by FAS 166 (ASC 860-10) - Transfers and Servicing of Financial Assets, for the purpose of dealing with transfers of financial assets and extinguishment of liabilities. In accordance with these principles, the transfer of a financial asset will be accounted for as a sale, if and only if, all of the following conditions are fulfilled: (1) the transferred financial asset has been isolated from the transferor, both in a state of bankruptcy or other receivership; (2) any recipient (or, if the recipient is an entity whose sole purpose is to engage in securitization or asset-backed financing activities and that entity is constrained from pledging or exchanging the financial assets it receives, each third-party holder of its beneficial interests) can pledge or exchange the assets (or beneficial interests) it received, and no condition exists that also constrains the recipient (or a third-party of its beneficial interests) from taking advantage of its right to pledge or exchange and provides the transferor with more than a trivial benefit; (3) the transferor or consolidated companies included in its financial statements or its agents do not maintain effective control over the financial assets or beneficial interests relating to the transferred financial assets. As of January 1, 2012, the Bank implements the ASU 2011-03 accounting standards update Reconsideration of Effective Control for Repurchase Agreements. According to the update, the existence of effective control determination focuses on the contractual rights in contractual obligations of the transferor.

If the transaction meets the conditions for treating a transaction as a sale, the transferred financial assets are deducted from the Bank's balance sheet. If the sale conditions are not fulfilled, the transfer is considered a secured debt.

Such securities are not deducted from the balance sheet and are shown under "Securities lent under repurchase agreements" or under "Securities borrowed under repurchase agreements", as relevant and according to their value of the transaction execution date.

The Bank monitors changes in fair value on a daily basis, and a demand for collateral is made in appropriate cases. Interest received or paid in respect of the said securities is reported under net interest income (expense).

Pursuant to the directives of the Supervisor, securities lending or borrowing transactions in which the borrower does not provide the banking corporation with a security margin relating specifically to the securities lending transaction, are presented as follows:

1. Lending securities from the nostro portfolio – when a banking corporation lends securities, it derecognizes the borrowed securities and recognizes a loan at the securities' market value. In subsequent periods, the loans are recognized in the same way in which the securities were measured prior to being loaned. Income on accrual basis are recognized as credit interest income and market value changes (other than accrual base changes) are classified as noninterest financing income if the securities are for trading or to other comprehensive income in the case of available for sale securities. At the end of the loan period, the credit is derecognized and the Banking corporation once again recognizes the securities.
2. Lending securities – if a banking corporation lends securities it has borrowed in an unsecured borrowing transaction, it recognizes credit and a deposit against that credit, at the securities' market value. Changes in the accrual basis are treated as interest income and market value changes (other than accrual base changes) are classified under noninterest financing income.

The Bank deducts a liability if and only if the liability is repaid, i.e. one of the following conditions exist: (a) the Bank paid the lender and was released from its obligation under the liability, or (b) the Bank was legally released, by legal proceedings or by agreement of the lender, from being the principal debtor under the liability.

L. Employee rights

Post-retirement benefits - pension, severance pay and other benefits - defined benefit plans

Pension benefit is part of the remuneration paid to employees for their services. In a defined benefit plan, the Bank undertakes in addition to the regular salary to supply pension payments in the years following the employee's retirement. The amount of the benefit paid depends on certain future events that are included in the plan's benefit formula.

Definitions:

- The rate for discounting liabilities in respect of employee benefits - the discount rate used to calculate the actuarial liability for the rights of the Bank's employee is based on market yields in accordance with the alternative the Bank has chosen from the alternatives provided by the Bank of Israel according to which the curve consists of the Israel government bond yield plus a margin curve of corporate bonds ranking AA or higher.
- Actuarial gain/loss – the change in the value of the projected obligation or plan assets resulting from the fact that actual experience differs from that estimated or arising from a change in an actuarial assumption.
- The expected return on plan assets – the Bank calculates the long term forecast rate of return on plan assets using historical rates of return over the long term for a portfolio with a similar composition of assets.
- Obligation for projected benefit – the actuarial present value of all benefits attributed by the plan's benefit formula.

The cost of pensions net for the period charged to profit and loss includes service cost, the cost of interest, the expected return on plan assets, amortization of the net actuarial gain or loss, amortization of a net asset or liability in respect of the transition (amortization of actuarial gains as recognized at January 1 2013, the date of initial application of GAAP for US banks on the subject of employee benefits) were credited to accumulated OCI.

The actuarial loss as at January 1 2013 that is due to the difference between the discount rate for calculating reserves to cover employee rights linked to the Consumer Price Index determined by the Temporary Provision in the Public Reporting Directives (4%), and the discount rates at that date determined according to the above, is included in accumulated OCI. Actuarial gains from January 1 2013 and thereafter arising from current changes in the discount rate during the reporting periods, were reported in accumulated OCI and cancelled out the net loss recorded as of January 1 2013.

Actuarial losses and gains arising from changes in current discount rates during the reporting periods and actuarial gains arising from changes in current discount rates during the reporting periods after resetting the balance of loss in respect of the transition, as mentioned above, are charged to OCI and are amortized using the straight line method according to the average service period remaining of employees expected to receive benefits according to the plan.

Actuarial gains and losses and other (not due to changes in current discount rates) and the difference between the actual yield expected return on plan assets are charged to OCI and amortized straight-line method according to the average remaining service period of employees expected to receive benefits under the plan.

The obligation for the projected benefit is recorded in the balance sheet after deducting the fair value of plan assets. When the projected benefit obligation exceeds the fair value of plan assets a liability will be recorded in the balance sheet equal to the difference in question. If the fair value of plan assets exceeds the projected benefit obligation, an asset will be recorded in the balance sheet equal to the difference in question.

Post-retirement benefits - defined contribution plans

A defined contribution plan is a plan which provides post-retirement benefits for services rendered, provides an individual account for each participant in the plan, and defines how deposits will be determined in the employee's account. In this plan, the benefits received by a participant in the plan are dependent solely on the amount deposited in the participant's account in the plan, the returns accumulating on the investments of these deposits, and forfeitures of benefits of other individuals in the plan that may be allocated to the account of that individual. In this case, the net cost of the benefit for the period is the deposit required for that period.

The Bank's commitment to payment of severance pay under Section 14 of the Severance Pay Law is dealt with as a defined contribution plan.

Paid leave

The Bank accrues a liability for remuneration to employees for future absences.

A liability in respect of vacation days is measured on an ongoing basis, without the use of discount rates and actuarial assumptions.

For purposes of calculating the liability in respect of long-service (Jubilee) vacation, the discount rate and actuarial assumptions are taken into account.

Changes in the liability in respect of the jubilee vacation are charged immediately to the income statement.

Share-based payment transactions

Share-based payment transactions include transactions with employees that were settled with capital instruments.

The Bank generally recognizes an expense for share-based payments it makes to its employees.

Capital bonuses are measured at fair value on the date of granting.

Commitment bonuses are measured at fair value on the date of granting, and the liability is re-measured until the settlement date.

Note 1 – Significant Accounting Policies (cont.)

M. Offsetting assets and liabilities

The Bank implements the rules set out in the circular of the Supervisor of Banks dated 12 December 2012, updating the Public Reporting Directives of the Supervisor of Banks regarding offsetting assets and liabilities.

The Bank offsets assets and liabilities arising from the same counterparty and reports their net balance in the balance sheet, if the following cumulative conditions are met:

- In respect of those liabilities, there is a legally enforceable right to offset the liabilities from the assets.
- There is an intention to repay the liabilities and realize the assets on a net basis or simultaneously.
- Both the Bank and the counterparty owe each other determinable amounts.

The Bank offsets assets and liabilities with two different counterparties and reports a net balance in the balance sheet if the above three cumulative conditions are met, and provided that there is an agreement between the three parties that clearly defines the Bank's right of offset in respect of those liabilities.

The Bank offsets deposits whose repayment to the depositor is contingent on the extent of collection of the credit and the credit that was granted from these deposits, with the Bank having no risk of loss from the credit. The margin on this activity is included under "Commissions".

The Bank offsets between derivative instruments made with the same counterparty which is subject to a master netting arrangement, for purposes of calculating customer indebtedness reported in the various Notes only. Such offsetting is not carried out in the balance sheet.

N. Buildings and equipment

Recognition and measurement

Buildings and equipment are shown at cost less accumulated depreciation and losses from impairment in value. Cost includes expenses which can be directly attributed to acquisition of the asset. The cost of purchase of software, that constitutes an integral part of operating the related equipment, is recognized as part of the cost of that equipment.

When significant parts of fixed assets have a different life span they are dealt with as separate items of fixed assets.

Buildings earmarked for sale are shown at the lower of their book value or realizable value.

Profit or loss on the sale of fixed assets is included under "Other income" in the income statement.

Subsequent costs

The cost of replacement of part of an item of fixed assets is recognized as part of the book value of that item if it is expected that the future economic advantages inherent in the part replaced will come to the Bank, and if its cost can be measured accurately. The book value of the part replaced is deducted in the books.

Ongoing maintenance costs of fixed asset items are charged to the income statement when incurred.

Costs of software

Pursuant to the Public Reporting Directives, the Bank classifies under this section the costs in respect of software assets acquired or costs capitalized as an asset in respect of software developed internally for its own use.

Software purchased is measured by cost less accumulated depreciation and losses from impairment in value.

Costs in connection with the development and adaptation of computer software intended for internal use are capitalized only if development costs can be measured reliably, the software can be implemented from a technical point of view, a future economic advantage is expected and the Bank has both an intention and sources of funds to complete the development and use the software. In addition, the Bank has determined a materiality threshold of NIS 750 thousand for the capitalization of in-house development costs of software. Capitalized costs include direct costs of materials, services and direct labor cost for employees. These costs are measured by cost less accumulated depreciation and losses from impairment in value. Other costs are charged to profit and loss when incurred. See paragraph D.2 above.

Subsequent costs of software are recognized as an asset only if they increase the future economic advantages inherent in the asset for which they were expended. Other costs are charged to profit and loss when incurred.

Depreciation and amortization

Depreciation is calculated on the cost, in accordance with estimated useful life, on a straight line basis from the date the asset is ready for use. The Bank depreciates separately each part of a fixed asset for which a different useful life has been determined. Leasehold improvements are amortized over the leasing period, including an option which is likely to be exercised, or over its useful life, whichever is shorter. An asset is amortized when it is available for use.

The estimates regarding useful life and residual value are examined periodically, and at least at the end of each financial year, and adjusted if necessary.

Regarding impairment of non-monetary assets, see Section U below.

Leases

Leases, including leases of land from the Israel Land Authority or other third parties, where the Group materially bears all the risks and returns from the property, are classified as financing leases. At the time of initial recognition, leased assets are recognized and a liability is recognized at an amount equal to the lower of fair value and the present value of future minimum lease payments. Future payments for exercising an option to extend the period of the lease with the Israel Land Authority are not recognized as part of the asset and related liability to the extent their amount is derived from the fair value of the land at future renewal dates of the lease agreement. After initial recognition, the asset is dealt with in accordance with accepted accounting policy regarding this asset.

The period of the lease is the period which cannot be canceled, for which the lessor made a contractual agreement for the lease of the asset together with any additional periods for which the lessee has the option of continuing to lease the asset, for an extra payment or for no extra payment, when it is reasonably certain at the date of the leasing commitment that the lessee will exercise the option.

The other leases are classified as operating leases, and the leased assets in these cases are not recognized in the balance sheet.

Lease payments made in advance to the Israel Lands Administration in respect of operating leases are shown in the balance sheet as prepaid expenses and are charged to profit and loss on a straight line basis over the period of the lease.

O. Issue expenses

Expenses of issue of debentures, bonds and subordinated notes are amortized by the effective interest method over the expected life of the instrument issued.

P. Assets transferred to Group ownership following the settlement of problem debts

Assets that were transferred to Group ownership following the settlement of problem debts and are included in other assets are stated according to the lower of the asset's fair value on the date they were transferred or fair value as at balance sheet date. Decreases in value are charged to operating and other expenses.

Q. Contingent liabilities

The financial statements include appropriate provisions for claims which, in the opinion of Bank Management and the Managements of its consolidated companies, based on the opinions of legal counsel, will not be dismissed or canceled, notwithstanding the fact that such claims are refuted by the Bank. In addition, there are legal proceedings whose chances and/or results cannot be estimated at this stage and therefore no provision was recorded in respect thereof.

Claims made against the Bank are classified in three categories, according to the probability of realization of the risk exposure as follows:

- Probable risk – probability of realization of the risk exposure exceeding 70%. For claims included in this risk group, appropriate provisions are included in the financial statements.
- Reasonably possible risk – probability of realization of the risk exposure between 20% and 70%. For claims included in this risk group, provisions are not included in the financial statements but only disclosure is made.
- Remote risk – probability of realization of the risk exposure less than or equal to 20%. For claims included in this risk group, provisions are not included in the financial statements and no disclosure is made.

In rare cases where the Bank determines that, in the view of Bank Management, with reliance on its legal advisors, it is not possible to evaluate the likelihood of realization of the risk exposure with regard to a normal claim and a claim approved as a class action, no provision is made.

In addition, the Group is exposed to legal claims that have not yet been made/submitted, inter alia, in the event of doubt in the interpretation of an agreement and/or the provision of a law, and/or the method of their implementation. This exposure is brought to the Group's attention in a number of ways. In assessing the risk arising from the demands/claims not yet submitted, the Group relies on internal assessments of the officials dealing with the issues and the management, who weigh the assessment of the risk for submitting a claim, the chance of the claim's success, if it is submitted, and payment in a compromise, if there be any. The assessment is based on accumulated experience in relation to the submission of claims and on an analysis of claims in their own right. In the nature of things, in light of the preliminary stage of clarification of the legal claim, the actual result could be different from the assessment made at a stage prior to the claim being submitted.

In Note 26 on Contingent Liabilities and Special Commitments, details are shown of the amount of the additional exposure in respect of contingent claims whose amount exceeds NIS 2 million and whose realization is not remote. In addition, disclosure is made of material legal proceedings against the Bank and consolidated companies.

Note 1 – Significant Accounting Policies (cont.)

R. Income tax

Current taxes

Current tax is the amount of tax expected to be paid (or received) on income liable to tax for the year calculated at the applicable tax rates under laws that have been enacted or substantively enacted at the reporting date. A law shall be considered as having been enacted only after its publication in the Official Gazette.

The tax provision on the Bank's income and of its consolidated companies that are financial institutions for Value Added Tax purposes, include profit tax levied on the income according to the Value Added Tax Law. Value Added Tax Law levied on salaries in financial institutions is included in the income statement under "Salaries and related expenses".

Deferred taxes

The recognition of deferred tax relates to temporary differences between the book value of assets and liabilities for financial reporting purposes and their value for tax purposes, except for certain temporary differences:

The measurement of deferred taxes reflects the tax consequences that will result from the way in which the Group expects, at the end of the reporting period, to reinstate or dispose of the book value of assets and liabilities.

Deferred taxes are measured at the tax rates expected to apply to the temporary differences at the date they are realized, based on the laws that have been enacted or substantively enacted by the balance sheet date.

A deferred tax asset for losses carried forward, unutilized tax credits, tax benefits and deductible temporary differences recognized in the books when it is more likely than not that it will be taxable income which can be utilized in the future. Deferred tax assets are reviewed at each reporting date and, if it is not expected that the related tax benefits will be realized, they are reduced.

In order to determine that it is possible to recognize a deferred tax asset, the Group takes into account all the available evidence - both positive evidence supporting the recognition of a deferred tax asset and negative evidence negating recognition as a deferred tax asset.

Offsetting deferred tax assets and liabilities

The Bank offsets assets and liabilities in respect of deferred assets as detailed in Section M above.

The Bank offsets deferred tax assets and liabilities if there is a legally enforceable right to offset current tax assets and liabilities, and they are attributable to the same taxable income taxed by the same tax authority in respect of the same entity that is assessed, or various companies in the Group that intend to settle current tax assets and liabilities on a net basis or the tax assets and liabilities are settled simultaneously.

Uncertain tax positions

The Bank recognizes the effect of tax positions only if it is more likely than not that the positions will be accepted by the tax authorities or the Court. Recognized tax positions are measured at the maximum sum whose probability of realization exceeds 50%. Changes in recognition or measurement are reflected in the period in which changes occur in the circumstances that led to a change in judgment. The Bank implements the rules of recognition and measurement set out in the framework of FIN48.

S. Earnings per share

The Group reports basic and diluted earnings per share with regard to its ordinary share capital. Basic earnings per share are calculated by dividing the profit or loss attributed to the ordinary Bank's shareholders by the weighted average number of ordinary shares that were in circulation during the period. Diluted earnings per share is determined by adjusting the profit or loss relating to the ordinary shareholders, and adjusting the weighted average of ordinary shares in circulation, for the effect of all the potential dilutive ordinary shares.

T. Transactions with controlling owners

The Bank implements US GAAP for the accounting treatment of transactions between a banking corporation and its controlling owner and a company controlled by the Bank. In those instances where the said principles do not refer to the manner of treatment, the Bank implements the principles set out in Standard No. 23 of the Israel Accounting Standards Board on the matter.

Assets and liabilities regarding which a transaction was carried out with a controlling owner are measured for fair value at the date of the transaction. Due to the fact that this is an equity-type transaction, the Group charges the difference between the fair value and the transaction proceeds to equity.

U. Impairment in value of non-monetary assets

1. The Bank examines the necessity, for every reporting period, of recording a provision for the impairment of non-monetary assets (such as: buildings and equipment, investments in associate companies, intangible assets including goodwill) when there are signs, resulting from events or changes in circumstances, which indicate that its assets in the balance sheet are shown at an amount which is in excess of their recoverable value.

   The recoverable amount of an asset or a cash-generating unit is the higher of the net selling price (fair value less selling expenses) and the value-in-use. The value-in-use is the present value of the estimated future cash flows, discounted by the pre-tax rate of interest, which are expected to be derived from use and realization of the asset. For the purpose of examining impairment, assets which cannot be examined individually are grouped together into the smallest group generating cash flows from continued use, which is largely independent of assets in other groups ("cash-generating unit"). For the purpose of examining impairment of goodwill recognized in the framework of a business combination, cash-generating units to which goodwill has been allocated are grouped so that the level at which impairment is examined represents the lowest level at which goodwill can be monitored for purposes of internal reporting, but will not be larger than an operational segment. When there is a change in the composition of one or more cash-generating units to which the goodwill was allocated, the goodwill is to be reallocated to those units affected.

   Assets of the Bank's headquarters do not produce separate cash flows. If there are indications that an impairment has occurred in an asset belonging to the Bank's headquarters, a recoverable value is determined for the group of cash producing units served by the headquarters.

   When the value of the asset is higher than its recoverable value, the Bank recognizes a loss from the impairment in value in the amount of the difference between the book value of the asset and its recoverable value. The loss thus recognized will be cancelled in the event of changes occurring in the estimates that were used to determine the recoverable value of the asset after the date on which the most recent loss from the impairment was recognized, and provided that the book value after cancelling the loss from impairment does not exceed the book value after deducting depreciation or amortization, that would have been determined if the loss from impairment had not been recognized. This is except for impairment of goodwill, which is not cancelled.

2. Impairment with regard to costs of in-house software development

Impairment is recognized and measured on occurrence of events or changes in circumstances indicating that the asset's book value may not be recovered.

The following are examples for events or changes in circumstances which indicate an impairment.

a. It is not expected that the software will provide any significant potential uses;

b. A material change has occurred in the manner or scope of use of the software or of the expected use of the software;

c. A material change has been made or will be made to the software;

d. Costs for developing or adapting the software designated for in-house use deviate significantly from the sums projected in advance;

e. It is no longer expected that the software will be completed and utilized.

If one or more of the indicators stated above exist, it is required to make an examination for impairment in accordance with the principles set out in IAS 36 – Impairment of Assets.

3. Impairment of investments in associate companies reported according to the equity basis method

An investment in an associate company is examined for impairment based on the fair value of the investment. When there is no possibility for measuring fair value, impaired is examined when a change has taken place in the circumstances that may have a material negative effect on the fair value of the investment.

A loss from impairment is recognized when the book value of the investment, after applying the equity method, exceeds the fair value, provided that this loss is not temporary. A loss from impairment that is not temporary that was recognized previously will not be canceled in subsequent periods.

4. Discontinued operation

Discontinued operation is a component of the Group's business, that represents a significant separate line of business or a significant separate geographical area of activity that was realized, held for sale of distribution or is a subsidiary company purchased for the purposes of selling it. The classification as discontinued activity is done at the date the activity was realized or when it meets the criteria for classification as held for sale.

Non-current assets held for sale are measured at the lower of book value and fair value after deducting selling costs.

V. First-Time Implementation of New Accounting Standards, Accounting Standards Updates, and New Directives of the Supervisor of Banks

Beginning on the reporting periods starting on January 1, 2017, the Bank has been implementing the following accounting standards and directives:

1. Reporting by banking corporations in Israel under US GAAP on foreign currency issues, accounting policy, changes in accounting estimates and errors and events after the balance sheet date

On March 21 2016, a circular was issued titled "Reporting by banking corporations in Israel under US GAAP." The circular updates the Reporting to the Public Directives on the following issues:

Topic 830 regarding "Issues in foreign currency"- Starting from the application date of this circular, International Accounting Standard 21 regarding "The effects of changes in Foreign Currency Exchange Rates" and International Accounting Standard 29 regarding "Financial reporting in hyper-inflationary economies", will not be replaced by the provisions of Topic 830. For the avoidance of doubt, it was clarified that there is no change regarding the date on the adjustment of financial statements for inflation was discontinued. The main points of the new provision adopted in the Reporting to the Public Directives are as follows:

Determining the functional currency – the functional currency of an entity is the currency of the main economic environment in which the entity operates. The entity's ability to be independent is taken into account.

Regarding foreign operations, we note that a capital reserve from translation differences shall be calculated according to the step-by-step method.

Topic 250 regarding "Changes in accounting policies and corrections of errors"- Starting from the application date of this circular, International Accounting Standard 8 regarding "Accounting Policies, Changes in Accounting Estimates and Errors", will not be replaced by the provisions of Topic 250.

Sub-Topic 855-10 regarding "Events after the balance sheet date"- Starting from the application date of this circular, International Accounting Standard 10 will be replaced regarding "Events after the reporting period" by the provisions of Sub-Topic 855-10.

The circular guidelines were implemented beginning on January 1 2017 in accordance with the transitional provisions set out in those subjects. The aforementioned includes retroactive adjustment of comparative figures if required, depending on these issues. We emphasize that the implementation of the instructions for Topic 830 in the Codification regarding foreign currency in reported periods before January 1 2019, will not include exchange rates for bonds available for sale within the adjustments for the fair value of these bonds in the capital reserve, but will rather continue to be included in the framework of profit and loss.

Implementation of the circular did not have a major effect on the financial statements.

2. Applying US GAAP to income tax

On October 22 2015, a circular was issued entitled **"**Reporting by banking corporations in Israel according to US GAAP related to taxes on income ". In accordance with the circular, a banking corporation shall implement the generally accepted accounting principles in US banks related to taxes on income in this matter, and among other things, the presentation, measurement and disclosure rules set out in the provisions of Topic 740 of the Codification regarding "Taxes on Income" and in Topic 830-740 in the Codification regarding "Issues in foreign currency – taxes on income ".

On October 13 2016, the Banking Supervision Department published a circular entitled "Banking Corporation Reporting in accordance with the US GAAP".

The main points of the amendments are as follows:

- The transitional provisions have been updated so that temporary differences in respect of prior periods will continue to be treated in accordance with the provisions that applied before December 31 2016.
- It has been clarified that fines to the tax authorities and interest income and expenses in respect of taxes on income, shall be classified under "taxes on income ".
- It has been clarified that a law shall be considered as "enacted" only upon its publication in the Official Gazette.
- The disclosure requirements in the Public Reporting Directives, as well as the disclosure format regarding "Provision for taxes on profit", have been adjusted to the requirements of the new directives.
- The requirement for a Note on Information based on historical nominal data for tax purposes has been cancelled.
- Investments in local subsidiaries - deferred tax liabilities are to be recognized unless the tax laws allow tax-exempt recovery of the investment with no significant cost and the parent company expects to make an eventual recovery in this way (the ability and the intention).
- Investment in foreign subsidiaries - deferred tax liabilities are to be recognized unless the investor can control the date of reversal and non-distributed profits will be re-invested indefinitely or they can be distributed tax-free. Uncertain tax positions – a tax benefit is to be recognized when it is expected (more probable than not) that it will be utilized. The amount of the tax benefit to be recognized is the highest amount expected (more than 50%) to be received.

- Deferred taxes for share-based payment arrangements – temporary differences created in share-based payment arrangements are based on the cost of the compensation recognized in profit and lost without further adjustments, until the benefit has been realized.
- Liabilities or deferred tax assets are not to be recognized in respect of temporary differences related to non-monetary assets and non-monetary liabilities, when their tax base is denominated in a currency other than the functional currency of the entity, when the differences are generated in respect of changes in exchange rates or in respect of linkage for tax purposes.
- Changes in tax rates – subsequent changes in deferred taxes that are generated following changes in the tax rates will generally be recorded to profit and loss in the current period even if the deferred taxes have initially recognized in equity.
- A deferred tax asset shall be recognized only if its appears that the temporary difference will be reversed in the foreseeable future – on recognizing the asset, it should be determined whether there is a taxable future gain from which the difference may be deducted in order to determine if there is a need to record a valuation allowance. Subsequent changes in the valuation allowance shall be recognized in profit and loss in the current period even if the allowance was initially recognized in equity.

The Bank has been implementing these provisions as of January 1 2017. Implementation of the circular is not expected to have a major effect on the financial statements.

3. New standard update on share-based based payment

On March 30 2016, the IASB in the US published Accounting Standards Update No. 2016-09 in the Codification which is an amendment to the provisions of ASC 718 on "Share-Based Payment".

Pursuant to the amendment:

- Any related tax effects related to share-based payment transactions are to be recognized at the time of settlement or expiration through profit and loss. Until the amendment is implemented, surplus tax benefits that exceeded the expense recognized in the income statement (known as "windfalls") were recognized in equity, and shortfalls in a tax benefit which were less than the expense recognized in the income statement (known as "shortfalls") were recognized in profit and loss. The amendment is expected to increase the volatility of tax expenses on income.

  This change is to be implemented prospectively.
- Excess tax benefits are to be recognized when incurred and not postponed until such time as they reduce the taxable income as previously. This change will be applied retroactively while recording the cumulative impact to the opening balance of retained earnings.
- Any tax-related cash flows in respect of share-based payment will be classified as operating activities in the cash flows statement. The directive may be applied retroactively or prospectively.
- Regarding the impact of forfeitures on the recognition of expenses for share-based bonus payments, it is possible to prepare an estimate of forfeitures as required today or alternatively to recognize the impact of the forfeitures at the time of occurrence.

The implementation of the new standard update had no major effect on the financial statement.

4. New standard update - Equity Method and Joint Ventures

In March 2016, the Financial Accounting Standards Board (FASB) issued standard update 2016-07 on codification Topic 323, Equity Method and Joint Ventures.

The update deals with the first-time implementation of the equity method following an increase in the percentage of ownership or the existence of significant influence. Under the update, the cost of the additional acquisition is to be added to the current basis of the previous investment, implementing the equity method on the date on which the acquirer attains significant influence over its investment. I.e., the comparative results may not be restated retroactively.

Profits or losses previously recorded in Other comprehensive income for available-for-sale investments shall be reclassified to profit and loss on the date in which the transition to the equity method is made.

The application of the standard update had no material impact on the financial statements.

5. Standard update – Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships

In March 2016, the Financial Accounting Standards Board (FASB) issued standard update 2016-05 on codification Topic 815, on derivatives and hedging, according to which a change in the counterparty to a derivative instrument that had been designated as a hedging instrument under Topic 815, in and of itself, does not result in a requirement to dedesignate that hedging relationship and therefore discontinue the application of hedge accounting, provided that all the other hedging accounting criteria are still met.

The application of the standard update had no material impact on the financial statements.

6. Questions and Answers and Examples of Implementation of Public Reporting Directives on Impaired Debts, Credit Risk, and the Allowance for Credit Losses

On February 20, 2017, the Banking Supervision Department issued an update to Questions and Answers and Examples of Implementation of Public Reporting Directives on Impaired Debts, Credit Risk, and the Allowance for Credit Losses. The update mainly focuses on the classification of debt, definition of impaired debt and measuring an individual allowance for credit losses (see Section G above).

The application of the standard update had no material impact on the financial statements.

W. New Accounting Standards and New Provisions by the Supervisor of Banks prior to their Adoption

1. Revenue recognition

On January 11, 2015, the Supervisor issued a circular on the adoption of accounting standards, Revenue from Contracts with Customers. The circular updates the Reporting to the Public Directives following the publication of Accounting Standards Update No. 2014-09, announcing the adoption of a new standard on revenue recognition by the US GAAP. According to the standard, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The standard details a five-stage model to determine the timing of recognizing revenue and its amount.

The standard also specifies the accounting for these revenues and the costs incurred in respect thereof.

The new standard does not apply, inter alia, to financial instruments and contractual rights or obligations under the scope of Codification Chapter 310. According to the directives of the Bank of Israel, the provisions of the new standards shall not apply to accounting for interest revenues and expenses or noninterest finance income. As a result, the new provisions shall not impact most of the Bank's income.

The circular shall be applied prospectively as of January 1, 2018, by way of charging the cumulative effect to retained earnings.

The application of the circular is not expected to have a material impact.

2. Reporting by Banking Corporations in accordance with US GAAP

On October 13 2016, the Banking Supervisions Department published a circular entitled "Banking Corporation Reporting in accordance with the US GAAP".

The circular updates, inter alia, the Public Reporting Directives, and adopts the accounting standards customary in the USA on the following topics:

- Discontinued operations in accordance with Codification Topic 205-20, Held-for-Sale Non-Current Assets and Discontinued Operations.
- Property, plant and equipment in accordance with Topic 360 in the Codification, Property, Plant and Equipment. The main change relates to significant property, plant and equipment components with different economic lives – an entity may, but is not required, to treat these components as separate property, plant and equipment items.
- Earnings per share in accordance with Codification Topic 260 on "Earnings per Share".
- Cash flow statement in accordance with Codification Topic 230-10 on "Statement of Cash Flows."

  Most of the change relates to the presentation of credit provision and deposit taking activities. Credit granted by a financial institution will usually be classified as investment activity unless generated or acquired for the purpose or reselling it. Changes in deposits taken by a financial institution shall be classified as a financing activity.
- Interim Reporting in accordance with Codification Topic 270 on "Interim Reporting".

  The main change relates to recognition and measurement – as a rule, each interim period should be viewed as an integral part of the annual period to which it belongs. In addition, tax expenses and benefits related to the regular activity shall be taken into account at the annual effective tax rate. Tax expenses or benefits arising from a change in the tax rate shall be recognized in profit and loss from continuing operations in the interim period in which the change in the tax rate occurred. The effective annual tax rate for the subsequent interim periods shall be reassessed according to the updated tax rate.
- Discounting costs of interest in accordance with Codification Topic 835-20 on "Capitalization of Interest ".
- Measurement and disclosure of guarantees in accordance with Codification Topic 460 on "Guarantees".

  ASC460 details the type of transactions under its scope, the recognition basis, the measurement and measurement in subsequent periods. On first-time recognition, a liability in respect of a guarantee shall be recorded in fair value. If, at that date, the guarantor is required to recognize a provision for a contingent loss for the guarantee under ASC450, the liability shall be recognized as the higher of the fair value or said provision amount. If a guarantee is measured on first-time recognition according to ASC450, the subsequent measurement shall also be in accordance with ASC450.

  The provisions of the circular are to be applied as of January 1 2018. Upon first application, a banking corporation is required to comply with the transitional provisions set forth on the relevant subjects in the US standard mutatis mutandis, including retroactive corrections of the comparative figures, as required according to the US standard rules regarding these subjects.

  The application of the circular is not expected to have a material impact.

3. Improving the presentation of expenses in respect of pension and other benefits, post-employment

On January 1 2018, the Supervisor of Banks published a circular entitled Improving the Presentation of Expenses in respect of Pension and other Benefits, Post-Employment.

According to the circular, salary expenses in the income statement should include the service cost alone. All other cost components of the benefit should be presented under Other expenses.

The change should be applied prospectively as of January 1 2018. On first-time application, the transitional provisions established in the US should be applied, *mutatis mutandis*.

4. Standard update on goodwill impairment

In January 2017, the FASB issued a circular on

In March 2016, the US Financing Accounting Standards Board published Update 2017-04, which amends the provisions of ASC 350, Intangibles – Goodwill and Other. According to the update, there is no longer a requirement to calculate the fair value of goodwill and recognize an impairment in respect of the difference between the fair value and book value. A goodwill impairment shall be recognized at the difference between the fair value of the reported unit and its book value. However, the impairment shall not be greater than the goodwill amount attributed to the reported unit. The change is to be applied prospectively.

5. Standard update on Stock Compensation

In May 2017, the US Financial Accounting Standards Board (FASB) published revision 2017-09 to the Codification, which revises the provisions of ASC 718, Stock Compensation. The purpose of the revision is to clarify when modification accounting should be applied following changes to the terms or conditions of a share-based payment award.

According to the revision, companies should apply modification accounting for changes in a plan unless the fair value, the vesting or the classification of the award (as an equity instrument or liability instrument) are the same before and after the terms and conditions have been changed.

However, modification accounting should be applied to changes made as a result of laws or regulations or as a result of the certain new standards.

The change is to be applied prospectively as of January 1 2018.

6. Standard update on receivables

In March 2017, the Financial Accounting Standards Board published standard update 2017-08 to the Codification on amortizing the premium on purchased bonds with an early repayment option (hereinafter: the "update"), which constitutes an amendment to subtopic 310-20 in the codification regarding Receivables – Non-Refundable Fees and Other Costs (formerly FAS 91). Pursuant to the update, the period of amortization of premiums on bonds with an early repayment option by the issuer shall be shortened from the contractual period to the closest repayment date.

The change is to be applied prospectively as of January 1 2019.

Note 2 – Interest Income and Expenses

	For the year ended December 31		
	2017	2016	2015
	NIS Millions		
A. Interest income[a]			
Loans to the public	**9,199**	8,697	8,170
Credit to governments	**25**	18	15
Deposits with banks	**104**	86	70
Deposits with Bank of Israel and cash	**56**	42	39
Bonds[b]	**683**	707	487
Interest income from securities borrowed or purchased under agreements to resell	**2**	2	3
Total interest income	**10,069**	9,552	8,784
B. Interest expenses[a]			
Deposits from the public	**(1,329)**	(1,224)	(945)
Deposits from governments	**(3)**	(4)	(4)
Deposits from banks	**(17)**	(15)	(14)
Debentures, bonds and subordinated notes	**(672)**	(781)	(700)
Interest expense from securities loaned or sold under repurchase agreements	**(2)**	(2)	(3)
Total interest expenses	**(2,023)**	(2,026)	(1,666)
Total net interest income	**8,046**	7,526	7,118
C. Details of the net effect of hedging derivative financial instruments on interest income and expenses[c]			
Interest income	**(16)**	(42)	(46)
D. Details of accumulated interest income on bonds			
Available for sale	**626**	638	399
For trading	**55**	69	88
For redemption	**2**	-	-
Total included in interest income	**683**	707	487

(a) Including effective component of hedge ratio.

(b) Including interest in respect of mortgage-backed bonds (MBS) in the amount of NIS 196 million (2016 – NIS 197 million, 2015 - NIS 174 million).

(c) For more information about the effect of hedging derivative instruments, please see subsections A. and B.

Note 3 – Noninterest Financing Income

	For the year ended December 31		
	2017	2016	2015
	NIS Millions		
A. Noninterest financing income from activities not for trading purposes			
A.1 From activities in derivative instruments			
Net income (expenses) for ALM derivative instruments [b]	**(1,722)**	(213)	(257)
Total from activities in derivative instruments	**(1,722)**	(213)	(257)
A.2 From investment in bonds			
Gains on sale of debentures available for sale[h]	**160**	387	201
Losses on sale of debentures available for sale[f,h]	**(45)**	(30)	(20)
Total from investment in debentures	**115**	357	181
A.3 Exchange rate differentials, net	**2,501**	700	310
A.4 Gains (losses) on investment in shares			
Gains from sale of shares available for sale[c,h]	**128**	576	1,048
Losses on sale of shares available for sale[g,h]	**(67)**	(82)	(437)
Gain from sale of shares in associate companies	**-**	24	522
Dividend from shares available for sale	**16**	10	170
Losses from investee companies	**(16)**	(18)	-
Total from investment in shares	**61**	510	1,303
A.5 Net gains (losses), for loans sold[j]	**9**	44	11
Total noninterest financing income for activities not for trading purposes	**964**	1,398	1,548
B. Noninterest financing income (expenses) from non-trading activities[i]			
Realized and unrealized gains (losses) from fair value adjustment of bonds for trading, net[d]	**(74)**	(84)	67
Realized and unrealized gains losses) from fair value adjustment of shares for trading, net[e]	**29**	(32)	(5)
Total from trading activities[k]	**(45)**	(116)	62
Total noninterest financing income for activities not for trading purposes	**919**	1,282	1,610

(a) Excluding effective component of hedge ratio.

(b) Derivative instruments which constitute part of the Bank's assets and liability management system and were not designated for hedging ratios.

(c) Mainly including profit on the sale of Kornit, R2Net and Kenon in the amount of NIS 33 million, NIS 32 million, and NIS 14 million, respectively (2016 – mainly profit on sale of Visa Europe, the Israel Corporation and Dalia in the amounts of NIS 378 million, NIS 87 million, NIS 61 million, respectively (2015 – mainly Including profit on the sale of the Israel Corporation, Mobileye, Safra Fund, and Route 6 in the amounts of NIS 289 million, NIS 288 million, NIS 52 million, and NIS 100 million, respectively).

(d) Of which profits (losses) constitute NIS 8 million (2016 – NIS 8 million; 2015 – NIS (36) million, respectively), relating to bonds held for trading still held as of the balance sheet date.

(e) Of which losses of NIS (16) million (2016 – 0, 2015 – NIS (62) million), relating to shares held for trading still held as of the balance sheet date.

(f) Including provisions for impairment relating to bonds available for sale in the amount of NIS 3 million (2016 – NIS 3 million, 2015 – NIS 1 million).

(g) Including provisions for impairment relating to shares available for sale at NIS 5 million (2016 – NIS 6 million, 2015 – NIS 283 million).

(h) Reclassified from accumulated OCI.

(i) Including exchange differences arising from trading activity.

(j) For more information, please see Note 26B.4

(k) For interest income from investment in bonds for trading, please see Note 2.

Note 4 – Commissions

	For the year ended December 31		
	2017	2016	2015
	NIS Millions		
Ledger fees	**701**	715	762
Conversion differences	**338**	327	325
Credit handling	**183**	177	200
Commissions for distribution of financial products[a]	**257**	240	258
Foreign trade activities	**128**	131	126
Income from transactions in securities and certain derivative instruments	**675**	592	675
Credit cards	**1,075**	1,023	963
Management fees and commission on life insurance and home insurance	**50**	47	48
Net income from servicing credit portfolios	**14**	16	22
Management, operations, and custody for institutional entities[b]	**75**	61	56
Commissions on financing transactions	**541**	534	542
Other commissions	**101**	104	115
Total operating commissions	**4,138**	3,967	4,092

(a) Mainly distribution fees of mutual funds.

(b) Mainly in respect of operation of provident funds.

(c) Including underwriting commissions.

Note 5 - Other Income

	For the year ended December 31		
	2017	2016	2015
	NIS Millions		
Profit from realizing assets received for loan settlement	**-**	1	-
Capital gain from sale of buildings and equipment	**302** (a)	89	523 (a)
Capital gains (loss) from sale of buildings and equipment	**(1)**	(3)	(4)
Gains from severance pay funds	**41**	34 (b)	43 (b)
Other, net	**29**	38 (b)	33 (b)
Total other income	**371**	159	595

(a) Including gain on the sale of the headquarters building in Tel Aviv in the amount of NIS 265 million in 2017 and a building of the US subsidiary in the amount of about NIS 380 million in 2015.

(b) Reclassified.

Note 6 - Salaries and Related Expenses

	2017	2016	2015
	NIS Millions		
Salaries	**3,274**	3,486	3,669
Expense deriving from share-based payment transactions	**-**	10	10
Other related expenses including supplementary training fund, vacation and sickness	**268**	291	325
Long-term - Jubilee benefits	**(14)**	(90)	(371)
National Insurance and VAT on salaries	**699**	769	815
Expenses for pension (including severannce pay and provident funds[a]			
Defined benefit	**810**	787	777
Defined deposit	**192**	158	172
Other post-employment benefits and non-pension post-retirement benefits[a]	**36**	11	126
Special benefits for dismissal[a,b]	**-**	-	9
Expenses for other benefits to employees[a]	**7**	-	12
Total salaries and related expenses	**5,272**	5,422	5,544
Of which: salaries and related expenses abroad	**467**	491	632

(a) Please see Note 23, Employee Rights.

(b) Expenses related to early retirement of employees as part of the Bank's efficiency plan.

Note 7 - Other Expenses

	2017	2016	2015
	NIS Millions		
Marketing and advertising	**293**	289	265 (d)
Legal, audit and professional consultants	**302**	282	298 (d)
Communications - postage, telephone, delivery services, etc.	**155**	156	161
Computers[a]	**103**	115	142
Office expenses	**58**	59	68
Insurance	**118**	101	16
Training	**25**	28	22
Commissions	**188**	162 (d)	151 (d)
Loss for assets received in settlement of loans	**2**	1	3
Other[b,c]	**324**	268 (c)(d)	483 (d)
Total other expenses	**1,568**	1,461	1,609

(a) The item includes outsourcing expenses and does not include the Bank's computer expenses as the Operations Division is part of the Bank and its expenses are recorded and classified under the various expense items.

(b) For more information on the remuneration of the Bank's directors included in this item, please see Note 34C.

(c) Including income in respect of an insurance refund due to the investigation by US authorities.

(d) Reclassified.

Note 8 – Provision for Taxes on Profit

A. Composition

	2017	2016	2015
	NIS Millions		
Current taxes:			
In respect of current year	**2,015**	1,623	1,962
In respect of prior years	**(92)**	51	7
Total current taxes	**1,923**	1,674	1,969
Including (less) changes in deferred taxes			
In respect of current year	**(273)**	(260)	(327)
In respect of prior years	**42**	303	49
Total changes in deferred taxes	**(231)**	43	(278)
Tax expense on income	**1,692**	1,717	1,691
Of which: provision for tax abroad	**149**	69	219

Composition of deferred tax expenses (income) attributed to continuing operations:

	2017	2016	2015
	NIS Millions		
Deferred tax Income (expenses) before imapct of the following items:	**(242)**	(252)	(312)
Increase in carry forward deductions for tax purposes	**-**	(8)	(15)
A tax expense due to certain benefits allocation to paid in capital	**-**	-	-
Impact of changes to tax-related rules	**42**	303	49
Change in deferred taxes provision due to change in circumstances that resulted in a judgement change regarding the ability to utilize the deferred taxes asset.	**(31)**	-	-
Total deferred tax expenses (income)	**(231)**	43	(278)

The table does not include the tax effect of certain items recognized directly in equity at the end of each period. The tax effect of all the items recognized directly in equity amounted to a NIS 214 million increase in equity in 2017, a NIS 376 million increase in equity in 2016 and a NIS 173 million decrease in equity in 2015.

Note 8 – Provision for Taxes on Profit (cont.)

B. Reconciliation between the theoretical tax and the tax provision:

	2017	2016	2015
	35.0%	35.9%	37.6%
	NIS Millions		
Bank's applicable statutory tax rate			
Tax at the statutory tax rate	**1,682**	1,608	1,646
Tax (tax saving) resulting from:			
Income of foreign consolidated companies	**(5)**	32	68
Income exempt and at restricted tax rates	**(6)**	(102)	(18)
Depreciation differences, depreciation adjustment and capital gain	**(36)**	(46)	(109)
Other non-deductible expenses	**48**	32	33
Reconciliation between the statutory taxes and the provision for taxes	**(13)**	(172)	50
Income of consolidated companies in Israel	**-**	(41)	(76)
Change in deferred taxes due to change in tax rates	**54**	303	49
Taxes for prior years	**(92)**	51	7
Change in the balance of provision for deferred-tax asset	**(31)**	-	-
Other	**91**	52	41
Tax expense	**1,692**	1,717	1,691

C. Tax assessments

1. The Bank and its main consolidated companies have final tax assessments until 2011, inclusive.

   At the beginning of 2018, the Bank was issued a tax assessment order for 2012. The Bank appealed the assessment. According to management, there are adequate provisions in the financial statements.

2. At the end of 2016, subsidiary Leumi Card was issued a VAT tax assessment, which mostly included a full VAT charge for the subsidiary in respect of fees it had received for transactions made between holders of credit cards it had issued and foreign businesses. The subsidiary disputes the assessment, and therefore appealed it in March 2017. According to management, there are adequate provisions in the financial statements.

Note 8 – Provision for Taxes on Profit (cont.)

D. The movement in deferred tax assets and liabilities is attributed to the following items:

	Balance at December 31, 2016	Changes recognized in profit and loss	Impact of change in tax rate recognized in profit and loss	Changes recognized in capital	Impact of change in tax rate recognized in capital	Changes recognized in OCI	Balance at December 31, 2017	Average tax rate in 2017
	NIS Millions							%
Deferred tax assets								
from allowance for credit losses	**1,275**	**25**	**(18)**	**-**	**-**	**(7)**	**1,275**	**34%**
from allowance for vacation and grants	**398**	**(1)**	**(11)**	**-**	**-**	**(3)**	**383**	**32%**
from excess liabilities of employee rights relating to the Plan	**3,208**	**157**	**(9)**	**402**	**-**	**(4)**	**3,754**	**34%**
recognized as income	**25**	**4**	**(8)**	**-**	**-**	**(2)**	**19**	**28%**
carried forward for tax purposes	**429**	**(169)**	**-**	**-**	**-**	**-**	**260**	**25%**
from activity abroad	**5**	**(5)**	**-**	**-**	**-**	**-**	**-**	**0%**
from securities	**49**	**96**	**(8)**	**(83)**	**-**	**(5)**	**49**	**22%**
depreciable non-	**7**	**(5)**	**-**	**-**	**-**	**-**	**2**	**24%**
Other from non-monetary items	**75**	**11**	**(9)**	**-**	**-**	**(2)**	**75**	**19%**
Gross balance of deferred tax assets	**5,471**	**113**	**(63)**	**319**	**-**	**(23)**	**5,817**	
Deferred tax provisions	**(427)**	**200**	**-**	**-**	**-**	**-**	**(227)**	
Balance of deferred tax assets less deferred tax provisions	5,044	313	(63)	319	-	(23)	5,590	
Balances that can be offset	**(84)**	**-**	**-**	**-**	**-**	**-**	**(114)**	
balance of deferred tax assets less provisions at December 31, 2017	**4,960**	**-**	**-**	**-**	**-**	**-**	**5,476**	
Deferred tax liability								
from securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0%**
from investments in investee companies	**(98)**	**(43)**	**-**	**-**	**-**	**-**	**(141)**	**15%**
carried forward for tax purposes	**(4)**	**4**	**-**	**-**	**-**	**-**	**-**	**0%**
Adjustment of depreciable non-monetary assets	**(122)**	**(9)**	**21**	**-**	**-**	**5**	**(105)**	**25%**
Other from monetary items	**(19)**	**2**	**-**	**-**	**-**	**-**	**(17)**	**34%**
Other from non-monetary items	**(24)**	**6**	**-**	**-**	**-**	**-**	**(18)**	**21%**
Gross balance of deferred tax assets	**(267)**	**(40)**	**21**	**-**	**-**	**5**	**(281)**	
Balances that can be offset	**(84)**	**-**	**-**	**-**	**-**	**-**	**(114)**	
balance of deferred tax assets less provisions at December 31, 2017	**(183)**	**-**	**-**	**-**	**-**	**-**	**(167)**	
Net balance of deferred tax assets	**4,777**	**273**	**(42)**	**319**	**-**	**(18)**	**5,309**	

(a) The deferred tax balances are presented in the consolidated balance sheet according to the classification of the net classified balance in the books of the Bank and consolidated companies.

Note 8 – Provision for Taxes on Profit (cont.)

	Balance at December 31, 2015	Changes recognized in profit and loss	Impact of change in tax rate recognized in profit and loss	Changes recognized in capital	Impact of change in tax rate recognized in capital	Changes recognized in OCI	Balance at December 31, 2016	Average tax rate in 2016
	NIS Millions							
Deferred tax assets								
from allowance for credit losses	1,264	111	(100)	-	-	-	1,275	34%
from allowance for vacation and grants	298	127	(27)	-	-	-	398	34%
from excess liabilities of employee rights relating to the Plan	2,982	151	(174)	329	(80)	-	3,208	35%
from interest not recognized as income this year	46	(21)	-	-	-	-	25	39%
Tax credit and losses carried forward for tax purposes	469	(40)	-	-	-	-	429	33%
from activity abroad	4	1	-	-	-	-	5	36%
from securities	-	(74)	(2)	121	4	-	49	35%
Adjustment of depreciable non-monetary assets	8	(1)	-	-	-	-	7	36%
Other from non-monetary items	70	5	-	-	-	-	75	21%
Gross balance of deferred tax assets	5,141	259	(303)	450	(76)	-	5,471	
Deferred tax provisions	(463)	36	-	-	-	-	(427)	
Balance of deferred tax assets less deferred tax provisions	4,678	295	(303)	450	(76)	-	5,044	
Balances that can be offset	(108)	-	-	-	-	-	(84)	
balance of deferred tax assets less provisions at December 31, 2016	4,570	-	-	-	-	-	4,960	
Deferred tax liability								
from securities	(35)	35	-	-	-	-	-	0%
from investments in investee companies	(15)	(82)	-	-	(1)	-	(98)	20%
Tax credit and losses carried forward for tax purposes	-	(4)	-	-	-	-	(4)	36%
Adjustment of depreciable non-monetary assets	(126)	4	-	-	-	-	(122)	27%
Other from monetary items	(22)	3	-	-	-	-	(19)	34%
Other from non-monetary items	(33)	9	-	-	-	-	(24)	22%
Gross balance of deferred tax assets	(231)	(35)	-	-	(1)	-	(267)	
Balances that can be offset	(108)	-	-	-	-	-	(84)	
balance of deferred tax assets less provisions at December 31, 2016	(123)	-	-	-	-	-	(183)	
Net balance of deferred tax assets	4,447	260	(303)	450	(77)	-	4,777	

(a) The balances of deferred taxes are shown in the consolidated balance sheet in accordance with the classification of the net balance in the books of the Bank and its consolidated companies.

E. Deferred taxes

Note 8 – Provision for Taxes on Profit (cont.)

For the years ended December 31 2017, the Bank recognized a net decrease in the provision for a deferred tax asset in the amount of NIS 31 million, based on management's estimate of the deferred tax assets which are more likely than not to be realized.

F. Deferred tax liabilities not recognized for temporary differences related to investments in local subsidiaries

According to the transitional provisions set out in the directives of the Supervisor of Banks, the Bank did not recognize a deferred tax liability for certain temporary differences relating to the Bank's investment in local subsidiaries, which is, by nature, fixed. The said amount will be taxed only on sale or liquidation of the subsidiaries.

G. Tax losses carryforward and tax credits

	For the year ended December 31, 2017				
	Deferred tax assets	Deferred tax provisions	Deffered tax assets, net	Accumulated deficit	First year of expiry
	NIS Millions				
Losses for tax purposes					
Subsidiaries abroad	29	(27)	2	85	2,018
Tax credits					
The bank	230	(199)	31	-	-

	For the year ended December 31, 2016				
	Deferred tax assets	Deferred tax provisions	Deffered tax assets, net	Accumulated deficit	First year of expiry
	NIS Millions				
Losses for tax purposes					
Subsidiaries abroad	48	(46)	2	139	2,017
Tax credits					
The bank	381	(381)	-	-	-

In certain consolidated companies outside Israel, losses and other deductible amounts totaling NIS 72 million (December 31 2016 – NIS 126 million) which were required for tax purposes and for which no deferred taxes were recorded, since, according to the Group's assessment, no taxable income is expected against which the tax benefits may be offset. These amounts may be offset in the future if the consolidated companies in which the amounts were recorded will have a taxable income.

H. Deferred taxes are measured in according with the expected tax rates on the temporary differences on the date of their realization, based on the tax rates enacted as at the end of the reporting period. A law is deemed to have been enacted only after its publication in the *Official Gazette*.

I. Following the publication of the Supervisor of Banks' circular, Measurement and Disclosure of Impaired Debts, Credit and Provision for Credit Losses, the banks, including Leumi, reached an agreement with the Tax Authority regarding the recognition of provisions for credit losses for tax purposes. The agreement was signed on March 19 2012, and applies to impaired debts recorded beginning on January 1 2011 (the previous agreement applies to doubtful debts recorded until December 31 2010).

The following are the main points of the agreement:

Large impaired debts under individual examination - The provision is deductible for tax purposes in the year the expense was recorded in the financial statements. In the tax year in which the credit loss allowance was decreased (other than as a result of an accounting "write-off" or "loan forgiveness"), "surtax" will be added to the tax liability of the Bank, plus interest and linkage, which will lead to collection of the tax that would have been collected if the allowance that was allowed had not been recognized from the outset.

Note 8 – Provision for Taxes on Profit (cont.)

In this context - a "large debt" is a debt of NIS 1 million or more, or a lower amount notified by the Bank to the assessing officer and in accordance with the characteristics of the Bank.

Impaired debts that are not large - expenses in respect of the net "write-offs" (after deducting collections in the same year) - half of which will be allowed for tax purposes in the first tax year after the year in which the expense was recorded, and half of which will be allowed in the second tax year after the year in which the expense was recorded.

Collective allowance - not recognized for tax purposes.

J. According to the agreement with the tax authorities dated April 14 2005 and June 29 2014, the Bank is entitled to offset amounts of tax under certain conditions if the overall tax rate on Bank's income in Israel will be higher than the tax rate applicable to subsidiaries abroad. The amounts not yet offset from the tax liability, for which future tax savings were not included in the balance sheet at December 31 2017, are approximately $24 million ($36 million as of December 31 2016). The maximum tax amount allowed for offsetting is $3-5 million per year.

K. As a rule, the Bank, in coordination with the tax authorities, is taxed on the basis of the increase in value of the securities according to the presentation of securities in financial institutions' financial statements.

L. Changes in tax legislation

Corporate Tax, Payroll Tax, and Profits Tax

On January 5 2016, the Amendment to the Income Tax Ordinance (No. 216) Law, 2016 was published, reducing the corporate tax rate from 26.5% to 25.0%, with effect from 2016 and thereafter. On December, 29 2016, the Law for Economic Efficiency (Legislative Amendments to Achieve Budget Targets for the Budget Years 2017 and 2018), 2016, which stipulated, *inter alia*, a reduction of the corporate tax rate from 25% to 23% in two phases. In the first phase, the tax rate will decrease to 24%, from January 1 2017, and in the second phase the tax rate will decrease to 23% as from January 1 2018 onwards.

Deferred tax balances at December 31 2017 have been calculated based on the tax rate expected to apply at the date of reversal. Accordingly, the effect of the above changes in the corporate tax rate on the financial statements as of December 31 2016 is reflected in a reduction in deferred tax balances receivable net of about NIS 380 million. The decrease in deferred tax balances was recognized against deferred tax expenses in the amount of NIS 303 million, and against capital in the amount of NIS 77 million.

Tax rates

The taxes applicable to the revenues of banking corporations include corporate tax imposed by the Income Tax Ordinance and profit tax levied according to the VAT Act. Below is a table of statutory tax rates applicable to banking corporations.

Year	Income tax rate	Revenue tax rate	Total tax rate	Comments
2015	17.75%	26.65%	37.58%	Due to an increase in VAT as of October 1, 2015, to 17%
2016	17.00%	25.00%	35.90%	Due to an decrease in corporate tax as of January 1, 2016
2017	17.00%	24.00%	35.04%	Due to an increase in corporate tax as of January 1, 2017
2018 Onwards	17.00%	23.00%	34.19%	Due to an increase in corporate tax as of January 1, 2018

On December 22 2017, the President of the US signed into law a tax reform entitled the Tax Cuts and Jobs Act. Under the reform, the corporate tax rate in the United States was reduced from 35% to 21% for the tax years beginning in 2018. The balance of deferred taxes as at December 31 2017 in consolidated subsidiary Bank Leumi United States (BLUSA) is calculated according to the tax rates expected to apply on the reversal

Note 8 – Provision for Taxes on Profit (cont.)

date. The change in the said corporate tax rate does not have a material effect on the consolidated financial statements as at December 31 2017.

Note 9 – Earnings per Ordinary Share

A. Basic earnings attributed to the Bank's shareholders

The calculation of basic earnings per share is based on the earnings attributed to the ordinary shareholders of the Bank divided by the weighted average number of outstanding ordinary shares, as follows:

	2017	2016	2015
	NIS Millions		
Basic earnings			
Total net income due to the the Bank's shareholders	**3,172**	2,791	2,835
Weighted average of the number of shares (in thousands of shares)			
Balance at January 1	**1,522,973**	1,473,798	1,473,551
Effect of exercised RSU, PSU units and issuance of shares	**409**	38,528	247
Weighted average of the number of fully diluted shares	**1,523,382**	1,512,326	1,473,798
Basic earnings per shares	**2.08**	1.85	1.92

B. Diluted earnings per share

The calculation of the diluted earnings per share divided by the weighted average number of outstanding ordinary shares, after adjustment for all the potential dilutive ordinary shares, as follows:

	2017	2016	2015
	NIS Millions		
Diluted earnings			
Total net income due to the the Bank's shareholders	**3,172**	2,791	2,835
Weighted average of the number of shares used for calculating basic earnings per share	**1,523,382**	1,512,326	1,473,798
Effect of exercised RSU, PSU units and issuance of shares	**1,194**	1,035	475
Weighted average of the number of fully diluted shares	**1,524,576**	1,513,361	1,474,273
Diluted earnings per shares	**2.08**	1.85	1.92

Note 10 – Accumulated Other Comprehensive Income (Loss)

A. Changes in accumulated other comprehensive income (loss), after the effect of tax

	For the year ended December 31, 2017						
	OCI before attributing to non-controlling interest holders						
	Adjustmnet for presentation of securities available for sale at fair value	Net translation adjustments[a], after effect of hedges[b]	Bank's share in OCI of investee companies dealt with on equity basis	Adjustements for employee benefits	Total	OCI due to non-controlling interest holders	OCI due to the Bank's shareholders
	NIS millions						
Balance at January 1, 2015	394	(65)	22	(1,904)	(1,553)	(4)	(1,549)
Net change during the year	(327)	(2)	16	414	101	-	101
Balance at December 31, 2015	67	(67)	38	(1,490)	(1,452)	(4)	(1,448)
Net change during the year	(153)	(12)	(20)	(679)	(864)	-	(864)
Balance at December 31, 2016	(86)	(79)	18	(2,169)	(2,316)	(4)	(2,312)
Net change during the year	**161**	**(116)**	**(3)**	**(781)**	**(739)**	**-**	**(739)**
Balance at December 31, 2017	**75**	**(195)**	**15**	**(2,950)**	**(3,055)**	**(4)**	**(3,051)**

(a) Adjustments from translation of financial statements of foreign operations whose functional currency differs from the functional currency of the banking corporation.

(b) Net profit (loss) in respect of hedging net investment in foreign currency.

(c) Including for reclassifications in equity balances. Please see Statement of Changes in Equity.

Note 10 – Accumulated Other Comprehensive Income (Loss) (cont.)

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

	2017			2016			2015		
	Pretax NIS millions	Tax effect	After tax	Pretax	Tax effect	After tax	Pretax	Tax effect	After tax
Changes in components of other comprehensive income (loss) before attributing to non-controlling interest holders:									
Adjustments for presentation of securities available for sale at fair value									
Unrealized gains (losses) from adjustments to fair value	435	(133)	302	570	(194)	376	369	(203)	166
(Gains) losses for securities available for sale reclassified to the statement of profit and loss[a]	(176)	43	(133)	(851)	322	(529)	(792)	299	(493)
Net change in the period	259	(90)	169	(281)	128	(153)	(423)	96	(327)
Translation adjustments[b]:									
Adjustments for translation of financial statements	(284)	–	(284)	(9)	–	(9)	9	–	9
Hedges[c]	245	(87)	158	(2)	(1)	(3)	(18)	7	(11)
Net change in the period	(39)	(87)	(126)	(11)	(1)	(12)	(9)	7	(2)
Banking corporation's share in other comprehensive income of investee companies dealt with under the equity base method	(10)	7	(3)	(20)	–	(20)	11	5	16
Net change in the period	(10)	7	(3)	(20)	–	(20)	11	5	16
Employee benefits:									
Actuarial gain (loss) this year	(1,512)	519	(993)	(1,241)	361	(880)	464	(190)	274
Credit (cost) of service prior to this year	335	(117)	218	313	(112)	201	219	(79)	140
Net change in the period	(1,177)	402	(775)	(928)	249	(679)	683	(269)	414
Total net change in the period[d]	(967)	232	(735)	(1,240)	376	(864)	262	(161)	101
Changes in components of other comprehensive income due to non-controlling interest holders:									
Total net change in the period	(967)	232	(735)	(1,240)	376	(864)	262	(161)	101

(a) The amount before tax in the income statement under noninterest financing income. Please see Note 3 – Noninterest financing income.

(b) Adjustments from translation of financial statements of foreign operations whose functional currency differs from the functional currency of the banking corporation.

(c) Net profits (losses) in respect of hedging net investment in foreign currency.

(d) The amount before tax amount in the income statement under salaries and related expenses. For more information, please see Note 23 – Employee Rights.

Note 11 – Cash and Deposits in Banks

	December 31	
	2017	2016
	NIS Millions	
Cash and deposits in central banks	73,082	69,559
Deposits in commercial banks[a]	8,985	5,198
Total	82,067	74,757
Of which: cash and deposits in central and commercial banks for original periods not exceeding three months[b]	78,840	72,269

(a) Net of the credit loss allowance.

(b) Of which pledged cash in the amount of NIS 1,635million (December 31 2016 – NIS 810 million).

Note: For liens – See Note 27.

Note 12 – Securities

	December 31									
	2017					2016				
Securities held for trading: Bonds -			Other comprehensive income (loss)					Other comprehensive income (loss)		
	Book value	Amortized cost (for shares - cost)	Gains	Losses	Fair value[a]	Book value	Amortized cost (for shares - cost)	Gains	Losses	Fair Value[a]
	NIS Millions									
Securities held to maturity: Bonds -										
State of Israel	35	35	-	-	35	-	-	-	-	-
Others in Israel	478	478	10	(2)	486	-	-	-	-	-
Mortgage Backed Securities (MBS)	353	353	1	(7)	347	-	-	-	-	-
Total securities held to maturity	866	866	11	(9)	868	-	-	-	-	-

Note 12 – Securities

	December 31									
	2017					2016				
	Book value	Amortized cost (for shares - cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value[a]	Book value	Amortized cost (for shares - cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value[a]
	NIS Millions									
Available for sale securities: Bonds										
of State of Israel	**36,633**	**36,516**	156	(39)	**36,633**	35,409	**35,386**	131	(108)	35,409
of Foreign governments[g]	**10,755**	**10,768**	3	(16)	**10,755**	11,449	**11,494**	8	(53)	11,449
Financial institutions in Israel	**11**	**11**	-	-	**11**	23	**22**	1	-	23
Foreign financial institutions	**9,653**	**9,627**	44	(18)	**9,653**	7,460	**7,452**	27	(19)	7,460
Asset-backed (ABS) or mortgage-backed securities (MBS)	**8,529**	**8,595**	11	(77)	**8,529**	9,749	**9,892**	21	(164)	9,749
of Others in Israel	**70**	**66**	4	-	**70**	296	**280**	16	-	296
of Others foreign[g]	**2,352**	**2,349**	18	(15)	**2,352**	2,362	**2,396**	17	(51)	2,362
Total bonds	**68,003**	**67,932**	**236**	**(165)**	**68,003**	**66,748**	**66,922**	**221**	**(395)**	**66,748**
Shares and mutual funds[b]	**2,927**	**2,852**	**97**	**(22)**	**2,927**	**1,942**	**1,860**	**97**	**(15)**	**1,942**
Total securities available-for-sale[f]	**70,930**	**70,784**	**333** (c)	**(187)** (c)	**70,930**	**68,690**	**68,782**	**318** (c)	**(410)** (c)	**68,690**

Note 12 – Securities (cont.)

	December 31									
	2017					2016				
	Book value	Amortized cost (for shares - cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value[a]	Book value	Amortized cost (for shares - cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value[a]
	NIS Millions									
Securities for trade: bonds										
State of Israel	3,204	3,185	19	-	3,204	5,091	5,086	12	(7)	5,091
Foreign governments	82	83	-	(1)	82	2,458	2,457	1	-	2,458
Financial institutions in Israel	90	89	1	-	90	159	159	-	-	159
Foreign Financial institutions	142	142	1	(1)	142	104	105	-	(1)	104
Asset-backed (ABS) or mortgage-backed securities (MBS)	268	267	2	(1)	268	280	280	2	(2)	280
Others in Israel	111	107	4	-	111	132	130	2	-	132
Others foreign	299	298	3	(2)	299	286	284	4	(2)	286
Total bonds	4,196	4,171	30	(5)	4,196	8,510	8,501	21	(12)	8,510
Shares and mutual funds	1,307	1,323	1	(17)	1,307	1	1	-	-	1
Total securities for trade	5,503	5,494	(d) 31	(d) (22)	5,503	8,511	8,502	(d) 21	(d) (12)	8,511
Total securities[e]	77,299	77,144	375	(218)	77,301	77,201	77,284	339	(422)	77,201

(a) Fair value data are mostly based on stock exchange prices, which do not necessarily reflect the price which will be obtained upon sale of securities in large volumes.
(b) Includes shares which have no readily available fair value, which are presented at cost, amounting to NIS 991million (December 31 2016 - NIS 981 million).
(c) Included in equity under Adjustments for presenting available-for-sale securities at fair value in the OCI, excluding securities designated as hedged at fair value.
(d) Charged to the income statement but not yet realized.
(e) Including impaired bonds accruing interest amounting to NIS 7 million at December 31 2017.
(f) Including NIS 9,091 million in Supernationals, Sovereign and Agencies (SSA) (in 2016 – NIS 7,506 million).
(f) Reclassified.

General comments:

Securities lent amounting to NIS 215 million (December 31 2016 – NIS 324 million) are shown under loans to the public.

Securities pledged to lenders amounted to NIS 6,377 million (December 31 2016 – NIS 4,272 million).

For details of results of investment activities in bonds and in shares and mutual funds – please see Notes 2 and 3.

The distinction between Israeli and foreign bonds is made in accordance with the country of residence of the entity issuing the security.

On January 1 2017, a balance of NIS 957 million from the available-for-sale securities portfolio was reclassified to the held- to-maturity bonds portfolio. Please see Note 1.C.5.

Note 12 – Securities (cont.)

Additional details on amortized cost and unrealized losses, by period of time and rate of impairment, about held-to-maturity debentures in an unrealized loss position

	December 31, 2017									
	Less than 12 months[a]					12 months and above[b]				
		Losses unrealized from adjustments to fair value					Losses unrealized from adjustments to fair value			
	Fair value	0-20%[c]	20%-35%[d]	Over 35%[e]	Total	Fair value	0-20%[c]	20%-35%[d]	Over 35%[e]	Total
	NIS Millions									
Bonds										
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	41	-	-	-	-	203	7	-	-	7
Others foreign	-	-	-	-	-	79	2	-	-	2
Shares and mutual funds	-	-	-	-	-	-	-	-	-	-
Total securities held to maturity	41	-	-	-	-	282	9	-	-	9

Comment – on January 1 2017, a balance of NIS 957 million was reclassified from the available-for-sale securities portfolio to the held-to-maturity bond portfolio. Please see Note 1.C.5.

Additional details on fair value and unrealized losses, by period of time and rate of impairment, about available-for-sale securities in an unrealized loss position

	December 31, 2017									
	Less than 12 months[a,g]					12 months and above[b,g]				
		Losses unrealized from adjustments to fair value					Losses unrealized from adjustments to fair value			
	Fair value	0-20%[c]	20%-35%[d]	Over 35%[e]	Total	Fair value	0-20%[c]	20%-35%[d]	Over 35%[e]	Total
	NIS Millions									
Bonds										
State of Israel	1,172	4	-	-	4	2,227	35	-	-	35
Foreign governments	7,846	16	-	-	16	-	-	-	-	-
Financial institutions abroad	5,915	17	-	-	17	16	1	-	-	1
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	4,491	28	-	-	28	2,010	49	-	-	49
Others in Israel	-	-	-	-	-	-	-	-	-	-
Others abroad	1,233	15	-	-	15	-	-	-	-	-
Shares and mutual funds	634	18	-	-	18	93	4	-	-	4
Total securities available for sale	21,291	98	-	-	98	4,346	89	-	-	89

	December 31, 2016									
	Less than 12 months[a,g]					12 months and above[b,g]				
		Losses unrealized from					Losses unrealized from			
	Fair value	0-20%[c]	20%-35%[d]	Over 35%[e]	Total	Fair value	0-20%[c]	20%-35%[d]	Over 35%[e]	Total
	NIS Millions									
Bonds										
State of Israel	24,825	108	-	-	108	-	-	-	-	-
Foreign governments	5,064	53	-	-	53	38	-	-	-	-
Financial institutions abroad	4,810	16	-	-	16	16	3	-	-	3
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	7,782	163	-	-	163	53	1	-	-	1
Others in Israel	3	-	-	-	-	-	-	-	-	-
Others abroad	1,392	50	1	-	51	-	-	-	-	-
Shares and mutual funds	54	3	-	-	3	172	12	-	-	12
Total securities available for sale	43,930	393	1	-	394	279	16	-	-	16

(a) Investments in an unrealized loss position continuing for less than 12 months.
(b) Investments in an unrealized loss position continuing for 12 months and more.
(c) Investments of which the unrealized loss represents 20% of their amortized cost.
(d) Investments of which the unrealized loss represents 20% to 35% of their amortized cost.
(e) Investments of which the unrealized loss represents more than 35% of their amortized cost.
(f) Losses of less than NIS 1 million.
(g) Amounts charged to the capital reserve as part of Other comprehensive income, net, after the tax effect.
(h) Reclassified.

Additional details on unrealized available-for-sale mortgage-backed and asset-backed securities in a loss position

	December 31, 2017					
	Up to 12 months		Over 12 months		Total	
	Fair value	Unrealized losses from adjustments to fair value[a]	Fair value	Unrealized losses from adjustments to fair value[a]	Fair value	Unrealized losses from adjustments to fair value[a]
	NIS Millions					
MBS	1,714	(18)	920	(18)	2,634	(36)
Other MBS (including REMIC, CMO and STRIPPED MBS)	1,833	(8)	1,090	(31)	2,923	(39)
Asset-backed securities (ABS)	944	(2)	-	-	944	(2)
Total	4,491	(28)	2,010	(49)	6,501	(77)

	December 31, 2016					
	Up to 12 months		Over 12 months		Total	
	Fair value	Unrealized losses from adjustments to fair value[a]	Fair value	Unrealized losses from adjustments to fair value[a]	Fair value	Unrealized losses from adjustments to fair value[a]
	NIS Millions					
MBS	2,918	(75)	52	(1)	2,970	(76)
Other MBS (including REMIC, CMO and STRIPPED MBS)	4,417	(88)	-	-	4,417	(88)
Asset-backed securities (ABS)	447	-[(b)]	1	-[(b)]	448	-
Total	7,782	(163)	53	(1)	7,835	(164)

(a) Amounts charged to the capital reserve as part of Other comprehensive income, net after tax effect.

(b) Losses of less than NIS 1 million.

Additional details on held-to-maturity mortgage-backed securities

Comment – on January 1 2017, a balance of NIS 957 million was reclassified from the available-for-sale securities portfolio to the held-to-maturity securities portfolio. Please see Note 1.C.5.

(a) Profits (losses) charged to the capital reserve as part of Other comprehensive income, net, after the tax effect.

(b) Losses lower than 1 NIS million.

Note 12 – Securities (cont.)

Additional details on available-for-sale mortgage-backed and asset-backed securities

	December 31, 2017				December 31, 2016			
	Amortized cost	Profits not yet recognized from adjustment to fair value	Losses not yet recognized from adjustment to fair value	Fair Value	Amortized cost	Profits not yet recognized from adjustment	Losses not yet recognized from adjustment	Fair Value
	NIS Millions							
MBS								
Other MBS (including CMO amd STRIPPED MBS)	353	1	(7)	347	–	–	–	–
of which: securities issued by FHLMC, FNMA, GNMA, or with their guarantee	169	–	(6)	163	–	–	–	–
Total MBS	353	1	(7)	347	–	–	–	–
Total MBS for maturity	353	1	(7)	347	–	–	–	–

Comment – On January 1, 2017, NIS 957 million of the available-for-sale securities portfolio was classified as held-to-maturity securities portfolio. See note 1.C.5.

Additional details on available-for-sale mortgage-backed and asset-backed securities (cont.)

	2017				2016			
	Amorized cost	Unrealized gains from adjustments to fair value[a]	Unrealized losses from adjustments to fair value[a]	Fair value	Amortized cost	Unrealized gains from adjustments to fair value[a]	Unrealized losses from adjustments to fair value[a]	Fair value
	NIS Millions							
MBS								
Debentures available for sale (Pass-through securities)	3,036	1	(36)	3,001	3,063	–	(76)	2,987
of which: securities guaranteed by GNMA	326	–	(8)	318	281	–	(8)	273
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by them	1,960	1	(20)	1,941	2,039	–	(53)	1,986
CMO and STRIPPED MBS)	3,960	4	(39)	3,925	5,083	3	(88)	4,998
of which: securities issued by FNMA, FHLMC, or GNMA, or guaranteed by them	3,800	3	(39)	3,764	4,539	1	(85)	4,455
Total MBS	6,996	5	(75)	6,926	8,146	3	(164)	7,985
Total ABS								
persons	–	–	–	–	332	4	–	336
persons	–	–	–	–	1	–	–	1
CLO debentures	1,599	6	(2)	1,603	1,413	14	–	1,427
Total ABS	1,599	6	(2)	1,603	1,746	18	–	1,764
Total MBS and ABS debentures available for sale	8,595	11	(77)	8,529	9,892	21	(164)	9,749

(a) Amounts charged to the capital reserve as part of Other comprehensive income, net, after the tax effect.

Note 12 – Securities (cont.)

	December 31							
	2017				2016			
	Amortized cost	Profits not yet recognized from adjustment to fair value[a]	Losses not yet recognized from adjustment to fair value[a]	Fair Value	Amortized cost	Profits not yet recognized from adjustment to fair value[a]	Losses not yet recognized from adjustment to fair value[a]	Fair Value
	NIS Millions							
MBS								
Bonds for trading (Pass-through securities)	**4**	**-**	**-**	**4**	6	-	-	6
of which: securities issued by FNMA and FHLMC	**4**	**-**	**-**	**4**	6	-	-	6
Other MBS (including CMO and STRIPPED MBS)	**54**	**-**	**-**	**54**	86	-	-	86
of which: securities issued by FHLMC or GNMA	**-**	**-**	**-**	**-**	-	-	-	-
Total MBS	**58**	**-**	**-**	**58**	92	-	-	92
Total asset-backed securities (ABS)	**209**	**2**	**(1)**	**210**	188	2	(2)	188
Total securities for trading, MBS and ABS	**267**	**2**	**(1)**	**268**	280	2	(2)	280

(a) Profits (loss) charged to Income Statement report.

Note 13 – Credit Risk, Loans to the Public and the Credit Loss Allowance

A. Debts[a], loans to the public and the credit loss allowance

	December 31, 2017					
	Loans to the public					
	Commercial	Residential	Other private	Total public	Bank and governments	Total
	NIS Millions					
Recorded debt balance of debts[a]						
Examined on an individual basis	112,831	29	774	113,634	11,457	125,091
Examined on a collective basis[1]	41,511	77,928	38,143	157,582	1,122	158,704
[1]Of which: the allowance was calculated by extent of arrears	1,066 (c)	77,465	–	78,531	–	78,531
Total debts[a2]	154,342	77,957	38,917	271,216	12,579	283,795
[2]Of which:						
Debts under restructuring	1,435	–	73	1,508	–	1,508
Other impaired debts	1,310	–	100	1,410	–	1,410
Total impaired debts	2,745	–	173	2,918	–	2,918
Debts in arrears of 90 days or more	111	722	76	909	–	909
Other problem debts	2,467	–	436	2,903	–	2,903
Total impaired debts	5,323	722	685	6,730	–	6,730
Credit loss allowance for debts[a]:						
Examined on an individual basis	1,570	5	55	1,630	3	1,633
Examined on a collective basis[3]	486	445	703	1,634	–	1,634
Of which allowance calculated by extent of arrears[3]	–	443 (b)	–	443	–	443
Total credit loss allowance[4]	2,056	450	758	3,264	3	3,267
[4]Of which for impaired debts	459	–	25	484	–	484

(a) Loans to the public, loans to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) Including balance of allowance in excess of that required by the extent of arrears method calculated on a collective basis in the amount of NIS 283 million.

(c) Balance of housing loans granted to purchasing groups during construction.

Note 13 – Credit Risk, Loans to the Public and the Credit Loss Allowance (cont.)

A. Debts[(a)], loans to the public and the credit loss allowance (cont.)

	December 31, 2016					
	Loans to the public					
	Commercial	Residential	Other private	Total public	Banks and governments	Total
	NIS Millions					
Recorded debt balance of debts[a]						
Examined on an individual basis	106,782 [(d)]	45	542 [(d)]	107,369	7,890	115,259
Examined on a collective basis[1]	40,980 [(d)]	79,086	38,015 [(d)]	158,081	4,148	162,229
[1]Of which: the allowance was calculated by extent of arrears	909 [(c)]	78,656	–	79,565	–	79,565
Total debts[a2]	147,762	79,131	38,557	265,450	12,038	277,488
[2]Of which:						
Debts under restructuring	1,971	–	87	2,058	–	2,058
Other impaired debts	1,524	–	71	1,595	–	1,595
Total impaired debts	3,495	–	158	3,653	–	3,653
Debts in arrears of 90 days or more	161	719	123	1,003	–	1,003
Other problem debts	2,634	–	409	3,043	–	3,043
Total impaired debts	6,290	719	690	7,699	–	7,699
Credit loss allowance for debts[a]:						
Examined on an individual basis	1,855 [(d)]	6	57 [(d)]	1,918	1	1,919
Examined on a collective basis[3]	378 [(d)]	467	730 [(d)]	1,575	–	1,575
Of which allowance calculated by extent of arrears[3]	–	462 [(b)]	–	462	–	462
Total credit loss allowance[4]	2,233	473	787	3,493	1	3,494
[4]Of which for impaired debts	629	–	10	639	–	639

(a) Loans to the public, loans to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) Including balance of allowance in excess of that required by the extent of arrears method calculated on a collective basis in the amount of NIS 294 million.

(c) Balance of housing loans granted to purchasing groups during construction.

(d) Reclassified.

Note 13 – Credit Risk, Loans to the Public and the Credit Loss Allowance (cont.)

B. Change in balance of credit loss allowance

	December 31, 2017					
	Credit loss allowance					
	Loans to the public					
	Commercial	Residential	Other private	Total Public	Banks and governments	Total
	NIS Millions					
Credit loss allowance balance at beginning of year	2,685	473	823	3,981	1	3,982
Provision for credit losses	(5)	(13)	188	170	2	172
Accounting write-offs	(835)	(9)	(581)	(1,425)	-	(1,425)
Collection of debts written-off in previous years	678	-	364	1,042	-	1,042
Net accounting write-offs	(157)	(9)	(217)	(383)	-	(383)
Adjustments from translation of financial statements	(19)	(1)	-	(20)	-	(20)
Credit loss allowance balance at end of year[1]	2,504	450	794	3,748	3	3,751
[1]Of which: for off-balance sheet credit instruments	448	-	36	484	-	484

	December 31, 2016					
	Credit loss allowance					
	Loans to the public					
	Commercial	Residential	Other private	Total Public	Banks and governments	Total
	NIS Millions					
Credit loss allowance balance at beginning of year	2,981	513	659	4,153	3	4,156
Provision for credit losses	(571)(a)	(9)	457(a)	(123)	(2)	(125)
Accounting write-offs	(566)	(31)	(693)	(1,290)	-	(1,290)
Collection of debts written off in previous years	843	-	400	1,243	-	1,243
Net accounting write-offs	277	(31)	(293)	(47)	-	(47)
Adjustments from translation of financial statements	(2)	-	-	(2)	-	(2)
Credit loss allowance balance at end of year[1]	2,685	473	823	3,981	1	3,982
[1]Of which: for off-balance sheet credit instruments	452	-	36	488	-	488

(a) Reclassified

Note 13 – Credit Risk, Loans to the Public and the Credit Risk Allowance (cont.)

B. Change in balance of credit loss allowance (cont.)

	December 31, 2015					
	Credit loss allowance					
	Loans to the public					
	Commercial	Residential	Other private	Total Public	Banks and governments	Total
	NIS Millions					
Credit loss allowance balance at beginning of year	3,365	513	604	4,482	4	4,486
Provision for credit losses	(123)	14	309	200	(1)	199
Accounting write-offs	(676)	(12)	(614)	(1,302)	-	(1,302)
Collection of debts written off in previous years	410	-	361	771	-	771
Net accounting write-offs	(266)	(12)	(253)	(531)	-	(531)
Adjustments from translation of financial statements	5	(2)	(1)	2	-	2
Credit loss allowance balance at year end[1]	2,981	513	659	4,153	3	4,156
[1]Of which: for off-balance sheet credit instruments	449	-	33	482	-	482

Note 14 – Loans to Governments

	December 31	
	2017	2016
	NIS Millions	
Loans to the Government	130	206
Loans to foreign governments	585	436
Total Loans to governments	715	642

Note 15 - Investments in Associate Companies & Information about these Companies

A. Composition

	December 31	
	2017	2016
	Investee companies	
	NIS Millions	
Total investments in shares on equity basis (including other assets and goodwill)	807	901
Of which: post-acquisition profits	361	427 (b)
Post-acquisition items accrued in equity:		
Adjustments for investee companies	(46)	(34) (b)
Details regarding goodwill:		
Original amount, net	208 (a)	262 (a)
Unamortized balance	189	247

(a) As of the date of approval of the financial statements, the subsidiary had not yet completed attributing the consideration of the acquisition to the acquired assets and liabilities.

(b) Reclassified.

Note 15 - Investments in and Details of Investee Companies (cont.)

Details of book value and market value of tradable investments:

	December 31			
	2017		2016	
	Book value	Market value	Book value	Market value
	NIS Millions			
Avgol Industries 1953 Ltd.	**113**	**189**	119	205

B. Group's equity in profit (loss) of associate companies:

	For the year ended December 31		
	2017	2016	2015
	NIS Millions		
Group's equity in profits of investee companies	**94**	54 [(a)]	223
Provision for deferred taxes	**(2)**	12 [(a)]	(46)
Group's equity in after-tax profits of investee companies	**92**	66	177

(a) Reclassified.

C. Details concerning principal investee companies

Consolidated subsidiaries[a]

		December 31			
		2017	2016	2017	2016
		Portion of Equity entitling to receive profit		Portion of voting rights	
Company name	Company details	%			
In Israel					
Leumi Partners Ltd.[d]	Business and financial services	**100.0**	100.0	**100.0**	100.0
Leumitech Ltd.[d]	Financial services to hi-tech companies	**99.6**	99.6	**99.8**	99.8
Leumi Card Ltd.	Credit card services	**80.0**	80.0	**80.0**	80.0
Leumi Capital Market Services Ltd.	Operating services for pension and mutual funds	**100.0**	100.0	**100.0**	100.0
Leumi Financial Holdings Ltd.	Financial holdings	**100.0**	100.0	**100.0**	100.0
Abroad					
Bank Leumi Corporation	Holding company - registered in U.S.	**100.0**	100.0	**100.0**	100.0
Bank Leumi USA[e]	General banking businesses - registerd in U.S.	**99.9**	99.9	**99.9**	99.9
Bank Leumi UK	General banking businesses - registerd in U.K.	**100.0**	100.0	**100.0**	100.0
Leumi Ri Ltd.	insurance	**100.0**	100.0	**100.0**	100.0
Leumi Romania A.S.	General banking businesses - registerd in Romania	**99.9**	99.9	**99.9**	99.9

(a) Data regarding consolidated companies reflecting the Bank's investment therein less investments of each company in other companies in the Group, and the Bank's share in their results less each company's share in the results of other companies in the Group in respect of the abovementioned investments.

(b) Other equity investments include capital notes and shareholders' loans.

(c) The Bank's share in a capital reserve in respect of the benefit in controlling shareholders' loans is NIS 158 million (2016 – NIS 155 million).

(d) The Bank's share in a capital reserve in respect of the benefit in controlling shareholders' loans is NIS 82 million (2015 – NIS 82 million).

Note 15 - Investments in and Details of Investee Companies (cont.)

(e) Bank Leumi USA and Bank Leumi Le-Israel Corporation is a company whose functional currency is other than the shekel. See Note 1D

(f) The amount is less than NIS 1 million

(g) For additional information please see Note 36.

2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Investment in equity based on book value		Other capital investments[b]		Contribution to net income attributed to the Bank's shareholders		OCI		Guarantees for the company to entities outside the group	
NIS Millions									
1,598	1,430	1,057	1,049	174	145	(6)	(5)	515	487
1,002	1,000	0.0	0.0	2	5	0	0	3	1
1,514	1,440	0.0	0.0	117	147	0	0	0	0
49	49	0.0	0.0	0	3	0	0	0	0
597	543	0.0	0.0	13	(80)	0	0	0	0
339	371	0.0	0.0	4	3	(36)	(5)	0	0
2,333	2,419	0.0	0.0	126	94	(212)	(93)	7	0
968	870	215	300	48	(64)	3	(8)	0	0
69	73	0.0	0.0	(4)	(38)	0	0	0	0
163	149	0.0	0.0	14	2	0	(1)	0	0

Note 16 – Buildings and Equipment

A. Composition

	Buildings and real estate[a]	Equipment, furniture and vehicles	Software costs	Total
	NIS Millions			
Cost of Assets[b]				
At December 31, 2015	3,374	3,467	4,705	11,546
Additions	46	556	438 (c)	1,040
Disposals	(118)	(79)	(524) (c)	(721)
Adjustments from translation differences	(1)	-	(3)	(4)
At December 31, 2016	3,301	3,944	4,616	11,861
Additions	**36**	**104**	**429**	**569**
Disposals	**(136)**	**(148)**	**(69)**	**(353)**
Adjustments from translation differences	**(11)**	**(3)**	**(24)**	**(38)**
At December 31, 2017	**3,190**	**3,897**	**4,952**	**12,039**
Accumulated depreciation and losses from impairment				
At December 31, 2015	1,898	2,922	3,631	8,451
Depreciation for the year	89	158	416	663
Disposals	(87)	(79)	(235)	(401)
Adjustments from translation of reports	-	-	1	1
At December 31, 2016	1,900	3,001	3,813	8,714
Depreciation for the year	**72**	**150**	**430**	**652**
Loss from reduced value	**(2)**	**(1)**	**(4)**	**(7)**
Disposals	**(108)**	**(144)**	**(64)**	**(316)**
Adjustments from translation of reports	**(2)**	**(1)**	**(4)**	**(7)**
At December 31, 2017	**1,869**	**3,008**	**4,176**	**9,053**
Book value at December 31, 2015	1,476	545	1,074	3,095
Book value at December 31, 2016	1,401	943	803	3,147
Book value at December 31, 2017	**1,321**	**889**	**776**	**2,986**

(a) Including leasehold installations and improvements.

(b) Includes expenses capitalized in respect of software development costs for in-house use totaling NIS 669 million at December 31 2017)2016 – NIS 554 million).

(c) Reclassified.

B. Average depreciation rate:

	December 31	
	2017	2016
Buildings and real estate	**2.42%**	3.16%
Equipment, furniture and vehicles	**13.55%**	14.01%
Software	**23.69%**	23.95%

C. The Group has rental or discounted leasing rights on real estate and equipment for a period of 1 to 99 years from the balance sheet date in an amount (net of depreciation) of NIS 140 million (December 31 2016 – NIS 152 million). The balance of the period of the maximum discounted lease is 80 years.

D. Buildings and real estate properties not used by the Group, mainly rental properties, amount to NIS 51 million in the balance sheet (December 31 2016 – NIS 68 million).

Note 16 – Buildings and Equipment (cont.)

E. Assets in the amount of NIS 160 million (December 31 2016 – NIS 172 million) in the balance sheet have not yet been registered in the name of the Bank at the Land Registry Office. The principal reasons for the non-registration are the absence of a land registry arrangement in the area ("parcellation"), and non-registration of the project as a condominium building by the contractor/developer.

F. The balance of available-for-sale Buildings and Equipment was NIS 46 million on December 31 2017 (December 31 2016 – NIS 66 million) No loss is anticipated from the disposal of available-for-sale buildings and equipment, beyond provisions already made in their respect.

G. The Buildings and Equipment item includes improvement and rental interests, including payments in respect of some of the buildings for leased land.

Note 17 – Intangible Assets and Goodwill

A. Intangible assets

	Goodwill	Customer securities portfolios	Total
	NIS Millions		
Cost			
At December 31, 2015	275	83	358
Adjustments from translation differences	(1)	-	(1)
At December 31, 2016	274	83	357
Adjustments from translation differences	(1)	-	(1)
At December 31, 2017	**273**	**83**	**356**
Amortization and losses from impairment			
At December 31, 2015	257	83	340
Amortization for the year	(0)	-	(0)
At December 31, 2016	257	83	340
Amortization for the year	(0)	-	(0)
At December 31, 2017	**257**	**83**	**340**
Book value at December 31, 2017	**16**	**-**	**16**
Book value			
At December 31, 2015	18	-	18
At December 31, 2016	17	-	17
At December 31, 2017	**16**	**-**	**16**

B. Goodwill

Movements in goodwill by regulatory operating segments and by management approach

	Foreign operations
	Other
	NIS Millions
At December 31, 2015	18
Loss from impairment	1
At December 31, 2016	17
Loss from impairment	1
At December 31, 2017	**16**

Note 18 – Other Assets

	December 31	
	2017	2,016
	NIS Millions	
Net deferred tax asset - see Note 8(f)	**5,476**	4,960
Excess of advance tax payments over current provisions	**48**	118
Central fund for severance pay	**624**	971
Assets received for settlement of loans	**10**	5
Balance of issuance expenses to be amortized of debentures, bonds and subordinated notes	**30**	42
Assets for activity in Maof Clearing House[a]	**1,152**	978
Insurance amount for foreign office	**397**	431
Prepaid expenses	**222**	225
Accrued income	**192**	139
Receivables and debit balances	**111**	174 [(b)]
Total other assets	**8,262**	8,043

(a) Presented at fair value

(b) Restated.

Note 19 - Deposits from the Public

A. Types of deposits by location raised in and depositor type

	December 31	
	2017	2016
	NIS Millions	
In Israel		
On demand		
Noninterest bearing	**84,686**	79,516
Interest bearing	**117,740**	97,328
Total on demand	**202,426**	176,844
Fixed term	**134,753**	143,289
Total deposits in Israel[1]	**337,179**	320,133
Outside Israel		
On demand		
Noninterest bearing	**9,420**	10,306
Interest bearing	**4,687**	4,339
Total on demand	**14,107**	14,645
Fixed term	**11,192**	12,076
Of which: noninterest bearing	**16**	32
Total deposits outside Israel	**25,299**	26,721
Total deposits from the public	**362,478**	346,854
[1]Of which:		
Deposits from private persons	**138,685**	143,644
Deposits from institutional entities	**70,496**	55,862
Deposits from corporates and others	**127,998**	120,627

B. Deposits from the public by size

	December 31	
	2017	2016
	NIS Millions	
Up to 1	**99,032**	96,368
From 1 to 10	**90,545**	93,912
From 10 to 100	**61,271**	60,809
From 100 to 500	**35,666**	37,271
Above 500	**75,964**	58,494
Total	**362,478**	346,854

Note 20 - Deposits from Banks

	December 31	
	2017	2016
	NIS Millions	
In Israel		
Commercial banks:		
Demand deposits	**2,628**	1,849
Time deposits	**2,039**	1,045
Acceptances	**352**	423
Central banks:		
Demand deposits	**41**	0
Outside Israel		
Commercial banks:		
Demand deposits	**29**	3
Acceptances	**67**	74
Total deposits from banks	**5,156**	3,394

Note 21 – Debentures, Bonds and Subordinated Notes

	Average duration[a]	Internal rate of return[b]	December 31	
			2017	2016
	Years	%	NIS Millions	
Debentures and notes[c]:				
In Israeli currency linked to the CPI	**2.5**	0.6	**5,338**	5,285
In Israeli currency unlinked to the CPI	**5.7**	3.0	**1,159**	1,159
Subordinated notes[c,f,g]				
In Israeli currency unlinked to the CPI	**4.7**(d)	2.8	**2,880**	5,133
In Israeli currency linked to the CPI[d]	**2.9**(d)	2.9	**6,200**	11,063
Total debentures, notes and subordinated notes			**15,577**	22,640

(a) Average duration is the average of the payment periods, weighted according to the payment flow discounted at the IRR.

(b) The IRR is the interest rate, discounting the value of the anticipated future flow of payments to the balance sheet included in the financial statement.

(c) The unamortized balance of the discount less the premium on debentures and on subordinated notes not yet charged to profit and loss has been deducted from the amount of the debentures.

(d) The average duration as of the date of change in interest is based on a calculation of the effective average duration as calculated for purposes of the exposure to changes in interest rates. In unlinked subordinated notes it is 3.5 years, in those linked to the CPI it is 2.6 years.

(e) Of which: subordinated notes (unquoted) deemed Tier 2 capital in the amount of NIS 926 million (December 31 2016 – NIS 1,446 million) that in certain circumstances may be converted into shares. See Note 25A.A.

(f) Of which: listed for trading on the Tel Aviv Stock Exchange an amount of NIS 4,465 million linked to the CPI and an amount of NIS 2,880 million unlinked (December 31 2016 – NIS 8,664 million linked and NIS 5,084 million unlinked).

(g) Tier 2 capital pursuant to the Basel III transitional provisions.

Note 22 - Other Liabilities

	December 31	
	2017	2016
	NIS Millions	
Deferred tax liability, net – see Note 8(D)	167	183
Excess of current provisions for income tax over advance payments	442	383
Excess of liabilities for employee benefits over plan assets - see Note 23(I)	11,287	10,129
Income in advance	329	378
Payables for credit cards	6,139	5,726
Accrued provision for salaries and related expenses	901	903
Market value of securities sold short	569	768
Credit loss allowance for off-balance sheet items	484	488
Expenses to pay	420	424 (b)
Other provisions for employee rights	385	323
Provision for vacation	213	208
Jubilee	47	82
Liabilities for activity in Maof Clearing Housea	1,152	978
Other payables and credit balances	789	912 (b)
Total other liabilities	23,324	21,885

(a) Presented at fair value

(b) Reclassified

Note 23 – Employee Rights

A. Severance pay and pensions

1. General

For employees that commenced their employment with the Bank since January 1 1999 (hereinafter: "second generation employees") and had not yet received permanent employment status as at the signing date of the special collective bargaining agreement in 2000 covering a special pension arrangement, current deposits are made to an external pension fund. The Bank will not have any pension liability in respect of these employees other than to supplement severance pay in accordance with the agreement.

Employees, who began working with the Bank before January 1 1999 (hereinafter: ("first generation employees") and received permanent employment status before the date of signing the aforementioned agreement, and who retire from the Bank at retirement age, except those mentioned above and in (B) below, may choose between the right to receive severance pay and compensation, or the right to receive a pension from the Bank, in which case they relinquish their right to the severance pay and compensation, subject to the provisions of the law. The entitlement to a pension is calculated at a pension rate of 40% for the first 15 years of employment, i.e. 2.67% per annum, and of 1.5% for each additional year, up to a maximum rate of 70%.

Provisions for provident funds are based on an actuarial calculation that takes the retirement age into account according to the Retirement Age Law, 2004. The actuarial calculation was made according to the accrued benefits valuation method, taking into account various parameters including the probability, based on past experience, of the rate of utilization of the pension benefits and the rate of withdrawal of severance and remuneration benefits (current utilization rate of pension rights is about 76%, while the remainder choose severance pay and provident funds), and past experience regarding disability, etc.

The accumulation of liability is on a straight-line basis up to the earliest retirement age (an average of retirement ages in practice of first generation employees in recent years, for men and women). After this date, additional benefits are attributed for subsequent years based on the formula of the benefit plan of first generation employees.

The actuarial calculation is based on the updated provisions of the Chief Actuary in the Ministry of Finance with respect to mortality rates from March 2013, which were determined by the Commissioner of the Capital Market, Insurance and Savings for insurance companies and that were adopted for the population of the Bank's employees.

Calculation of the Bank's actuarial liability for pension payments is made using the government bonds yield in Israel plus an average margin on corporate bonds with an international rating of AA and above at the reporting date. For practical reasons, it was decided that the calculation of the margin will be based on US corporate bond margins. In addition, a calculation is made on the assumption of a real increase in salary based on past experience and varying in accordance with the age of the employee.

The calculation is made under a comprehensive pension plan, which includes old age, disability and survivor pensions and also takes into account employees who have not yet completed the period required for receipt of pension benefits (15 years of service).

The Bank's pension liability for retired employees who have opted for pension, which is mentioned in Subsection B below, is covered by a pension reserve, which is calculated according to the present value of the liability, as calculated by an actuary, as mentioned above.

2. Benefits to "Leumi Alumni"

"Leumi Alumni" are entitled to receive, in addition to their pension and/or severance payments, additional benefits which consist mainly of account management benefits, a holiday gift, and participation in social activities.

"Leumi Alumni" – persons who, regardless of their age, have concluded working with the Bank after 25 years of employment, or are 50 years or older and have left the Bank after 15 years of employment.

The accumulated amount at December 31 2017 for expected costs in respect of the above entitlements in the period following the employment period, according to actuarial calculation, amounts to some NIS 283 million (December 31 2016 - NIS 255 million).

B. Terms of employment and retirement for employees under personal employment contracts

1. General

The accepted terms of remuneration for employees with personal contracts include fixed and variable employment conditions, such as a monthly salary, option for a variable bonus, social benefits and other additional benefits, such as advance notice of six months (salary and additional benefits), study fund contributions, health insurance, insurance arrangements, exemption and reimbursement of senior officeholders, as well as retirement and pension arrangements, as detailed below. Members of the Bank's management are also entitled to an adaptation grant of up to six monthly salaries on termination of their work relations with the Bank.

Retirement and pension arrangements for employees with personal contracts

The termination and pension rights of Bank employees with personal contracts are determined according to a classification of various employment periods by the Bank - Generation A, Generation B and generation C - and according to the circumstances of the ending of their work relations with the Bank (such as dismissal, resignation or retirement). Generation A employees and Generation B employees have moved over the years and according to their circumstances from one form of employment to another, often preserving their rights for past periods. Thus, in 2013-2014, some of the Generation A employees transitioned to Generation B beginning on the transition date, and in 2016-2017, some of the Generation A or Generation B employees transitioned to Generation C beginning on the transition date.

The Bank's retirement arrangement with these employees includes entitlement to severance pay ranging between 100% and 250%, in addition to the funds they have accumulated in their provident funds. This right is in lieu of the employees' right to severance pay under law, and usually includes the funds and rights accrued in the employees' personal severance pay funds during his/her employment period (including any gains).

A generation A personal contract employee is entitled, in case of termination of work relations (dismissal, resignation or retirement, as relevant and according to the contact's terms and conditions), renounce the rights to and funds in their personal severance pay and compensation fund (for Generation A rights) in return for entitlement to a non-contributory pension from the Bank according to the employment terms of Generation A ("pension annuity"). The employee will be entitled to a pension annuity on reaching retirement age or subject to meeting seniority and/or age conditions, and receive the pension annuity effective immediately (in full or in part, as relevant).

A Generation B employee is entitled, in case of termination of work relations (dismissal, resignation or retirement, as relevant and according to the contract's terms and conditions) and subject to meeting seniority and/or age conditions, to opt for and receive, in lieu of the severance pay, an interim annuity from the Bank (in full or in part, as relevant) until they are entitled to the annuity pursuant to the provident fund's rules and the law.

The percentage of pension annuity or interim annuity, as relevant, is 2.67% per year for the first 15 years of employment. Subsequently – 1.5% per year for each year until a personal contract is signed; 2% per year for each year employed with a personal contract and 2.5% per year for each year of serving as member of management, up to a maximum of 70%. The eligibility to receive a pension annuity from the Bank is conditioned upon all of the rights and funds credited to the employees in the compensation and severance fund (for Generation A rights) serving as the source for the payment of the pension annuity by the Bank as aforesaid.

The maximum additional expense incurred by the Bank, in case the employees under this section be dismissed effective immediately, shall total NIS 163 million (including salary tax on pensions) (2016 – NIS 194 million). The reason for the decrease is changes in the assumptions regarding the date and likelihood of termination of employment.

2. President and CEO

Ms. Rakefet Russak-Aminoach serves in the position of President and CEO of the Bank as of May 1 2012.

In November 2016, the General Meeting of the Bank approved an update to the service and employment of the President and CEO of the Bank (which are in effect as of November 12, 2016 (hereinafter: the "effective date"). The service and employment terms of the President and CEO as mentioned above are in line with the Policy on Remuneration of Officeholders in the Bank, which was also approved by the General Meeting in November 2016.

As part of the update of the President and CEO's terms of employment and service as aforesaid, the overall remuneration of the President & CEO was adjusted and decreased in accordance with the Remuneration Limitation Law, including the President and CEO's waiver of her entitlement to continue accumulating non-contributory pension rights from the Bank in accordance with the First Generation employment terms at the Bank for the period after the effective date, while freezing and preserving the rights which had already been accrued to her credit up to the effective date and depositing the said amount in an external fund.

Note 23 – Employee Rights (cont.)

The President and CEO's terms of service and employment:

1. Salary - The President and CEO will be entitled to a monthly salary in the total amount of NIS 195,400, linked to the rise in index known in October 2016[4] and to the percentage of the decrease of the lowest remuneration in the Bank pursuant to the Remuneration Limitation Law and its provisions (the "salary").

   The President and CEO may be entitled, subject to the approval of the Remuneration Committee and the Board of Directors, to an additional fixed payment component. The amount of this component shall be determined in such a way that the total of the remuneration components paid to the President and CEO (excluding remuneration for which the expenses are unpredictable, in accordance with generally accepted accounting principles) will not exceed the limit determined in Section 2(b) of the Remuneration Limitation Law.[5] No social provisions, aside from severance pay and pension provisions as required by law, shall be made in respect of this fixed component.

2. Advance notice of employment termination

   The employment agreement of the President and CEO is for an indefinite period. Each of the parties may terminate the engagement by providing prior notice of six (6) months in advance.

3. Contributions and deductions for pensions, severance pay and social benefits

   The Bank shall make contributions for provident funds and insurance for occupational disability for the President and CEO, which will be transferred, on a monthly basis, to executive insurance, provident funds and/or a pension arrangement, as agreed upon between the parties, from time to time, at a rate of 7.5%, and furthermore, the Bank will deduct an additional 6% of the President and CEO's salary for pensions (hereinafter: "provident funds contributions"). The Bank will make provisions to severance pay, which will be transferred, on a monthly basis, into a severance pay fund, at a rate of 8⅓% of the President and CEO's salary.[6] The Bank shall make provisions for the President and CEO into a study fund, on a monthly basis, in the amount of 7.5% of her salary, as applicable from time to time, and shall simultaneously deduct, at the President and CEO's expense, an amount of 2.5% of the salary, up to the limit of entitlement for tax purposes, and transfer it into a study fund.

4. The rights of the President and CEO upon termination of the work relations - according to the new terms of employment - In the event of termination of the working relations between the President and CEO and the Bank (dismissal, resignation or retirement) the President and CEO shall be entitled to the following (cumulative) rights:

   a. In respect of the President and CEO's work period from the effective date, the President and CEO shall be entitled to severance pay in an amount equal to 100%[7] of her last monthly salary multiplied by the number of years from the effective date until the severance of the working relations, as well as the funds and rights accrued in the pension funds in respect of pension contributions made by the Bank and the President and CEO during her employment period – from the effective date to the termination of the working relations.

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[4] It is clarified that in case of a decrease in the CPI, the salary shall not be decreased accordingly (subject to compliance with the provisions of the Remuneration Limitation Law).

[5] It is noted that in calculating the limitations set out by the Remuneration Limitation Law, and in accordance with the said Law, lawful severance pay and pension contributions are not included. It should also be noted that if, as a result, the total cost of the President and CEO's salary shall exceed the maximum amount set out by the Remuneration Limitation Law, some of the salary shall not be recognized as a tax deductible expense, in accordance with Section 32(17) of the Income Tax Ordinance.

[6] Including all components in respect of which severance pay may be paid under law.

[7] Entitlement to compensation as aforesaid is conditional on transferring the contributions made during the period or the equivalent of said contributions to the Bank.

b. For the period of the President and CEO's work until the effective date, the President and CEO shall be entitled to the following rights: (A) Rights according to the terms and conditions of Generation A: Rights accrued to her credit until the effective date per the Bank's commitment to an immediate pension annuity; and (B) Rights in accordance with Generation B: The President and CEO shall be entitled to funds and rights accrued in the provident fund for contributions made by the Bank and the President and CEO and rights accrued in the provident fund during the period of the CEO's service with the Bank until the effective date under the Generation B terms and conditions and rights accrued to her credit as of the effective date per the Bank's commitment to an interim annuity until she reaches retirement age under the Generation B terms and conditions.

5. **Adaptation bonus and non-compete clause –** The President and CEO has committed to a non-compete period of 6 months from the end of her office as the Bank's President and CEO (hereinafter: the "non-compete period"). Throughout the non-compete period, The President and CEO shall be entitled to the salary and all related benefits, excluding contributions to social benefits. On ending work relations with the Bank, the President and CEO shall also be entitled to an adaptation bonus equivalent to 6 monthly salaries.

6. **Exemption, insurance and indemnification** - The President and CEO is entitled to exemption, insurance and office-holder indemnification, as periodically customary at the Bank.

7. **Vacation leave, convalescence pay and sick leave** – according to the accepted practice for the Bank's senior executives under the Bank's procedures.

8. **Additional benefits** – the President and CEO shall be entitled to benefits according to the accepted practice for the Bank's senior executives.

9. **Provisions regarding annual bonuses -** The President and CEO shall not be entitled to a variable annual bonus as of the effective date.

For more information on the President and CEO's tenure and employment terms, please see Report of Summoning a Special General Meeting published on September 26, 2016 (Reference: 2016-01-128920).

4. Chairman of the Bank's Board of Directors

Mr. David Brodet was initially appointed to serve as a director at the Bank and as Chairman of the Board of Directors in 2010. During the years 2013 and 2016[1] the Chairman of the Board of Directors was appointed to serve as a director at the Bank and as Chairman of the Board of Directors for two additional service terms of three years each.

In November 2016, the Bank's General meeting approved an update to the Chairman of the Board's tenure and employment terms, effective July 22, 2016, the date of the beginning of Mr. Brodet's current tenure as member of the Board and Chairman of the Board. The tenure and employment terms of the said Chairman of the Board are according to the Policy on Remuneration of Officeholders in the Bank, which was also approved by the General Meeting in November 2016.

The Chairman of the Board's terms of tenure were updated as aforesaid in accordance with Directive 301A, which stipulates that the Chairman of the Board of Directors shall only be entitled to a fixed remuneration and social benefits and related expenses, as is acceptable for office-holders in the Bank. Additionally, and in light of the Remuneration Limitation Law, the terms of service and employment of the Chairman of the Board of Directors were adjusted and reduced so as to meet the requirements of the Remuneration Limitation Law.

The Chairman of the Board's tenure and employment terms:

Details of the new terms of employment of the Chairman of the Board of Directors

Note 23 – Employee Rights (cont.)

1. **Salary –** From the effective date, the Chairman of the Board of Directors will be entitled to a monthly salary in the total sum of NIS 168,200, linked to the increase in the index known on the effective date[8] and linked to the lowest increase in remuneration in the Bank in accordance with the Remuneration Limit Law and pursuant to its provisions (the "salary").

2. **Fixed remuneration adjusted to the new provisions of the Law -** The Chairman of the Board of Directors may be entitled, subject to the approval of the Remuneration Committee and the Board of Directors, to an additional fixed payment component. The amount of this component shall be determined in such a way that the sum of the remuneration components paid to the Chairman of the Board of Directors (excluding remuneration for which the expenses are unpredictable, in accordance with the accepted accounting principles) will be in accordance with the limit determined in Section 2(b) of the Remuneration Limitation Law.[9] No social contributions, aside from severance pay and pension provisions, shall be made in respect of this fixed component.

3. **Employment term and end of employment term -** The employment agreement of the Chairman of the Board of Directors is valid throughout his employment period, beginning the effective date (the "employment term"). Throughout the employment term, each of the parties may terminate the engagement by providing a prior notice of six (6) months in advance.

4. **Contributions and deductions for remunerations, severances and social benefits**

   4.1 The Bank shall make provisions to remunerations[10] for the Chairman of the Board of Directors, which will be transferred, on a monthly basis, to manager insurance, provident funds and/or pensioner arrangement, as agreed upon between the parties, periodically, at a rate of 7.5%, and furthermore, the Bank will deduct an additional 5% of the Chairman of the Board of Directors' salary for remunerations (hereinafter: "contributions to remuneration"). Alternatively, the Chairman of the Board of Directors shall be permitted to choose, at his sole discretion, that instead of the provisions to remuneration, in full or in part, the sums that were meant to be paid as the Bank's provisions to remuneration will be paid to him on a current basis.

   4.2 The Bank will make contributions to severance pay, which will be transferred, on a monthly basis, into a severance fund, at a rate of 8⅓% of the Chairman of the Board of Directors salary.[11]

   4.3 The Bank shall make provisions into a study fund, on a monthly basis, in the amount of 7.5% of his salary, be that as it may, and shall simultaneously deduct, at the Chairman of the Board of Directors' expense, an amount of 2.5% of the salary, up to the credit limit for tax purposes, and transfer it into a study fund.

5. **Retirement terms -** The rights of the Chairman of the Board of Directors upon the end of his tenure shall be as follows:

   5.1 **Severance and remuneration** - Following the end of the Chairman of the Board of Directors' tenure at the Bank, for any reason whatsoever, the Chairman of the Board of Directors shall be entitled to the following rights:

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[8] It is clarified that in case of a decrease in the CPI, the salary shall not be decreased accordingly.

[9] It is noted that in calculating the limitations set out by the Remuneration Limitation Law, and in accordance with the said Law, lawful severance pay and pension contributions are not included. It should also be noted that if, as a result, the total cost of the President and CEO's salary shall exceed the maximum amount set out by the Remuneration Limitation Law, some of the salary shall not be recognized as a tax deductible expense, in accordance with Section 32(17) of the Income Tax Ordinance.

[10] Including workers' compensation insurance, if such insurance shall be acquired.

[11] Including all the components for which severance pay may be paid under law.

a. For the Chairman of the Board of Directors' until the effective date , the Chairman of the Board of Directors shall be entitled to severance pay in the amount of 150% of the last salary paid to him before the effective date, multiplied by the number of years (and/or partial years) during which he served as Chairman of the Board of Directors until the effective date, in addition to the Chairman's right to the payments and rights accrued in the remuneration and severance fund due to provisions to remuneration and severance made by the Bank and the Chairman of the Board of Directors for the period until the effective date.

b. For the Chairman of the Board of Directors' tenure as of the effective date and until the end of his tenure at the Bank ("**additional tenure**"), the Chairman of the Board of Directors shall be entitled to severance pay in the amount of 100%[12] of his last salary, multiplied by the number of years (and/or partial years) during which he served as Chairman of the Board of Directors in his additional tenure, this in addition to the Chairman's right to the payments and rights accrued in the remuneration and severance fund due to provisions to remuneration and severance made by the Bank and the Chairman of the Board of Directors for his additional tenure.

5.2 **Adaptation bonus** - Upon the end of the Chairman's employment as Chairman of the Board of Directors, the Chairman shall be entitled to an adaptation bonus in the amount of 6 monthly salaries,[13] which can and will be contingent upon the Chairman's commitment to a non-competition period of up to 6 months from the end of his actual service as the Bank's Chairman of the Board of Directors, as determined by the Bank's Board of Directors of Directors.

6. **Exemption, insurance and indemnification -** The Chairman is entitled to exemption, insurance and office-holder indemnification, as periodically customary at the Bank.

7. **Vacation days, recuperation and sick leave -** As customary for senior executives at the Bank.

8. **Related benefits -** The Chairman of the Board of Directors shall be entitled to benefits as customary for senior executives at the Bank.

9. **Provisions regarding annual bonuses**

The Chairman of the Board of Directors shall not be entitled to a variable annual bonus as of the effective date.

For more information on the Chairman of the Board's tenure and employment terms, please see Report of Summoning a Special General Meeting published on September 26, 2016 (Reference: 2016-01-128920).

C. Provision for vacation leave

In "Other Liabilities" there is a provision for unutilized vacation days calculated on the basis of the latest salary plus related benefits. In addition, there is provision for sick days to be converted to vacation days calculated on an actuarial basis. The provisions amount to NIS 213 million (December 31 2016 – NIS 208 million).

[12] Entitlement to compensation as aforesaid is conditioned on transferring to the Bank making contributions for severance pay made for the additional period or an amount equivalent to said contributions.

[13] Including additional benefits but excluding social benefits.

D. Provident and severance pay funds of employees of the Bank

The Bank deposits provident and severance monies for "first generation" employees in the Bank Leumi Employees Provident and Severance Funds, which is managed by a management company held by the members of the funds.

In March 2015, the Bank entered into an agreement with institutional entities from the Migdal Group to transfer the provident funds which have been accrued or will be accrued from 2008 and onwards and severance pay funds which have been accrued or will be accrued in the provident and severance pay funds of the Bank's employees, on behalf of first-generation employees that have chosen or will choose on retirement an annuity track (full or partial), to a non-contributory fund under the management of Migdal.

In addition, on March 25 2015, the Bank received approval from the Tax Authority for the transfer of the severance pay funds accrued in the Bank's central severance pay fund in favor of the severance pay component in personal provident funds maintained on the employees' behalf, and the conditions and mechanism were set for the withdrawal of surplus monies from the central severance pay fund.

E. Remuneration Policy for the Bank's Officeholders

In November 2016 the General Meeting of the Bank approved the Remuneration Policy for Officeholders in the Bank, effective as from October 12 2016 until the end of 2019 (hereinafter: the "remuneration policy"). The remuneration policy is based on the provisions of Amendment 20 to the Companies Law regarding conditions of service and employment of office holders in the Bank, that set out in Proper Conduct of Banking Business Directive 301A concerning remuneration policy in a banking corporation and the provisions of the Remuneration Limitation Law.

The remuneration policy provides for a framework for remunerating officeholders in the Bank, and includes, among other things, reference to fixed remuneration components, which is the main remuneration for officeholders, and to components of variable remuneration which include any remuneration that is not fixed, including: an annual performance-dependent bonus, consisting of a bonus component based on return on equity and a bonus component based on the yield of the stock of the Bank compared with the yield on the TA-Banks index; an individual qualitative bonus, which is based on the achievement of personal objectives and quality criteria in accordance with the areas of responsibility of the office holder in question; and a special bonus in respect of special events. It shall be noted that members of the Board, including the chairman of the Board and the Bank's President and CEO, are not entitled to a variable annual bonus under the Remuneration Policy.

Total variable bonuses to an officeholder are limited to 6 monthly salaries per year (in exceptional and unusual cases, the Remuneration Committee and the Board of Directors may approve an additional special bonus for any of the officeholders, which will not exceed a single monthly salary). In addition, the Board of Directors of the Bank has the authority to reduce the variable annual bonus at its discretion. In addition, the remuneration policy has determined, in accordance with Directive 301A, a mechanism of reclaiming variable bonuses, including criteria for restitution, the circumstances for activating the restitution mechanism and the restitution period.

1. The remuneration policy framework also sets arrangements for deferring the payment of the annual variable bonus to office holders, the payment of which is subject to the Bank's compliance with the capital adequacy ratios required by the Supervisor of Banks immediately prior to each vesting date.
2. In addition, the remuneration policy includes provisions concerning the protection of rights upon retirement, including pension rights, of office holders of the Bank, which were accrued and will be accrued for the period until the end of the transitional period of the remuneration limit law.
3. Taking into account that the remuneration policy was formulated against the background of arrangements in process of formation, mechanisms and various arrangements were set in the remuneration policy designed to allow the Remuneration Committee and the Board of Directors to approve updates to the remuneration policy or remuneration components in terms of service and

employment of the office holders that the remuneration policy applies to during the period the remuneration policy, without being required to receive a renewed approval by the General Meeting of the Bank on the date of such update. As stated, policy updates will be made insofar as circumstances existing at the time of the update, justify in the opinion of the Remuneration Committee and the Board of Directors the making of the stated updates.

For example, the remuneration policy determines a mechanism linking the lowest remuneration in the Bank, for the purpose of Section 2(b) to the Remuneration Limitation Law,[14] to the remuneration ceiling of the office holders in the Bank, so that total remuneration components to office holders (excluding remuneration whose expense is not predictable under GAAP) will rise by the same rate for the increase in the lowest remuneration in the Bank at the time.

For more information on the remuneration policy, please see Report of Summoning a Special General Meeting published on September 26, 2016 (Reference: 2016-01-128920).

For more information on the employment terms of the Chairman of the Board's and President and Chairman, please see Sections B.2. and B.3 above.

F. Update of terms of employment of key employees

The remuneration policy for key employees who are not officeholders provides the framework for the remuneration of key employees, and includes, *inter alia*, consideration of the salary component, the related conditions, the terms of retirement and the annual bonus component. This policy was devised paying attention to the principles of the remuneration policy for office-holders in the Bank, mutatis mutandis and according to the provisions and requirements of Proper Conduct of Banking Business Directive 301A.

In December 2017, the Remuneration Committee approved and recommended that the Board of Directors approve an update to the Remuneration Policy for Key Employees in several compliance aspects, in order to further the Bank's compliance culture.

G. Remuneration policy for all employees

The remuneration policy for all the employees of the Bank is based on the provisions of Proper Conduct of Banking Business Directive No. 301A of the Supervisor of Banks

The remuneration policy for all the employees of the Bank is intended to serve as a tool for promoting the meeting of the Bank's business targets, including facilitating the recruitment of quality employees to work in the Bank, to retain them in the long-term and motivate them to improve performance and achieve the business objectives and targets of the Bank, while preventing the taking of risks deviating from the risk appetite of the bank.

The remuneration policy refers to the current remuneration for employees, including salaries and salary-related benefits and bonuses, conditions of retirement and other payments to which the employees are entitled.

In December 2017, the Remuneration Committee approved and recommended that the Bank's Board of Directors approve an update to the remuneration policy of all employees in several compliance aspects, in order to further the Bank's compliance culture.

H. Voluntary retirement plan

On January 12 2016, the Banking Supervision Department published a letter titled Increasing operational efficiency of the banking system in Israel (hereinafter: the "Efficiency Directive"). Pursuant to the letter, the Board of Directors of a banking corporation will make a multi-year streamlining outline plan. A banking corporation meeting the conditions defined in the letter will receive relief under which it can spread the

[14] The lowest remuneration in the Bank for the purposes of Section 2(b) to the Remuneration Limitation law, in the year prior to the date on which the remuneration policy was approved, was NIS 67 thousand per year (net of lawful severance pay and pension contributions).

effect of the costs of the plan over five years on a straight-line basis for purposes of calculating capital adequacy.

In 2017 - as part of its measures to improve efficiency and increase cost savings, following approval by the Board of Directors on July 11, 2017 - the Bank implemented a voluntary early retirement plan.

- The following benefits were proposed, based on the employees' tenure: (a) an early retirement arrangement until the employee has reached legal retirement age, to employees entitled to a non-contributory pension from the Bank and who meet the criteria defined in the plan; or (b) Increased severance pay of 245% to 265%, according to the plan's criteria

The plan's total cost is NIS 310 million before tax (hereinafter: the "efficiency plan cost").

Below are the main points of the accounting treatment:

1. The efficiency plan cost constitutes an actuarial loss, charged to OCI.
2. In subsequent periods, the plan's costs are amortized to profit or loss under the "Actuarial profit and loss" according to the straight line method over the plan participants' average remaining service period.

The impact of the efficiency plan on the Bank's capital adequacy is estimated at 0.1%, which will be gradually charged to the capital adequacy over a period of five years.

As part of the efficiency plan, 450 employees have signed retirement agreements and their employment ended by December 30, 2017. In addition, over the next five years, 480 additional employees are expected to retire after reaching retirement age. The Bank is preparing for these employees' retirement and invests efforts in adapting the organizational structure, closing gaps in critical professions, conducting training and knowledge preservation, using a structured methodology and a plan developed for this purpose.

Pursuant to the accounting principles applicable to the Bank, various conditions and restrictions, including quantitative ones, were applied regarding the extent of the efficiency plans. As a result, the Board of Directors decided that no changes are made or extensions will be made to the plan, if these will mean that it will not be possible to account for the plan as set out above.

Note 23 – Employee Rights (cont.)

I. Composition of benefits

1. Employee benefits

	December 31		
	2017	**2016**	**2015**
	NIS Millions		
Post-retirement benefits - pension and severance pay			
Amount of liability	**17,995**	16,948	16,256
Fair value of plan assets	**6,708**	6,819	7,041
Excess liabilities over plan assets (included under other liabilities)	**11,287**	10,129	9,215
Vacation and Long-service (Jubilee) bonus			
Amount of liability[a]	**47**	82	942
Fair value of plan assets	-	-	-
Excess liabilities over plan assets (included under other liabilities)	**47**	82	942
Other benefits			
Amount of liability	**567**	559	499
Fair value of plan assets	-	-	-
Excess liabilities over plan assets (included under other liabilities)	**567**	559	499
Total[1]			
Excess liabilities for employee rights over plan assets, included under "Other liabilities"	**11,901**	10,770	10,656
[1]Of which: for benefits to employee abroad	**74**	117	222

(a) Starting 2016, accumulated Jubilee vacation.

2. Defined benefit pension plan

a. Obligation and funding status

1. Change in obligation in respect of expected benefit

	December 31		
	2017	2016	2015
	NIS Millions		
Obligation in respect of expected benefit at the beginning of the period	**16,948**	15,764	16,256
Service cost	**148**	163	198
Interest cost	**696**	687	735
Deposits of plan participants	**46**	48	46
Actuarial loss (profit)	**1,560**	1,174	(701)
Changes in foreign currency exchange rates	**(20)**	(38)	(9)
Benefits paid[a]	**(1,383)**	(865)	(724)
Plan amendmants including structural change	-	-	15
Other	-	15	-
Obligation in respect of benefit at year end	**17,995**	16,948	15,816
Obligation for accumulated benefit at year end	**17,016**	16,011	15,074

(a) Including non-material amounts in respect of downsizing, settlements, special and contractual benefits in respect of dismissals.

(b) Reclassified.

Note 23 – Employee Rights (cont.)

I. Composition of benefits (cont.)

2. Defined benefit pension plan (cont.)

a. Obligation and funding status (cont.)

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

	December 31		
	2017	2016	2015
	NIS Millions		
Fair value of plan assets at beginning of year	**6,819**	6,766	7,041
Actual return on plan assets:	**399**	257	257
Deposits in the plan by the Banking corporation	**131**	158	245
Deposits by plan participants	**46**	48	46
Changes in foreign currency exchange rates	**(17)**	(37)	(10)
Benefits paid[a]	**(691)**	(449)	(510)
Program Amendments including structural changes	-	-	-
Other	**21**	76	-
Fair value of plans' assets at year end	**6,708**	6,819	7,047
Financing - Net liability recognized at year end	**11,287**	10,129	8,769

(a) Including non-material amounts in respect of downsizing, settlements, special and contractual benefits in respect of dismissals.

3. Amounts recognized in the consolidated balance sheet

	December 31		
	2017	2016	2015
	NIS Millions		
Amounts recognized under other assets	-	-	-
Amounts recognized under other liabilities	**11,287**	10,129	8,998
Net liability recognized at year end	**11,287**	10,129	8,998

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

	December 31		
	2017	2016	2015
	NIS Millions		
Net actuarial loss	**4,408**	3,241	2,329
Net liabilities in respect of the transition	-	-	-
Closing balance in OCI including accumulated	**4,408**	3,241	2,329

Note 23 – Employee Rights (cont.)

I. Composition of benefits (cont.)

b. Expense for the period

1. Benefit cost components included in profit and loss

	For the year ended December 31		
	2017	2016	2015
	NIS Millions		
Cost of service	**148**	163	198
Interest cost	**696**	687	735
Yield expected from plan's assets	**(364)**	(373)	(392)
Less unrecognized amounts - net actuarial profit (loss)	**330**	310	206
Downsizing, discharge, special and contractual benefits for termination including structural change	**-**	-	9
Others incuding structural change	**-**	-	30
Net cost of benefit	**810**	787	786
Expense due to pension plan for defined deposit	**192**	158	172
Total expenses included in salary and related cost	**1,002**	945	958

2. Changes in plan assets and benefit obligation, recognized in OCI before the tax effect

	For the year ended December 31		
	2017	2016	2015
	NIS Millions		
Actuarial profit (loss) for the year	**1,525**	1,290	(362)
Deduction of unrecognized amounts - Net actuarial loss	**(330)**	(310)	(206)
Other including structural change	**(21)**	(64)	(30) [(a)]
Changes in exchange rates of foreign currency	**(7)**	(4)	(5) [(a)]
Total recognized in OCI	**1,167**	912	(603)
Total net benefit	**810**	787	756
Total recognized in cost of benefit, net, for the period and in OCI	**1,977**	1,699	153

(a) Reclassified.

3. Estimate of amounts included in accumulated OCI, expected to be deducted from accumulated OCI, to appear as expense in the income statement in 2018 before the tax effect

	NIS Millions
Net actuarial loss	**393**
Total expected to be deducted from accumulated OCI	**393**

Note 23 – Employee Rights (cont.)

I. Composition of benefits (cont.)

3. Assumptions[a]

a. Assumptions based on a weighted average used for determining the commitment in respect of a benefit and for measuring the cost of the benefit net for the periods ended December 31

1. Basic assumptions used for determining the commitment in respect of the benefit

	December 31		
	2017	2016	2015
	%		
Discount rate	**2.06%**	2.49%	2.68%
Increase in CPI rate	**1.60%**	1.90%	1.78%
Attrition rate	**0.1%-3.7%**	0.1%-3.7%	0.1%-3.7%
Remunaration increase rate	**0%-6.3%**	0%-6.3%	0%-6.3%

2. Basic assumptions used for measuring the cost of the benefit net for the period

	December 31		
	2017	2016	2015
	%		
Discount rate	**2.51%**	2.48%	2.91%
Return expected on long-term plan assets	**5.50%**	5.50%	5.50%
Increase in renumeration	**0%-6.3%**	0% - 6.3%	0%-6.3%

3. Effect of a change of one percentage point on the commitment in respect of a forecast benefit before effect of tax

(a) The assumptions relate to data of the Bank only.

I. Composition of benefits (cont.)

The level of the liability for employee rights is affected by several key variables that include market variables (rates of interest for discounting the liability over various periods) and actuarial variables as mentioned, with some of the actuarial variables being behavioral variables of employees. It is possible that there will be a link between changes in market variables and changes in actuarial behavioral variables. For example, it is possible that if there is a sharp increase in interest rates in the Israeli economy, and in its wake government bond yields will also rise (which will decrease the level of pension liabilities), the percentage of employees electing for a pension track will also decrease (a decision which will also reduce the level of the Bank's liability for pensions).

	Increase of one basis point			Decrease of one basis point		
	December 31			December 31		
	2017	2016	2015	**2017**	2016	2015
	NIS millions					
Discount rate	**(2,360)**	(2,191)	(2,059)	**2,943**	2,745	2,577
CPI discount rate	**(69)**	(130)	(206)	**69**	131	210
Employee turnover rate	**159**	222	237	**(156)**	(241)	(256)
Remuneration growth rate	**702**	663	661	**(612)**	(581)	(585)

I. Composition of benefits (cont.)

4. Plan assets

a. Composition of the fair value of plan assets

	For the year ended December 31, 2017			
	Level 1	Level 2	Level 3	Total
	NIS Millions			
Cash and deposits in banks	175	-	-	175
Shares	2,465	1	130	2,596
Government bonds	1,107	167	-	1,274
Corporate bonds	1,838	74	-	1,912
Other	234	104	413	751
Total	5,819	346	543	6,708

	For the year ended December 31, 2016			
	Level 1	Level 2	Level 3	Total
	NIS Millions			
Cash and deposits in banks	278	1	-	279
Shares	2,242	126	33	2,401
Government bonds	1,520	110	-	1,630
Corporate bonds	1,840	100	-	1,940
Other	141	167	261	569
Total	6,021	504	294	6,819

b. The fair value of plan assets by type of assets and target for allocation in 2017

	Allocation target	Percentage of plan assets	
		At December 31	
	2018	2017	2016
	Percentage		
Cash and deposits in banks	2%	3%	4%
Shares	38%	38%	36%
Government bonds	18%	19%	24%
Corporate bonds	32%	29%	28%
Other	10%	11%	8%
Total	100%	100%	100%

Note 23 – Employee Rights (cont.)

I. Composition of benefits (cont.)

4. Plan assets (cont.)

c. Change in the fair value of plan assets whose value is measured on the basis of the use of significant unobserved data (Level 3)

	For the year ended December 31, 2017					
		Actual yield on plan assets				
	Opening balance	Gains/(losses) realized	Gains/(losses) not realized	Purchases/sales and extinguishments, net	Transfer to/from	Closing balance
	NIS Millions					
Cash and deposits in banks	-	-	-	-	-	-
Shares	**33**	**3**	**(3)**	**60**	**37**	**130**
Other	**261**	**8**	**(18)**	**197**	**(35)**	**413**
Total	**294**	**11**	**(21)**	**257**	**2**	**543**

	For the year ended December 31, 2016					
		Actual yield on plan assets				
	Opening balance	Gains/(losses) realized	Gains/(losses) not realized	Purchases/sales and extinguishments, net	Transfer to/from	Closing balance
	NIS Millions					
Cash and deposits in banks	30	-	-	(30)	-	-
Shares	43	2	(4)	(8)	-	33
Other	153	5	4	99	-	261
Total	226	7	-	61	-	294

5. Cash flows

a. Deposits

	Forecsat[a]	For the year ended		
	2018	**2017**	2016	2015
	NIS Millions			
Deposits	**139**	**177**	206	215

(a) Estimate of contributions that the Bank expects to pay into a defined benefit pension plan during 2018.

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

Year	NIS Millions
2018	1,161
2019	668
2020	674
2021	715
2022	731
2023-2027	4,398
2028 onwards	11,737
Total	20,084

(a) In discounted values.

Note 24 - Share-based payment transactions

A. General

Pursuant to the Remuneration Policy approved on February 11 2014 by the General Meeting of the Bank, the Bank grants half pf the annual variable bonus for office holders of the Bank which will be paid in blocked Performance Share Units (or PSU).

For more information, please see Note 25A.B.1.

In addition, the Bank granted Restricted Share Units (or RSU) to two office holders of the Bank.

RSUs are restricted share units which, if appropriate vesting terms are met, are converted automatically to ordinary shares of the Bank, as Treasury Stock, without payment of any exercise price.

RSUs are allocated pursuant to the capital gains track under Section 102(B)(2) of the Income Tax Ordinance (New Version), 1961.

For more information, please see Note 25A.B.1.

B. Details of share-based payment transactions settled with capital instruments

	Number of units - December 31, 2017									
	Senior managers		Members of Management		President & CEO		Chairman		Managers who retired	
	Blocked	Contingent	Blocked	Contingent	Blocked	Contingent	Blocked	Contingent	Blocked	Contingent
Opening balance at beginning of year	-	81,546	18,754	583,913	-	159,173	-	127,623	8,384	196,782
Granted during the year	-	39,426	-	287,522	-	75,791	-	43,112	-	133,118
Vested during the year	-	(32,562)	(18,754)	(226,875)	-	(72,029)	-	(58,371)	(8,384)	(133,433)
Managers who retired	-	(35,576)	-	(271,532)	-	-	-	-	-	307,108
Redeemed during the year	-	-	-	-	-	-	-	-	-	-
Closing balance at year end	-	52,834	-	373,028	-	162,935	-	112,364	-	503,575

	Number of units - December 31, 2016									
	Senior managers		Members of Management		President & CEO		Chairman		Managers who retired	
	Blocked	Contingent	Blocked	Contingent	Blocked	Contingent	Blocked	Contingent	Blocked	Contingent
Opening balance at beginning of year	-	16,139	54,276	234,619	-	56,912	-	47,488	-	65,603
Granted during the year	-	73,476	-	630,585	-	130,717	-	103,879	-	-
Vested during the year	-	(8,069)	(27,138)	(117,311)	-	(28,456)	-	(23,744)	-	(32,801)
Managers who retired	-	-	(8,384)	(163,980)	-	-	-	-	8,384	163,980
Redeemed during the year	-	-	-	-	-	-	-	-	-	-
Closing balance at year end	-	81,546	18,754	583,913	-	159,173	-	127,623	8,384	196,782

Note 25A – Capital

A. Share capital

	December 31, 2017		December 31, 2016	
	Authorized	Issued and paid[a]	Authorized	Issued and paid[a]
	NIS		NIS	
Ordinary shares of NIS 1.0 each	**3,215,000,000**	**1,523,523,613**	3,215,000,000	1,522,973,205

(a) All shares issued are registered in the names of the shareholders. Shares that have been or will be issued have been or will be converted into ordinary stock which is transferable in units of NIS 1.0.

The related rights to the shares of the Bank are set out in the Bank's Articles of Association.

The ordinary stock is listed on the Tel-Aviv Stock Exchange.

On January 26 2017, the Bank's Board of Directors decided to redeem early NIS 400,000,000 par value deferred index-linked deposits/capital notes (unquoted), that were recognized by the Bank of Israel as Upper Tier 2 capital of the Bank. Between June 30, 2017 and July 2017, early redemption of the above deposits/deferred capital notes was made.

NIS 925,750,000 par value subordinated notes (Series 400) were issued by the Bank on January 1 2016, and are convertible in certain circumstances to 147,492,625 ordinary shares of the Bank.

For more information, please see Note 25A to the Bank's 2016 annual financial statements.

For more information on the allotment of 48,938,037 shares of NIS 1 par value to Bank employees against the conversion of accumulated rights of the employees, please see Note 25A to the Bank's 2016 annual financial statements.

B. Share-based remuneration plan

1. On February 11 2014, the General Meeting of the Bank, approved the remuneration policy for office holders in the Bank for the years 2013-2016 (hereinafter: **the "previous remuneration policy"**), after obtaining the approval of the Board of Directors pursuant to the approval and recommendation of the Remuneration Committee. The Remuneration Policy is based on Amendment 20 of the Companies Law regarding terms of office and employment of office holders in the Bank and on that stipulated in the new Proper Conduct of Banking Business Directive 301A concerning remuneration policy in a banking corporation. Pursuant to the previous remuneration policy, half of the variable annual bonus to office holders in the Bank will be paid in blocked Performance Share Units (hereinafter: "PSUs").

   Pursuant to that stated in the previous remuneration policy, the percentage of the total cumulative amount of PSUs to be allocated to all the senior officers (the Chairman of the Board of Directors, the President and CEO, and members of Bank Management) in respect of all the years of the bonus plan (2013 to 2016) will not exceed 0.38% pf the issued and paid-up capital of the Bank (please see Note 23E).

   As part of the approval of the performance-contingent annual bonus for office holders in the Bank for 2013 and pursuant to the above remuneration policy, the Remuneration Committee and the Bank's Board of Directors in March 2014 approved the allocation without payment of 657,869 Performance Share Units (henceforth: **"2014 PSUs"**), to the Chairman of the Board of Directors, the President and Chief Executive Officer, and other office holders in the Bank, in an equity track with a Trustee under Section 102 of the Income Tax Ordinance. Accordingly, the Bank issued on April 13 2014 the above PSUs in the name of the Trustee, ESOP Management and Trust Services Ltd. (henceforth the **"Trustee"**). If the condition is met for exercising 2014 PSUs at each of the vesting dates, as detailed henceforth the 2014 will vest and converted automatically into 657,869 ordinary shares of NIS 1 par value each of the bank, which represented 0.04% of the issued and paid capital of the Bank at the date of issue of the 2014 PSUs. According to the 2014 Private Offering Report published by the Bank on 31 March 2014, the aggregate fair value of all the said 2014 PSUs amounted to about NIS 8.97 million.

As part of the approval of the performance-contingent annual bonus for office holders in the Bank for 2015 and pursuant to the previous remuneration policy, the Bank issued on March 15 2016 938,657 new PSUs (henceforth: **"2016 PSUs"**), in the name of the Trustee to the Chairman of the Board of Directors, the President and Chief Executive Officer, and other office holders in the Bank, in an equity track with a Trustee under Section 102 of the Income Tax Ordinance. If the condition is met for exercising 2016 PSUs at each of the vesting dates, as detailed henceforth the 2016 PSUs will vest and automatically converted into 938,657 ordinary shares of NIS 1 par value each of the Bank, which represented about 0.064% of the issued and paid capital of the Bank at the date of issue of the 2016 PSUs. According to the 2016 Private Offering Report, published by the Bank on February 29 2016 including clarifications published in respect to it on 13 March 2016, the aggregate fair value of all the said 2016 PSUs amounted to about NIS 12.3 million.

In addition of approving the performance-based annual bonus for the Bank's officeholders for 2016, and pursuant to the previous remuneration policy and the new remuneration policy for 2017-2019 approved by the Bank's General meeting on November 3, 2016, and following the Board of Directors' approval pursuant to the approval and recommendations of the Remuneration Committee (hereinafter: the "New Remuneration Policy"), the Bank issued 578,969 new PSUs (hereinafter – the "2017 PSUs") to the trustee, on behalf of the Chairman of the Board, the President and CEO and other officeholders of the Bank, in an equity track with the Trustee, pursuant to Section 102 of the Income Tax Ordinance. On meeting the condition for exercising the 2017 PSUs on each vesting date, as detailed below, the 2017 PSUs will be vested and automatically converted to 578,969 ordinary shares of NIS 1 par value each of the Bank, which constituted 0.038% of the Bank's issued and paid up capital on the date in which the 2017 PSU were issued. According to the private offering report published by the Bank on March 30, 2017, the cumulative fair value of the PSUs is NIS 9.3 million.

The vesting of 2014 PSUs, 2016 PSUs and 2017 PSUs in each of the vesting dates will be contingent on the Bank meeting the capital adequacy ratio required by the Supervisor of Banks in accordance with the latest financial statements published close to each of the vesting dates. If the Bank did not meet the aforesaid ratio, the vesting of the relevant share will be postponed to the next date in which the Bank will meet the required capital adequacy ratio, as previously mentioned, in accordance with the financial statement that will be published.

The 2014 PSUs, 2016 PSUs and 2017 PSUs allocated as above are not quoted, and pursuant to the approval of the Tel Aviv Stock Exchange Ltd. (hereinafter: the **"Stock Exchange"**), the shares deriving from the vesting of the above units will be listed for trading on the Stock Exchange in the name of the nominee company of Bank Leumi of Israel Ltd.

The vesting of the 2014 PSUs, 2016 PSUs and 2017 PSUs will be made in three equal tranches and is contingent on the business results of the Bank in each of the three calendar years 2014, 2015 and 2016 in respect of 2014 PSUs, in each of the three calendar years 2016, 2017 and 2018 in respect of 2016 PSUs, and in each of the three calendar years 2017, 2018 and 2019 in respect of 2017 PSUs, in accordance with the New Remuneration Policy and as detailed in the 2014 Private Offering Report, the 2016 Private Offering Report and the 2017 Private Offering Report, respectively, whereby subject to the fulfillment of the condition in respect of each vesting date, each PSU unit will be converted automatically to 1 ordinary share of NIS 1 par value each of the Bank, on reaching each vesting date.

2. In March 2014, the Remuneration Committee and the Bank's Board of Directors approved the allocation without payment of 81,414 Restricted Share Units (henceforth: "RSUs") for two office holders in the Bank, in an equity track with the Trustee under Section 102 of the Income Tax Ordinance, pursuant to the provisions of the Remuneration Policy regarding the granting of signing rights to a new office holder, and as set forth in the 2014 Private Offering Report. Accordingly, the

Bank issued on April 13 2014 the above RSUs in the name of the Trustee. As detailed in the 2014 Private Offering Report and in accordance with the terms and conditions thereof, the cumulative fair value of all the said RSUs reached a total of NIS 1.1 million.

The vesting of the RSUs was made in three equal tranches and was contingent on the continued employment of each of the office holders who are offerees in the Bank or in the banking group, at the vesting date of each of the tranches, pursuant and subject to that stated and the conditions set forth in the 2014 Private Offering Report. At each vesting date, after the said condition was met, all the RSUs were automatically converted into a single NIS 1 par value share each.

C. Changes in the Bank's equity

1. The condition to the vesting the last one-third of the 2014 PSUs and to the vesting of the first third of the 2016 PSUs has been met. Therefore, the last third of the 2014 PSUs and the first third of the 2016 PSUs have vested. Thus, on April 3, 2017, the Bank's officeholders were allocated stocks according to the number of 2014 PSUs and 2016 PSUs vested as of that date. In addition, the condition to the vesting of the last RSU third was met. Therefore, on April 14, 2017, two of the Bank's officeholders were allocated shares, according to the number of RSUs vested as of that date. As of the reporting date, the Bank's capital does not include RSUs.

   According to the remuneration policy, the shares allocated under the 2014 PSUs, the 2016 PSUs and the RSU as aforesaid, were allotted to the trustee of the remuneration plan, Esop Management and Trust Services Ltd. (hereinafter, the "Plan's Trustee").

   The shares allotted under the 2014 PSUs and RSUs as aforesaid are not restricted and the first of the three tranches – of the shares allocated after the 2016 PSU have vested as aforesaid, is restricted for an additional period, from the allocation date of the 2016 PSUs, i.e. – until two years have elapsed from the allocation date of the 2016 PSUs. i.e. - March 14, 2018.

   The expected vesting date of the second tranche of the 2016 PSUs and the first tranche of the 2017 PSUs for the Bank's ordinary shares is expected to occur after the financial statements' certification date.

2. On March 20, 2016, the Bank's Board of Directors decided to issue 48,938,037 shares of the Bank at a par value of NIS 1 each, which constitute 3.21% of the Bank's issued and paid up capital after the allotment, placed in the Trustee's name – Tamir Fishman Trusts 2004 Ltd., in respect of the results of the offering to employees and officeholders reported by the Bank on March 16, 2016 and March 20, 2016, according to an outline published by the Bank on February 18, 2016 (Conversion of Employee and Officeholders' Rights), as amended on February 23, 2016. For more information, please see Note 23 to the 2016 Annual Financial Statements.

   All of the allotted shares are restricted for a period of two years until March 19, 2018, excluding in respect of key employees (excluding officeholders, the bonus of which was paid by PSUs rather than by restricted shares), out of which 64,727 of the allotted shares shall be restricted for a period of three years, until March 19, 2019, according to the provisions of the Remuneration Policy.

   It should be noted that one employee was found to have been mistakenly allotted 8,084 shares. To correct the mistake, the Bank forfeited said shares. On being forfeited, the shares became treasury stocks. The treasury stocks are expected to become ordinary stock (non-treasury stock) as part of the vesting of the 2016 PSUs and the 2017 PSUs, as detailed in Section 1 above.

D. Dividend distribution policy

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

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

According to the revised policy, on March 5, 2018, the Board of Directors approved, for the fourth quarter of 2017, a dividend of 40% of the net profit of that quarter. The approved dividend amount totaled NIS 342 million, which constitutes 22.416 agorot per NIS 1 par value share. The Board of Directors designated March 19, 2018 as the determining date for the dividend payment and March 28, 2018 as the payment date. The total dividend distributed in respect of 2017 totaled NIS 969 million.

Details on dividend paid:

Declaration date	Paymet date	Dividend per share	Cash dividend
		In agorot	NIS Millions
May 25, 2017	June 22, 2017	8.168	124
August 15, 2017	September 11, 2017	11.504	175
November 21, 2017	December 21, 2017	21.515	328

Note 25B – Capital Adequacy, Leverage and Liquidity

General

In May 2013, the Supervisor of Banks amended Proper Conduct of Banking Business Directives No. 201-211 on *Measurement and Capital Adequacy*, so as to adapt them to the Basel III directives.

It should be emphasized that the Basel III directives set forth significant changes in the calculation of regulatory capital requirements, *inter alia*, relating to:

- Regulatory capital components
- Deductions from capital and regulatory adjustments
- Treatment of exposures to financial corporations
- Treatment of exposures to credit risk in respect of impaired debts
- Allocation of capital in respect of CVA risk.

The amendments to the above directives came into effect on January 1 2014, and implementation is gradual pursuant to the transitional provisions set forth in Proper Conduct of Banking Business Directive No. 299 on *Measurement and Capital Adequacy – Regulatory Capital – Transitional Provisions*.

According to the transitional provisions, the regulatory adjustments and deductions from capital as well as minority interests which are not eligible to be included in the regulatory capital are gradually deducted from the capital at a rate of 20% per year, from January 1 2014 to January 1 2018. Capital instruments that are no longer eligible as regulatory capital were recognized up to a maximum of 80% on January 1 2014 and in each subsequent year, the maximum is lowered by an additional 10% until January 1 2022. As of 2017, the rate of deductions from the regulatory capital is 80% and the maximum eligible instruments as regulatory capital is 50% and as of January 1 2018, the transitional provisions regarding deductions from the regulatory capital will end and stand at 100%, and the maximum rate of eligible instruments as regulatory capital shall be 40%.

In addition, on August 29 2013, a circular of the Banking Supervision Department was published on *Basel Disclosure Requirements relating to the Composition of Capital*, which set forth updated disclosure requirements that banks will be required to include as part of the adoption of the Basel III directives.

On October 22 2015, the Banking Supervision Department published a final circular on "Capital Requirements in respect of Exposures to Central Counterparties (hereinafter: "the circular"). The circular amends Proper Conduct of Banking Business Directives 203 and 204 with the aim of adapting them to the Basel Committee recommendation relating capital requirements of banking corporations to central counterparties. The circular sets out the new instructions that will apply to exposures to central counterparties caused by OTC derivatives, derivative transactions quoted on the Tel Aviv Stock Exchange and securities financing transactions.

On July 2 2017 the Supervisor of Banks has approved the Stock Exchange Clearing House and the MAOF Clearing House as counterparties eligible for the purposes of calculating capital requirements in respect of exposure to key counterparties pursuing to Appendix C of Directive 203.

The directives define what is a qualified central counterparty and what is not a qualified central counterparty, with reduced capital requirements determined for the former. The main changes relate to calculating the following exposures:

1. As a rule, exposures of a banking corporation that is a member of a clearing house to a central counterparty will be given a risk weighting of 2% compared with a zero exposure value prior to the amendment. As per the minimum formula in the Directive, risk-weighted assets are calculated as 20% of the total trading exposures to the Stock Exchange, so that the 2% risk-weighting is not implemented.
2. In addition, provisions were set regarding calculating exposures of a banking corporation to a customer acting through a clearing house member, as well as treatment of collateral deposited by a banking corporation with a member of the clearing house or with a central counterparty.
3. Exposures to a central counterparty that is not qualified will be weighted in accordance with the relevant risk weighting for the counterparty whereas transfers to a risk fund will be weighted at 1250%.

Note 25B – Capital Adequacy, Leverage and Liquidity (cont.)

Volatile capital components

The Standards regarding employee rights which adopted for the first time in January 2015, is a factor expected to have a most significant impact on Leumi's Tier 1 shareholders' equity, mainly due to the fact that the liability is measured in accordance with market interest rates at historically low levels and because of the high volatility that measurement of this kind brings with it.

On July 12 2016 the Bank received an approval from the Bank of Israel regarding the calculating method used for calculating the employees' rights in regards with measuring the regulatory capital. In accordance with the approval, the discount rate is to be calculated according to a moving average of the market yields, for a period of eight quarters ended at the reporting date. The change applies to the financial statements for the period ended June 30 2016 until the period ended December 31 2020 (inclusive). The change in the calculation methodology significantly moderates the volatility resulting from the changes in the discount interest.

On November 15 2016 the Bank's Board of Directors decided, based on the recommendation of the Audit Committee, to calculate the pension liabilities to employees based on a fixed margin of bonds that are internationally rated as AA.

For regulatory capital purposes, the pension liability amounts to NIS 16,684 million and Tier 1 shareholders' equity to NIS 34,180 million, compared with the pension liability in the books of NIS 18,119 million and Tier 1 shareholders' equity of NIS 32,850 million.

In addition, in accordance with the Directives of the Bank of Israel, the Bank will enjoy an exemption in calculating the capital adequacy ratio for the 2017 and 2016 efficiency plans' cost, which will be spread over a period of five years. The exemption in respect of the 2017 plan is NIS 190 million (after tax), spread beginning on September 2017 and for the 2016 efficiency plan – NIS 438 million (after tax) from June 2017.

Note 25B – Capital Adequacy, Leverage and Liquidity (cont.)

	December 31	
	2017	2016 (a)
	NIS Millions	
A. Data		
Capital for purpose of calculating capital ratio		
Common Equity Tier 1 capital, after regulatory adjustments and deductions	34,653 (b)	32,586
Tier 2 capital, after deductions	10,888	11,850
Total capital	45,541	44,436
Weighted balance of risk-weighted assets		
Credit risk	277,344 (b)	266,534
Market risks	4,464	4,788
Operational risk	21,484	20,843
Total weighted balances of risk-weighted assets	303,292	292,165
Capital to risk components ratios		
Common Equity Tier 1 capital to risk components	11.43%	11.15%
Total capital to risk components	15.02%	15.21%
Minimum Common Equity Tier 1 capital ratio required by the Supervisor of Banks[a]	10.25%	9.24%
Total minimum capital ratio required by the Supervisor of Banks[a]	13.75%	12.74%
B. Major subsidiaries		
Leumi Card Ltd.		
Common Equity Tier 1 capital to risk components ratio	15.80%	16.81%
Total capital to risk components ratio	16.80%	17.79%
Common Equity Tier 1 minimum capital ratio required by the Supervisor of Banks[d]	8.00%	8.00%
Total minimum capital ratio required by the Supervisor of Banks[d]	11.50%	11.50%
Bank Leumi USA		
Common Equity Tier 1 capital to risk components ratio	11.51%	12.21%
Total capital to risk components ratio	13.82%	14.75%
Common Equity Tier 1 minimum capital ratio required by the local regulator[b]	5.75%	5.13%
Total minimum capital ratio required by the local regulator[b]	9.25%	8.63%

(a) The minimum Tier 1 shareholders' equity ratio and the minimum total equity ratio required as of January 1 2015 and until December 31 2016 are 9% and 12.5%, respectively, and as of January 1 2017 are 10% and 13.5%, respectively. Added to these ratios, as of January 1 2015, is a capital requirement at a rate which reflects 1% of the remaining housing loans at the reporting date. This requirement is being implemented gradually in equal quarterly amounts from 1 April 2015 to January 1 2017. Accordingly, the minimum Tier 1 equity ratio and minimum total capital ratio required by the Supervisor of Banks as of January 1 2017, according the data reported as at report date, are 10.25% and 13.75%, respectively.

(b) These figures include adjustments for the efficiency plan, which were determined in accordance with the letter from the Supervisor of Banks on January 12 2016, regarding Improving the Operational Efficiency of the Banking System in Israel (hereinafter: adjustments for the streamlining plan), which are gradually decreasing until June 30 2021 and for June 30 2022, respectively. For further information regarding the impact of the transitional provisions and the adjustments for the streamlining plan, see Section D below. From the total weighted balances of risk-weighted assets, NIS 94 million were deducted due to adjustments in respect of the efficiency plan (NIS 116 million as of December 31, 2016).

(c) The minimum Tier 1 equity ratio and minimum total capital ratio required under local regulation is 4.5% and 8%, respectively. These ratios are compounded by a capital maintenance cushion of 1.25% as at December 31 2017. This requirement is being gradually implemented until 2019, at which time the capital maintenance cushion shall be 2.5%.

(d) On June 1 2016, Proper Conduct of Business Banking Directive 472 – Clearing Houses and Settling Debit Card Transactions - went into effect, according to which the Tier 1 equity ratio will be no less than 8% and the total capital ratio will be no less than 11.5%.

Note 25B – Capital Adequacy, Leverage and Liquidity (cont.)

A. Capital components for purposes of calculating the capital ratio

	December 31	
	2017	2016
	NIS Millions	
1. Common Equity Tier 1		
Capital due to the Bank's shareholders	33,167	31,347
Differences between capital due to the Bank's shareholders and Common Equity Tier 1 - minority interests	229	245
Differences between capital due to the Bank's shareholders and Common Equity Tier 1 - related to employee benefits	590	868
Adjsutments related to the transition from the accounting curve to the 8-quarter curve[a]	532	137
Common Equity Tier 1 before regulatory adjustments and deductions	34,518	32,597
Regulatory adjustments and deductions:		
Goodwill and intangible assets	(203)	(265)
Deferred tax assets	(219)	(120)
Regulatory adjustments and other deductions - Common Equity Tier 1	(35)	(19)
Total regulatory adjustments and other deductions - Common Equity Tier 1	(457)	(404)
Total adjustments related to the efficiency plan	592	393
Total Common Equity Tier 1 after regulatory adjustments and other deductions	34,653	32,586
2. Tier 2 Capital		
Tier 2 capital: instruments before deductions	7,773	8,662
Tier 2 capital: provisions before deductions	3,115	3,188
Total Tier 2 Capital before deductions	10,888	11,850
Deductions:		
Tier 2 capital - total deductions	-	-
Total Tier 2 capital	10,888	11,850
Total capital	45,541	44,436

(a) Pursuant to the specific approval of the Banking Supervision Department.

Note: Total capital, is calculated pursuant to Proper Conduct of Banking Business Directives Nos. 201-211, 299 on Capital Measurement and Adequacy, effective January 1, 2014.

B. Effect of the transitional provisions on Tier 1 shareholders' equity ratio

	December 31	
	2017	2016
	%	
Capital ratio to risk componenets		
Common Equity Tier 1 before implementation of transitional provisions and adjustements related to efficiency plan[a]	11.06%	10.66%
Transitional provisions impact	0.20%	0.35%
Total Common Equity Tier 1 to risk componenets before adjustments realted to the efficiency plan	11.26%	11.01%
Efficiency plan impact[b]	0.17%	0.14%
Common Equity Tier 1 to risk componenets	11.43%	11.15%

(a) Including the effect of adoption of US GAAP on employee rights

(b) On January 12 2016, the Supervisor of Banks published a letter entitled Improving the Operational Efficiency of the Banking System in Israel. According to the letter, a banking corporation's Board of Directors shall draft a multi-year efficiency plan. A banking corporation which will meet the conditions set in the letter will receive an easement, whereby it shall be allowed to reschedule the plan's effect over five years on a straight line basis in respect of capital adequacy calculations. For more information, please see Note 23.

C. Leverage ratio pursuant to the Directives of the Supervisor of Banks

On April 28 2015, the Supervisor of Banks issued Proper Conduct of Banking Business Directive no. 218 on the subject of the leverage ratio. The directive sets a simple, transparent and non-risk based leverage ratio to act as a supplementary and reliable measure of risk-based capital requirements, and is intended to limit the accumulation of leverage in the banking corporation.

Note 25B – Capital Adequacy, Leverage and Liquidity (cont.)

The leverage ratio is expressed as a percentage, and is defines as the ratio between the measurement of equity and the measurement of exposure. Equity for purposes of measuring the leverage ratio is the Tier 1 capital as defined in Proper Conduct of Banking Business Directive No. 202, taking into account the transitional arrangements that were set. The total exposure measurement of the Bank is the amount of balance sheet exposures, exposures to derivatives and securities financing transactions, and off-balance sheet items. In general, this measurement will be consistent with the accounting values and risk weights are not taken into account. In addition, the Bank is not allowed to use physical or financial collateral, guarantees or other techniques for credit risk mitigation, to reduce the exposure measurement, unless specifically permitted in accordance with the Directive. Balance sheet assets deducted from Tier 1 capital (in accordance with Directive 202) are deducted from the exposure measurement. Pursuant to the Directive, the Bank calculates the exposure to derivatives with Appendix III of Proper Conduct of Banking Business Directive No. 203, and exposures for off-balance sheet items by the conversion of the notional value of the items by credit conversion coefficients as stipulated in Proper Conduct of Banking Business Directive No. 203.

Pursuant to the Directive, banking corporations will have a leverage ratio of not less than 5% on a consolidated basis. A banking corporation whose total balance sheet assets on a consolidated basis is 20% or more of total balance sheet assets in the banking system, will have a leverage ratio of not less than 6%. Pursuant to that stated above, the minimum leverage ratio required from the Bank is 6%.

A banking corporation is required to comply with the minimum leverage ratio from January 1 2018. A banking corporation meeting the minimum leverage ratio applying to it on the date of publication of the Directive shall not go below the threshold defined. According to the Directive, a banking corporation that on the date of publication of the Directive does not meet the minimum leverage ratio applying to it, is required to increase the leverage ratio in fixed quarterly installments until January 1 2018.

	December 31	
	2017	2016
	NIS Millions	
A.Consolidated		
Tier 1 capital[a]	**34,653**	32,586
Total exposures	**499,026**	481,384
Leverage ratio		
Leverage ratio	**6.94%**	6.77%
Minimum leverage ratio required by the Supervisor of Banks	**6.00%**	6.00%
B. Major subsidiaries		
Leumi Card Ltd.		
Leverage ratio	**11.10%**	11.73%
Minimum leverage ratio required by the Supervisor of Banks	**5.00%**	5.00%
Bank Leumi USA		
Leverage ratio	**9.72%**	8.94%
Minimum leverage ratio required by the Supervisor of Banks	**5.00%**	5.00%

(a) These figures include adjustments for the Efficiency Plan set under the Supervisor of Bank's letter dated January 12 2016, Improving the Operational Efficiency of the Banking System in Israel. According to said letter, the easements given for the purpose of capital adequacy ratios and the leverage ratio in respect of the efficiency plans approved by the Board of Directors on June 2016 and July 2017, are gradually depreciated until June 30 2021 and June 30 2022, respectively. The effect of the easement in respect of the Efficiency Plan over the leverage ratio totaled 0.09% as at December 31 2017 (0.08% as at December 31 2016). For more information about the effect of the transitional provisions and the adjustments in respect of the Efficiency Plan, please see Section D above.

In addition, in calculating the leverage ratio, adjustments from the application of the discount interest rate calculated over a moving average on the market yield, for a period of eight quarters ended on the reporting date, in respect of certain actuarial liabilities.

Note 25B – Capital Adequacy, Leverage and Liquidity (cont.)

D. Liquidity coverage ratio pursuant to the directives of the Supervisor of Banks

On September 28 2014, the Supervisor of Banks published a circular in which was added Proper Conduct of Banking Business Management Directive No. 221 on the liquidity coverage ratio that adopts the recommendations of the Basel Committee on the subject of the liquidity cover ratio in the banking system in Israel. The liquidity cover ratio examines a horizon of 30 days in a stress scenario and is intended to ensure that a banking corporation has an inventory of high-quality liquid assets that provide a response to the liquidity requirements of the corporation in this time horizon. The directive established the way to calculate the liquidity coverage ratio, including defining the characteristics and operational requirements for a "high-quality liquid asset inventory" (the numerator) and their safety coefficients, as well as the net cash outflow expected in the stress scenario defined in the directive for the 30 days (the denominator).

The stress scenario set forth in the directive includes a shock combining a specific shock to the corporation with a systemic shock, and in this context standard withdrawal rates were defined for outgoing cash flows and deposit rates of incoming cash flows in accordance with the categories of the various balances.

The liquidity coverage ratio came into effect on April 1 2015.

Pursuant to the transitional provisions, commencing on April 1 2015, the minimum requirement will be set at 60% and will increase to 80% on January 1 2016, and to 100% on January 1 2017 and thereafter. However, in a period of financial pressure, a banking corporation can go below these minimum requirements.

	For the year ended	
	2017	2016
	%	
A. Consolidated		
Liquidity coverage ratio	**122%**	132%
Minimum liquidity coverageage ratio required by the Supervisor of Ba	**100%**	80%
B. Bank		
Liquidity coverageage ratio	**122%**	130%
Minimum liquidity coverage ratio required by the Supervisor of Banks	**100%**	80%

Comment: Leumi Card and Bank Leumi USA have no liquidity coverage ratio requirement.

Note 26 - Contingent Liabilities and Special Commitments

A. Off-balance sheet commitments for transactions based on extent of collections [(a)]

Balance of credit from deposits based on extent of collections[(b)]

	December 31 2017	2016
	NIS Millions	
Israeli currency unlinked	**272**	354
Israeli currency linked to the CPI	**1,481**	1,685
Foreign currency	**5**	7
Total	**1,758**	2,046

Cash flows in respect of collection commissions and interest margins on activities based on the extent of collections as at December 31:

	Up to one year	One to three years	Three to five years	Five to ten years	Ten to twenty years	Over twenty years	Total 2017	Total 2016
	NIS Millions							
CPI linked sector[c]								
Cash flows of futures contracts	12	19	12	15	4	0	62	85
Expected future cash flows after management estimate of early repayments	12	19	12	15	4	0	62	85
Discounted expected future cash flows after management estimate of early repayments[d]	12	18	11	11	2	0	54	74
Unlinked shekel sector								
Cash flows of futures contracts	2	2	1	1	0	0	6	12
Expected future cash flows after management estimate of early repayments	2	2	1	1	0	0	6	12
Discounted expected future cash flows after management estimate of early repayments[d]	2	2	1	0	0	0	5	12

(a) Credit and deposits out of deposits returnable upon repayment of the loan (or the deposits) with interest spread or with collection commission (instead of interest spread).

(b) Standing loans and government deposits given in respect thereof in the amount of NIS 91million (2016 - NIS 113 million) are not included in this table.

(c) Including foreign currency segment.

(d) Discounting rate was 3.42% (2016 – at the rate of 3.69%).

Information on loans granted during the year by the mortgage banks:

	2017	2016
	NIS Millions	
Information on loans granted during the year by mortgage banks:		
Loans from deposits on collection basis	**32**	16
Standing loans	**9**	21

Note 26 - Contingent Liabilities and Special Commitments (cont.)

B. Other contingent liabilities and special commitments:

	2017	2016
	NIS Millions	
(1) Long-term rental contracts - rental of buildings, equipment and motor vehicles and maintenance for commitments payable in following years		
First year	228	301
Second year	201	203
Third year	144	169
Fourth year	128	148
Fifth year	118	117
After five years	1,109	1,160
Total long-term rental contracts	1,928	2,098
(2) Commitments to purchase securities	477	920
(3) Commitments to invest in and acquire buildings and equipment	37	38

(4) Credit sale activity

	2017	2016	2015
	NIS Millions		
Book value of credit sold	56	2,663	268
Amortized costs related to loan loss provsions	-	-	38
Cash proceeds	65	2,723	317
Deferred gain	-	(16)	-
Total net income from sale of credit	9	44	11

C. Legal claims

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

In the opinion of the Management of the Bank and the managements of the consolidated companies, the total additional exposure arising from legal claims filed against the Bank and against the consolidated companies on various subjects, the amount of each of which exceeds NIS 2 million, and regarding which the chances of the claims succeeding are not remote, amounts to some NIS 45 million.

1. Below are details of claims, that have been filed against the Bank in which the amount claimed is material. In the Bank's Management's opinion, based on legal opinions regarding the chances of the claims succeeding, appropriate provisions have been recorded in the financial statements, insofar as required, to cover damages resulting from the said claims.

   1.1 Claims filed during the period of the report (and subsequent to the period of the report, if filed)

   A. On January 23, 2017, the Bank was forwarded an application to approve a class action lawsuit against the Bank, claiming the Bank allegedly performs conversion transactions of foreign currency credit balances to customers' shekel accounts, even without the customers' request. The resulting alleged damage to the customers was a conversion fee and the difference between the formal exchange rate and the actual rate in which the conversion is made, which is lower. The applicant claims to have incurred a personal damage of NIS 38, estimating the damage incurred by the group of plaintiffs at millions of shekels, without providing a detailed estimate.

   B. On March 29, 2017, an application to approve a class action lawsuit against the Bank (similar applications were filed against other banks as well). The applicant claimed that the Bank may not charge a "correspondent fee" while transferring foreign currency from a customer's account to an account abroad. Alternatively, the applicant claims that the Bank is entitled to charge a correspondent fee only in accordance with the actual expense it had incurred (the actual fee the Bank had paid to a correspondent). The applicant claims that the personal damage he had incurred was $30 and that the damage incurred by the group of plaintiffs was impossible to estimate.

C. On May 15, 2017, an application was filed for approval of a class action lawsuit against the Bank (in conjunction with similar claims that have been filed against other banks, and a claim on identical grounds filed against the Bank on February 12, 2017 that is still pending). The plaintiffs claim that the Bank does not classify businesses as "small businesses," and as a result it charges them, unlawfully, with commissions that are not in accordance with the price list applying to small businesses. The amount of damage claimed is estimated by the plaintiff, for all the plaintiffs together, to be NIS 462 million.

D. On September 11, 2017, an application to approve a class action lawsuit was filed against the Bank, in the amount of about NIS 150 million. The petitioner claims that that the Bank opens accounts under the name of the "house committee", instead of the condominium, as required by law. Moreover, it is claimed that the Bank unlawfully collects commissions from these accounts, does not meet the provisions of the Checks Without Cover Law regarding the identification of customers, and does not provide the apartment owners with access to information pertaining to the bank account.

1.2 Claims that were concluded during the period of the report (and subsequently if applicable)

A. On March 9 2014, an application was filed to approve a class action lawsuit against the Bank without specifying the amount claimed. According to the plaintiff, the Bank collects money from customers unlawfully in two cases. The first is when the Bank allows customers to exceed the credit limit and debits customer accounts with a fee in the amount of NIS 53 in respect of delivering a warning letter of the deviation from the credit limit. Second, "non-approved" deviations from the credit limit are merged into the excess debit balance in the account resulting in the charging of the maximum rate of interest. On May 14, 2017, the Court approved a withdrawal arrangement, and the lawsuit was concluded.

B. On April 21 2015, On April 21 2015, a petition was filed for approval of a class action against the Bank. The petitioner claims that the Bank allegedly does not fulfill its duty to make a reasonable effort to locate holders of inactive accounts, to apprise them of the existence of the account and refund them the "dormant" funds, according to the petitioner, in these accounts. The petitioner also raises other claims regarding the charging of account management fees in these accounts, and the refunding of the monies to the account holders without index linkage and interest. It is not possible to assess the total damages to all the members of the group. On February 26 2018, the court approved a settlement arrangement in this procedure, and the lawsuit was concluded.

C. On August 17 2016, a petition was filed for approval of a class action against the Bank, and against nine other banks, for a total amount of about NIS 1 billion (principal) at the very least. The petitioners claim that the banks charge fees to persons not classified as individuals or small businesses that are not included in the statutory binding price list, pursuant to the Bank Law (Service to the Customer), 5741-1981) or not for the amount appearing in it, allegedly unlawfully. On November 7, the Court dismissed the application, thus concluding the lawsuit.

D. On September 29 2016, an application to approve class action lawsuit was filed against the Bank for a damage of NIS 500 million allegedly caused to the Bank's customers due to the closure of dozens of branches/teller stations. According to the applicant, the Bank has closed branches and teller stations over the past few years and has thus harmed the customers' ability to obtain services from the Bank. Furthermore, the plaintiff claims that the digital service solution is not suitable for some of the population. On December 5, 2017, the Court dismissed the procedure, thus concluding the lawsuit.

E. On January 4 2017, an application was filed for the approval of a class action lawsuit against the Bank and other banks. According to the petitioners, when a file is opened by the Execution and Collection Authority, the debt is charged with compound interest at a frequency above that permitted by the agreement between the customer and the Bank and/or by the ruling under which the file is opened by the Execution and Collection Authority and/or by law. The group damage is estimated at about NIS 339 million from all the respondents, including approximately NIS 161 million from the Bank. On September 3, 2017, the Court approved the applicants' request to withdraw from the claim, thus concluding the lawsuit.

1.3 Claims pending that were filed in previous reporting periods

A. On September 7 2011, a class action approval petition was filed against the Bank (in respect of activity of Bank Leumi Mortgages Ltd.), and against other banks. The amount of the class action claimed against all the respondent banks is approximately NIS 927 million as at January 1 2010, and the amount of the class action against the Bank is about NIS 327 million. The petitioners claim that the respondent banks charged housing-loan borrowers "compound interest in advance", contrary to the law and to the loan agreements. On August 16 2015, the court rejected the petition for approval of claim as a class action because it was without grounds. On December 7 2015, the plaintiffs filed an appeal against the court's decision to the Supreme Court.

B. In February and March 2013, the liquidator of two companies in a real-estate group filed claims against the Bank, against additional banks, and against additional entities and private individuals, by means of their special manager.

The special manager claims, *inter alia*, that the respondents allowed the leakage of funds from the accounts of the companies to other accounts related to the group, and that the Bank aided in the execution of "window dressing" at quarter ends in a manner facilitating the concealment of the thefts, as claimed by the special manager, from the companies, and the prevention of their exposure in the financial statements of the companies.

The amounts claimed are about NIS 63 million and NIS 102 million, including index-linkage and interest.

In addition, additional proceedings are taking place that were submitted by the special manager on behalf of another company in the group, on other grounds.

C. On August 28 2013, a petition was filed to approve a class action against the Bank and other banks. The Supervisor of Banks, the Governor of the Bank of Israel, and the Antitrust Commissioner were joined as formal respondents. The subject of the petition is the allegedly unlawful charging of commissions regarding activities of conversion and delivery of foreign currency, without fair disclosure. As claimed by the petitioners, the damage caused to customers (according to an "abbreviated" petition filed by the petitioners, is about NIS 2.6 billion (the petitioners claim additional damages that were not quantified).

On January 20 2015, the Court decided to transfer discussion of the class action approval petition that was filed concerning a similar matter in the amount of NIS 200 million, also against the credit card companies (including against Leumi Card) to the court hearing the petition described in this paragraph.

D. On December 2 2013, a petition was filed for approval of a class action against the Bank, on the matter of an early repayment fee non-housing loans. According to the petitioner, early repayment fee calculations by the Bank, both regarding loans for which calculation principles apply that are set out in Proper Conduct of Banking Business Directives, and regarding loans for which principles apply that were set by the Bank, are not made lawfully. The petitioner claims that she is unable at this stage to assess the amount of the overall claim.

E. On March 17 2014, a special manager of a company in liquidation filed a petition to issue instructions against the Bank, in which it requested that the Court declare that the Bank will bear the payment to the company (the liquidation fund) in an aggregate amount of NIS 1,200 million, of which an amount of NIS 635 million to cover all the company's debts to its creditors and an amount of NIS 565 million for repayment of the full value of the assets of the company. According to the special manager, the Bank is to bear individual responsibility for the liabilities of the company. It should be noted that as part of the motion, the special manager retained the right to file additional proceedings against the Bank and/or other officers of the company and/or individuals on behalf of the Bank and lawyers advising the Bank.

F. On March 18 2014, a petition was filed for approval of a class action against the Bank for an asserted amount of about NIS 155 million, claiming that as part of the deducting of tax at source carried out by the Bank in securities transactions executed through it, the Bank's computer systems calculate long capital gains and/or short capital losses unlawfully.

G. On February 11 2015, a petition was filed to approve a class action against the Bank for an amount claimed of about NIS 2.3 billion (later reduced to NIS 1.5 billion). According to the petition, the Bank allegedly managed a "black list" of customers according to which it marks customer with an asterisk in the Bank's systems, for an unlimited period, in a manner that harms or allegedly makes it difficult for them to get credit or otherwise conduct business with the Bank.

H. On April 29 2015, a petition was filed for approval of a class action against the Bank. The amount of the claim is about NIS 150 million. The petitioner claims that funds of Holocaust survivors, which were deposited before the Second World War in the Anglo-Palestine Bank and not withdrawn by the customers during the war, were returned to the survivors or their heirs and allegedly were not revalued in real terms.

I. On June 21 2015, a petition was filed against the Bank for approval of a class action, claiming that the Bank charges customers, allegedly, wishing to make a foreign currency transfer from their account to the credit of a foreign currency account in their names in another bank, with exchange commission, even though it is in the same currency and an exchange transaction was not carried out. In addition, the petitioner claims that the Bank charges customers, allegedly, with a correspondent fee whose amount is denominated in euros, at a rate higher than the representative, and that the Bank charges its customers, allegedly, when closing the account, fees exceeding the maximum amounts that can be charged by law when closing an account. The petitioner estimates the amount of the group claim to be in the millions of shekels.

J. On July 22 2015, the Bank received a class action approval petition, filed against the Bank. The petitioner claims that payments made directly to the Bank on account of a debt in respect of which a collection process is being conducted by the Enforcement and Collection Authority, are reported late by the Bank to the Enforcement and Collection Authority, resulting in the creation of an alleged discrepancy between the actual debt and the debt recorded in the file of the Enforcement and Collection Authority. The petitioner estimates the amount of the group claim to be in the millions of shekels.

K. On February 11 2016, an application to approve a class action lawsuit was filed with the Tel Aviv District Court against the Bank and against four other banks, claiming that the banks give various benefits in student accounts, but restricts the age of the students. The amount of the overall claim is estimated at NIS 219 million.

L. On March 7 2016, a petition was filed in the U.S. Court by a large number of petitioners, against tens of respondents, among them the Bank, Bank Leumi USA, and Bank Hapoalim, claiming that the respondents support settlements, in such a way as to harm Palestinian residents, their property and their rights, inter alia, by making bank transfers. The amount claimed against all the respondents together was originally US$34.5 billion, subsequently reduced to $1 billion. On August 29, 2017, the US Court approved a petition to dismiss the case, and on September 8, 2017, the plaintiffs appealed the case's dismissal.

M. On May 22 2016, a petition to approve a class action was filed against the Bank and against other banks, claiming that when the banks charge teller transaction fees in cash, they charge the fee specified in the price list, without discounts which should apply to certain population groups, and that they do not take these fees into account when calculating the minimum fee charged to the customers' accounts. According to the petitioners, they cannot evaluate the precise amount which they claim was unlawfully charged by the various respondents from members of the group.

N. On December 8 2016, a petition was filed for the approval of a class action against the Bank and other banks. The petitioner claimed that the banks charge minimum fees for a transfer of foreign currency by size, and not only one minimum fee, which according to the applicant is required by the banking regulations, and that this common violation of all the respondent banks is actually a restrictive practice contrary to Antitrust Law. The amount of the alleged damage was estimated by the petitioner, for all the respondents together, in the amount of about NIS 500 million.

2. Below are details of claims and class actions approval petitions in material amounts filed against the Bank's subsidiary companies. In the opinion of the Management of the Bank, based on the opinion of the management of the relevant subsidiaries that are based on the opinion of its legal counsel with regard to the chances of these legal proceedings, appropriate provisions have been included in the financial statements, where required, to cover damage resulting from the said claims:

A. On July 8 2014, a petition was submitted for approval of a class action against several credit card companies, including Leumi Card. For more information on this petition, please see paragraph C.1.3 above.

B. On April 28 2014, a class action approval petition was filed with the Central District Court against Leumi Card Ltd. and other credit card companies, in the amount of NIS 1.7 billion. The amount of the claim increased to about NIS 7.1 billion. The plaintiff alleges that the interchange fee charged in respect of transactions executed by means of debit cards and prepaid cards (as opposed to credit cards), did not receive approval from the Anti-Trust Court, and is a restrictive arrangement. In addition, the arrangement under which proceeds of transactions are transferred to vendors with a delay of some 20 days, is also a restrictive arrangement or a discriminating condition in a uniform contract.

On October 16, 2017, the Bank received a claim filed by the petitioner in the Antitrust Tribunal against Leumi Card Ltd. and other credit card companies, as well as against the Bank and other banks as formal respondents. As part of this claim, the court is requested to rule that the interchange commission in respect of said transactions has not been authorized.

C. On November 17 2014, a class action approval petition was filed, against Leumi Card for the amount of NIS 952 million. The amount of the claim was reduced to some NIS 267 million. The petitioner claims that Leumi Card is acting illegally in its conduct concerning identification of customers in the IVR system (call forwarding in service centers) which discloses personal details of customers. In addition, the petitioner claims that his request to block the possibility of hearing the information concerning his credit card after the identification was not accepted, on the grounds that there is no possibility of effecting such a block.

3. On November 2, 2017, a scoping meeting was held with the Enforcement Division of the Financial Conduct Authority ("FCA") for a proceeding at Bank Leumi UK ("BLUK"), regarding controls and systems for the implementation of anti money laundering regulations.

The proceeding which is carried out within the overall powers vested in the FCA is at an initial stage, and therefore the length of the proceeding, and which of the range of measures granted to the FCA will be taken, if at all, are not known. According to the FCA publications, which relate to similar proceedings at banks similar to BLUK, which resulted in measures taken against those banks after it was determined regarding them that there were violations, BLUK's exposure to financial sanctions, if and to the extent imposed, is not expected to be material for Leumi Group.

Note 26 - Contingent Liabilities and Special Commitments (cont.)

D. The Bank is a guarantor for members of some of the provident funds that were managed by Leumi Capital Market Services Ltd. (formerly Leumi Gemel Ltd.), whose operations were sold to Psagot Provident Funds Ltd. ("Prizma"). The guarantee secures the repayment of the original principal amounts that were deposited amounting on December 31 2017 to some NIS 1,981 million in nominal values. The value of the assets of the above funds at December 31 2016 amounts to about NIS 4,819 million. In addition, this guarantee does not apply to deposits in accounts that were opened in the above funds from 22 January 2007.

Against the aforesaid liability, Prizma undertook that, in the event the guarantees or any part of them are realized, it would pay the Bank participation in an amount not exceeding NIS 35 million per calendar year, this amount being linked to the Israeli CPI of October 30 2006 - and until the payment date. A participation amount that is not utilized in a certain year will not be carried forward to future years.

E. The Bank's consolidated company serves as a trust company, which provides mainly services such as: trusteeship over funds, securities and real estate; the handling of donations, gifts and bequests; acting as agent in regard to deposits and loans; handling of share transfers; and management of investment accounts. Some of these companies also act as trustees for debenture holders.

F. Letters of indemnity

1. The Bank has undertaken in advance to indemnify the directors, the other office holders in the Bank and personal managerial contract holders in the Bank who are not officers of the Bank ("the managerial contract holders") with respect to the duties they fulfill with the Bank and in the investee companies on behalf of the Bank in respect of a list of events entitle for indemnification that according to the Remuneration Committee and the Bank's Board of Directors, are to be expected considering the activity of the Bank and the circumstances that include, *inter alia*, the routine banking activity of the Bank, an offer of securities to the public pursuant to a prospectus, reports to the public and to the supervisory authorities, activity related to the Antitrust Law, Cyber events and any other activity associated with the activity of the Bank. The maximum amount to be paid by the Bank in respect of exercising the indemnities that have already given and shall be given to all of the Bank's officeholders and to the subsidiaries' officeholders, in the aggregate, for any of the chain of events entitling to indemnification, shall not exceed 25% (twenty-five percent) of the Bank's equity capital according to its most recent financial statements (either annual or quarterly) known prior to the actual indemnification date (hereinafter: the "Maximum Indemnity Amount"). The Maximum Indemnity Amount is in addition to amounts received from an insurer, if any, under an insurance policy purchased by the Bank, if any, and/or under insurance and/or indemnity of a party other than the Bank (so that the Maximum Indemnity Amount shall not decrease due to insurance payouts and/or said indemnity paid, if paid). In addition, *inter alia*, the Bank undertook in advance to indemnify the directors, the other office holders in the Bank and managerial contract holders in the Bank for reasonable litigation expenses including expenses incurred as a result of an investigation or proceeding that ended without an indictment being filed and without a financial liability being imposed as an alternative to criminal proceedings, or that ended without an indictment being filed but with a financial liability being imposed as an alternative to criminal proceedings for an infraction that does not require proof of criminal intent, or in connection with a monetary sanction. The letter of indemnity also includes a further obligation for indemnification for expenses and/or payment to the injured party of a breach in accordance with and subject to that stipulated in the Streamlining of Enforcement Proceedings in the Securities Authority Law (Legislative Amendments), 2011 ("the Streamlining of Enforcement Proceedings Law"), as well as expenses in connection with proceedings under Section G-1 of the Antitrust Law, 1988.

The Bank's remuneration policy for office holders includes indemnification provisions that are compatible with the aforementioned.

In addition, on February 15 2004, the General Meeting of the Bank passed a resolution for granting exemption in advance exemption from liability for directors, for damages due to their breach of duty of care towards the Bank. The decision on granting the said exemption also applies with respect to other office holders of the Bank, in accordance with the decision of the Audit Committee and the Board of Directors of June 2003.

2. The Bank has undertaken to indemnify employees of the Bank for expenses and/or payment to the injured party of a breach or subject to that stipulated in the Streamlining of Enforcement Proceedings Law, in accordance with the usual terms appearing in letters of indemnity given by the Bank.

3. The Bank has undertaken to indemnify external advisors including in connection with plans for granting of offering securities to officeholders or employees of the Bank or subsidiary companies, as applicable, in respect of an obligation or loss, and in various cases including in respect of other legal expenses in connection with the services given by them to the Bank.

4. The Bank and subsidiary companies have undertaken to indemnify the international credit companies "Visa" and "MasterCard" in respect of fulfillment of the obligations of the subsidiaries concerning “Visa” and “MasterCard” credit card activity, whichever applicable.

5. The Bank and its subsidiaries, from time to time and in circumstances generally accepted in the normal course of business, are accustomed to give letters of indemnification, limited and unlimited as to amount and period, including in reference to debts applying to the Bank as a member of the Tel Aviv Securities Exchange.

6. From time to time, the Bank provides subsidiary companies with letters of indemnity, limited and unlimited as to amount and period, to secure indemnities granted by them to officer holders due to risks applicable to office holders in the companies, and for purposes of the subsidiary companies complying with regulatory directives. In addition, the Bank has given letters of indemnity to Bank employees and to office holders of subsidiaries in respect of a list of events which are specified therein.

7. In the framework of the transaction for the sale of the activity of Leumi Private Bank ("LPB") to Julius Baer, the bank gave a guarantee to Julius Baer, limited to the amount of CHF 250 million, in respect as a backup for the indemnification that was given by LPB to the events defined in the agreement to a period of two years from the closing date of the transaction (March 2015) (subject to irregular items for which the period will be five years).

8. In the framework of the transaction for the sale of the activity of Bank Leumi (Luxembourg) S.A. ("Leumi Luxembourg") to Banque J. Safra Sarasin (Luxemburg) S.A. (the "acquireer") in November 2015, Leumi Luxembourg undertook to indemnify the purchaser with various indemnities for a period of two years from the date of the closing (January 2016) (subject to irregular items for which the period will be five years). The amount of the indemnity is limited to an amount derived from the shareholders' equity of Bank Leumi Luxembourg (about $37.4 million). Leumi Luxembourg's undertaking to indemnify is backed by a guarantee of the Bank in the event that Bank Leumi Luxembourg will be unable to meet its obligations for the said indemnity.

G. Credit cards

1. On March 7 2012, the Antitrust Tribunal gave its judicial approval to an agreement submitted by LeumiCard, Isracard Ltd., Israel Credit Card Company Ltd. and the banks controlling each of the credit card companies with the Antitrust Commissioner regarding the rate of interchange fee which will be in effect between the clearing entites and credit card issuers Visa and MasterCard. According to the approved arrangement, the rate of the interchange fee will decrease gradually until it reaches 0.7% from July 2014, according to the outline plan for the reduction of interchange fee set forth in the judgment. The arrangement between the Commissioner and the credit card companies is in force until the end of 2018.

   Following an announcement by the Bank of Israel published on January 16 2018, the Governor of the Bank of Israel announced the use of her legal power to announce a service provided by a clearinghouse to a business in respect of settlement of debit card transactions as a service subject to regulation in respect of the interchange fee in deferred debit transactions. The Bank of Israel announced on February 25 2018 the revision of the outline published in its previous announcement, according to which the interchange fee in deferred debit transaction will be reduced as follows:

From January 1, 2019 (the end of the current arrangement): a decrease from 0.7% to 0.6%.

From January 1, 2020: a decrease from 0.6 to 0.575%.

From January 1, 2021: a decrease from 0.575% to 0.55%

From January 1, 2022: a decrease from 0.55% to 0.525%

From January 1, 2023: a decrease from 0.525% to 0.5%.

In addition, the Bank of Israel announced that the interchange fees in immediate debit transactions (which is currently 0.3%) will be reduced as follows:

From January 1, 2021: a decrease from 0.3% to 0.275%

And from January 1, 2023: a decrease from 0.275% to 0.25%.

Shortly after the publication of the draft dated January 16, the Antitrust Authority published a draft regarding the terms and conditions of the local settlement exemption. The draft includes, inter alia, a provision whereby the transfer of funds between an issuer and a clearing house for single-payment transactions which be made no later than the day after the transaction was executed.

In addition, on July 24, 2017, the Ministry of Finance announced a reduction in merchant commission in Diners and American Express credit cards. The reduction in commissions will be carried out gradually, so that by the end of December 2017 the maximum commission will be 2.95%; by the end of December 2018, the maximum commission will be 2.45%; by the end of December 2019, the maximum commission will be 2.10%; and by the end of June 2020, the maximum commission for a merchant will be 1.99%. It was also decided that the credit card companies will be prohibited from imposing alternative fees on merchants.

As of February 2019, under the Law on Minimizing Market Centralization and Promoting Economic Competition in the Israeli banking market, 2017, the Bank will be required to operate new credit cards issued to the Bank's customers through at least two issuing operators, with none of the issuing operators' shares exceeding 52% of the new credit cards issued by the Bank. Following this provision, the Bank conducted negotiations with three credit card companies (Leumi Card, Isracard and C.A.L.) to engage in issuing operating agreements in respect or new cards, starting in 2019. Shortly after the report was published, the Bank reached business agreements with some of the companies regarding the material details towards signing issuing operating agreements.

2. The Bank has undertaken with regard to Visa International to take full responsibility for the proper execution by Leumi Card of all the provisions and requirements included in the Articles of Visa International as in effect from time to time, to perform all actions necessary in order to fulfill its commitment and to notify Visa International immediately in writing regarding any material change in the agreement between the Bank and Leumi Card.

3. The Bank has undertaken with regard to World MasterCard and to all other MasterCard members to take full responsibility for carrying out all Leumi Card's obligations under the Articles of World MasterCard and its principles and to indemnify these entities for any loss, cost, expense or debt in respect of an infringement of Leumi Card's aforesaid obligations.

Note 27 – Liens and Restrictive Conditions

As at December 31 2017 and December 31 2016, debentures and notes issued by consolidated companies in Israel are not secured by floating charges on their assets. Consolidated companies have pledged securities and other assets as security for deposits received from the Federal Home Loan Bank (FHLB) and certain obligations pursuant to requirements of the authorities of the countries in which they operate. Pledged assets amount to NIS 4,178million (December 31 2016 - NIS 2,698million). Total liabilities in respect of which assets were pledged amount to NIS 3,426million (December 31 2016 - NIS 2,089million).

The Bank executes short-term lending of securities in foreign currency from the available portfolio, via the Euroclear clearing house, for other customers of the clearing house, without knowing the identity of the borrowers. The lending is carried out under a full guarantee of the Euroclear clearing house which is an AA+ rated financial institution. The value of the balance of the securities lent to the Euroclear clearing house as of December 31 2017 was about NIS 77 million (December 31 2016 - NIS 65 million).

As a member of the Tel Aviv Stock Exchange, the Bank is a member of the Risk Fund of the Stock Exchange Clearing System.

The amount of the Risk Fund is to be the average highest debit balance that the member had in the six months ending in the calendar month prior to the update. The Fund updates the amounts 4 times a year.

In addition – the Bank has signed a credit facility of $150 million with the Euroclear Clearing System to guarantee securities settlement by customers. The credit facility is backed up by securities held by the Bank in the Euroclear Clearing System.

Each of the members of the Risk Fund pledges securities in favor of the Stock Exchange Clearing System in the amount of its proportionate part in the fund, which secures the member's liabilities to the Clearing System and the member's share in the Risk Fund. Furthermore, such collateral also secures the liabilities of the other members of the Risk Fund, if the collateral that the other member provided is not sufficient to cover the other member's liabilities, and in accordance with the proportionate part of each of the members in the Fund, up to the amount of the collateral provided or up to the amount of the liabilities to the Stock Exchange Clearing System, whichever is the lower. At the date of the financial statements, the Bank's share of the Stock Exchange Clearing Fund was NIS 180 million (December 31 2016 – NIS 102 million). Total assets pledged by the Bank to the Stock Exchange Clearing System was NIS 186 million (December 31 2016 – NIS 127 million).

The Bank is a member of the Maof Clearing System Risk Fund. The Bank has undertaken to the Maof Clearing System to pay every charge deriving from its Maof transactions for its customers, its nostro, and for Maof transactions of a member of the TASE not clearing independently through the Maof Clearing System. The total of the Bank's liabilities is shown in Note 30.D - Off-Balance Sheet Financial Instruments.

The Bank pledges collateral in favor of the Maof Clearing System in the amount of its proportionate part in the Risk Fund and also in respect of its above-mentioned liabilities, which secures its liabilities to the Maof Clearing System and its share in the Risk Fund. Furthermore, such collateral also secures the liabilities of the other members of the Risk Fund. In the event that the collateral that another member provided was not sufficient to cover all of his liabilities, the Maof Clearing System is entitled to realize the collateral provided to it by the other members of the Risk Fund, in accordance with the proportionate part of each of the members in the fund, up to the amount of the collateral provided or up to the amount of the liabilities to the Maof Clearing System, whichever is the lower.

At the date of the financial statements, the Bank's share of the Maof Clearing System Risk Fund was NIS 86 million (about 9.8% of the Fund).

The Bank, like any other member of the Clearing System, is entitled to secure its liabilities to the Maof Clearing System risk fund by means of pledging government bonds and deposits. The total of the debentures and deposits pledged by the Bank to the Maof Clearing System in respect of the activity of the customers, the *nostro*, and risk fund as at December 31 2017 was NIS 736 million (December 31 2016 – NIS 786 million).

Note 27 – Liens and Restrictive Conditions (cont.)

The Bank participates in an arrangement for ensuring the finality of settlement in default situations in which there is an insufficient balance in the clearing account of one or more of the other participants, as a participant in the RTGS (*"Zahav"*) System, and a holder of a clearing account in the system and a member of the *Masav* payment system and the check clearing system ("participant"). In the event of default, each non-defaulting participant ("surviving participant") is to bear the debit charges of the participant that defaulted, according to the relative share of the surviving participant divided by the difference between 100% and the relative share of the participant that defaulted. The Bank's relative share at December 31 2017 in the *Masav* system is 18.4% and in the check clearing system – 23.16% (this percentage is updated every six months according to the relative weighting of debit charges of each participant that were passed through the payment system relevant to the previous six months). The total ceiling for participation for all participants is NIS 300 million in the clearing system and NIS 150 million in the check clearing system. In the event of default, on the business day following the date of default, immediately after the system opens, the Bank of Israel will send a multi-party payment instruction debiting the clearing account of the defaulting participant and crediting the clearing accounts of the surviving participants with the amount that each surviving participant paid in the framework of the arrangement, with the addition of interest at the Bank of Israel rate. The default arrangement is not intended to deal with a situation of a known or probable insolvency. In the event of insolvency, the proceedings will be passed to the Banking Supervision Department.

The Bank and its consolidated companies engage with banks in CSA (Credit Support Annex) agreements that are intended to reduce mutual credit risks created between the banks during trading in derivatives. Under the agreements a measurement is made on a periodic basis of the value of all derivatives transactions carried out between the parties and if the net exposure of one of the parties exceeds the predetermined limit, that party is required to transfer to the other party deposits totaling the amount of exposure, until the next measurement date. At December 31 2017, the Group had made deposits in favor of banks totaling NIS 469 million (December 31 2016 – NIS 1.6 billion).

The Bank and its consolidated companies engage with foreign banks into agreements under which amounts are deposited in the foreign banks for purposes of carrying out marketable futures transactions in exchanges abroad for them and their customers. As at December 31 2017, the Group had deposited an amount of $360 million in the above banks (December 31 2016 – $61 million). In addition, the Group pledged bonds in the amount of $340 million. It should be noted that at the end of 2017, most of the collaterals transferred were in respect of activity by customers in these transactions were customer funds in accordance with the CSA agreements the Bank signed with them during the year.

The Bank has signed a debenture, in accordance with which the Bank has pledged by way of a first fixed charge and assignment by way of pledge, unlimited in amount, in favor of the Bank of Israel, all of the assets and rights in specific accounts held in the name of the Bank of Israel, in the Tel Aviv Stock Exchange Clearing house, in Euroclear Bank or in any other clearing house to which the Bank and the Bank of Israel must agree. The mortgaged assets in the accounts of Euroclear Bank, or in another account maintained in the clearing house outside Israel, are also mortgaged under a first ranking floating lien in favor of the Bank of Israel.

This pledge is to secure all the liabilities of the Bank in connection with credit that the Bank of Israel has extended or will extend and the placing of collateral to secure it, as detailed in the credit documents, except for credit according to a credit agreement between the Bank of Israel and the Bank and a secured debenture dated May 21 2008.

On May 21 2008, the Bank signed a debenture, by which the Bank pledged by way of a first floating charge, in favor of the Bank of Israel, its rights to receive monetary amounts and charges in NIS, which are due or will be due to the Bank from time to time from its customers, that are corporations (which were incorporated under the laws of the State of Israel) not being in arrears in repayment to the Bank of credits received from the Bank,

in respect of credits in NIS of which the duration (average life) of each credit does not exceed three years, which were given or will be given by the bank to the above customers.

Note 27 – Liens and Restrictive Conditions (cont.)

This pledge is to secure credits that the Bank of Israel will grant to the Bank for purposes of the Bank's activity as a supplier of liquidity services in NIS to the Continuous Linked Settlement Bank (CLS) Bank, with the addition of interest, costs and expenses involved in realizing the pledge, up to the amount of NIS 1.1 billion, in accordance with the terms of the credit agreement signed by the parties in this matter. Leumi did not avail itself of any such credit during 2010-2017.

	December 31	
	2017	2016
	NIS Millions	
Sources of securities received which the Bank may sell or pledge, at fair value, before the effect of set-offs		
Securities received in securities borrowing transactions against cash	**1,161**	1,284
Uses of securities received as collateral and securities of the Bank, at fair value, before the effect of set-offs		
Securities loaned in securities lending transactions against cash	**558**	539

Apart from these securities, as at the date of the balance sheet, additional securities were given as collateral, shown under Securities above, which the lenders are not permitted to sell or pledge.

In addition, the Bank deposits government bonds in HSBC as collateral for tradable futures activity, in lieu of cash. These securities are held in the available for sale portfolio.

In September 2010, the Bank signed a deed of pledge, at the instructions of the Federal Reserve, under which it pledged monetary deposits in favor of Bank Leumi USA, in connection with loans given by Bank Leumi USA with collateral of obligations by Bank Leumi of Israel Ltd., in support of these obligations. The amount of the pledge at December 31 2017 was $33 million (December 31 2016 - $34 million).

Note 28A – Derivative Instruments and Hedging Activities

General

The above activity involves taking risks, of which the main ones are:

- Credit risk which is measured according to the maximum expected loss amount if the counterparty does not meet the terms of the transaction. To cover the risk, the customer is required to provide collateral according to the risk arising from the transactions. The collateral required is included in the facility required in respect of the customer's total indebtedness.
- Market risks include risk arising from changes in interest rates, exchange rates, the CPI, prices of securities/indices and commodity prices. Market risk emanating from transactions in derivative instruments is part of the overall market risks arriving from derivative instruments. Activity in derivative instruments taxes place within the limits allowed for exposure to market risks, as determined by the Board of Directors of the Group companies.
- Liquidity risk derives from uncertainty regarding the price the Bank will need to pay to cover the transaction. This risk exists mainly in instruments whose marketability, or the marketability of the underlying asset, is low. In the framework of collateral requirements, this risk is taken into account.
- This activity does not refer to derivative instruments embedded in other activities.
- See Note 1.J.

Note 28B – Derivative Instrument Activity - Scope, Credit Risks and Repayment Dates

A. Scope of activity on consolidated basis

	December 31, 2017					
	Interest rate contracts					
	NIS Inflation-linked	Other	Foreign currency contracts	Contracts for shares	Commodities and other contracts	Total
	NIS Millions					
(1) Nominal amount of derivative instruments						
a. Hedging derivatives[a]						
Swaps	-	1,742	-	-	-	1,742
Total	-	1,742	-	-	-	1,742
which the Bank agreed to pay a fixed rate of interest	-	1,742	-	-	-	1,742
b. ALM derivatives[a,b]						
Futures contracts	-	33,009	106	103,734	234	137,083
Forward contracts	16,209	800	170,863	863	21	188,756
Exchange-traded options						
Options written	-	-	15,950	36,351	11	52,312
Options purchased	-	-	15,672	36,351	11	52,034
Other options						
Options written	-	5,529	18,673	2,742	209	27,153
Options purchased	-	2,367	19,090	2,586	209	24,252
Swaps	794	231,919	25,648	37,523	157	296,041
Total	17,003	273,624	266,002	220,150	852	777,631
Of which: interest-rate swap contracts in which the Bank agreed to pay a fixed rate of interest	-	121,703	-	-	-	121,703
c. Other derivatives[a]	-	-	-	-	-	-
d. Credit derivatives and foreign exchange Spot contracts						
Credit derivatives in which the Bank is a beneficiary	-	-	-	-	5	5
Foreign exchange Spot contracts	-	-	12,163	-	-	12,163
Total	-	-	12,163	-	5	12,168
Aggregate total	17,003	275,366	278,165	220,150	857	791,541

(a) Excluding credit derivatives and spot foreign currency exchange contracts.

(b) Derivatives constituting part of the assets and liabilities of the Bank not intended for hedging.

Note 28B – Derivative Instrument Activity - Scope, Credit Risks and Repayment Dates

A. Scope of activity on consolidated basis (cont.)

	December 31, 2017					
	Interest rate contracts					
	NIS Inflation-linked	Other	Foreign currency contracts	Contracts for shares	Commodities and other contracts	Total
	NIS Millions					
(2) Gross fair value of derivative instruments						
a. Hedging derivatives[a]						
Gross positive fair value4	-	30	-	-	-	30
Gross negative fair value	-	8	-	-	-	8
b. ALM derivatives[a,b]						
Gross positive fair value	315	4,125	3,018	2,060	32	9,550
Gross negative fair value	431	3,825	3,471	2,041	25	9,793
c. Other derivatives[a]	-	-	-	-	-	-
d. Credit derivatives						
Credit derivatives in which the banking institution is a beneficiary						
Gross positive fair value	-	-	-	-	-	-
Gross negative fair value	-	-	-	-	- (d)	-
e. Total						
Gross positive fair value[c]	315	4,155	3,018	2,060	32	9,580
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of derivative assets	315	4,155	3,018	2,060	32	9,580
Of which: book value of derivative liabilities not subject to a master netting or similar arrangements	51	52	98	289	6	496
Gross negative fair value[c]	431	3,833	3,471	2,041	25	9,801
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of derivative liabilities	431	3,833	3,471	2,041	25	9,801
Of which: book value of derivative liabilities not subject to a master netting or similar arrangements	-	26	394	60	13	493

(a) Excluding credit derivatives and spot foreign currency exchange contracts.

(b) Derivatives constituting part of the assets and liabilities of the Bank not intended for hedging.

(c) Of which: gross positive fair value of assets in respect of embedded derivative instruments in the amount of NIS 7 million (gross negative fair value of liabilities in respect of embedded derivative instruments in the amount of NIS 61 million).

(d) Less than NIS 1 million.

Note 28B – Derivative Instrument Activity - Scope, Credit Risks and Repayment Dates

A. Scope of activity on consolidated basis (cont.)

	December 31, 2016					
	Interest rate contracts					
	NIS Inflation-linked	Other	Foreign currency contracts	Contracts for shares	Commodities and other contracts	Total
	NIS millions					
(1) Nominal amount of derivative instruments						
a. Hedging derivatives[a]						
Swaps	-	3,480	-	-	-	3,480
Total	-	3,480	-	-	-	3,480
Of which: interest-rate swap contracts in which the Bank agreed to pay a fixed rate of interest	-	3,480	-	-	-	3,480
b. ALM derivatives[a,b]						
Futures contracts	-	40,972	183	61,988	210	103,353
Forward contracts	12,187	4,850	189,374	407	11	206,829
Exchange-traded options						
Options written	-	299	15,131	9,719	67	25,216
Options purchased	-	299	14,556	9,719	67	24,641
Other options						
Options written	-	7,210	12,553	2,530	56	22,349
Options purchased	-	4,186	12,833	2,572	189	19,780
Swaps	572	265,043	26,796	29,441	253	322,105
Total	12,759	322,859	271,426	116,376	853	724,273
Of which: interest-rate swap contracts in which the Bank agreed to pay a fixed rate of interest	-	140,716	-	-	-	140,716
c. Other derivatives[a]	-	-	-	-	-	-
Total						
d. Credit derivatives and foreign exchange Spot contracts	-	-	-	-	-	-
Credit derivatives in which the Bank is a beneficiary	-	-	-	-	20	20
Foreign exchange Spot contracts	-	-	8,667	-	-	8,667
Total	-	-	8,667	-	20	8,687
Aggregate total	12,759	326,339	280,093	116,376	873	736,440

(a) Excluding credit derivatives and spot foreign currency exchange contracts.

(b) Derivatives constituting part of the assets and liabilities of the Bank not intended for hedging.

Note 28B – Derivative Instrument Activity - Scope, Credit Risks and Repayment Dates

A. Scope of activity on consolidated basis (cont.)

	December 31, 2016					
	Interest rate contracts					
	NIS Inflation-linked	Other	Foreign currency contracts	Contracts for shares	Commodities and other contracts	Total
	NIS millions					
(2) Gross fair value of derivative instruments						
a. Hedging derivatives[a]						
Gross positive fair value	–	60	–	–	–	60
Gross negative fair value	–	108	–	–	–	108
b. ALM derivatives[a,b]						
Gross positive fair value	339	5,590	3,075	1,571	24	10,599
Gross negative fair value	400	5,179	3,477	1,544	20	10,620
c. Other derivatives[a]	–	–	–	–	–	–
d. Credit derivatives						
Credit derivatives in which the banking institution is a beneficiary						
Gross positive fair value	–	–	–	–	–	–
Gross negative fair value	–	–	–	–	–(d)	–
e. Total						
Gross positive fair value[c]	339	5,650	3,075	1,571	24	10,659
Fair value amounts offset in the balance sheet	–	–	–	–	–	–
Book value of derivative assets	339	5,650	3,075	1,571	24	10,659
Of which: book value of derivative liabilities not subject to a master netting or similar arrangements	41	394	53	–	–	488
Gross negative fair value[c]	400	5,287	3,477	1,544	20	10,728
Fair value amounts offset in the balance sheet	–	–	–	–	–	–
Book value of derivative liabilities	400	5,287	3,477	1,544	20	10,728
Of which: book value of derivative liabilities not subject to a master netting or similar arrangements	–	216	283	–(d),(e)	3(e)	502

(a) Excluding credit derivatives and spot foreign currency exchange contracts.

(b) Derivatives constituting part of the assets and liabilities of the Bank not intended for hedging.

(c) Of which: gross positive fair value of assets in respect of embedded derivative instruments in the amount of NIS 5 million (gross negative fair value of liabilities in respect of embedded derivative instruments in the amount of NIS 51 million).

(d) Less than NIS 1 million.

(e) Restated

Note 28B – Derivative Instrument Activity - Scope, Credit Risks and Repayment Dates

B. Credit risk in respect of derivative instruments by counterparty to the contract on consolidated basis

	December 31, 2017					
	Stock Exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
	NIS Millions					
Book balance derivative assets[a,b]	218	5,634	1,883	87	1,758	9,580
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk for financial instruments	-	3,621	1,448	42	738	5,849
Mitigation of credit risk for cash collateral received	-	1,537	423	41	121	2,122
Net amount of derivative assets	218	476	12	4	899	1,609
Off-balance sheet credit risk for derivative instruments[d,e]	743	7,349	1,571	65	6,192	15,920
Mitigation of off-balance sheet credit risk	-	2,286	731	19	2,548	5,584
Net off-balance sheet credit risk for derivative instruments	743	5,063	840	46	3,644	10,336
Total credit risk for derivative instruments	961	5,539	852	50	4,543	11,945
Book balance of derivative liabilities[a,c]	191	4,248	1,597	42	3,723	9,801
Gross amounts not offset in the balance sheet:						
Financial instruments	-	3,621	1,448	42	738	5,849
Cash collateral pledged	-	287	131	-	1,497	1,915
Net amount of derivative liabilities	191	340	18	-	1,488	2,037

	December 31, 2016					
	Stock Exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
	NIS Millions					
Book balance derivative assets[a,b]	121	6,737	2,074	11	1,716	10,659
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk for financial instruments	-	5,264	1,365	11	767	7,407
Mitigation of credit risk for cash collateral received	-	1,305	438	-	55	1,798
Net amount of derivative assets	121	168	271	-	894	1,454
Off-balance sheet credit risk for derivative instruments[d,e]	-	3,923	1,277	61	4,550	9,811
Mitigation of off-balance sheet credit risk	-	2,153	484	37	1,788	4,462
Net off-balance sheet credit risk for derivative instruments	-	1,770	793	24	2,762	5,349
Total credit risk for derivative instruments	121	1,938	1,064	24	3,656	6,803
Book balance of derivative liabilities[a,c]	132	5,921	1,692	31	2,952	10,728
Gross amounts not offset in the balance sheet:						
Financial instruments	-	5,264	1,365	11	767	7,407
Cash collateral pledged	-	509	53	7	963	1,532
Net amount of derivative liabilities	132	148	274	13	1,222	1,789

(a) The Bank did not offset net accounting arrangements.

(b) Of which a book balance of assets in respect of stand-alone derivative instruments in the sum of NIS 9,573 million (December 31 2016 – NIS 10,654 million).

(c) Of which a book balance of liabilities in respect of stand-alone derivative instruments in the sum of NIS 9,740 million (December 31 2016 – NIS 10,677 million).

(d) Off-balance sheet credit risk in respect of derivative instruments (including in respect of derivative instruments with negative fair value) as calculated for purposes of limitations on debts of borrowers.

(e) The difference, if positive, between all the amounts in respect of derivative instruments (including derivative instruments with negative fair value) which were included in the borrower's debt, as calculated for purposes of limitations on the borrower's indebtedness, before mitigating credit risk, and the balance of assets for the borrower's derivative instruments on the balance sheet.

Note:

In 2017 and 2016, no credit losses were recognized in respect of derivative instruments.

Note 28B – Derivative Instrument Activity - Scope, Credit Risks and Repayment Dates

c. Details of Repayment Dates – Nominal Values: Balances

	December 31, 2017				
	Up to three months	From three months to one year	From one to five years	Over five years	Total
	NIS Millions				
Interest contracts:					
NIS Inflation-linked	1,508	3,938	9,691	1,866	17,003
Other	28,864	38,083	130,633	77,786	275,366
Foreign currency contracts	154,710	91,487	26,939	5,029	278,165
Contracts for shares	188,446	30,817	887	-	220,150
Commodities and other contracts	323	511	23	-	857
Total	373,851	164,836	168,173	84,681	791,541

	December 31, 2016				
	Up to three months	From three months to one year	From one to five years	Over five years	Total
	NIS Millions				
Interest contracts:					
NIS Inflation-linked	2,928	2,486	5,230	2,115	12,759
Other	43,564	78,626	120,683	83,466	326,339
Foreign currency contracts	162,272	84,689	26,306	6,826	280,093
Contracts for shares	92,258	22,479	1,635	4	116,376
Commodities and other contracts	464	381	28	-	873
Total	301,486	188,661	153,882	92,411	736,440

A. General

On November 3 2014, a circular regarding reporting on operating segments and a file of questions and answers for implementation was published. On September 10 2015, an update to the file of questions and answers was published. The circular updates the Public Reporting Directives in all matters related to the reporting requirements for regulatory operating segments.

Effective from the financial statements for the first quarter of 2016, full disclosure is required according to the new rules, except for disclosure of the Financial Management segment. Comparative results were restated. Commencing with the financial statements for the first quarter of 2017, the requirements of the circular must be implemented in full.

B. Description of the main operating segments prescribed by the Bank of Israel directives:

1. Households segment - individuals, excluding Private Banking customers.
2. Private Banking segment - individuals whose financial asset portfolio in the Bank (including monetary deposits, securities portfolio and other monetary assets) exceeds NIS 3 million.
3. Micro-businesses segment - businesses whose turnover (total annual sales or total annual income) is less than NIS 10 million.
4. Small businesses segment - businesses whose turnover (total annual sales or total annual income) is greater than or equal to NIS 10 million and less than NIS 50 million.
5. Mid-sized business segment - businesses whose turnover is greater than or equal to NIS 50 million and less than NIS 250 million.
6. Large businesses segment - businesses whose turnover is equal to or greater than NIS 250 million.
7. Financial management segment - includes the following activities:
    a. Trading activity – Investment in securities for trading, market-making activity in securities and derivative instruments, activity in derivative instruments non-designated for hedging and not part of the management of the assets and liabilities of the banking corporation, repurchase and lending transactions of securities for trading, short selling of securities, underwriting of securities services.
    b. Asset and liability management activity – Including investment in available-for-sale debentures and debentures held to maturity, that are not attributed to other activity segments (with a borrower having no indebtedness to the Bank, apart from securities), hedging derivative instruments and derivative instruments which are part of asset and liability management, deposits in banks and from banks in Israel and around the world, hedging or protective exchange rate differences of investments in offices abroad, deposits in and of governments.
    c. Non-bank investment activity – Investment in shares and investment in associate companies.
    d. Other – Management, operating, trust and custody services for banks, consultancy services, selling activity and credit portfolio management, and financial product development activities.
8. Misc. segment - Including discontinuing operations, designated profits and other results connected to employee rights not attributed to the other activity segments, activities not attributed to other segments, and adjustments between the total of all the items attributed to the segments and the total of all the items in the consolidated financial statements.

Classification of customers

According to the circular, the classification of customers by operating segments will be based on their activity turnover or their characteristics (private customers and other individuals). When a banking corporation has no information regarding the total income of business customers who have no liability towards the banking corporation (including credit lines, etc.), the banking corporation may classify them into the relevant regulatory segment according to their total financial assets after multiplying them by a factor of 10. Furthermore, when the Bank believes that the total income does not represent the customer's volume of activity, the customer will be classified as follows: a customer whose indebtedness is less than NIS 100 million, according to the total assets in the business balance sheet, as stated in the FAQ file, and a customer whose indebtedness exceeds NIS 100 million will be classified into the large business segment.

During the period, actions were taken to complete information that is missing mainly regarding the turnover of business customers. In cases where the information has not yet been completed, the customers were classified according to the estimates and other information that the Bank has. The Bank is working to complete the information and improve the data.

D. Information on regulatory operating segments

	For the year ended December 31, 2017			
	Activity in Israel			
	Households	Private Banking	Small and micro businesses[d]	Mid-size businesses[d]
Interest Income from externals	3,578	9	2,153	758
Interest expenses to externals	378	140	83	89
Net Interest income:				
from externals	3,200	(131)	2,070	669
Intersegment	(593)	227	(155)	8
Total Net Interest income (expenses)	2,607	96	1,915	677
Noninterest income (expenses):				
Total noninterest income	1,768	171	747	322
Total income	4,375	267	2,662	999
Expenses (income) due to credit losses	178	1	255	(20)
Operating and other expenses				
to externals	3,850	130	1,444	518
Intersegment	40	-	-	-
Total Operating and other expenses	3,890	130	1,444	518
Profit (loss) before tax	307	136	963	501
Provision for (benefit from) tax on the profit	84	48	336	177
Profit (loss) after tax	223	88	627	324
Bank's share in profits of associate companies after tax	-	-	-	-
Net income (loss)before attributing to non-controlling interest holders	223	88	627	324
Net income (loss) due to non-controlling interest holders	31	-	1	-
Net income (loss) due to the Bank's shareholders	192	88	626	324
Average Balance of Assets[a]	107,017	493	51,850	24,635
of which: investments in affiliate companies	-	-	-	-
Averge balance of credit to the public[a]	107,978	489	52,426	24,876
Balance of credit to the public at end of reporting period	108,550	540	54,309	25,728
Balance of impaired debt	139	-	510	284
Impaired debt in arrears above 90 days	798	-	75	-
Average balance of liabilities[a]	110,711	29,136	43,382	32,169
of which: average balance of deposits from the public[a]	110,558	29,128	40,628	30,893
Balance of deposits from the public at end of period	109,672	29,013	40,761	32,371
Average balance of risk-weighted assets[ab]	79,451	790	47,838	28,032
Balance of risk-weighted assets at end of reported period[b]	78,661	861	49,410	28,730
Average balance of assets under management[ac]	77,586	51,187	31,602	16,957
Distribution of Net interest income:				
Margin from loans to the public	2,323	5	1,810	585
Margin from deposits from the public	284	91	105	90
Other	-	-	-	2
Total Net interest income (expenses)	2,607	96	1,915	677

(a) Average balances to be calculated on the basis of daily balances at the beginning of the quarter or at the beginning of the month.

(b) Risk-weighted assets – as calculated for capital adequacy purposes.

(c) Assets under management – including provident fund assets, study funds, mutual funds, and securities of customers.

(d) Including housing loans to commercial customers.

C. Information on regulatory operating segments (cont.)

					Activity abroad				
Large businesses	Institutional entities	Financial management	Other segment	Total activity in Israel	Private persons	Commercial activity	Other	Total activity abroad	Grand total
1,697	27	713	-	8,935	37	932	165	1,134	10,069
199	426	566	-	1,881	26	112	4	142	2,023
1,498	(399)	147	-	7,054	11	820	161	992	8,046
(326)	471	392	-	24	99	(180)	57	(24)	-
1,172	72	539	-	7,078	110	640	218	968	8,046
672	179	926	370	5,155	91	107	75	273	5,428
1,844	251	1,465	370	12,233	201	747	293	1,241	13,474
(298)	2	-	-	118	(4)	60	(2)	54	172
540	262	240	685	7,669	229	511	92	832	8,501
1	2	(60)	14	(3)	-	-	3	3	-
541	264	180	699	7,666	229	511	95	835	8,501
1,601	(15)	1,285	(329)	4,449	(24)	176	200	352	4,801
558	(4)	432	(90)	1,541	(8)	44	115	151	1,692
1,043	(11)	853	(239)	2,908	(16)	132	85	201	3,109
-	-	92	-	92	-	-	-	-	92
1,043	(11)	945	(239)	3,000	(16)	132	85	201	3,201
1	-	-	(3)	30	-	-	(1)	(1)	29
1,042	(11)	945	(236)	2,970	(16)	132	86	202	3,172
54,258	3,310	153,358	9,290	404,211	1,137	22,265	10,852	34,254	438,465
-	-	138	-	138	-	-	-	-	138
54,649	3,322	-	-	243,740	995	22,274	14	23,283	267,023
56,495	2,087	-	-	247,709	999	22,505	3	23,507	271,216
1,311	-	-	-	2,244	34	640	-	674	2,918
24	-	-	-	897	-	12	-	12	909
52,180	62,245	37,988	11,598	379,409	5,638	19,246	1,713	26,597	406,006
48,877	60,213	-	-	320,297	5,581	19,003	685	25,269	345,566
54,866	70,496	-	-	337,179	4,858	19,663	778	25,299	362,478
72,992	1,021	20,660	16,261	267,045	796	27,271	2,719	30,786	297,831
75,125	1,185	21,417	16,825	272,214	756	27,540	2,782	31,078	303,292
78,344	585,606	36,183	-	877,465	17,074	1,851	5	18,930	896,395
1,093	14	2,402	-	8,232	18	343	606	967	9,199
79	56	(1,892)	-	(1,187)	92	295	(529)	(142)	(1,329)
-	2	29	-	33	-	2	141	143	176
1,172	72	539	-	7,078	110	640	218	968	8,046

(a) Average balances to be calculated on the basis of daily balances at the beginning of the quarter or at the beginning of the month.

(b) Risk-weighted assets – as calculated for capital adequacy purposes.

(c) Assets under management – including provident assets, supplementary training funds, mutual funds, and securities of customers.

(d) Including housing loans for business customers.

(e) Reclassified.

Note 29A – Regulatory Operating Segments and Geographic Areas (cont.)

C. Information on regulatory operating segments (cont.)

	For the year ended December 31, 2016 [e]			
	Activity in Israel			
	Households	Private Banking	Small and micro businesses[d]	Mid-size businesses[d]
Interest Income from externals	3,348	7	1,957	700
Interest expenses to externals	370	126	81	72
Net Interest income:				
from externals	2,978	(119)	1,876	628
Intersgemental	(492)	203	(177)	(45)
Total Net Interest income (expenses)	2,486	84	1,699	583
Total noninterest income	1,712	157	727	312
Total income	4,198	241	2,426	895
Expenses (income) due to credit losses	447	1	187	(108)
Operating and other expenses				
to externals	4,024	124	1,442	503
Intersegment	23	-	-	-
Total Operating and other expenses	4,047	124	1,442	503
Profit (loss) before tax	(296)	116	797	500
Tax expense (benefit)	(133)	41	282	179
Profit (loss) after tax	(163)	75	515	321
Bank's share in profits of associate companies after tax	-	-	-	-
Net income (loss)before attributing to non-controlling interest holders	(163)	75	515	321
Net income (loss) due to non-controlling interest holders	34	-	3	1
Net income (loss) due to the Bank's shareholders	(197)	75	512	320
Average Balance of Assets[a]	111,163	440	48,479	23,637
of which: investments in associate companies	-	-	-	-
Averge balance of credit to the public[a]	112,009	437	48,949	23,904
Balance of credit to the public at end of reporting period	110,906	428	50,832	24,268
Balance of impaired debt	108	-	517	362
Impaired debt in arrears above 90 days	841	-	76	-
Average balance of liabilities[a]	112,525	29,831	39,361	30,521
of which: average balance of deposits from the public[a]	112,389	29,827	36,728	29,281
Balance of deposits from the public at end of period	113,473	30,171	40,413	31,500
Average balance of risk-weighted assets[a,b]	79,995	770	44,226	27,261
Balance of risk-weighted assets at end of reported period[b]	80,056	755	45,773	27,295
Average balance of assets under management[a,c]	78,025	48,354	30,025	15,885
Distribution of Net interest income:				
Margin from loans to the public	2,230	4	1,634	540
Margin from deposits from the public	256	80	65	43
Other	-	-	-	-
Total Net interest income	2,486	84	1,699	583

(a) Average balances to be calculated on the basis of daily balances at the beginning of the quarter or at the beginning of the month.

(b) Risk-weighted assets – as calculated for capital adequacy purposes.

(c) Assets under management – including provident assets, supplementary training funds, mutual funds, and securities of customers.

(d) Including housing loans to commercial customers.

(e) Reclassified.

Note 29A – Regulatory Operating Segments and Geographic Areas (cont.)

					Activity abroad				
Large businesses	Institutional entities	Financial management	Other segment	Total activity in Israel	Private persons	Commercial activity	Other	Total activity abroad	Grand total
1,721	16	725	-	8,474	60	880	138	1,078	9,552
164	412	659	-	1,884	35	97	10	142	2,026
1,557	(396)	66	-	6,590	25	783	128	936	7,526
(413)	451	505	-	32	117	(84)	(65)	(32)	-
1,144	55	571	-	6,622	142	699	63	904	7,526
653	160	1,297	147	5,165	97	100	46	243	5,408
1,797	215	1,868	147	11,787	239	799	109	1,147	12,934
(614)	(33)	(40)	-	(160)	-	38	(3)	35	(125)
632	245	296	369	7,635	272	511	162	945	8,580
1	1	(40)	14	(1)	-	-	1	1	-
633	246	256	383	7,634	272	511	163	946	8,580
1,778	2	1,652	(236)	4,313	(33)	250	(51)	166	4,479
631	-	634	13	1,647	(19)	93	(4)	70	1,717
1,147	2	1,018	(249)	2,666	(14)	157	(47)	96	2,762
-	-	66	-	66	-	-	-	-	66
1,147	2	1,084	(249)	2,732	(14)	157	(47)	96	2,828
3	-	(1)	(3)	37	-	-	-	-	37
1,144	2	1,085	(246)	2,695	(14)	157	(47)	96	2,791
56,577	3,719	143,414	9,684	397,113	2,031	21,273	12,388	35,692	432,805
-	-	909	-	909	-	-	-	-	909
57,779	2,678	-	-	245,756	2,032	21,386	8	23,426	269,182
53,584	1,486	-	-	241,504	890	23,019	37	23,946	265,450
2,058	-	-	-	3,045	50	558	-	608	3,653
22	-	-	-	939	1	63	-	64	1,003
50,631	57,637	43,103	11,511	375,120	8,699	17,437	1,580	27,716	402,836
47,369	55,340	-	-	310,934	8,633	17,196	446	26,275	337,209
48,714	55,862	-	-	320,133	6,070	19,779	872	26,721	346,854
76,839	1,077	20,762	14,729	265,659	1,061	27,243	2,636	30,940	296,599
71,497	1,097	18,305	15,909	260,687	873	27,757	2,848	31,478	292,165
74,790	496,214	37,557	-	780,850	14,475	2,547	2,852	19,874	800,724
1,103	13	2,231	-	7,755	19	373	550	942	8,697
41	39	(1,622)	-	(1,098)	123	326	(575)	(126)	(1,224)
-	3	(38)	-	(35)	-	-	88	88	53
1,144	55	571	-	6,622	142	699	63	904	7,526

	For the year ended December 31, 2015			
	Activity in Israel			
	Households	Private Banking	Small and micro businesses[d]	Mid-size businesses[d]
Interest Income from externals	2,943	5	1,973	673
Interest expenses to externals	239	101	48	26
Net Interest income:				
from externals	2,704	(96)	1,925	647
intersegment	(316)	156	(402)	(75)
Total Net Interest income	2,388	60	1,523	572
Total noninterest income	1,654	171	738	318
Total income	4,042	231	2,261	890
Expenses (income) due to credit losses	331	(8)	57	(172)
Operating and other expenses				
to externals	3,927	147	1,418	511
Intersgemental	(71)	-	-	-
Total Operating and other expenses	3,856	147	1,418	511
Profit (loss) before tax	(145)	92	786	551
Tax expense (benefit)	(89)	35	293	205
Profit (loss) after tax	(56)	57	493	346
Bank's share in profits of associate companies after tax	-	-	-	-
Net income (loss)before attributing to non-controlling interest holders	(56)	57	493	346
Net income (loss) due to non-controlling interest holders	34	-	3	1
Net income (loss) due to the Bank's shareholders	(90)	57	490	345
Average Balance of Assets[a]	108,290	456	42,827	22,359
of which: investments in affiliate companies	-	-	-	-
Averge balance of credit to the public[a]	108,778	457	43,995	22,924
Balance of credit to the public at end of reporting period	113,194	481	46,511	23,751
Balance of impaired debt	60	-	566	457
Impaired debt in arrears above 90 days	858	-	45	-
Average balance of liabilities[a]	102,884	25,695	35,901	26,773
of which: average balance of deposits from the public[a]	102,611	25,694	34,517	26,267
Balance of deposits from the public at end of period	106,639	28,814	34,068	28,495
Average balance of risk-weighted assets[a,b]	81,104	781	42,035	26,888
Balance of risk-weighted assets at end of reported period[b]	81,009	780	41,985	26,856
Average balance of assets under management[a,c]	88,038	53,251	32,595	17,290
Distribution of Net interest income:				
Margin from loans to the public	2,152	5	1,477	546
Margin from deposits from the public	230	55	46	26
Other	6	-	-	-
Total Net interest income	2,388	60	1,523	572

(a) Average balances to be calculated on the basis of daily balances at the beginning of the quarter or at the beginning of the month.

(b) Risk-weighted assets – as calculated for capital adequacy purposes.

(c) Assets under management – including provident assets, supplementary training funds, mutual funds, and securities of customers.

(d) Including housing loans to commercial customers

(e) Reclassified.

Note 29A – Regulatory Operating Segments and Geographic Areas (cont.)

C. Information on regulatory operating segments (cont.)

					Activity abroad				
Large businesses	Institutional entities	Financial management	Other segment	Total activity in Israel	Private persons	Commercial activity	Other	Total activity abroad	Grand total
1,639	34	516	–	7,783	74	831	96	1,001	8,784
156	379	589	–	1,538	45	61	22	128	1,666
1,483	(345)	(73)	–	6,245	29	770	74	873	7,118
(341)	392	606	–	20	121	(104)	(37)	(20)	–
1,142	47	533	–	6,265	150	666	37	853	7,118
642	160	1,682	193	5,558	129	127	483	739	6,297
1,784	207	2,215	193	11,823	279	793	520	1,592	13,415
(19)	23	(46)	(8)	158	–	45	(4)	41	199
621	210	262	541	7,637	311	514	374	1,199	8,836
1	1	57	12	–	–	–	–	–	–
622	211	319	553	7,637	311	514	374	1,199	8,836
1,181	(27)	1,942	(352)	4,028	(32)	234	150	352	4,380
442	(10)	682	(85)	1,473	(20)	86	152	218	1,691
739	(17)	1,260	(267)	2,555	(12)	148	(2)	134	2,689
–	–	177	–	177	–	–	–	–	177
739	(17)	1,437	(267)	2,732	(12)	148	(2)	134	2,866
3	–	(1)	(4)	36	–	–	(5)	(5)	31
736	(17)	1,438	(263)	2,696	(12)	148	3	139	2,835
55,248	2,186	130,734	10,278	372,378	2,299	20,409	12,297	35,005	407,383
–	–	1,234	–	1,234	–	–	–	–	1,234
58,424	1,190	–	–	235,768	2,327	20,547	38	22,912	258,680
56,630	713	–	–	241,280	2,191	21,545	54	23,790	265,070
1,997	60	–	–	3,140	52	729	–	781	3,921
16	–	–	–	919	17	6	–	23	942
44,219	56,193	48,984	10,146	350,795	12,272	15,266	1,441	28,979	379,774
43,072	55,178	–	–	287,339	12,255	15,016	127	27,398	314,737
48,226	55,889	–	–	302,131	9,697	16,467	398	26,562	328,693
83,692	1,362	22,052	13,578	271,492	1,059	28,068	2,370	31,497	302,989
83,594	1,360	22,027	13,562	271,173	1,058	28,035	2,367	31,460	302,633
78,050	481,123	44,252	–	794,599	22,338	3,410	1,883	27,631	822,230
1,113	18	1,951	–	7,262	28	374	506	908	8,170
29	26	(1,231)	–	(819)	122	292	(540)	(126)	(945)
–	3	(187)	–	(178)	–	–	71	71	(107)
1,142	47	533	–	6,265	150	666	37	853	7,118

Note 29A – Regulatory Operating Segments and Geographic Areas (cont.)

C. Information on regulatory operating segments (cont.)

Private Persons – Households and Private Banking

	For the year ended December 31, 2017								
	Household segment				Private banking segment				
	Housing loans	Credit cards	Other	Total	Housing loans	Credit cards	Other	Total	Total Private Persons
Interest income from outside entities	1,825	281	1,472	3,578	3	-	6	9	3,587
Interest expense to outside entities	-	-	378	378	-	-	140	140	518
Net interest income:									
External	1,825	281	1,094	3,200	3	-	(134)	(131)	3,069
Intersegment	(1,083)	(4)	494	(593)	(2)	-	229	227	(366)
Total net interest income	742	277	1,588	2,607	1	-	95	96	2,703
Total noninterest income	50	929	789	1,768	-	3	168	171	1,939
Total income	792	1,206	2,377	4,375	1	3	263	267	4,642
Provision for credit losses	(10)	62	126	178	-	-	1	1	179
Operating and other expenses:									
To outside entities	280	816	2,754	3,850	1	3	126	130	3,980
Intersegment	1	39	-	40	-	-	-	-	40
Total operating and other expenses	281	855	2,754	3,890	1	3	126	130	4,020
Profit (loss) before tax	521	289	(503)	307	-	-	136	136	443
Provision for (benefit from) tax on the profit	180	80	(176)	84	-	-	48	48	132
Bank's share in profits of associate companies	-	-	-	-	-	-	-	-	-
Net income before attributing to non-controlling interest holders	341	209	(327)	223	-	-	88	88	311
Net income due to non-controlling interest holders	-	31	-	31	-	-	-	-	31
Net income due to the Bank's shareholders	341	178	(327)	192	-	-	88	88	280
Average asset balance[a]	68,988	12,078	25,951	107,017	136	101	256	493	107,510
Of which: Investments in associate companies[a]	-	-	-	-	-	-	-	-	-
Closing balance of investments in associate companies	-	-	-	-	-	-	-	-	-
Average balance of credit to the public[a]	69,452	12,107	26,419	107,978	136	102	251	489	108,467
Balance of credit to the public at end of reporting period	70,520	12,513	25,517	108,550	146	111	283	540	109,090
Balance of impaired debts	-	29	110	139	-	-	-	-	139
Balance of debts in arrears of over 90 days	722	-	76	798	-	-	-	-	798
Average balance of liabilities[a]	22	197	110,492	110,711	-	-	29,136	29,136	139,847
Of which: Average balance of deposits of the public[a]	-	75	110,483	110,558	-	-	29,128	29,128	139,686
Balance of deposits of the public at end of the reporting period	-	65	109,607	109,672	-	-	29,013	29,013	138,685
Average balance of risk-weighted assets[a,b]	45,951	10,976	22,524	79,451	40	296	454	790	80,241
Balance of risk-weighted assets at end of the reporting period (b)	45,308	11,357	21,996	78,661	47	359	455	861	79,522
Average balance of assets under management[a,c]	-	-	77,586	77,586	-	-	51,187	51,187	128,773
Distribution of net interest income:									
Margin on credit granting activity	742	277	1,304	2,323	1	-	4	5	2,328
Margin on deposit taking activity	-	-	284	284	-	-	91	91	375
Other	-	-	-	-	-	-	-	-	-
Total net interest income	742	277	1,588	2,607	1	-	95	96	2,703

(a) Average balances were calculated on the basis of daily balances at the beginning of the quarter or at the beginning of the month.

(b) Risk-weighted assets – as calculated for capital adequacy purposes.

(c) Assets under management – including provident assets, supplementary training funds, mutual funds, and securities of customers.

Private Persons – Households and Private Banking (cont.)

Note 29A – Regulatory Operating Segments and Geographic Areas (cont.)

	For the year ended December 31, 2016								
	Household segment				Private banking segment				
	Housing loans	Credit cards	Other	Total	Housing loans	Credit cards	Other	Total	Grand Total
Interest income from outside entities	1,646	245	1,457	3,348	2	-	5	7	3,355
Interest expense to outside entities	-	-	370	370	-	-	126	126	496
Net interest income:									
Externals	1,646	245	1,087	2,978	2	-	(121)	(119)	2,859
Intersegment	(951)	(4)	463	(492)	(2)	-	205	203	(289)
Total net interest income	695	241	1,550	2,486	-	-	84	84	2,570
Total noninterest income	45	872	795	1,712	-	3	154	157	1,869
Total income	740	1,113	2,345	4,198	-	3	238	241	4,439
Expenses (income) due to credit losses	(10)	44	413	447	-	(1)	2	1	448
Operating and other expenses									
To external	275	766	2,983	4,024	-	3	121	124	4,148
Intersegment	1	22	-	23	-	-	-	-	23
Total operating and other expenses	276	788	2,983	4,047	-	3	121	124	4,171
Profit (loss) before tax	474	281	(1,051)	(296)	-	1	115	116	(180)
Provision for (benefit from) tax on the profit	168	76	(377)	(133)	-	-	41	41	(92)
Profit (loss) after tax	306	205	(674)	(163)	-	1	74	75	(88)
Bank's share in profits of associate companies after tax	-	-	-	-	-	-	-	-	-
Net income before attributing to non-controlling interest holders	306	205	(674)	(163)	-	1	74	75	(88)
Net income due to non-controlling interest holders	-	34	-	34	-	-	-	-	34
Net income due to the Bank's shareholders	306	171	(674)	(197)	-	1	74	75	(122)
Average asset balance[a]	73,297	10,827	27,039	111,163	134	95	211	440	111,603
Of which: Investments in associate companies[a]	-	-	-	-	-	-	-	-	-
Average balance of credit to the public[a]	73,766	10,851	27,392	112,009	134	96	207	437	112,446
Balance of credit to the public at end of reporting period	73,046	11,204	26,656	110,906	135	97	196	428	111,334
Balance of impaired debts	-	17	91	108	-	-	-	-	108
Balance of debts in arrears of over 90 days	719	-	122	841	-	-	-	-	841
Average balance of liabilities[a]	5	149	112,371	112,525	-	-	29,831	29,831	142,356
Of which: Average balance of deposits of the public[a]	-	79	112,310	112,389	-	-	29,827	29,827	142,216
Balance of deposits of the public at end of the reporting period	-	68	113,405	113,473	-	-	30,171	30,171	143,644
Average balance of risk-weighted assets[a,b]	47,440	10,247	22,308	79,995	20	275	475	770	80,765
Balance of risk-weighted assets at end of the reporting period (b)	46,696	10,540	22,820	80,056	28	275	452	755	80,811
Average balance of assets under management[a,c]	-	-	78,025	78,025	-	-	48,354	48,354	126,379
Distribution of net interest income:									
Margin on credit granting activity	695	241	1,294	2,230	-	-	4	4	2,234
Margin on deposit taking activity	-	-	256	256	-	-	80	80	336
Other	-	-	-	-	-	-	-	-	-
Total net interest income	695	241	1,550	2,486	-	-	84	84	2,570

(a) Average balances were calculated on the basis of daily balances at the beginning of the quarter or at the beginning of the month.

(b) Risk-weighted assets – as calculated for capital adequacy purposes.

(c) Assets under management – including provident assets, supplementary training funds, mutual funds, and securities of customers

Note 29A – Regulatory Operating Segments and Geographic Areas (cont.)

Private Persons – Households and Private Banking (cont.)

	For the year ended December 31, 2015								
	Household segment				Private banking segment				
	Housing loans	Credit cards	Other	Total	Housing loans	Credit cards	Other	Total	Grand Total
Interest income from outside entities	1,280	236	1,427	2,943	-	-	5	5	2,948
Interest expense to outside entities	-	-	239	239	-	-	101	101	340
Net interest income:									
From externals	1,280	236	1,188	2,704	-	-	(96)	(96)	2,608
Intersegment	(633)	(5)	322	(316)	-	-	156	156	(160)
Total net interest income	647	231	1,510	2,388	-	-	60	60	2,448
Total noninterest income	46	727	881	1,654	-	3	168	171	1,825
Total income	693	958	2,391	4,042	-	3	228	231	4,273
Expenses (income) due to credit losses	14	17	300	331	-	1	(9)	(8)	323
Operating and other expenses									
To external	310	726	2,891	3,927	1	3	143	147	4,074
Intersegment	-	(71)	-	(71)	-	-	-	-	(71)
Total operating and other expenses	310	655	2,891	3,856	1	3	143	147	4,003
Profit (loss) before tax	369	286	(800)	(145)	(1)	(1)	94	92	(53)
Provision for (benefit from) tax on the profit	137	80	(306)	(89)	-	-	35	35	(54)
Profit (loss) after tax	232	206	(494)	(56)	(1)	(1)	59	57	1
Bank's share in profits of associate companies after tax	-	-	-	-	-	-	-	-	-
Net income before attributing to non-controlling interest holders	232	206	(494)	(56)	(1)	(1)	59	57	1
Net income due to non-controlling interest holders	-	34	-	34	-	-	-	-	34
Net income due to the Bank's shareholders	232	172	(494)	(90)	(1)	(1)	59	57	(33)
Average asset balance[a]	73,163	10,095	25,032	108,290	142	93	221	456	108,746
Of which: Investments in associate companies[a]	-	-	-	-	-	-	-	-	-
Average balance of credit to the public[a]	73,552	10,051	25,175	108,778	142	96	219	457	109,235
Balance of credit to the public at end of reporting period	76,552	10,494	26,148	113,194	156	102	223	481	113,675
Balance of impaired debts	-	12	48	60	-	-	-	-	60
Balance of debts in arrears of over 90 days	753	-	105	858	-	-	-	-	858
Average balance of liabilities[a]	5	301	102,578	102,884	-	1	25,694	25,695	128,579
Of which: Average balance of deposits of the public[a]	-	69	102,542	102,611	-	-	25,694	25,694	128,305
Balance of deposits of the public at end of the reporting period	-	65	106,574	106,639	-	-	28,814	28,814	135,453
Average balance of risk-weighted assets[a,b]	49,655	10,116	21,333	81,104	-	281	500	781	81,885
Balance of risk-weighted assets at end of the reporting period (b)	49,597	10,104	21,308	81,009	-	281	499	780	81,789
Average balance of assets under management[a,c]	-	-	88,038	88,038	-	-	53,251	53,251	141,289
Distribution of net interest income:									
Margin on credit granting activity	647	225	1,280	2,152	-	-	5	5	2,157
Margin on deposit taking activity	-	-	230	230	-	-	55	55	285
Other	-	6	-	6	-	-	-	-	6
Total net interest income	647	231	1,510	2,388	-	-	60	60	2,448

(a) Average balances were calculated on the basis of daily balances at the beginning of the quarter or at the beginning of the month.

(b) Risk-weighted assets – as calculated for capital adequacy purposes.

(c) Assets under management – including provident assets, supplementary training funds, mutual funds, and securities of customers

Note 29A – Regulatory Operating Segments and Geographic Areas (cont.)

Small and micro businesses, mid-size and large

	For the year ended December 31, 2017									
	Small and micro business segment			Mid-size business segment			Large size business segment			
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Grand Total
Interest income from outside entities	664	1,489	2,153	255	503	758	603	1,094	1,697	4,608
Interest expense to outside entities	15	68	83	6	83	89	13	186	199	371
Net interest income:										
From externals	649	1,421	2,070	249	420	669	590	908	1,498	4,237
Intersegment	(88)	(67)	(155)	(49)	57	8	(128)	(198)	(326)	(473)
income	561	1,354	1,915	200	477	677	462	710	1,172	3,764
Total noninterest	119	628	747	54	268	322	294	378	672	1,741
of which: Income from credit cards	8	122	130	1	39	40	-	82	82	252
Total income	680	1,982	2,662	254	745	999	756	1,088	1,844	5,505
Expenses (income) due to credit losses	9	246	255	(42)	22	(20)	(189)	(109)	(298)	(63)
Operating and other expenses										
To external	238	1,206	1,444	66	452	518	105	435	540	2,502
Intersegment	-	-	-	-	-	-	-	1	1	1
Total operating and other expenses	238	1,206	1,444	66	452	518	105	436	541	2,503
Profit (loss) before tax	433	530	963	230	271	501	840	761	1,601	3,065
Provision for (benefit from) tax on the profit	151	185	336	80	97	177	292	266	558	1,071
Profit (loss) after tax	282	345	627	150	174	324	548	495	1,043	1,994
Bank's share in profits of associate companies after tax	-	-	-	-	-	-	-	-	-	-
Net income before attributing to non-controlling interest holders	282	345	627	150	174	324	548	495	1,043	1,994
Net income due to non-controlling interest holders	-	1	1	-	-	-	-	1	1	2
Net income due to the Bank's shareholders	282	344	626	150	174	324	548	494	1,042	1,992
Average asset balance[a]	17,135	34,715	51,850	7,307	17,328	24,635	17,900	36,358	54,258	130,743
Of which: Investments in associate companies[a]	-	-	-	-	-	-	-	-	-	-
Average balance of credit to the public[a]	17,295	35,131	52,426	7,377	17,499	24,876	18,047	36,602	54,649	131,951
Balance of credit to the public at end of reporting period	17,918	36,391	54,309	8,224	17,504	25,728	19,487	37,008	56,495	136,532
Balance of impaired debts	189	321	510	66	218	284	496	815	1,311	2,105
Balance of debts in arrears of over 90 days	15	60	75	-	-	-	12	12	24	99
Average balance of liabilities[a]	8,545	34,837	43,382	4,492	27,677	32,169	9,051	43,129	52,180	127,731
Of which: Average balance of deposits of the public[a]	8,296	32,332	40,628	4,420	26,473	30,893	8,732	40,145	48,877	120,398
Balance of deposits of the public at end of the reporting period	8,272	32,489	40,761	4,482	27,889	32,371	9,935	44,931	54,866	127,998
Average balance of risk-weighted assets[ab]	17,312	30,526	47,838	9,137	18,895	28,032	39,979	33,013	72,992	148,862
Balance of risk-weighted assets at end of the reporting period (b)	17,578	31,832	49,410	9,739	18,991	28,730	41,506	33,619	75,125	153,265
Average balance of assets under management[ac]	5,317	26,285	31,602	2,532	14,425	16,957	13,173	65,171	78,344	126,903
Distribution of net interest income:										
Margin on credit granting activity	545	1,265	1,810	192	393	585	452	641	1,093	3,488
Margin on deposit taking activity	16	89	105	8	82	90	10	69	79	274
Other	-	-	-	-	2	2	-	-	-	2
Total net interest income	561	1,354	1,915	200	477	677	462	710	1,172	3,764

(a) Average balances were calculated on the basis of daily balances at the beginning of the quarter or at the beginning of the month.

(b) Risk-weighted assets – as calculated for capital adequacy purposes.

(c) Assets under management – including provident assets, supplementary training funds, mutual funds, and securities of customers

Note 29A – Regulatory Operating Segments and Geographic Areas (cont.)

Small and micro businesses, mid-size and large (cont.)

	For the year ended December 31, 2016									
	Small and micro business segment			Mid-size business segment			Large size business segment			
	Construc-tion and real estate	Other	Total	Construc-tion and real estate	Other	Total	Construc-tion and real estate	Other	Total	Grand Total
Interest income from outside entities	637	1,320	1,957	219	481	700	614	1,107	1,721	4,378
Interest expense to outside entities	13	68	81	4	68	72	10	154	164	317
Net interest income:	-	-	-	-	-	-	-	-	-	-
From externals	624	1,252	1,876	215	413	628	604	953	1,557	4,061
Intersegment	(102)	(75)	(177)	(43)	(2)	(45)	(135)	(278)	(413)	(635)
Total net interest income	522	1,177	1,699	172	411	583	469	675	1,144	3,426
Total noninterest income	123	604	727	54	258	312	296	357	653	1,692
of which: Income from credit cards	7	115	122	1	36	37	-	83	83	242
Total income	645	1,781	2,426	226	669	895	765	1,032	1,797	5,118
Expenses (income) due to credit losses	(25)	212	187	(36)	(72)	(108)	(259)	(355)	(614)	(535)
To external	247	1,195	1,442	69	434	503	134	498	632	2,577
Intersegment	-	-	-	-	-	-	-	1	1	1
Total operating and other expenses	247	1,195	1,442	69	434	503	134	499	633	2,578
Profit (loss) before tax	423	374	797	193	307	500	890	888	1,778	3,075
Provision for (benefit from) tax on the profit	152	130	282	69	110	179	317	314	631	1,092
Profit (loss) after tax	271	244	515	124	197	321	573	574	1,147	1,983
Bank's share in profits of associate companies after tax	-	-	-	-	-	-	-	-	-	-
Net income before attributing to non-controlling interest holders	271	244	515	124	197	321	573	574	1,147	1,983
Net income due to non-controlling interest holders	-	3	3	-	1	1	-	3	3	7
Net income due to the Bank's shareholders	271	241	512	124	196	320	573	571	1,144	1,976
Average asset balance[a]	16,409	32,070	48,479	6,810	16,827	23,637	19,170	37,407	56,577	128,693
Of which: Investments in associate companies[a]	-	-	-	-	-	-	-	-	-	-
Average balance of credit to the public[a]	16,577	32,372	48,949	6,872	17,032	23,904	19,481	38,298	57,779	130,632
Balance of credit to the public at end of reporting period	17,156	33,676	50,832	7,034	17,234	24,268	17,225	36,359	53,584	128,684
Balance of impaired debts	211	306	517	76	286	362	641	1,417	2,058	2,937
Balance of debts in arrears of over 90 days	15	61	76	-	-	-	16	6	22	98
Average balance of liabilities[a]	7,950	31,411	39,361	4,047	26,474	30,521	8,239	42,391	50,630	120,512
Of which: Average balance of deposits of the public[a]	7,739	28,989	36,728	3,972	25,309	29,281	7,680	39,689	47,369	113,378
Balance of deposits of the public at end of the reporting period	8,510	31,903	40,413	4,514	26,986	31,500	8,489	40,225	48,714	120,627
Average balance of risk-weighted assets[ab]	16,347	27,879	44,226	8,557	18,704	27,261	40,447	36,392	76,839	148,326
Balance of risk-weighted assets at end of the reporting period (b)	16,942	28,831	45,773	8,522	18,773	27,295	38,772	32,725	71,497	144,565
Average balance of assets under management[ac]	3,629	26,396	30,025	2,242	13,643	15,885	14,219	60,571	74,790	120,700
Distribution of net interest income:										
Margin on credit granting activity	510	1,124	1,634	168	372	540	462	641	1,103	3,277
Margin on deposit taking activity	12	53	65	4	39	43	7	34	41	149
Other	-	-	-	-	-	-	-	-	-	-
Total net interest income	522	1,177	1,699	172	411	583	469	675	1,144	3,426

(a) Average balances were calculated on the basis of daily balances at the beginning of the quarter or at the beginning of the month.

(b) Risk-weighted assets – as calculated for capital adequacy purposes.

(c) Assets under management – including provident assets, supplementary training funds, mutual funds, and securities of customers

Note 29A – Regulatory Operating Segments and Geographic Areas (cont.)

Small and micro businesses, mid-size and large (cont.)

	For the year ended December 31, 2015									
	Small and micro business segment			Mid-size business segment			Large size business segment			
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Grand Total
Interest income from outside entities	585	1,388	1,973	221	452	673	575	1,064	1,639	4,285
Interest expense to outside entities	10	38	48	3	23	26	10	146	156	230
Net interest income:										
From externals	575	1,350	1,925	218	429	647	565	918	1,483	4,055
Intersegment	(110)	(292)	(402)	(39)	(36)	(75)	(126)	(215)	(341)	(818)
Total net interest income	465	1,058	1,523	179	393	572	439	703	1,142	3,237
Total noninterest income	129	609	738	63	255	318	318	324	642	1,698
of which: Income from credit cards	6	111	117	-	34	34	-	76	76	227
Total income	594	1,667	2,261	242	648	890	757	1,027	1,784	4,935
Expenses (income) due to credit losses	(38)	95	57	(54)	(118)	(172)	173	(192)	(19)	(134)
To external	251	1,167	1,418	66	445	511	127	494	621	2,550
Intersegment	-	-	-	-	-	-	-	1	1	1
Total operating and other expenses	251	1,167	1,418	66	445	511	127	495	622	2,551
Profit (loss) before tax	381	405	786	230	321	551	457	724	1,181	2,518
Provision for (benefit from) tax on the profit	143	150	293	86	119	205	171	271	442	940
Profit (loss) after tax	238	255	493	144	202	346	286	453	739	1,578
Bank's share in profits of associate companies after tax	-	-	-	-	-	-	-	-	-	-
Net income before attributing to non-controlling interest holders	238	255	493	144	202	346	286	453	739	1,578
Net income due to non-controlling interest holders	-	3	3	-	1	1	-	3	3	7
Net income due to the Bank's shareholders	238	252	490	144	201	345	286	450	736	1,571
Average asset balance[a]	14,732	28,095	42,827	6,706	15,653	22,359	18,847	36,401	55,248	120,434
Of which: Investments in associate companies[a]	-	-	-	-	-	-	-	-	-	-
Average balance of credit to the public[a]	14,928	29,067	43,995	6,785	16,139	22,924	19,362	39,062	58,424	125,343
Balance of credit to the public at end of reporting period	16,243	30,268	46,511	6,826	16,925	23,751	19,789	36,841	56,630	126,892
Balance of impaired debts	277	289	566	182	275	457	1,057	940	1,997	3,020
Balance of debts in arrears of over 90 days	10	35	45	-	-	-	7	9	16	61
Average balance of liabilities[a]	7,185	28,716	35,901	3,731	23,042	26,773	7,306	36,913	44,219	106,893
Of which: Average balance of deposits of the public[a]	6,997	27,520	35,910	3,653	22,614	26,267	7,015	36,057	43,072	103,856
Balance of deposits of the public at end of the reporting period	7,467	26,601	34,068	3,725	24,770	28,495	7,448	40,778	48,226	110,789
Average balance of risk-weighted assets[ab]	15,954	26,081	42,035	8,441	18,447	26,888	41,117	42,575	83,692	152,615
Balance of risk-weighted assets at end of the reporting period (b)	15,935	26,050	41,985	8,431	18,425	26,856	41,069	42,525	83,594	152,435
Average balance of assets under management[ac]	4,741	27,854	32,595	2,280	15,010	17,290	17,773	60,277	78,050	127,935
Distribution of net interest income:										
Margin on credit granting activity	455	1,022	1,477	175	371	546	434	679	1,113	3,136
Margin on deposit taking activity	10	36	46	4	22	26	5	24	29	101
Other	-	-	-	-	-	-	-	-	-	-
Total net interest income	465	1,058	1,523	179	393	572	439	703	1,142	3,237

(a) Average balances were calculated on the basis of daily balances at the beginning of the quarter or at the beginning of the month.

(b) Risk-weighted assets – as calculated for capital adequacy purposes.

(c) Assets under management – including provident assets, supplementary training funds, mutual funds, and securities of customers

Note 29A – Regulatory Operating Segments and Geographic Areas (cont.)

D. Information on regulatory operating segments by geographical area[a]

	December 31, 2017				
	Trading activity	ALM activity	Real investment activity	Other	Total
Interest Income from externals	48	658	-	7	713
Interest expenses to externals	2	562	-	2	566
Net Interest income:	-	-	-	-	-
from externals	46	96	-	5	147
intersegment	(25)	411	(9)	15	392
total net interest income	21	507	(9)	20	539
total non interest income	241	507	52	126	926
Total income	262	1,014	43	146	1,465
Expenses (income) due to credit losses	-	-	-	-	-
Operating and other expenses	-	-	-	-	-
to externals	165	(71)	64	82	240
intersegment	-	(63)	2	1	(60)
Total Operating and other expenses	165	(134)	66	83	180
Profit (loss) before tax	97	1,148	(23)	63	1,285
Tax expense (benefit)	19	408	(3)	8	432
Profit (loss) after tax	78	740	(20)	55	853
Bank's share in profits of associate companies after tax	-	-	92	-	92
Net income (loss)before attributing to non-controlling interest holders	78	740	72	55	945
Net income (loss) due to non-controlling interest holders	-	-	-	-	-
Net income (loss) due to the Bank's shareholders	78	740	72	55	945
Average asset balance[a]	9,107	142,566	1,686	-	153,359
Of which: Investments in associate companies[a]	-	-	138	-	138
Average balance of credit to the public[a]	-	-	-	-	-
Balance of credit to the public at end of reporting period	-	-	-	-	-
Average balance of risk-weighted assets[a,b]	530	18,708	1,054	368	20,660
Balance of risk-weighted assets at end of the reporting period (b)	350	19,656	1,199	212	21,417
Average balance of assets under management[a,c]	-	-	-	36,183	36,183
Distribution of net interest income and noninterest financing income:					
Exchange rate differences, net[d]	-	74	-	-	-
CPI differences, net[d]	-	37	-	-	-
Interest rate exposures, net[d]	24	445	-	-	-
exposure to shares, net[d]	-	-	-	-	-
Interest margins attributed	-	377	-	-	-
Total net interest and nointerest income, by accrual basis	24	933	-	-	-
profits or losses from sale or impairment that is not temporary of bonds	-	108	-	-	-
Difference between fair value and accrual basis of dervitaives, recorded in income statement	-	6	-	-	-
other noninterest income	238	(33)	-	-	-
Total net interest income and noninterest financing income	262	1,014	-	-	-

(a) The classification is made according to the location of the office.

(b) Net interest income and noninterest income.

(c) Assets under management – including provident funds, customer securities

(d) Including due to securities and derivatives.

Note 29B – Operating Segments according to Management Approach

A. General

Reporting operating segments according to the management's approach presents the Bank's results according to business lines, in accordance with the Bank's organizational structure and in accordance with the decision of the Bank's management and Board of Directors.

The business lines specialize in providing service to customer segments having similar characteristics and needs.

The Bank in Israel is organized into six business lines:

7. Banking – providing banking services to private and small business customers. The business line includes the mortgage department and private banking department.
8. Commercial - providing banking and financial services to middle-market companies and interested parties in these companies.
9. Corporate - providing banking and financial services to large companies and international corporations in the economy, for their Israel-based and overseas operations.
10. Real estate - providing banking and financial services to the real estate and construction segment.
11. Capital market – managing the Bank's nostro account, managing assets and liabilities, and managing financial assets investments.
12. Misc. – activities not attributed to other business lines.

Operational results are attributed to the business line in which the customer's account is managed.

- Net interest income - the business line is credited with interest received from loans that it made available, less the cost of raising the sources (transfer cost). In addition, the business line is credited with the transfer cost for deposits that were raised less the interest that was paid to the customer.
- Noninterest income (financing income that are not from interest, commissions and other income) – are attributed to the business line according to the customer's activity.
- Business line expenses – include the direct expenses of the business line, and also expenses of headquarters' units providing services are charged to the business line.

The results of the business lines' activity, both on the side of the balance sheet and on the profit and loss side, are regularly examined by the Board of Directors and Management. Examination of the results is done using targets set within the framework of the annual work plan and against data from the corresponding period in the previous year. In addition, an examination is carried out of a variety of additional metrics relating to the business line's activity.

B. Operating Segments according to Management Approach

	For the year ended December 31, 2017 (b)												
	NIS Millions												
	Bank										Subsidiaries in Israel	Subsidiaries abroad	
	Retail, Premium and Private baning[b]	small buinesses[b]	Mortgages	Total Banking	Commercial	Corporate	Real Estate	Financial Management	Other and adjustments	Total			Total
Net interest income	1,923	1,308	843	4,074	1,014	581	461	632	(1)	6,761	294	991	8,046
Noninterest income	1,320	492	5	1,817	407	227	325	812	399	3,987	1,176	265	5,428
Total income	3,243	1,800	848	5,891	1,421	808	786	1,444	398	10,748	1,470	1,256	13,474
Provision for credit losses(income)	157	273	13	443	26	(72)	(316)	(13)	(23)	45	75	52	172
Total operating and other expenses	2,984	1,060	296	4,340	725	280	132	306	864	6,647	1,021	833	8,501
Profit before tax	102	467	539	1,108	670	600	970	1,151	(443)	4,056	374	371	4,801
Tax expense	36	163	189	388	235	210	340	404	(123)	1,454	89	149	1,692
Net income due to the Bank's shareholders*	66	304	350	720	435	390	630	750	(320)	2,605	345	222	3,172
Net loans to the public	30,214	27,438	78,626	136,278	35,712	33,152	20,684	4,437	5,712	235,975	8,773	23,204	267,952
Deposits from the public	154,063	35,369	-	189,432	43,484	21,614	6,425	76,065	93	337,113	65	25,300	362,478
Assets under management	173,036	19,750	-	192,786	24,432	21,228	1,293	432,806	22,448	694,993	260,155	19,282	974,430

Note 29B – Operating Segments by Management Approach (cont.)

	For the year ended December 31, 2016			(b)								
	NIS Millions											
	Bank									Subsidiaries in Israel	Subsidiaries abroad	
	Retail, Premium and Private baning[b]	Mortgages	Total Banking	Commercial	Corporate[a]	Real Estate[a]	Financial Management	Other and adjustments	Total			Total
Net interest income	3,007	754	3,761	895	521	526	650	(1)	6,352	237	937	7,526
Noninterest income	1,761	7	1,768	401	209	343	863	686	4,270	1,130	8	5,408
Total income	4,768	761	5,529	1,296	730	869	1,513	685	10,622	1,367	945	12,934
Provision for credit losses(income)	758	(3)	755	(72)	(376)	(392)	(55)	(20)	(160)	37	(2)	(125)
Total operating and other expenses	4,227	278	4,505	701	356	176	380	611	6,729	907	944	8,580
Profit before tax	(217)	486	269	667	750	1,085	1,188	94	4,053	423	3	4,479
Tax expense	(78)	174	96	240	269	389	426	10	1,430	218	69	1,717
Net income due to the Bank's shareholders*	(139)	312	173	427	481	696	768	84	2,629	228	(66)	2,791
Net loans to the public	57,762	79,394	137,156	33,705	29,898	21,020	3,676	5,529	230,984	7,406	23,567	261,957
Deposits from the public	191,156	-	191,156	41,698	19,772	7,702	59,696	41	320,065	68	26,721	346,854
Assets under management[d]	176,638	-	176,638	26,781	18,607	1,814	365,544	25,502	614,886	189,682	19,244	823,812

[a] In 2017, customers from the real estate segment were re-segmented to the business segment.

[b] In 2017, the structure of the Banking Division was changed. Comparative numbers were not adjusted.

[c] Restated.

(d) Reclassified.

Note 30 – Additional information on credit risk, loans to the public and the credit loss allowance

A. Debts[a] and off-balance sheet credit instruments

1. Change in credit loss allowance balance

	December 31, 2017					
	Credit loss allowance					
	Loans to the public					
	Commercial	Residential	Other private	Total	Banks and governments	Total
	NIS Millions					
Credit loss allowance balance at beginning of year	2,685	473	823	3,981	1	3,982
Provision for credit losses	(5)	(13)	188	170	2	172
Accounting write-offs	(835)	(9)	(581)	(1,425)	-	(1,425)
Collection of debts written-off in previous years	678	-	364	1,042	-	1,042
Net accounting write-offs	(157)	(9)	(217)	(383)	-	(383)
Adjustments from translation of financial statements	(19)	(1)	-	(20)	-	(20)
Credit loss allowance balance at year end[1]	2,504	450	794	3,748	3	3,751
[1]Of which: for off-balance sheet credit instruments	448	-	36	484	-	484

	December 31, 2016					
	Credit loss allowance					
	Loans to the public					
	Commercial	Residential	Other private	Total	Banks and governments	Total
	NIS Millions					
Credit loss allowance balance at beginning of year	2,981	513	659	4,153	3	4,156
Other changes in the credit loss allowance	-	-	-	-	-	-
Provision for credit losses	(571)	(9)	457	(123)	(2)	(125)
Accounting write-offs	(566) (b)	(31)	(693)	(b) (1,290)	-	(1,290)
Collection of debts written-off in previous years	843	-	400	1,243	-	1,243
Net accounting write-offs	277	(31)	(293)	(47)	-	(47)
Adjustments from translation of financial statements	(2)	-	-	(2)	-	(2)
Credit loss allowance balance at year end[1]	2,685	473	823	3,981	1	3,982
[1]Of which: for off-balance sheet credit instruments	452	-	36	488	-	488

	December 31, 2015					
	Credit loss allowance					
	Loans to the public					
	Commercial	Residential	Other private	Total	Banks and governments	Total
	NIS Millions					
Credit loss allowance balance at beginning of year	3,365	513	604	4,482	4	4,486
Other changes in the credit loss allowance	-	-	-	-	-	-
Provision for credit losses	(123)	14	309	200	(1)	199
Accounting write-offs	(676)	(12)	(614)	(1,302)	-	(1,302)
Collection of debts written off in previous years	410	-	361	771	-	771
Net accounting write-offs	(266)	(12)	(253)	(531)	-	(531)
Adjustments from translation of financial statements	5	(2)	(1)	2	-	2
Credit loss allowance balance at end of year[1]	2,981	513	659	4,153	3	4,156
[1]Of which: for off-balance sheet credit instruments	449	-	33	482	-	482

(a) Loans to the public, loans to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) Reclassified.

Note 30 – Additional information on credit risk, loans to the public and the credit loss allowance (cont.)

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

2. Additional information on the method of calculating the credit loss allowance in respect of debts[a] and on the debts[a] on which it was calculated

	December 31, 2017					
	Credit loss allowance					
	Loans to the public					
	Commercial	Residential	Other private	Total	Banks and governments	Total
	NIS Millions					
Recorded debt balance of debts[a]:						
Examined on an individual basis	112,831	29	774	113,634	11,457	125,091
Examined on a collective basis[1]	41,511	77,928	38,143	157,582	1,122	158,704
[1]Of which: the allowance was calculated by extent of arrears	1,066	(c) 77,465	-	78,531	-	78,531
Total debts[a]	154,342	77,957	38,917	271,216	12,579	283,795
Of which:						
Debts under restructuring	1,435	-	73	1,508	-	1,508
Other impaired debts	1,310	-	100	1,410	-	1,410
Total impaired debts	2,745	-	173	2,918	-	2,918
Debts in arrears of over 90 days	111	722	76	909	-	909
Other problem debts	2,467	-	436	2,903	-	2,903
Total problem debts	2,578	722	512	3,812	-	3,812
Credit loss allowance for debtsa:						
Examined on an individual basis	1,570	5	55	1,630	3	1,633
Examined on a collective basis[2]	486	445	703	1,634	-	1,634
[2]Of which: the allowance was calculated by extent of arrears	-	443 (b)	-	443	-	443
Total credit loss allowance	2,056	450	758	3,264	3	3,267
Of which: for impaired debts	459	-	25	484	-	484

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) Including balance of allowance in excess of that required by the extent of arrears method calculated on a collective basis in the amount of NIS 283 million (2016 - 294 million).

(c) Including housing loans granted to purchasing groups under construction.

(d) Reclassified.

Note 30 – Additional information on credit risk, loans to the public and the credit loss allowance (cont.)

A. Debts[(a)] and off-balance sheet credit instruments (cont.)

2. Additional information on the method of calculating the credit loss allowance in respect of debts[a] and on the debts[a] on which it was calculated

	December 31, 2016					
	Credit loss allowance					
	Loans to the public					
	Commercial	Residential	Other private	Total	Banks and governments	Total
	NIS Millions					
Recorded debt balance of debts[a]:						
Examined on an individual basis	106,782	(d) 45	542	(d) 107,369	7,890	115,259
Examined on a collective basis[1]	40,980	79,086	38,015	158,081	4,148	162,229
[1]Of which: the allowance was calculated by extent of arrears	909	(c) 78,656	-	79,565	-	79,565
Total debts[a]	147,762	79,131	38,557	265,450	12,038	277,488
Of which:						
Debts under restructuring	1,971	-	87	2,058	-	2,058
Other impaired debts	1,524	-	71	1,595	-	1,595
Total impaired debts	3,495	-	158	3,653	-	3,653
Debts in arrears of over 90 days	161	719	123	1,003	-	1,003
Other problem debts	2,634	-	409	3,043	-	3,043
Total problem debts	6,290	719	690	7,699	-	7,699
Credit loss allowance for debtsa:						
Examined on an individual basis	1,855	6	57	(d) 1,918	1	1,919
Examined on a collective basis[2]	378	(d) 467	730	1,575	-	1,575
[2]Of which: the allowance was calculated by extent of arrears	-	462	(b) -	462	-	462
Total credit loss allowance	2,233	473	787	3,493	1	3,494
Of which: for impaired debts	629	(e) -	10	(e) 639	-	639

Note 30 – Additional information on credit risk, loans to the public and the credit loss allowance (cont.)

B. Debts[(a)]

1. Credit quality and arrears

	December 31, 2017					
		Problem debts[b]			Unimpaired debts -	
	Non-problem debts	Not impaired	Impaired[c]	Total	In arrears of 90 days or more[d,h]	In arrears of 30 to 89 days[e]
	NIS Millions					
Activity of borrowers in Israel						
Public - commercial						
Construction & real estate - construction[g]	18,489	210	237	18,936	15	62
Construction & real estate - real estate activities[g]	23,833	120	491	24,444	12	45
Financial services	11,181	5	3	11,189	2	7
Commercial - other	67,754	1,477	1,349	70,580	70	174
Total commercial	121,257	1,812	2,080	125,149	99	288
Private individuals - housing loans	76,726	722(i)	-	77,448	722	516
Private individuals - other	37,745	511	139	38,395	76	236
Total public - activity in Israel	235,728	3,045	2,219	240,992	897	1,040
Israeli banks	1,650	-	-	1,650	-	-
State of Israel	129	-	-	129	-	-
Total activity in Israel	237,507	3,045	2,219	242,771	897	1,040
Activity of borrowers abroad						
Public - commercial						
Construction & real estate[g]	9,564	14	170	9,748	-	-
Other commercial	18,198	752	495	19,445	12	7
Total commercial	27,762	766	665	29,193	12	7
Private individuals	996	1	34	1,031	-	1
Total public - activity abroad	28,758	767	699	30,224	12	8
Foreign banks	10,214	-	-	10,214	-	-
Foreign governments	586	-	-	586	-	-
Total activity abroad	39,558	767	699	41,024	12	8
Total public	264,486	3,812	2,918	271,216	909	1,048
Total banks	11,864	-	-	11,864	-	-
Total governments	715	-	-	715	-	-
Total	277,065	3,812	2,918	283,795	909	1,048

Note 30 – Additional information on credit risk, loans to the public and the credit loss allowance (cont.)

B. Debts[a] (cont.)

1. Credit quality and arrears (cont.)

	December 31, 2016					
		Problem debts[b]			additional information	
	Non-problem debts	Not impaired	Impaired[c]	Total	In arrears of 90 days or more[dh]	In arrears of 30 to 89 days[e]
	NIS Millions					
Activity of borrowers in Israel						
Public - commercial						
Construction & real estate - construction	15,037	275	264	15,576	19	58
Construction & real estate - real estate activities	22,881	360	637	23,878	12	35
Financial services	10,390	5	459	10,854	2	2
Commercial - other	65,119	1,745	1,550	68,414	65	144
Total commercial	113,427	2,385	2,910	118,722	98	239
Private individuals - housing loans	77,926	719 (f)	-	78,645	719	530
Private individuals - other	37,502	531	108	38,141	122	252
Total public - activity in Israel	228,855	3,635	3,018	235,508	939	1,021
Israeli banks	1,742	-	-	1,742	-	-
State of Israel	206	-	-	206	-	-
Total activity in Israel	230,803	3,635	3,018	237,456	939	1,021
Activity of borrowers abroad						
Public - commercial						
Construction & real estate	9,210 (i)	5	325	9,540	3	14
Other commercial	18,835(i)	405	260	19,500	60	56
Total commercial	28,045	410	585	29,040	63	70
Private individuals	851(i)	1	50	902	1	3
Total public - activity abroad	28,896(i)	411	635	29,942	64	73
Total public	9,654	-	-	9,654	-	-
Total banks	436	-	-	436	-	-
Total governments	38,986	411	635	40,032	64	73
Total	257,751	4,046	3,653	265,450	1,003	1,094

1. Credit quality and arrears (cont.)

Notes:

(a) Loans to the public, loans to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) Impaired, substandard or special mention credit risk, including in respect of housing loans for which there is a provision by extent of arrears, and housing loans for which there is no provision that are in arrears of 90 days or more.

(c) As a rule, impaired debts do not accrue interest income. For information on certain impaired debts under problem debt restructuring, see Note 30B.2.C below.

(d) Classified as problem debts that are not impaired, accruing interest income.

(e) Accruing interest income. Debts in arrears of 30 to 89 days in the amount of NIS 639 million (December 31 2016 – NIS 674 million) were classified as problem debts that are not impaired.

(f) Including housing loans in the amount of NIS 94million (December 31 2015 – NIS 114 million) with a provision by extent of arrears, in which an arrangement was signed for the repayment of arrears by the borrower, with a change made to the repayment schedule in respect of the loan balance of which the repayment date has not yet arrived.

(g) In 2017 and 2016, 3% of the credit for income-generating assets given by the Construction and Real Estate Division is at LTV rates above 85%.

(h) The balance of unimpaired debits in arrears of 90 days or more, as at December 31 2017, NIS 897 million, for loans given by the Bank, of which about NIS 150 million is in respect of non-housing loans, and about NIS 747 million is in respect of housing loans, of which NIS 169 million is in arrears of up to 149 days, NIS 128 million is in arrears of 150-249 days, and the balance is in respect of a loan in arrears of 250 days or more.

Credit quality – status of debts in arrears

Note 30 – Additional information on credit risk, loans to the public and the credit loss allowance (cont.)

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 are treated as nonperforming (not accruing interest income) after 90 days of arrears, as is any debt that has undergone problem debt restructuring and has resumed accruing interest when it is one day of arrears relative to the new terms of the debt. With regard to debts evaluated on a collective basis, the status of arrears affects the classification of the debt (the classification is more severe for more extensive arrears) and after 150 days of arrears, the Bank performs a charge-off of the debt. 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.

B. Debts[(a)] (cont.)

2. Additional information on impaired debts

A. Impaired debts and individual allowance

	December 31, 2017				
	Impaired debts balance[b] for which there is an individual allowance[c]	Balance of individual allowance[c]	balance[b] for which there is no individual allowance[c]	Total balance[b] of impaired debts	Contractual principal balance of impaired debts
	NIS Millions				
Activity of borrowers in Israel Public - commercial					
Construction & real estate - construction	35	18	202	237	735
Construction & real estate - real estate activities	72	52	419	491	1,412
Financial services	2	1	1	3	460
Commercial - other	742	273	607	1,349	4,348
Total commercial	851	344	1,229	2,080	6,955
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	86	17	53	139	2,378
Total public - activity in Israel	937	361	1,282	2,219	9,333
Activity of borrowers abroad Public - commercial					
Construction & real estate	144	71	26	170	316
Other commercial	76	44	419	495	910
Total commercial	220	115	445	665	1,226
Private individuals	14	8	20	34	86
Total public - activity abroad	234	123	465	699	1,312
Total public	1,171	484	1,747	2,918	10,645
Of which:					
Measured by present value of cash flows	1,071	417	1,065	2,136	
Debts under troubled debt restructuring	365	154	1,143	1,508	

(a) Loans to the public, loans to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) Balance of recorded debt.

(c) Individual credit loss allowance.

Note 30 – Additional information on credit risk, loans to the public and the credit loss allowance (cont.)

B. Debts[(a)] (cont.)

2. Additional information on impaired debts (cont.)

a. Impaired debts and individual allowance (cont.)

	December 31, 2017				
	Impaired debts balance[b] for which there is an individual allowance[c]	Balance of individual allowance[c]	balance[b] for which there is no individual allowance[c]	Total balance[b] of impaired debts	Contractual principal balance of impaired debts
	NIS Millions				
Activity of borrowers in Israel					
Public - commercial					
Construction & real estate - construction	35	18	202	237	735
Construction & real estate - real estate activities	72	52	419	491	1,412
Financial services	2	1	1	3	460
Commercial - other	742	273	607	1,349	4,348
Total commercial	851	344	1,229	2,080	6,955
Private individuals - housing loans	–	–	–	–	–
Private individuals - other	86	17	53	139	2,378
Total public - activity in Israel	937	361	1,282	2,219	9,333
Activity of borrowers abroad					
Public - commercial					
Construction & real estate	144	71	26	170	316
Other commercial	76	44	419	495	910
Total commercial	220	115	445	665	1,226
Private individuals	14	8	20	34	86
Total public - activity abroad	234	123	465	699	1,312
Total public	1,171	484	1,747	2,918	10,645
Of which:					
Measured by present value of cash flows	1,071	417	1,065	2,136	
Debts under troubled debt restructuring	365	154	1,143	1,508	

	December 31, 2016				
	Impaired debts balance[b] for which there is an individual allowance[c]	Balance of individual allowance[c]	balance[b] for which there is no individual allowance[c]	Total balance[b] of impaired debts	Contractual principal balance of impaired debts
	NIS Millions				
Activity of borrowers in Israel					
Public - commercial					
Construction & real estate - construction	54	20	210	264	790
Construction & real estate - real estate activities	132	68	505	637	1,773
Financial services	1	–	458	459	958
Commercial - other	638	361	912	1,550	4,630
Total commercial	825	449	2,085	2,910	8,151
Private individuals - housing loans	–	–	–	–	–
Private individuals - other	20	1	88	108	2,199
Total public - activity in Israel	845	450	2,173	3,018	10,350
Activity of borrowers abroad					
Public - commercial					
Construction & real estate	216	107	109	325	467
Other commercial	180	73	80	260	587
Total commercial	396	180	189	585	1,054
Private individuals	16	9	34	50	108
Total public - activity abroad	412	189	223	635	1,162
Total Public	1,257	639	2,396	3,653	11,512
Of which:					
Measured by present value of cash flows	938	481	1,545	2,483	
Debts under troubled debt restructuring	302	140	1,756	2,058	

Note 30 – Additional information on credit risk, loans to the public and the credit loss allowance (cont.)

(a) Loans to the public, loans to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) Balance of recorded debt.

(c) Individual credit loss allowance.

Note 30 – Additional information on credit risk, loans to the public and the credit loss allowance (cont.)

B. Debts[(a)] (cont.)

2. Additional information on impaired debts (cont.)

b. Average balance and interest income

	For the year ended December 31, 2017					
	Average balance[b] of impaired debts	Interest income recorded[c]	Of which: recorded on cash basis	Of which: recorded on cash basis	Of which: recorded on cash basis	Of which: recorded on cash basis
	NIS Millions					
Activity of borrowers in Israel Public - commercial						
Construction & real estate - construction	245	2	1	288	2	1
Construction & real estate - real estate activities	588	15	12	684	6	3
Financial services	224	8	8	226	1	-
Commercial - other	1,458	26	12	1,657	33	25
Total commercial	2,515	51	33	2,855	42	29
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	125	4	1	137	3	1
Total public - activity in Israel	2,640	55	34	2,992	45	30
Activity of borrowers abroad Public - commercial						
Construction & real estate	253	5	5	353	7	6
Other commercial	411	5	5	299	8	7
Total commercial	664	10	10	652	15	13
Private individuals	28	1	1	40	4	4
Total public - activity abroad	692	11	11	692	19	17
Total	3,332	66 [(d)]	45	3,684	64 [(d)]	47

(a) Loans to the public, loans to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) Average debt balance recorded of impaired debts in the reporting period.

(c) Interest income recorded in the reporting period in respect of the average balance of impaired debts, for the period in which the debts were classified as impaired.

(d) If the impaired debts had accrued interest under their original terms, interest income would have been recorded in the amount of NIS 239 million (2016 – NIS 326.million).

Note 30 – Additional information on credit risk, loans to the public and the credit loss allowance (cont.)

B. Debts[(a)] (cont.)

2. Additional information on impaired debts (cont.)

b. Average balance and interest income (cont.)

	For the year ended December 31, 2015		
	Average balance[b] of impaired debts	Interest income recorded[c]	Of which: recorded on cash basis
	NIS Millions		
Activity of borrowers in Israel Public - commercial			
Construction & real estate - construction	582	12	12
Construction & real estate - real estate activities	1,208	16	16
Financial services	36	7	7
Commercial - other	1,512	49	32
Total commercial	3,338	84	67
Private individuals - housing loans	-	-	-
Private individuals - other	86	21	21
Total public - activity in Israel	3,424	105	88
Activity of borrowers abroad Public - commercial			
Construction & real estate	517	12	12
Other commercial	450	9	9
Total commercial	967	21	21
Private individuals	55	2	2
Total public - activity abroad	1,022	23	23
Total public	4,446	128	111

(a) Credit to the public, loans to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) Average debt balance recorded of impaired debts in the reporting period.

(c) Interest income recorded in the reporting period in respect of the average balance of impaired debts, for the period in which the debts were classified as impaired.

(d) If the impaired debts had accrued interest under their original terms, interest income would have been recorded in the amount of NIS 361 million.

Note 30 – Additional information on credit risk, loans to the public and the credit loss allowance (cont.)

B. Debts(a) (cont.)

2. Additional information on impaired debts (cont.)

C. Problem debts under restructuring(d)

	December 31, 2017				December 31, 2016			
	Not accruing interest income	Accruing arrears of 30 to 89 days[b,d]	Accruing[b] not in arrears	Total[c]	Not accruing interest income	Accruing arrears of 30 to 89 days[b,d]	Accruing[b] not in arrears	Total[c]
	NIS Millions				NIS Millions			
Activity of borrowers in Israel Public - commercial								
Construction & real estate - construction activities	167	-	8	175	199	-	13	212
	148	-	170	318	346	4	44	394
Financial services	-	-	-	-	405	-	-	405
Commercial - other	395	-	214	609	395	2	217	614
Total commercial	710	-	392	1,102	1,345	6	274	1,625
Private individuals - housing loans	-	-	-	-	-	-	-	-
Private individuals - other	46	-	18	64	52	2	23	77
Total public - activity in Israel	756	-	410	1,166	1,397	8	297	1,702
Activity of borrowers abroad Public - commercial								
Construction & real estate	61	-	56	117	152	-	83	235
Other commercial	26	-	190	216	62	-	49	111
Total commercial	87	-	246	333	214	-	132	346
Private individuals	4	-	5	9	5	-	5	10
Total public - activity abroad	91	-	251	342	219	-	137	356
	847	-	661	1,508	1,616	8	434	2,058

(a) Loans to the public, loans to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) Accruing interest income.

(c) Included in impaired debts.

(d) For details on first-time application of the update to the directives of the Banking Supervision Department on problem debt restructuring, please see Note 1.H.

Commitments to grant additional loans to borrowers for whom there was a problem debt restructuring that included changes in the loans terms amounted at December 31 2017 to NIS 15 million (December 31 2016 – NIS 16 million).

B. Debts[a] (cont.)

2. Additional information on impaired debts (cont.)

C. Problem debts under restructuring[d] (cont.)

1. Restructurings carried out

	December 31, 2017			December 31, 2016		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
	NIS Millions			NIS Millions		
Activity of borrowers in Israel Public - commercial						
Construction & real estate - construction	247	19	19	195	183	179
Construction & real estate - real estate activities	32	9	9	29	146	144
Financial services	13	7	-	14	410	405
Commercial - other	889	172	167	918	85	75
Total commercial	1,181	207	195	1,156	824	803
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	6,999	79	76	5,471	72	57
Total public - activity in Israel	8,180	286	271	6,627	896	860
Activity of borrowers abroad Public - commercial						
Construction & real estate	5	57	57	5	28	27
Other commercial	18	182	182	17	58	58
Total commercial	23	239	239	22	86	85
Private individuals	2	1	1	5	1	1
Total public - activity abroad	25	240	240	27	87	86
Total public	8,205	526	511	6,654	983	946

(a) Loans to the public, loans to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) For details on first-time implementation of the update to the directives of the Banking Supervision Department on problem debt restructuring, please see Note 1.H.

Note 30 – Additional information on credit risk, loans to the public and the credit loss allowance (cont.)

B. Debts[(a)] (cont.)

2. Additional information on impaired debts (cont.)

C. Problem debts under restructuring[(d)] (cont.)

1. Restructurings carried out (cont.)

	December 31, 2015		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
	NIS Millions		
Activity of borrowers in Israel			
Public - commercial			
Construction & real estate - construction	33	72	70
Construction & real estate - real estate activities	4	28	26
Financial services	-	-	-
Commercial - other	105	109	102
Total commercial	142	209	198
Private individuals - housing loans	-	-	-
Private individuals - other	961	9	9
Total public - activity in Israel	1,103	218	207
Activity of borrowers abroad			
Public - commercial			
Construction & real estate	21	42	41
Other commercial	25	75	73
Total commercial	46	117	114
Private individuals	6	2	2
Total public - activity abroad	52	119	116
Total public	1,155	337	323

(a) Loans to the public, loans to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) For details on first-time implementation of the update to the directives of the Banking Supervision Department on problem debt restructuring, please see Note 1.H.

Note 30 – Additional information on credit risk, loans to the public and the credit loss allowance (cont.)

B. Debts[a] (cont.)

2. Additional information on impaired debts (cont.)

C. Problem debts under restructuring[d] (cont.)

2. Failed restructurings[b][c][d]

	December 31					
	2017		2016		2015	
	Number of contracts	Recorded debt	Number of contracts	Recorded debt	Number of contracts	Recorded debt
	NIS Millions		NIS Millions		NIS Millions	
Activity of borrowers in Israel Public - commercial						
Construction & real estate - construction	164	10	67	6	27	14
Construction & real estate - real estate activities	19	4	6	6	10	7
Financial services	7	-	6	-	-	-
Commercial - other	582	15	309	19	128	37
Total commercial	772	29	388	31	165	58
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	3,600	10	2,114	10	564	10
Total activity in Israel	4,372	39	2,502	41	729	68
Activity of borrowers abroad Public - commercial	-	-	-	-	-	-
Construction & real estate	2	4	4	10	8	13
Other commercial	8	10	12	64	9	4
Total commercial	10	14	16	74	17	17
Private individuals	-	-	-	-	4	1
Total activity abroad	10	14	16	74	21	18
Total public	4,382	53	2,518	115	750	86

(a) Loans to the public, loans to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) Debts that during the reporting year went into arrears of 30 days or more and underwent a problem debt restructuring during the 12 months preceding the date they became debts in arrears.

(c) Recorded debt balance at the end of the period when the failure occurred.

(d) As of July 1, 2015, the Bank applies the update to the FAQ file on impaired debts, credit risk and credit loss allowance, which requires, inter alia, that the debts evaluated on a collective basis that were restructured and a failed restructuring will be written off within 60 days at the latest The Bank applied the directive on a prospective basis.

(e) For details on first-time implementation of the update to the directives of the Banking Supervision Department on problem debt restructuring, please see Note 1.H.

(f) Restated.

Note 30 – Additional information on credit risk, loans to the public and the credit loss allowance (cont.)

B. Debts[a] (cont.)

3. Additional information on housing loans

Year-end balances by LTV[b], type of repayment and type of interest

		December 31, 2017			
		Housing loans balance			
		Total[1]	[1]Of which: bullet and balloon	[1]Of which: variable interest	Total off-balance sheet credit risk
		NIS Millions			
First charge: financing ratio	Up to 60%	51,523	2,412	33,695	1,429
	Above 60%	26,399	801	18,444	157
Second charge or without charge		35	1	32	-
Total		77,957	3,214	52,171	1,586

		December 31, 2016[c]			
		Housing loans balance			
		Total[1]	[1]Of which: bullet and balloon	[1]Of which: variable interest	Total off-balance sheet credit risk
		NIS Millions			
First charge: financing ratio	Up to 60%	50,331	2,752	33,267	1,681
	Above 60%	28,788	888	20,379	216
Second charge or without charge		12	-	6	27
Total		79,131	3,640	53,652	1,924

(a) Loans to the public, loans to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) The ratio between the approved facility when the facility was granted and the value of the property, as approved by the Bank when the facility was granted. The LTV ratio is another indication of the Bank as to the assessment of customer risk when the facility was granted. On a quarterly basis, the minimum collective allowance of 0.35% is examined as required in Bank of Israel directives against the ratio of 0.75% required on loans with an LTV higher than 60%. It should be noted that the collective allowance is higher than the allowance required according to the LTV.

(c) Restated.

Note 30 – Additional information on credit risk, loans to the public and the credit loss allowance (cont.)

C. Credit to the public and off-balance sheet credit risk by size of loans of borrower

		December 31, 2017		
Credit limit		Number of borrowers[c]	Credit[a]	Off-balance sheet credit risk[ab]
NIS Thousands			NIS Millions	
From	To			
0	10	712,757	818	2,265
10	20	405,528	1,999	4,254
20	40	411,892	4,761	7,431
40	80	311,439	9,556	8,108
80	150	179,224	13,761	5,637
150	300	105,805	18,334	3,829
300	600	72,342	27,816	3,191
600	1,200	51,711	39,260	3,840
1,200	2,000	13,496	17,771	2,367
2,000	4,000	5,902	13,541	2,507
4,000	8,000	2,579	11,332	2,844
8,000	20,000	1,890	18,272	4,903
20,000	40,000	889	17,851	5,805
40,000	200,000	843	46,231	19,525
200,000	400,000	96	14,559	12,193
400,000	800,000	38	11,188	9,719
800,000	1,200,000	11	4,266	6,264
1,200,000	1,600,000	4	2,633	2,974
1,600,000	2,000,000	-	-	-
2,000,000	2,247,509	1	1,126	1,122
Total		2,276,447	275,075	108,778

(a) Before the effect of credit loss allowances, and before the effect of collateral permitted for deduction for purposes of single borrower and group of borrowers' indebtedness; with the addition of the fair value of derivative instruments in the amount of NIS 3,859 million.

(b) Credit risk in off-balance sheet financial instruments as calculated for purposes of single borrower restrictions.

(c) Number of borrowers by total loans and credit risk.

General comments:

Commencing with a loan level of NIS 8,000 thousand, the classification is set out by the specific consolidation method; with respect to the other borrowers, credit has been classified by the category consolidation method.

The definition of "borrower" and the definition of debt, including off-balance sheet credit risk, are in accordance with the directives of the Banking Supervision Department for amendment of Proper Conduct of Banking Business Directive No. 313 - "Restrictions on the Debt of a Single Borrower and of a Group of Borrowers".

Note 30 – Additional information on credit risk, loans to the public and the credit loss allowance (cont.)

C. Credit to the public and off-balance sheet credit risk by size of loan of borrower (cont.)

Credit limit		December 31, 2016		
		Number of borrowers[c]	Credit[a]	Off-balance sheet credit risk[ab]
NIS Thousands			NIS Millions	
From	To			
0	10	708,310	698	2,122
10	20	375,681	1,859	3,879
20	40	391,419	4,494	6,971
40	80	300,325	9,034	7,976
80	150	169,217	12,751	5,531
150	300	96,854	16,452	3,783
300	600	68,448	26,257	3,196
600	1,200	54,083	41,003	4,201
1,200	2,000	14,588	19,361	2,503
2,000	4,000	6,174	14,126	2,688
4,000	8,000	2,516	11,126	2,924
8,000	20,000	1,855	18,097	5,108
20,000	40,000	798	16,746	5,614
40,000	200,000	815	46,667	19,520
200,000	400,000	86	12,674	11,011
400,000	800,000	42	10,403	12,573
800,000	1,200,000	9	3,849	4,690
1,200,000	1,600,000	1	869	432
16,000,000	1,888,678	2	2,895	789

(a) Before the effect of credit loss allowances, and before the effect of collateral permitted for deduction for purposes of single borrower and group of borrowers' indebtedness; with the addition of the fair value of derivative instruments in the amount of NIS 3,911million.

(b) Credit risk in off-balance sheet financial instruments as calculated for purposes of single borrower restrictions.

(c) Number of borrowers by total loans and credit risk.

General comments

Commencing with a loan level of NIS 8,000 thousand, the classification is set out by the specific consolidation method; with respect to the other borrowers, credit has been classified by the category consolidation method.

The definition of "borrower" and the definition of debt, including off-balance sheet credit risk, are in accordance with the directives of the Banking Supervision Department for amendment of Proper Conduct of Banking Business Directive No. 313 - Restrictions on the Debt of a Single Borrower and of a Group of Borrowers.

D. Off-balance sheet financial instruments

(a) The balances of the contracts or their stated amounts at the year-end, before the effect of the credit loss allowance.

(b) Including the Bank's liabilities in respect of its share in the risk fund of the Maof Clearing House in the amount of NIS 86 million (December 31 2016 – NIS 100 million).

Note 30 – Additional information on credit risk, loans to the public and the credit loss allowance (cont.)

E. Sale and purchase of credit to the public

	December 31, 2017		December 31, 2016	
	Contract balances[a]	Credit loss allowance balance	Contract balances[a]	Credit loss allowance balance
	NIS Millions			
A. Off-balance sheet financial instruments				
Contract balances or their stated amounts at end of the period. Transactions in which the balance reflects credit risk:				
Documentary credits	1,205	3	1,419	1
Credit guarantees	5,480	80	5,843	113
Guarantees to apartment purchasers	19,313	16	19,555	17
Other guarantees and liabilities[b]	15,959	257	15,859	236
Unutilized credit card facilities	26,731	28	25,522	26
Other unutilized revolving credit facilities and credit facilities in accounts on demand	12,234	25	12,492	24
Irrevocable commitments to provide credit which has been approved and not yet granted[1]	23,159	58	23,209	51
Commitments to issue guarantees	16,065	17	13,833	20
Unutilized facilities for activity in derivative instruments	1,955	-	2,912	-
Approval in principle for a guaranteed rate of interest	3,246	-	2,725	-

F. Loan syndications and participation in loan syndication

	For the year ended December 31, 2017					
	NIS Millions					
	Syndication deals initiated by the bank[a]				Syndication deals initiated by others	
	Bank's share		Others' share		Bank's share	
	Credit to the public	off-balance sheet credit risk[b]	Credit to the public	off-balance sheet credit risk[b]	Credit to the public	off-balance sheet credit risk[b]
Total Commercial	**3,100**	**2,617**	**8,617**	**3,433**	**872**	**1,827**
- Private persons housing loans	**3,566**	**250**	**3,584**	**250**	**-**	**-**
other - Private persons	**1**	**-**	**1**	**-**	**-**	**-**
public Total credit to the risk	**6,667**	**2,867**	**12,202**	**3,683**	**872**	**1,827**

	December 31, 2016					
	NIS Millions					
	Syndication deals initiated by the bank[a]				Syndication deals initiated by others	
	Bank's share		Others' share		Bank's share	
	Credit to the public	off-balance sheet credit risk[b]	Credit to the public	off-balance sheet credit risk[b]	Credit to the public	off-balance sheet credit risk[b]
Total Commercial	**3,265**	**2,698**	**9,100**	**3,542**	**2,718**	**1,603**
- Private persons housing loans	**1,388**	**146**	**1,393**	**146**	**-**	**-**
other - Private persons	**-**	**-**	**-**	**-**	**-**	**-**
public Total credit to the risk	**4,653**	**2,844**	**10,493**	**3,688**	**2,718**	**1,603**

Note 30 – Additional information on credit risk, loans to the public and the credit loss allowance (cont.)

	For the year ended December 31, 2017					
	NIS Millions					
	Sindication deals initiaited by the bank[a]				Sindication deals initiaited by others	
	Bank's share		Others' share		Bank's share	
	Credit to the public	off-balance sheet credit risk[b]	Credit to the public	off-balance sheet credit risk[b]	Credit to the public	off-balance sheet credit risk[b]
Total Commercial	3,100	2,617	8,617	3,433	872	1,827
Private persons - housing loans	3,566	250	3,584	250	-	-
Private persons - other	1	-	1	-	-	-
Total crto the public edit risk	6,667	2,867	12,202	3,683	872	1,827

	December 31, 2016					
	NIS Millions					
	Sindication deals initiaited by the				Sindication deals initiaited by	
	Bank's share		Others' share		Bank's share	
	Credit to the public	off-balance sheet credit risk[b]	Credit to the public	off-balance sheet credit risk[b]	Credit to the public	off-balance sheet credit risk[b]
Total Commercial	3,265	2,698	9,100	3,542	2,718	1,603
Private persons - housing loans	1,388	146	1,393	146	-	-
Private persons - other	-	-	-	-	-	-
Total crto the public edit risk	4,653	2,844	10,493	3,688	2,718	1,603

[a] Including if the banking corporation provides a material service for the syndication transaction.

[b] Credit risk in off-balance sheet financial instruments as calculated for the purpose of limiting a borrower's indebtedness, excluding for derivative instruments.

Note 31 - Assets and Liabilities by Linkage Basis

	December 31, 2017						
	Israeli currency		Foreign currency[a]				
	Unlinked	CPI-linked	US dollars	Euros	Other currencies	Non-monetary items[b]	Total
	NIS Millions						
Assets							
Cash and deposits with banks	71,674	-	6,449	1,503	2,335	106	82,067
Securities	34,508	3,132	29,732	4,490	1,203	4,234	77,299
Securities borrowed or purchased under agreements to resell	1,080	-	27	42	12	-	1,161
Net loans to the public[c]	187,327	41,928	29,444	4,132	4,831	290	267,952
Credit to governments	27	102	543	43	-	-	715
Investments in associate companies	-	-	-	-	-	807	807
Buildings and equipment	-	-	-	-	-	2,986	2,986
Derivative assets	5,795	113	924	574	202	1,965	9,573
Intangible assets and goodwill	-	-	-	-	-	16	16
Other assets	6,193	4	648	2	26	1,389	8,262
Total assets	306,604	45,279	67,767	10,786	8,609	11,793	450,838
Liabilities							
Deposits from the public	234,431	18,955	90,620	11,799	6,170	503	362,478
Deposits from banks	1,398	10	2,636	999	113	-	5,156
Deposits from governments	61	-	383	8	-	-	452
Securities loaned or sold under repurchase agreements	509	-	2	3	-	44	558
Debentures, bonds and subordinated notes	4,039	11,538	-	-	-	-	15,577
Derivative liabilities	6,024	211	822	521	276	1,886	9,740
Other liabilities	9,141	12,003	572	20	130	1,458	23,324
Total liabilities	255,603	42,717	95,035	13,350	6,689	3,891	417,285
Difference[d]	51,001	2,562	(27,268)	(2,564)	1,920	7,902	33,553
Effect of non-hedging derivative instruments:							
Derivative instruments (except options)	(19,443)	(5,014)	26,775	1,094	(2,558)	(854)	-
Options in the money, net (in terms of underlying asset)	1,426	-	(2,174)	598	(31)	181	-
Options out of the money, net (in terms of underlying asset)	(1,264)	-	721	520	11	12	-
Total	31,720	(2,452)	(1,946)	(352)	(658)	7,241	33,553
Effect of non-hedging derivative instruments:							
Options in the money, net (discounted par value)	1,587	-	(2,676)	845	(64)	308	-
Options out of the money, net (discounted par value)	(41)	-	(468)	392	62	55	-

(a) Including linked to foreign currency.

(b) Including derivative instruments whose underlying asset is a non-monetary item.

(c) After deduction of credit loss allowances attributable to linkage bases in the amount of NIS 3,264 million.

(d) Shareholders' equity includes non-controlling interests.

Note 31 - Assets and Liabilities by Linkage Basis (cont.)

	December 31, 2016						
	Israeli currency		Foreign currency (a)				
	Unlinked	CPI-linked	US dollars	Euros	Other currencies	Non-monetary items (b)	Total
	NIS millions						
Assets							
Cash and deposits with banks	63,306	247	7,059	1,245	2,615	285	74,757
Securities	35,314	3,701	31,710	2,934	1,599	1,943	77,201
Securities borrowed or purchased under agreements to resell	1,284	-	-	-	-	-	1,284
Net loans to the public[c]	179,597	44,374	29,299	3,931	4,576	180	261,957
Credit to governments	57	149	382	54	-	-	642
Investments in associate companies	-	-	-	-	-	901	901
Buildings and equipment	-	-	-	-	-	3,147	3,147
Derivative assets	5,601	98	3,031	257	131	1,536	10,654
Intangible assets and goodwill	5,991	4	914	4	27	1,103	8,043
Total assets	291,150	48,573	72,395	8,425	8,948	9,112	438,603
Liabilities							
Deposits from the public	216,180	20,389	88,469	14,582	6,726	508	346,854
Deposits from banks	987	18	1,640	710	39	-	3,394
Deposits from governments	68	-	824	8	-	-	900
Securities loaned or sold under repurchase agreements	534	-	5	-	-	-	539
Debentures, bonds and subordinated notes	6,292	16,348	-	-	-	-	22,640
Derivative liabilities	5,842	230	2,729	279	132	1,465	10,677
Other liabilities	9,152	10,603	727	27	184	1,192	21,885
Total liabilities	239,055	47,588	94,394	15,606	7,081	3,165	406,889
Difference[d]	52,095	985	(21,999)	(7,181)	1,867	5,947	31,714
Effect of non-hedging derivative instruments:							
Derivative instruments (except options)	(26,208)	(1,469)	22,376	7,593	(2,433)	141	-
Options in the money, net (in terms of underlying asset)	1,425	-	(1,318)	(214)	(31)	138	-
Options out of the money, net (in terms of underlying asset)	641	-	(180)	(476)	15	-	-
Total	27,953	(484)	(1,121)	(278)	(582)	6,226	31,714
Effect of non-hedging derivative instruments:	-	-	-	-	-	-	-
Options in the money, net (discounted par value)	2,101	-	(2,012)	(253)	(37)	201	-
Options out of the money, net (discounted par value)	1,903	-	(500)	(1,447)	44	-	-

(a) Including linked to foreign currency.

(b) Including derivative instruments whose underlying asset is a non-monetary item.

(c) After deduction of credit loss allowances attributable to linkage bases in the amount of NIS 3,493 million.

(d) Shareholders' equity includes non-controlling interests.

(e) Reclassified.

Note 32 - Assets and Liabilities by Currency and Maturity(a)

	December 31, 2017			
	Estimated future contractual cash flows			
	On demand and up to one month[f]	One month to three months[f]	Three months to one year[f]	One year to two years
	NIS Millions			
Israeli currency (including linked to foreign currency):				
Assets[1]	111,761	20,073	58,154	32,340
Liabilities[2]	196,990	19,123	37,035	8,723
Difference	(85,229)	950	21,119	23,617
[1]Of which: credit to the public	35,713	17,172	37,794	29,163
[2]Of which: deposits of the public	186,385	18,016	34,390	5,630
Derivative instruments (except options)	(11,382)	(7,594)	(7,754)	3,051
Options (in terms of underlying asset)	184	(526)	(962)	942
Difference after effect of derivative instruments	(96,427)	(7,170)	12,403	27,610
Foreign currency[c]				
Assets[1]	19,954	6,246	20,066	7,859
Liabilities[2]	83,889	11,294	15,809	2,439
Difference	(63,935)	(5,048)	4,257	5,420
[1]Of which: credit to the public	7,531	5,405	8,102	5,154
[2]Of which: deposits of the public	79,824	10,938	15,178	2,323
Of which difference in $	(58,718)	5,003	12,548	(1,014)
Of which: difference for foreign operations	(10,958)	(78)	1,290	2,979
Derivative instruments (except options)	11,382	7,594	7,754	(3,051)
Options (in terms of underlying asset)	(184)	526	962	(942)
Difference after effect of derivative instruments	(52,737)	3,072	12,973	1,427
Total				
Assets[1]	131,715	26,319	78,220	40,199
Liabilities[2]	280,879	30,417	52,844	11,162
Difference[g]	(149,164)	(4,098)	25,376	29,037
[1]Of which: credit to the public	43,244	22,577	45,896	34,317
[2]Of which: deposits of the public	266,209	28,954	49,568	7,953

(a) In this Note, forecast contractual future cash flows in respect of assets and liabilities are shown according to linkage basis, in accordance with the remaining contractual period to maturity of each cash flow. The data is presented after deduction of credit loss allowance.

(b) Assets without a fixed maturity include assets in the amount of NIS 776 million that are overdue.

(c) Not including Israeli currency linked to foreign currency.

(d) As included in Note 31 "Assets and Liabilities by Linkage Basis", including off-balance sheet amounts in respect of derivatives that are not settled net.

(e) The contractual rate of return is the interest rate discounting future anticipated contractual cash flows reported in this Note in respect of a monetary item to the balance sheet figure.

(f) Credit with current loan conditions classified in accordance with the period of the facility is in the amount of NIS 7.2 billion. Over-limit loans in the amount of NIS 1.2 billion is classified as without repayment date.

(g) The above difference does not necessarily reflect the exposure to interest and/or linkage basis.

Note: Total memorandum liabilities against which short-term loans were granted in the Bank amount to NIS 4.5 billion.

							Book balance[d]		
Two years to three years	Three years to four years	Four years to five years	Five years to ten years	Ten years to twenty years	Over twenty years	Total cash flows	Without fixed maturity[b]	Total	Contractual rate of return[e] %
25,608	21,118	17,797	46,231	39,914	13,871	386,867	3,785	352,692	3.12
14,196	5,938	3,569	7,342	5,608	6,216	304,740	903	299,166	1.83
11,412	15,180	14,228	38,889	34,306	7,655	82,127	2,882	53,526	
24,438	17,801	14,277	39,110	37,798	11,076	264,342	2,205	229,252	3.64
2,826	2,220	2,600	2,206	491	-	254,764	-	253,443	1.38
526	(830)	270	(279)	(33)	-	(24,025)	-	(24,350)	
662	-	-	-	-	-	300	-	291	
12,600	14,350	14,498	38,610	34,273	7,655	58,402	2,882	29,467	
7,615	6,286	4,775	13,548	4,049	1,308	91,706	1,883	86,353	2.48
300	216	475	346	2	2	114,772	47	114,228	2.12
7,315	6,070	4,300	13,202	4,047	1,306	(23,066)	1,836	(27,875)	
4,103	2,938	1,800	2,716	566	113	38,428	1,871	38,410	3.58
253	156	438	210	2	1	109,323	-	108,532	1.75
(3,303)	4,970	3,571	12,450	3,509	1,276	(19,708)	366	(24,672)	
3,621	3,478	1,274	4,629	994	58	7,287	116	5,798	
(526)	830	(270)	279	33	-	24,025	-	24,350	
(662)	-	-	-	-	-	(300)	-	(291)	
6,127	6,900	4,030	13,481	4,080	1,306	659	1,836	(3,816)	
33,223	27,404	22,572	59,779	43,963	15,179	478,573	5,668	439,045	2.99
14,496	6,154	4,044	7,688	5,610	6,218	419,512	950	413,394	1.91
18,727	21,250	18,528	52,091	38,353	8,961	59,061	4,718	25,651	
28,541	20,739	16,077	41,826	38,364	11,189	302,770	4,076	267,662	3.63
3,079	2,376	3,038	2,416	493	1	364,087	-	361,975	1.49

Note 32 - Assets and Liabilities by Currency and Maturity (cont.)

	December 31, 2016			
	Estimated future contractual cash flows			
	On demand and up to one month[f]	One month to three months[f]	Three months to one year[f]	One year to two years
	NIS Millions			
Israeli currency (including linked to foreign currency):				
Assets[1(h)]	101,865	22,636	60,972	30,831
Liabilities[2(h)]	177,895	22,668	46,914	9,016
Difference	(76,030)	(32)	14,058	21,815
[1]Of which: credit to the public	34,880	17,171	39,633	28,021
[2]Of which: deposits of the public	168,219	21,775	35,696	6,810
Derivative instruments (except options)	(13,323)	(605)	(16,102)	184
Options (in terms of underlying asset)	34	205	140	193
Difference after effect of derivative instruments	(89,319)	(432)	(1,904)	22,192
Foreign currency[c]				
Assets[1]	21,469	11,636	16,742	11,629
Liabilities[2]	83,160	12,753	18,939	3,062
Difference	(61,691)	(1,117)	(2,197)	8,567
[1]Of which: credit to the public	8,639	5,363	7,616	5,193
[2]Of which: deposits of the public	79,229	11,274	16,754	2,608
Of which difference in $	(50,028)	1,590	(2,463)	4,368
Of which: difference for foreign operations	(4,707)	719	(876)	2,765
Derivative instruments (except options)	13,323	605	16,102	(184)
Options (in terms of underlying asset)	(34)	(205)	(140)	(193)
Difference after effect of derivative instruments	(48,402)	(717)	13,765	8,190
Total				
Assets[1]	123,334	34,272	77,714	42,460
Liabilities[2]	261,055	35,421	65,853	12,078
Difference[g]	(137,721)	(1,149)	11,861	30,382
[1]Of which: credit to the public	43,519	22,534	47,249	33,214
[2]Of which: deposits of the public	247,448	33,049	52,450	9,418

(a) In this Note, forecast contractual future cash flows in respect of assets and liabilities are shown according to linkage basis, in accordance with the remaining contractual period to maturity of each cash flow. The data is presented after deduction of credit loss allowance.

(b) Assets without a fixed maturity include assets in the amount of NIS 693 million that are overdue.

(c) Not including Israeli currency linked to foreign currency.

(d) As included in Note 31 "Assets and Liabilities by Linkage Basis", including off-balance sheet amounts in respect of derivatives that are not settled net.

(e) The contractual rate of return is the interest rate discounting future anticipated contractual cash flows reported in this Note in respect of a monetary item to the balance sheet figure.

(f) Loans with current loan account conditions is classified in accordance with the period of the loan facility in the amount of NIS 9.6 billion. Over-limit loans in the amount of NIS 0.9 billion are classified as without repayment date.

(g) The above difference does not necessarily reflect the exposure to interest and/or linkage basis.

(h) Restated.

Note: Total memorandum liabilities against which short-term loans were granted in the Bank amount to NIS 4.9 billion.

Note 32 - Assets and Liabilities by Currency and Maturity (cont.)

Two years to three years	Three years to four years	Four years to five years	Five years to ten years	Ten years to twenty years	Over twenty years	Total cash flows	Book balance[d] Without fixed maturity[b]	Total	Contractual rate of return[e] %
26,813	20,289	18,560	47,213	40,073	13,938	383,190	4,048	341,590	2.90
6,526	12,402	5,137	8,276	2,954	3,781	295,569	879	288,443	1.43
20,287	7,887	13,423	38,937	37,119	10,157	87,621	3,169	53,147	
23,103	18,565	13,747	39,764	38,128	11,592	264,604	2,126	223,970	3.61
3,647	1,414	1,651	2,638	554	-	242,404	68	236,637	1.99
1,638	(465)	(790)	448	(147)	-	(29,162)	-	(27,723)	-
920	708	-	-	-	-	2,200	-	2,066	-
22,845	8,130	12,633	39,385	36,972	10,157	60,659	3,169	27,490	1.47
6,653	6,808	4,782	13,346	4,188	1,075	98,328	1,649	87,901	3.40
1,425	556	380	354	55	4	120,688	70	115,281	1.88
5,228	6,252	4,402	12,992	4,133	1,071	(22,360)	1,579	(27,380)	1.52
3,499	2,599	2,264	2,815	689	157	38,834	1,642	37,807	3.60
731	237	160	322	-	1	111,316	29	109,709	1.91
7,146	4,990	3,999	12,067	3,535	1,030	(13,766)	1,775	(16,521)	-
2,834	2,692	2,579	3,455	1,288	258	11,007	55	8,908	-
(1,638)	465	790	(448)	147	-	29,162	-	27,582	-
(920)	(708)	-	-	-	-	(2,200)	-	(2,204)	-
2,670	6,009	5,192	12,544	4,280	1,071	4,602	1,579	(2,002)	-
33,466	27,097	23,342	60,559	44,261	15,013	481,518	5,697	429,491	3.00
7,951	12,958	5,517	8,630	3,009	3,785	416,257	949	403,724	1.56
25,515	14,139	17,825	51,929	41,252	11,228	65,261	4,748	25,767	1.44
26,602	21,164	16,011	42,579	38,817	11,749	303,438	3,768	261,777	3.61
4,378	1,651	1,811	2,960	554	1	353,720	97	346,346	1.96

Note 33A – Balances and Fair Value Assessments of Financial Instruments

A. General

This note includes information regarding the determination of the fair value of financial instruments according to directives of the Supervisor of Banks. Most of the financial instruments of the Bank do not have a quotable "market value" because they do not have an active trading market. Their fair value is therefore determined on the basis of the present value of future cash flows, discounted at an interest rate that reflects the interest at which the Bank would have effected a similar transaction on the reporting date. The estimated fair value is calculated by means of estimating future cash flows and a subjective determination of the discount rate. Therefore, in respect of most financial instruments, the reported fair value does not necessarily indicate the realizable value of the financial instrument on the reporting date. The estimate of fair value is made on the basis of interest rates in effect on the reporting date and does not take into account interest rate fluctuations. Under different interest rates the fair value calculated may be significantly different. This is true especially in respect of financial instruments with interest at fixed rates or those which are noninterest bearing. Furthermore, the determination of fair value does not take into account commissions that will be received or paid over the course of business. In addition, the difference between the balance sheet value and the fair value may not be realized because in most cases the Bank may hold the financial instrument until maturity. Therefore, it should be noted that the data included in this note do not purport to reflect the value of the Bank as a going concern. Furthermore, because of the wide range of valuation techniques and estimates that can be applied in the calculation of fair value, caution must be exercised when comparing fair values of different banks.

B. Principal methods and assumptions used in estimating the fair value of financial instruments

Financial assets:

Loans to the public - the fair value of loans to the public is determined on the basis of the present value of future cash flows discounted at an appropriate discount rate. The balance of loans was classified into a number of categories according to the operating segment and the credit rating of the borrowers. Future cash flows (principal and interest) were calculated in respect of each category according to the various linkage bases. These receipts were discounted at an interest rate that reflects the rate of risk and average margin inherent in that category of the loan and the term of the loan.

The interest rate is usually determined according to the interest rate used in similar transactions in the same segment on the reporting date.

The fair value of debit balances in current accounts was valued at book value.

The fair value of impaired debts was calculated using interest rates that reflect the inherent high credit risk. In any case, these interest rates reflect the highest rates of interest used by the Group in transactions on the reporting date in the same segment.

The fair value of current account balances classified as impaired loans was calculated in accordance with an estimate of their average duration and based on maximum interest rates in the Bank.

The future cash flows in respect of impaired debts were calculated after deducting the effect of accounting write-offs and credit loss allowances.

Note 33A – Balances and Fair Value Assessments of Financial Instruments (cont.)

Deposits with banks and loans to governments - by the discounted future cash flows method, at interest rates at which similar transactions were executed on the reporting date.

Securities – Quoted securities at their market value. Unquoted securities, shares at cost, and debentures according to a model which takes into account the present value of future cash flows discounted at the appropriate discount rate, and which also takes into account the probability of default and market value.

Financial liabilities:

Deposits of the public - The balance of the deposits is classified according to a number of categories according to operating segments, adjustment basis and the terms of deposit. Future cash flows (principal and interest) were calculated in respect of each category. These payments were discounted at an interest rate that reflects the average interest rate the Group pays on similar deposits in the same category for the period remaining until maturity. The balance sheet amount of current accounts and deposits without a repayment date is considered to be an estimate of their fair value.

Deposits from banks and deposits from governments - The fair value estimated by the discounted future cash flows method, at the rate of interest at which the Group raises similar deposits on the reporting date.

Debentures, bonds and subordinated notes - At their fair value or by the discounted future cash flows method, at the rate of interest at which the Group raises similar deposits or at the rate at which it issues similar bonds on the reporting date.

Other financial assets and liabilities:

Derivative financial instruments:

Derivative financial instruments that have an active market were valued according to the market value determined in the principal market. When there are a number of markets in which the instrument is traded, the value is determined according to the most active market.

Derivative financial instruments that are not traded on an active market were valued on the basis of models the Bank uses in its current operations as at the reporting date, which take into account the risks inherent in the financial instrument (market risk, credit risk, etc.).

Note 33A – Balances and Fair Value Assessments of Financial Instruments (cont.)

	December 31, 2017				
	Book value	Fair value			
		Level 1[a]	Level 2[a]	Level 3[a]	Total
	NIS Millions				
Financial assets					
Cash and deposits with banks	82,067	72,384	8,456	1,294	82,134
Securities[b]	77,299	48,697	26,244	2,360	77,301
Securities borrowed or purchased under agreements to resell	1,161	1,161	-	-	1,161
Net loans to the public	267,952	2,324	77,657	186,463	266,444
Credit to governments	715	-	8	741	749
Derivative assets	9,573	1,113	7,346	1,114	9,573
Other financial assets	1,844	1,155	-	690	1,845
Total financial assets	440,611(c)	126,834	119,711	192,662	439,207
Financial liabilities					
Deposits from the public	362,478	2,139	253,897	107,457	363,493
Deposits from banks	5,156	-	5,164	96	5,260
Deposits from governments	452	-	395	72	467
Securities loaned or sold under repurchase agreements	558	555	-	3	558
Debentures, bonds and subordinated notes	15,577	11,802	-	4,982	16,784
Derivative liabilities	9,740	1,090	8,211	439	9,740
Other financial liabilities	8,761	1,721	5,523	1,517	8,761
Total financial liabilities	402,722(c)	17,307	273,190	114,566	405,063
Off-balance sheet financial instruments					
Transactions in which the balance reflects credit risk	364	-	-	364	364
In addition, the liability for employee rights, gross - pension and severance payd	17,995	-	181	17,814	17,995

(a) Level 1 - Fair value measurements using prices quoted in an active market.

Level 2 – Fair value measurements using other significant observable inputs.

Level 3 – Fair value measurements using significant unobservable inputs.

(b) For further details of the book value and fair value of securities, see Note 12 on Securities.

(c) Of which assets and liabilities of NIS 118,402 million and NIS 180,345 million, respectively, whose book value is the same as fair value (instruments that are shown in the balance sheet at fair value) or are an approximation of fair value (instruments for an original period of 3 months for which the book value is used as an approximation of fair value). For further information on instruments measured for fair value on a recurring basis and on a non-recurring basis, see Notes 33B-33D.

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

Note 33A – Balances and Fair Value Assessments of Financial Instruments (cont.)

	December 31, 2016				
	Book value	Fair value			
		Level 1[a]	Level 2[a]	Level 3[a]	Total
	NIS Millions				
Financial assets					
Cash and deposits with banks	74,757	65,326	7,134	2,301	74,761
Securities[b]	77,201	50,337	24,457	2,407	77,201
Securities borrowed or purchased under agreements to resell	1,284	1,284	-	-	1,284
Net loans to the public	261,957	2,566	73,382	184,726	260,674
Credit to governments	642	-	27	642	669
Derivative assets	10,654	727	8,960	967	10,654
Other financial assets	1,711	936	-	776	1,712
Total financial assets	428,206 (c)	121,176	113,960	191,819	426,955
Financial liabilities					
Deposits from the public	346,854	2,379	232,144	113,396	347,919
Deposits from banks	3,394	-	3,302	76	3,378
Deposits from governments	900	-	833	86	919
Securities loaned or sold under repurchase agreements	539	539	-	-	539
Debentures, bonds and subordinated notes	22,640	17,795	12	6,119	23,926
Derivative liabilities	10,677	728	9,542	407	10,677
Other financial liabilities	8,446	1,746	5,294	1,407	8,447
Total financial liabilities	393,450 (c)	23,187	251,127	121,491	395,805
Off-balance sheet financial instruments					
Transactions in which the balance reflects credit risk	353	-	-	353	353
In addition, the liability for employee rights, gross - pension and severance payd	16,948	-	183	16,765	16,948

(a) Level 1 - Fair value measurements using prices quoted in an active market.

Level 2 – Fair value measurements using other significant observable inputs.

Level 3 – Fair value measurements using significant unobservable inputs.

(b) For further details of the book value and fair value of securities, see Note 12 on Securities.

(c) Of which assets and liabilities of NIS 120,850 million and NIS 156,667million, respectively, whose book value is the same as fair value (instruments that are shown in the balance sheet at fair value) or are an approximation of fair value (instruments for an original period of 3 months for which the book value is used as an approximation of fair value). For further information on instruments measured for fair value on a recurring basis and on a non-recurring basis, see Notes 33B-33D.

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

(e) Restated.

Note 33B – Items Measured at Fair Value

A. Items measured at fair value on a recurring basis

	December 31, 2017			
	Fair value measurements using:			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	NIS Millions			
Assets				
Securities available for sale:				
Israeli government bonds	34,246	2,387	-	36,633
Foreign government bonds	7,700	3,055	-	10,755
Bonds of Israeli financial institutions	-	11	-	11
Bonds of financial institutions abroad	44	9,609	-	9,653
Asset-backed (ABS) or mortgage-backed (MBS)	-	7,160	1,369	8,529
Other bonds in Israel	3	67	-	70
Other bonds abroad	-	2,352	-	2,352
Shares and mutual funds available for sale	1,936	-	-	1,936
Total securities available for sale	43,929	24,641	1,369	69,939
Securities held for trading:				
Israeli government bonds	3,178	26	-	3,204
Foreign government bonds	82	-	-	82
Bonds of Israeli financial institutions	90	-	-	90
Bonds of financial institutions abroad	-	142	-	142
Asset-backed (ABS) or mortgage-backed (MBS)	-	268	-	268
Other bonds in Israel	111	-	-	111
Other bonds abroad	-	299	-	299
Shares and mutual funds held for trading	1,307	-	-	1,307
Total securities held for trading	4,768	735	-	5,503
Derivative assets:				
NIS - Inflation linked contracts	-	149	166	315
Interest contracts	30	3,852	266	4,148
Foreign currency contracts	-	2,206	616	2,822
Share contracts	669	1,113	63	1,845
Commodity and other contracts	3	26	3	32
Activity in the Maof market	411	-	-	411
Total derivative assets	1,113	7,346	1,114	9,573
Others:				
Credit and deposits for the lending of securities	2,473	7	-	2,480
Securities borrowed or purchased under resale agreements	1,161	-	-	1,161
Other	1,155	-	-	1,155
Total others	4,789	7	-	4,796
Total assets	54,599	32,729	2,483	89,811

Note 33B – Items Measured at Fair Value (cont.)

A. Items measured at fair value on a recurring basis (cont.)

	December 31, 2017			
	Fair value measurements using:			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	NIS Millions			
Liabilities:				
Derivative liabilities:				
NIS - Inflation linked contracts	-	176	255	431
Interest contracts	29	3,804	-	3,833
Foreign currency contracts	-	3,030	184	3,214
Share contracts	663	1,179	-	1,842
Commodity and other contracts	3	22	-	25
Activity in the Maof market	395	-	-	395
Total derivative liabilities	1,090	8,211	439	9,740
Others:				
Deposits for the lending of securities	2,219	14	44	2,277
Securities loaned or sold under repurchase agreements	555	-	3	558
Other	1,721	-	-	1,721
Total others	4,495	14	47	4,556
Total assets	5,585	8,225	486	14,296

Note 33B – Items Measured at Fair Value (cont.)

A. Items measured at fair value on a recurring basis (cont.)

	December 31, 2016			
	Fair value measurements using:			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	NIS Millions			
Assets				
Securities available for sale:				
Israeli government bonds	33,382	2,027	-	35,409
Foreign government bonds	9,994	1,455	-	11,449
Bonds of Israeli financial institutions	-	23	-	23
Bonds of financial institutions abroad	44	7,416	-	7,460
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	8,323	1,426	9,749
Other bonds in Israel	68	228	-	296
Other bonds abroad	-	2,362	-	2,362
Shares and mutual funds available for sale	961	-	-	961
Total securities available for sale	44,449	21,834	1,426	67,709
Securities held for trading:				
Israeli government bonds	5,091	-	-	5,091
Foreign government bonds	505	1,953	-	2,458
Bonds of Israeli financial institutions	159	-	-	159
Bonds of financial institutions abroad	-	104	-	104
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	280	-	280
Other bonds in Israel	132	-	-	132
Other bonds abroad	-	286	-	286
Shares and mutual funds held for trading	1	-	-	1
Total securities held for trading	5,888	2,623	-	8,511
Derivative assets:	-	-	-	-
NIS - Inflation linked contracts	-	137	202	339
Interest contracts	33	5,482	130	5,645
Foreign currency contracts	1	2,368	575	2,944
Share contracts	432	958	57	1,447
Commodity and other contracts	6	15	3	24
Activity in the Maof market	255	-	-	255
Total derivative assets	727	8,960	967	10,654
Others:				
Credit and deposits for the lending of securities	2,522	5	-	2,527
Securities borrowed or purchased under resale agreements	1,284	-	-	1,284
Other	980	-	-	980
Total others	4,786	5	-	4,791
Total assets	55,850	33,422	2,393	91,665

[a] Restated.

Note 33B – Items Measured at Fair Value (cont.)

A. Items measured at fair value on a recurring basis (cont.)

	December 31, 2016			
	Fair value measurements using:			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	NIS Millions			
Liabilities:				
Derivative liabilities:				
NIS - Inflation linked contracts	-	238	162	400
Interest contracts	37	5,250	-	5,287
Foreign currency contracts	1	3,058	245	3,304
Share contracts	432	983	-	1,415
Commodity and other contracts	7	13	-	20
Activity in the Maof market	251	-	-	251
Total derivative liabilities	728	9,542	407	10,677
Others:	-	-	-	-
Deposits for the lending of securities	2,379	16	34	2,429
Securities loaned or sold under repurchase agreements	539	-	-	539
Other	1,746	-	-	1,746
Total others	4,664	16	34	4,714
Total assets	5,392	9,558	441	15,391

Note 33B – Items Measured at Fair Value (cont.)

C. Items measured for fair value on a non-recurring basis

	December 31, 2017				
	Fair value measurements using:				
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value	Total gain (loss) from changes in value for the
	NIS Millions				
Collateral-dependent impaired credit	-	-	728	728	344
Debentures held to maturity	-	868	-	868	2
Total	-	868	728	1,596	346

	December 31, 2016				
	Fair value measurements using:				
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value	Total gain (loss) from changes in value for the
	NIS Millions				
Collateral-dependent impaired credit	-	-	968	968	291
Total	-	-	968	968	291

Note 33C – Changes in Items Measured at Fair Value on a Recurring Basis Included in Level 3

	For the year ended December 31, 2017										
		Total realized and unrealized profits (losses) included:									
	Fair value at beginning of the year	In profit and loss[a]	In other comprehensive profit[b]	Acquisitions and issues	Sales	Extinguish-ments	Adjustments from translation of financial	Transfers to Level 3[c]	Transfers from Level 3[c]	Fair value at December 31 2015	Unrealized profits (losses) for instruments
	NIS Millions										
Assets											
Securities available for sale:											
ABS / MBS	1,426	(61)	(10)	887	-	(873)	-	-	-	1,369	(1)
Derivative assets:											
NIS - Inflation linked contracts	202	(25)	-	-	-	-	-	20	(31)	166	10
Interest contracts	130	329	-	-	-	(193)	-	-	-	266	154
Foreign currency contracts	575	(532)	-	573	-	-	-	-	-	616	505
Share contracts	57	6	-	-	-	-	-	-	-	63	43
Commodity and other contracts	3	-	-	-	-	-	-	-	-	3	3
Total Assets due to derivative assets	967	(222)	-	573	-	(193)	-	20	(31)	1,114	715
Total assets	2,393	(283)	(10)	1,460	-	(1,066)	-	20	(31)	2,483	714
Liabilities	-	-	-	-	-	-	-	-	-	-	-
Derivative liabilities:	-	-	-	-	-	-	-	-	-	-	-
NIS - Inflation linked contracts	162	73	-	-	-	-	-	52	(32)	255	114
Foreign currency contracts	245	(61)	-	-	-	-	-	-	-	184	(26)
Total derivative liabilities	407	12	-	-	-	-	-	52	(32)	439	88
Total others	34	13	-	-	-	-	-	-	-	47	27
Total liabilities	441	25	-	-	-	-	-	52	(32)	486	115

(a) Realized profits (losses) are included in the income statement under noninterest financing income.

(b) Unrealized profits (losses) are included in the changes in equity statement under accumulated other comprehensive income (loss).

(c) Transfers from Level 2 to Level 3 – forward contracts for the period of more than a year and less than 5 years have been transferred, and as at the date of the financial statements, the period remaining to maturity is less than a year.

Transfers from Level 3 to Level 2 – index forward contracts for the period of more than 5 years have been transferred, and as at the date of the financial statements, the period remaining to maturity is less than 5 years.

Note 33D – Quantitative Information on Items Measured at Fair Value Included in Level 3

Quantitative information regarding fair value measurement in Level 3 (in NIS millions)

	December 31, 2017				
	Fair value	Assessment technique	Unobservable inputs	Range	Average[3]
A. Items measured for fair value on a recurring basis					
Assets					
Securities available for sale[1]					
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	1,369	Discounting cash flows	Margin	110-215 bp	163 bp
			Default Probability	2%-3.8%	2.90%
			Early repayment rate	20%	20%
			Loss rate	30%	30%
Derivative assets[2]					
NIS - Inflation linked interest contracts	110	Discounting cash flows	Inflation forecasts	0.07%-0.51%	0.29%
	56	Discounting cash flows	Transaction counterparty risk	0.50%-100% (*)	1.44%
Interest rate contracts	266	Discounting cash flows	Transaction counterparty risk	0.50%-100% (*)	1.44%
Foreign currency contracts	93	Discounting cash flows	Inflation forecasts	0.07%-0.51%	0.29%
	523	Discounting cash flows	Transaction counterparty risk	0.50%-100% (*)	1.44%
Shares contracts	63	Discounting cash flows	Transaction counterparty risk	0.50%-100% (*)	1.44%
Commodities contracts	3	Discounting cash flows	Transaction counterparty risk	0.50%-100% (*)	1.44%
Liabilities					
Derivative liabilities[2]					
NIS - Inflation linked interest contracts	255	Discounting cash flows	Inflation forecasts	0.07%-0.51%	0.29%
Foreign currency contracts	184	Discounting cash flows	Inflation forecasts	0.07%-0.51%	0.29%
B. Items measured for fair value on a non-recurring basis					
Collateral-contingent impaired debt	728	Fair value of collateral			

* In respect of a failed counterparty.

Qualitative information regarding fair value measurement in Level 3

1. Unobservable inputs used for the fair value measurement of asset-backed or mortgage-backed securities are margin rates, probability of default, early repayment rate, and the severity of a loss in the event of default.

   Any significant increase/decrease in unobservable parameters will be reflected in a significantly lower/higher fair value.
2. Unobservable inputs used for the fair value measurement of derivatives are the credit risk of the counterparty to the transaction and the forecast rate of inflation. The higher/lower the credit risk of the counterparty to the transaction, the lower/higher will be the fair value of the transaction.

   Any change in the forecast rate of inflation will affect the fair value of transactions in accordance with the indexation position of the Bank for these transactions. The more the inflation forecast increases (decreases), and the Bank is committed to pay the amount linked to the index, the fair value of the transactions will decrease (increase). The more the inflation forecast increases (decreases), and the counterparty to the transaction is committed to pay the Bank the amount linked to the index, the fair value of the transactions will increase (decrease).
3. The average figure referring to the unobservable parameter of "Transaction counterparty risk" reflects a weighted average.

Note 33D – Quantitative Information on Items Measured at Fair Value Included in Level 3 (cont.)

Quantitative information regarding fair value measurement in Level 3 (cont.)

	December 31, 2016				
	Fair value	Assessment technique	Unobservable inputs	Range	Average (3)
A. Items measured for fair value on a recurring basis					
Assets					
Securities available for sale[1]					
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	1,426	Discounting cash flows	Margin	125-190 bp	157 bp
			Default Probability	2.5%-3.8%	3.15%
			Early repayment rate	20%	20%
			Loss rate	30%	30%
Derivative assets[2]					
NIS - Inflation linked interest contracts	162	Discounting cash flows	Inflation forecasts	0%-0.33%	0.17%
	40	Discounting cash flows	Transaction counterparty risk	0.2%-100% (*)	2.67%
Interest rate contracts	130	Discounting cash flows	Transaction counterparty risk	0.2%-100% (*)	2.67%
Foreign currency contracts	76	Discounting cash flows	Inflation forecasts	0%-0.33%	0.17%
	499	Discounting cash flows	Transaction counterparty risk	0.2%-100% (*)	2.67%
Shares contracts	57	Discounting cash flows	Transaction counterparty risk	0.2%-100% (*)	2.67%
Commodities contracts	3	Discounting cash flows	Transaction counterparty risk	0.2%-100% (*)	2.67%
Liabilities					
Derivative liabilities[2]					
NIS - Inflation linked interest contracts	162	Discounting cash flows	Inflation forecasts	0%-0.33%	0.17%
Foreign currency contracts	245	Discounting cash flows	Inflation forecasts	0%-0.33%	0.17%
B. Items measured for fair value on a non-recurring basis					
Collateral-contingent impaired debt	968	Fair value of collateral			

* In respect of a failed counterparty.

Qualitative information regarding Level 3 fair value measurement

1. Unobservable inputs used for the fair value measurement of asset-backed or mortgage-backed securities are spread rates, probability of default, early repayment rate, and the severity of a loss in the event of default. Any significant increase/decrease in unobservable parameters will be reflected in a significantly lower/higher fair value.
2. Unobservable inputs used for the fair value measurement of derivatives are the credit risk of the counterparty to the transaction and the forecast rate of inflation. The more the credit risk of the counterparty to the transaction increases (decreases), the fair value of the transactions will decrease (increase).

   Any change in the forecast rate of inflation will affect the fair value of transactions in accordance with the indexation position of the Bank for these transactions. The more the inflation forecast increases (decreases), and the Bank is committed to pay the amount linked to the index, the fair value of the transactions will decrease (increase). The more the inflation forecast increases (decreases), and the counterparty to the transaction is committed to pay the Bank the amount linked to the index, the fair value of the transactions will increase (decrease).
3. The average figure relating to the unobservable parameter of "transaction counterparty risk" reflects a weighted average.

Note 34 - Interested Parties and Related Parties of the Bank and its Consolidated Companies

Control of the Bank

Bank without a controlling core

As of March 24 2012, the Bank is defined, pursuant to the provisions of the law, as a banking corporation without a controlling core and with no shareholder specified as the Bank's controlling shareholder.

A. Balances

	December 31, 2017							
	Interested parties[f,h]						Interested parties[f,h]	
	Controlling owners		Key management personnel[a]		Others[b]		Interested party at time of transaction	
	December 31 Balance	Highest balance[d]	December 31 Balance	Highest balance[d]	December 31 Balance	Highest balance[d]	December 31 Balance	Highest balance[d]
	NIS Millions							
Assets:								
Deposits in banks	-	-	-	-	-	-	-	-
Securities[e]	-	-	-	-	-	-	-	-
Loans to the public	95	95	11	12	3	3	-	9
Credit loss allowance	-	-	-	-	-	-	-	-
Net loans to the public	95	95	11	12	3	3	-	9
Investments in associate companies[e]	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	9	9	-	-
Liabilities:								
Deposits from the public	29	29	25	26	149	149	-	25
Deposits from banks	-	-	-	-	-	-	-	-
Debentures, bonds and subordinated notes	-	-	-	1	-	-	-	1
Other liabilities	-	-	-	-	1	1	-	-
Credit risk in off-balance sheet items[g]	6	6	8	9	7	7	-	5

(a) Including their close relatives as defined in Section 80.D(3) in the Public Reporting Directives.

(b) In accordance with Section 80.D(4) in the Public Reporting Directives and corporations in which a person or a corporation included in one of the groups on the interested parties under the Securities Law, holds 25% or more of the issued share capital or the voting rights or is entitled to appoint 25% or more of the Boards of Directors.

(c) In accordance with Section 80.D(8) in the Public Reporting Directives

(d) Based on end of month balances.

(e) For details, see Note 12 - Securities and Note 15 - Investments in Companies Included on Equity Basis.

(f) At December 31 2017, holdings of interested parties and related parties in the equity of the Bank were NIS 78,896,629 nominal value of shares in the Bank (of which officeholders: NIS 1,935,807 par value).

(g) Credit risk in off-balance sheet financial instruments as calculated for purposes of single borrower debt limitations.

(h) Interested party, related party, related person, as defined in Section 80.D in the Public Reporting Directives.

(i) Associates or investee companies under joint ownership, in accordance with Section 80.D(7) to the Public Reporting Directives.

(j) Including those holding at least 5% of the Bank's means of control, in accordance with Section 80.D(2) of Reporting to the Public Directives (on December 19, 2017, Altshuler Shaham Ltd. became an interested party in the Bank. To the Bank's best knowledge, as of December 31, 2017, the firm holds through entities under its ownership 5.05% of the Bank's issued capital and voting rights).

Note 34 - Interested Parties and Related Parties of the Bank and its Consolidated Companies

Related parties held by the Bank					
Unconsolidated subsidiaries		Associate companies[i]		Others[c]	
December 31 Balance	Highest balance[d]	December 31 Balance	Highest balance[d]	December 31 Balance	Highest balance[d]
–	–	–	–	–	–
–	–	–	–	391	391
–	–	824	911	160	212
–	–	–	–	–	–
–	–	824	911	160	212
–	–	807	923	–	–
–	–	–	1	–	–
3	3	152	247	262	551
–	–	3	4	–	–
–	–	–	–	–	–
–	–	12	13	2	2
–	–	21	57	190	190

Note 34 - Interested Parties and Related Parties of the Bank and its Consolidated Companies

A. Balance sheet and off-balance sheet balances (cont'd)

	December 31, 2016							
	Interested parties[f,h]						Interested parties[f,h]	
	Controlling owners		Key management personnel[a]		Others[b]		Interested party at time of transaction	
	December 31 Balance	Highest balance[d]	December 31 Balance	Highest balance[d]	December 31 Balance	Highest balance[d]	December 31 Balance	Highest balance[d]
	NIS Millions							
Assets:								
Deposits in banks	-	-	-	-	-	-	-	-
Securities[e]	-	-	-	-	-	-	-	-
Loans to the public	-	-	13	14	-	-	-	-
Credit loss allowance	-	-	-	-	-	-	-	-
Net loans to the public	-	-	13	14	-	-	-	-
Investments in associate companies[e]	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-
Liabilities:								
Deposits from the public	-	-	41	44	3	3	-	3
Deposits from banks	-	-	-	-	-	-	-	-
Debentures, bonds and subordinated notes	-	-	-	1	-	-	-	-
Other liabilities	-	-	-	-	-	1	-	-
Credit risk in off-balance sheet items[g]	-	-	12	12	1	1	-	1

(a) Including their close relatives as defined in Section 80.D(3) of the Public Reporting Directives.

(b) Pursuant to Section 80.D of the Public Reporting Directives, corporations in which a person or a corporation included in one of the groups on the interested parties, controls them or has joint control in them, has significant influence or holds 25% or more of the issued share capital or the voting rights or is entitled to appoint 25% or more of their directors.

(c) Pursuant to Section 80.D(8) of the Public Reporting Directives.

(d) Based on end-of-month balances.

(e) For details, see Note 12 - Securities and Note 15 - Investments in Companies Included on Equity Basis.

(f) At December 31 2016, holdings of interested parties in the equity of the Bank were NIS 2,344,749 nominal value of the Bank's shares

(g) Credit risk in off-balance sheet financial instruments as calculated for purposes of single borrower debt limitations.

(h) Interested party, related party, as defined in Section 80.D of the Public Reporting Directives

(i) Associate companies or investee companies under joint control, as defined in Section 80.D(7) of the Public Reporting Directives

Note 34 - Interested Parties and Related Parties of the Bank and its Consolidated Companies

Related parties held by the Bank					
Unconsolidated subsidiaries		Associate companies[i]		Others[c]	
December 31 Balance	Highest balance[d]	December 31 Balance	Highest balance[d]	December 31 Balance	Highest balance[d]
–	–	–	–	–	–
–	–	–	–	376	520
–	–	881	937	162	1,077
–	–	–	–	–	–
–	–	881	937	162	1,077
–	–	901	923	–	–
–	–	–	6	–	–
3	3	45	114	43	785
–	–	2	3	–	–
–	–	–	–	–	–
–	–	12	13	1	3
–	–	48	74	95	405

Note 34 - Interested Parties and Related Parties of the Bank and its Consolidated Companies

B. Condensed results of operations with interested and related parties

	For the year ended December 31					
	2017					
	Interested parties[i]			Related parties held by the Bank		Others[c]
	Shareholders Controlling owners	Key management personnel[a]	Others[b]	Subsidiaries (unconsolidated)	Associate companies or companies held in joint control[j]	
	NIS millions					
Net interest income[d]	-	-	-	-	20	7
Noninterest income	-	-	-	-	3	1
Of which: management fees and services	-	-	-	-	3	1
Operating and other expenses[e]	-	(66)	(1)	-	(43)	(44)
Total	-	(66)	(1)	-	(20)	(36)

	For the year ended December 31					
	2016					
	Interested parties[i]			Related parties held by the Bank		Others[c]
	Shareholders Controlling owners	Key managementpersonnel[a]	Others[b]	Subsidiaries (unconsolidated)	Associate companies or companies held in joint control[j]	
	NIS millions					
Net interest income[d]	-	-	-	-	21	22
Noninterest income	-	-	-	-	3	2
Of which: management fees and services	-	-	-	-	3	2
Operating and other expenses[e]	-	(74)	(1)	-	(38)	(44)
Total	-	(74)	(1)	-	(14)	(20)

(a) Including their close relatives as defined in Section 80.D (3) in the Public Reporting Directives.

(b) In accordance to Section 80.D (4) in the Public Reporting Directives, Corporations in which a person or a corporation included in one of the groups on the interested parties, controls them or has joint control in them, has significant influence or holds 25% or more of the issued share capital or the voting rights or is entitled to appoint 25% or more of their directors.

(c) Pursuant to Section 80.D (7) of the Public Reporting Directives.

(d) See details in paragraph D below.

(e) See details in paragraph C below.

(f) Interested party, related party, related person as defined in Section 80.D in the Public Reporting Directives.

(g) Associate companies or investee companies held under joint control, pursuant to Section 80.D(7) of the Public Reporting Directives.

Note 34 - Interested Parties and Related Parties of the Bank and its Consolidated Companies

	For the year ended December 31					
	2015					
	Interested parties[i]			Related parties held by the Bank		Others[c]
	Shareholders Controlling owners	Key management personnel[a]	Others[b]	Subsidiaries (unconsolidated)	Associate companies or companies held in joint control[j]	
	NIS millions					
Net interest income[d]	–	–	–	–	33	41
Noninterest income	–	–	–	–	(11)	(4)
Of which: management fees and services	–	–	–	–	4	3
Operating and other expenses[e]	–	(48)	(1)	–	(7)	(36)
Total	–	(48)	(1)	–	15	1

(a) Including their close relatives as defined in 80.D(3).

(b) Under Section 80.D(4) to the Reporting to the Public Directives, corporations in which a person or a corporation included in one of the groups on the interested parties, controls them or has joint control in them, has significant influence or holds 25% or more of the issued share capital or the voting rights or is entitled to appoint 25% or more of their directors.

(c) In accordance with Section 80.D(8) of the Reporting to the Public Directives.

(d) See details in paragraph D below.

(e) See details in paragraph C below.

(f) Interested party, related party, related person as defined in Section 80.D in the Public Reporting Directives.

(g) Associate companies or investee companies held under joint control, pursuant to Section 80.D(7) of the Reporting to the Public Directives.

Note 34 - Interested Parties and Related Parties of the Bank and its Consolidated Companies

C. Remuneration and all other benefits

	For the year ended December 31					
	2017		2016		2015	
	Office holders		Key management personnel			
	Total benefits	Number of recipients	Total benefits	Number of recipients	Total benefits	Number of recipients
	NIS Millions		NIS Millions		NIS Millions	
Interested parties employed in the Bank or on its behalf[a,b,c]	**52**	**23**	67[(d)]	21	33	18
Directors not employed by the Bank or on its behalf[a]	**8**	**17**	9	15	9	17

(a) Excludes payroll tax expenses.

(b) Of which: short term employee benefits NIS 45 million, post-retirement benefits NIS 6 million.

(2016 - short term employee benefits NIS 27 million, post-retirement benefits NIS 30 million, 2015 - short term employee benefits NIS 25 million, post-retirement benefits NIS 2 million, and (4) other long term benefits).

(c) In 2017 no share-based payments were made (In 2016 - no share-based payments were made; in 2015 - NIS 10 million were paid.

Directors and officeholders have been insured by the Bank under a policy for insuring the liability of directors and other officers of the Bank and investee companies. The aggregate insurance premium amounted to NIS 5,157 thousand (2016 – NIS 4,844 thousand, 2015 – NIS 4,262 thousand).

D. Net interest income in transactions by the banking corporation and its consolidated companies with interested parties and related parties

	For the year ended December 31					
	2017		2016		2015	
	Consolidated	**Of which: associate companies**	Consolidated	Of which: associate companies	Consolidated	Of which: associate companies
	NIS Millions					
a) In respect of assets						
From credit to the public	**28**	**20**	43	21	78	35
b) In respect of liabilities						
On deposits of the public	**(1)**	**-**	-	-	(4)	(2)
Total net interest income	**27**	**20**	43	21	74	33

E. Information regarding terms of transactions and balances with related parties and interested parties

Transactions and balances with related parties and interested parties were all made during the normal course of business and on terms similar to the terms of transactions with entities not related to the Bank and its investee companies.

Interest debited and interest paid in respect of balances with interested parties and related parties are at normal rates of interest for transactions during the normal course of business with parties that are not related to the Bank.

Note 35 - Condensed Financial Statements of the Bank

A. Condensed Income Statement for the year ended December 31

	For the year ended December 31		
	2017	2016	2015
	NIS Millions		
Interest income	8,695	8,299	7,313
Interest expenses	1,892	1,898	1,549
Net interest income	6,803	6,401	5,764
Loan loss provisions	44	(160)	149
Net interest income	6,759	6,561	5,615
Noninterest income			
Noninterst financing income	817	1,314	1,134
Commissions	2,947	2,852	2,852
Other income	341	121	214
Total noninterest income	4,105	4,287	4,200
Operating and other expenses			
Salries and related expenses	4,364	4,566	4,397
Maintenance, depreciation, plant and equipment	1,330	1,367	1,281
Other expenses	1,072	877	947
Total operating and other expenses	6,766	6,810	6,625
Profit before taxes	4,098	4,038	3,190
Provisiosn for taxes onn profit	1,454	1,430	1,175
Profit after taxes	2,644	2,608	2,015
Bank's share in profit (loss), net, of associate companies, after tax	528	183	820
Net income	3,172	2,791	2,835

Note 35 - Condensed Financial Statements of the Bank (cont.)

B. Condensed Balance Sheet

	December 31	
	2017	2016
	NIS Millions	
Assets		
Cahs and deposits in banks	81,222	73,376
Securities	70,916	70,226
Securities borrowed or purchased under repurchase agreements	1,161	1,284
Loans to the public	244,551	238,771
Provision for Credit losses	(2,809)	(2,997)
Net loans to the public	241,742	235,774
Loans to government	715	642
Investements in investee companies	11,452	11,387
Equipment and buildings	2,495	2,576
Assets in respect of derivatives	9,533	10,577
Other assets	7,428	7,162
Total assets	426,664	413,004
Liabilities and equity	-	-
Deposits of the public	340,623	323,614
Deposits from banks	5,158	3,662
Deposits from governments	147	178
Securities borrowed or sold under repurchase agreemenst	558	539
Subordinated notes	15,577	22,640
Liabilities for derivatives	9,678	10,600
Other liabilities	21,756	20,424
Total liabilities	393,497	381,657
Equity due to the Bank's shareholders	33,167	31,347
Total liabilities and equity	426,664	413,004

[a] Reclassified.

Note 35 - Condensed Financial Statements of the Bank (cont.)

C. Condensed Cash Flows Statement

	2017	2016	2015
	NIS Millions		
Cashflow from current activity			
Net income for the year	3,172	2,791	2,835
Adjustmsnts:	-	-	-
Bank's share in in non distributed losses of investee companies afte deduction of dividends received	(526)	(176)	(13)
אחר, נטו (כולל הפרשות להפסדי אשראי ולירידת ערך של ניירות ערך)	15,564	19,458	22,384
Net cash from current activity	18,210	22,073	25,206
Cahsflow from investment activity	-	-	-
Purchase of shares in investee companies	(39)	(4)	(75)
Central severence pay fund	347	200	59
Other	(3,317)	(7,958)	(19,464)
Net cash from investment activity	(3,009)	(7,762)	(19,480)
cashclow from financing activity	-	-	-
Issuance of debentures and subortdinated notes	-	4,443	2,606
Redemption of debentures,	(7,734)	(3,892)	(5,667)
Other	(627)	-	42
Net cash from financing activity	(8,361)	551	(3,019)
Increase in cash and cash equivalents	6,840	14,862	2,707
Cahs balance at beginning of year	70,454	55,943	53,145
Effect of fluctuations in exchange rate on cash balances and cash equivalents	(603)	(351)	91
Cash balance and value at year end	76,691	70,454	55,943

Interest and taxes paid and/or received and dividends received for the year ended December 31

	2017	2015	2014
	NIS Millions	0	0
Interets received	8,753	8,624	8,350
Interest paid	(2,284)	(2,875)	(3,060)
Dividends received	5	13	973
Paid income taxes	(1,651)	(1,473)	(1,133)

(a) Reclassified.

Note 36 – Events after the Balance Sheet Date and Miscellaneous Topics

Leumi Partners

On December 24 2017, Leumi Partners Ltd. (hereinafter: "Leumi Partners") and Direct Insurance Financial Investments Ltd. (hereinafter: "Financial Investments") signed a binding agreement, whereby - subject to meeting the preconditions set out in the agreement - Leumi Partners and additional investors shall purchase ordinary shares of Direct Insurance, which shall constitute, post-issue, 20% of Direct Insurance's issued and paid-up share capital (with Leumi Partners' post-money stake being 10%), at a NIS 56.1 billion company value.

Termination of Agreement with Shufersal Ltd.

1. Termination of the Agreement with Shufersal

   In 2006, Leumi Card entered into an agreement with Shufersal Ltd. (hereinafter, "Shufersal") to issue credit cards to Shufersal customers. For the purpose of operating the venture, pursuant to the agreement, "Shufersal Finances Limited Partnership" (hereinafter, "Shufersal Finances") was established, incorporating the activity related to Shufersal credit cards. The agreement detailed, inter alia, the income sharing between the parties, with Leumi Card's share in the partnership being 16%.

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

   As of December 31 2017, the number of valid credit cards held by the club's customers was about 503 thousand cards. In addition, on October 19 2017, Shufersal announced its intention to take steps to exercise a call option to purchase all of Leumi Card's holdings in Shufersal Finances according to a valuation of Shufersal Finances to be made by an agreed assessor.

2. Agreement with Fox

   On January 21 2018, an agreement was signed between Leumi Card and the Fox – Wizel Ltd. Group for the issue and operation of a non-bank credit card for the Fox Group customers, based on its Dream Card Club, which currently consists of 1.4 customers. The agreement establishes, among other things, provisions regarding customer recruitment, marketing and advertising budgets, and an account mechanism between the parties.

Bank Leumi Le-Israel Trust Company Ltd.

On February 15 2018, the Bank reached an agreement with Hermetic Trust (1975) Ltd. for the sale of control over Bank Leumi Le-Israel Trust Company Ltd. According to the agreement, the Bank shall sell Hermetic 75% of the Trust Company's shares. The Bank shall receive a put option to sell its remaining holdings in the Trust Company (25%) after two years have elapsed from the transaction closure date.

The execution of the transaction is subject to the signing of a binding agreement and obtaining the approval of the Board of Directors. The closure of the transaction is not expected to have a significant effect on the Bank's results.

Bank Leumi USA

On January 22 2018, the Bank entered into an agreement to bring strategic partners into BLUSA. Subject to meeting the preconditions of the agreement, the strategic partners will acquire 15% of the share capital of Bank Leumi Corporation – an American corporation through which Leumi controls BLUSA. The total consideration expected to be paid in respect of the shares sold is NIS 141 million. According to the accounting principles applicable to the Bank's financial reporting, on completion of the transaction, provided it is completed and subject to meeting the contingent terms, the transaction with the strategic partners shall be accounted for as an equity transaction, and the difference between the consideration and the minority share in the equity shall be charged directly to equity. The transaction is not expected to have a material effect on the Group's business.

Note 36 – Events after the Balance Sheet Date and Miscellaneous Topics (cont.)

Bank Leumi Romania

On December 28 2017, Leumi signed an agreement in principle with UK investment fund Argo Capital Management Limited to sell its entire holdings in Bank Leumi Romania. The closure of the agreement, if closed, is expected during 2018. The sale is not expected to have a material effect on the Bank's financial results.

Restructuring of the Tel Aviv Stock Exchange

On April 6 2017, Amendment 63 to the Securities Law, 1968 was published regarding the restructuring of the Tel Aviv Stock Exchange Ltd.

Following said amendment, the Tel Aviv District Court approved, on September 7 2017, an arrangement to restructure the Stock Exchange, under which the Bank was allocated 9.3% of the means of control in the Stock Exchange and the interests in its issued and paid up capital.

According to the Amendment, 5 years from the date of the arrangement's approval or by the date of the issue of the Stock Exchange's shares to the public and their listing, whichever the earliest, the Bank should sell its ownership interests in the Stock Exchange so that it shall own no more than 5% of the means of control in it. Until the sale date, the said means of control shall not award the Bank interests (except for the capital interests) beyond those awarded by virtue of holding 5% of the Stock Exchange's total means of control.

In addition, according to the Amendment to the Law, Stock Exchange members who sell their holdings shall give the Stock Exchange the full difference between their sale proceeds and the value of their sold holdings, in accordance with the Stock Exchange's equity capital pursuant to its 2015 financial statements.

Thus, and in accordance with said Amendment to the Law, the Bank may receive no more than NIS 47 million in return for its entire holdings in the Stock Exchange.

At this point, the Amendment has no effect on the Bank's financial statements.

Bank Leumi of Israel Ltd. and its Investee Companies

Corporate Governance, Additional Details and Appendices

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Members of the Bank's Board of Directors (*)(**)

Mr. David Brodet, Chairman

Mr. Yitzhak Idelman[(a)]

Dr. Shmuel (Muli) Ben-Zvi[(b)]

Ms. Tamar Gottlieb[(a)]

Ms. Esther Dominissini

Dr. Samer Haj Yehia

Ms. Esther Levanon

Mr. Ohad Marani[(b)]

Mr. Yoav Nardi

Mr. Haim Samet, Adv.[(a)]

Ms. Zipporah Samet[(a)(b)(d)]

Professor Yedidya Zvi Stern[(b)]

Mr. Itzhak Sharir

a. External director pursuant to the Companies Law, 1999 (hereinafter "E.D.").

b. External director pursuant to Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks (hereinafter "External Director").

c. Dr. S. Haj Yehia was reelected to serve as a director with the status of "Other Director" at the Bank's Annual General Meeting held on October 3 2017.

d. Ms. Z. Samet who served, until August 17 2017, as an E.D. of the Bank was re-elected with the status of External Director who meets the eligibility of E.D. pursuant to a specific arrangement (for more information, please see Section 1.3.2 of the Notice to Convene a General Meeting published by the Bank on September 28 2017 (Ref no. 2017-01-086014) at the Bank's Annual General Meeting held in October 2017.

* Ms. Nurit Segal and Mr. Shai Hermesh ceased to serve as Other Directors in the Bank on January 4 2017. Professor Gabriella Shalev ceased to serve as E.D. on January 31 2017. Mr. Shai Hermesh began to serve as a director in Leumi Partners Ltd. On May 15 2017.

On January 31 2017 Prof Gabriella Shalev ceased to serve as an E.D. in the Bank.

On August 17 2017 Mr. David Avner ceased to serve as Other Director in the Bank.

On October 31 2017 Prof. Haim Levi ceased to serve as an External Director in the Bank.

** For more information regarding members of the Board of Directors of the Bank, please see Changes in the Board of Directors and Regulation 26 in the Bank's 2017 Periodic Report and on the Magna website of the Israel Securities Authority - http://www.magna.isa.gov.il.

As of the date of this report and the date of its publication, the Board of Directors numbers 13 directors. It shall be noted that pursuant to the Directive of the Bank of Israel, in 2017 the number of directors of the Bank was reduced to 13 and in 2018 will be reduced further to 12. Pursuant to the Amendment to Proper Conduct of Banking Business Directive 301 ("Directive 301"), by July 1 2020 the maximum number of directors in a banking corporation shall be 10. The legal quorum for its discussions and approval of resolutions is the majority of the directors.

Pursuant to Directive 301, at least one-third of the Board of Directors shall be directors who meet the eligibility requirements of External Director as defined in Directive 301 ("External Directors"). Accordingly, as of the date of this report and its publication, seven directors who are classified as external directors serve on the Board of Directors, four of whom are external directors pursuant to the provisions of the Companies Law, 1999. See Note (d) above regarding the specific arrangement which applies to Ms. Z. Samet.

In addition, in light of the definition of an "independent director" in the Companies Law, the Audit Committee of the Board of Directors confirmed that the external directors, pursuant to Proper Conduct of Banking Business Directive 301 of the Banking Supervision Department and the external directors pursuant to the provisions of the Companies Law, are independent directors.

Pursuant to Directive 301, at least one-fifth of the Board of Directors shall be directors with "banking experience" as defined in Directive 301, and accordingly, as of the date of this report and its publication, five directors who have "banking experience" serve on the Board of Directors.

Pursuant to the provisions of the Companies Law and the related regulations, the Board of Directors of the Bank resolved that the minimum number of directors with "accounting and financial expertise", to serve on the Board of Directors of the Bank at any time, and who will participate in the discussions in the plenum of the Board of Directors on the draft financial statements and their approval, will be three, so as to allow the Board of Directors to comply with the requirements imposed upon it by law and the documents of incorporation of the Bank, and, in particular, with regard to its responsibility to examine the financial position of the Bank and to prepare the financial statements.

In determining the said minimum number, the Board of Directors took into account the size of the Bank, the complexity of its activities and the range of risks involved therein, and the systems and procedures in place at the Bank, such as control, risk management, compliance, internal audit, and the audit of the external auditors. Accordingly, it was also taken into account that all of the members of the Board of Directors comply with the qualification requirements to serve as a director of the Bank pursuant to the law.

All of the directors serving on the Board of Directors comply with the definition of a director with accounting and financial expertise and professional competence pursuant to the provisions of the Companies Regulations (Conditions and Tests for a Director with Financial and Accounting Expertise and Professional Competence), 2005.

Effective January 1 2013 and pursuant to Directive No. 301 the discussions relating to the financial statements are held in the Audit Committee of the Board of Directors. Pursuant to the directives of the Bank of Israel, the Board of Directors has determined that at least three "directors with accounting and financial expertise" will serve on the Audit Committee of the Board of Directors at all times. In fact, most of the directors serving on the Audit Committee have accounting and financial expertise. The legal quorum for discussion and the approval of resolutions in the Audit Committee is a majority of the members of the committee, providing that a majority of those present are external directors who are independent and that at least one of them is an external director, pursuant to the provisions of the Companies Law. Seven directors currently serve on the Audit Committee, including four directors who are external directors pursuant to the provisions of the Companies Law.

Pursuant to the revised version of Regulation No. 301 ("revised Regulation No. 301") published on July 5 2017, changes were incorporated in the eligibility requirements of member of boards of directors to take effect on July 1, 2020 as follows: 1) the number of directors requirement to possess "banking experience" will increase from one-fifth to one-third; 2) at least half of the directors will be requirement to have "professional eligibility" as defined in the Companies Regulations (condition and tests for a director with accounting and finance experience – 2005; 3) at least one director will have proven knowledge and experience in the area of information technology.

On December 31 2017 the Board of Directors approved the consolidation of the Audit committee and the Remuneration committee such that the Audit committee will also serve in the capacity of a remuneration committee.

Changes in the Board of Directors

- On November 3 2016, a Special General Meeting of the Bank was held, at which Mr. Itzhak Sharir and Ms. Esther Dominissini were elected to serve as directors with the status of "Other Director" for a period of three years, and Mr. Yitzhak. Idelman was elected to serve as E.D. for a period of three years.

  Pursuant to receiving notice from the Supervisor of Banks, Ms. Dominissini commenced to serve as Other Director in the Bank on January 17 2017 and Mr. Idelman (E.D.) and Mr. Sharir (Other Director) commenced to serve as directors on February 2 2017.

  For further details regarding the Special General Meeting and regarding the proposed candidates, see Immediate Reports dated September 26 2016 (Ref. no 2016-01-128920) and October 13 2016 (Ref no. 2016-01-064572) and 21 October 2016 (2016-01-066408). For further details regarding the results of the General Meeting, see Immediate Report dated November 3 2016 (Ref. no. 0723231). Also, see a supplementary Immediate Report regarding the appointment of Ms. E. Dominissini dated January 17 2017 (Ref. no. 2017-01-007035) and February 8 2017 (Ref. no. 2017-01-014253), respectively, Immediate Report regarding the appointment of Mr. Sharir dated February 2 2017 (Ref. no. 2017-01-012126) and February 5 2017 (Ref. no. 2017-01-012756), respectively.

  Ms. Nurit Segal and Mr. Shai Hermesh ceased to serve as Other Directors on January 4 2017. Professor Gabriella Shalev ceased to serve as E.D. on January 31 2017. On August 17, 2017 Mr. David Avner ceased to serve as Other Director.

  For more information of end of term of Ms. N. Segal and Mr. S. Hermesh, please see Immediate reports dated January 5, 2017 (Ref no. 2017-01-002268 and 2017-01-002271). For more information regarding end of term of Prof. G. Shalev, please see Immediate Report dated February 1 2017 (Ref. no. 2017-01-011769). For more information regarding end of term of Mr. D. Avner, please see Immediate Report dated August 20 2017 (Ref. no. 2017-01-071923).

- On October 3, 2017, the Annual General Meeting of the Bank was held, pursuant to which 1) Dr. S. Haj Yehia was elected as a director with the status of "other director" for a second term of office of three years[15]; and 2) Ms. Z. Samet, who, until August 17, 2017, served as E.D. in the Bank, was elected a director with the status of external director pursuant to the Proper Conduct of Banking Business Regulation No. 301, who also meets the E.D. eligibility conditions and under an individual arrangement (for more information, please see Section 1.4.2 in the Notice to Convene a General Meeting published by the Bank) for a third term of office of three years.

  For more information regarding the General Meeting, please see Immediate Report of the Bank dated August 28, 2017, concerning the Convening of an Annual General Meeting (Ref. no. 2017-01-074968), Supplementary Immediate Report dated September 28, 2017 concerning the Convening of an Annual General Meeting (Ref no. 2017-01-086014) and Immediate Report dated October 3, 2017 concerning the Results of the General Meeting (Ref. no. 2017-01-087916).

- On October 30 2017 after receiving notice of the absence of any objection by the Supervisor of the Bank of Israel to the appointment of Dr. S. Haj Yehia, he began his second term as Other Director in the Bank. In addition, on November 22 2017, after receiving notice of the absence of any objection from the Supervisor of Banks to the appointment of Ms. Z. Samet, she began her third term as External Director who meets the eligibility requirements of E.D. under a specific arrangement (as detailed above).

  For more information regarding the appointment of Dr. S. Haj Yehia, please see Immediate Report dated October 30 2017 (Ref. no. 2017-01-094777). For more information regarding the appointment of Ms. Z. Samet, please see Immediate Report dated November 22 2017 (Ref. no. 2017-01-102880).

- On October 31 2017, Prof. Haim Levy ceased to serve as External Director in the Bank.

  For further details of end of term of Prof. H. Levy, see Immediate Report dated November 1 2017 (Ref no. 2017-01-095686).

Members of the Bank's Management and their Positions*

Ms. Rakefet Russak-Aminoach, C.P.A. (Isr.)

President and Chief Executive Officer

Mr. Ronen Agassi, C.P.A. (Isr.)*

First Executive Vice President, Head of Capital Markets Division

Mr. Shmulik Arbel*

First Executive Vice President, Head of Corporate Banking Department

Mr. Ilan Boganim*

First Executive Vice President, Head of CTO, CDO and Infrastructure Department

Ms. Bosmat Ben Zvi, C.P.A (Isr.)*

First Executive Vice President, Chief Risk Officer, Head of the Risk Management Division

Mr. Shai Basson*

First Executive Vice President, Head of Leumi Technologies Division

Mr. Shlomo Goldfarb, C.P.A. (Isr.)

First Executive Vice President, Chief Accounting Officer and Head of Accounting Division

Mr. Yaacov (Kobi) Haber

First Executive Vice President, Head of Corporate and Commercial Division

Mr. Omer Ziv, C.P.A. (Isr.)

First Executive Vice President, Head of Finance Division

Ms. Tamar Yassur

First Executive Vice President, Head of Digital Banking Division

Mr. Dan Cohen

First Executive Vice President, Head of Banking Division

Ms. Hila Eran-Zick*

First Executive Vice President, Chief Risk Officer, Head of Human Resources Division

Mr. Hanan Friedman Adv.*

First Executive Vice President, Head of Strategy and Regulation Division

Ms. Irit Roth Adv.*

First Executive Vice President, Chief Legal Counsel, Head of Legal Division and Legal Risk Manager

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Ms. Sharon Gur*

First Executive Vice President, Chief Internal Auditor, Head of Internal Audit Division

Ms. Livnat Ein-Shai Wilder, Adv.

Bank and Group Secretary

Somekh Chaikin

Kost Forer Gabbay & Kasierer

Joint Independent Auditors of the Bank

* For more information on changes that have occurred relating to the Bank's Management and office holders during 2017, please see Chapter Appointments and End of Office". More information on the Bank's Management are included in the Bank's Periodic Report for 2017 and on the Magna website of the Israel Securities Authority - http://www.magna.isa.gov.il.

Internal Auditor

On April 30 2017, Mr. Sasson Mordecai ceased to serve as Chief Internal Auditor of the Group. On May 1 2017, Ms. Sharon Gur was appointed Chief Internal Auditor of the Group in accordance with the recommendation of the Audit Committee of the Bank and the decision of the Board of Directors, dated 27 December 2016. Ms. Gur's appointment was approved by the Bank of Israel on February 22 2017.

The Chief Internal Auditor meets the criteria of section 146(b) of the Companies Law, 1999 and the provisions of section 8 of the Internal Audit Law, 1992 (hereinafter "the Internal Audit Law") and the internal audit employees meet the criteria of the provisions of paragraphs 11 and 12 of the Proper Conduct of Banking Business Directive No. 307 regarding the internal audit function.

The Chief Internal Auditor is a full-time employee of the Bank, with the status of a member of management and this is his sole occupation. Her superior within the organization is the Chairman of the Board of Directors.

The Internal Audit Division has an annual work plan and a multi-year work plan for a period of up to four years. The annual work plan and the multi-year work plan are derived from a mapping of audit subjects which are based, *inter alia*, on the documents detailed in Directive No. 307. The work plans are derived from a systematic methodology of estimating risks and controls, according to which the frequency and scope of the audit for each subject is established. Thus, regarding subjects with a higher level of risk, audits will be carried out once a year, while for subjects that involve a lower level of risk, audits will be carried out at a frequency of between two and four years. The proposed annual work plan and multi-year work plan are submitted by the Internal Audit Division and are approved by the Chairman of the Board of Directors, the Audit Committee and the plenum of the Board of Directors.

The Internal Audit Division's annual work plan and the multi-year work plan allow the Chief Internal Auditor to exercise discretion in deciding to deviate from the plan, when necessary.

In addition, the audit days are allocated each year to unplanned audit and the examination of special incidents enabling the Internal Auditor to review topics which arise on an ad hoc basis, either at the request of the Bank's management or the Audit Committee, or as a result of new activities or subjects within the Group.

As part of the audit work, a sample of material transactions carried out by the Bank – including the procedures through which they were approved – was examined. In this regard, material transactions include a material purchase or sale of activity, "transactions" - as stated in section 270 of the Companies Law and an "extraordinary transaction" – as defined in the Companies Law.

The Internal Audit Division's annual work plan and the multi-year work plan each include all of the topics of auditing in the Bank and the material consolidated subsidiaries in Israel and the material subsidiaries abroad (as set forth in Note 15C).

Employees of the Internal Audit Division serve as internal auditors of the Bank's consolidated subsidiaries in Israel.

In the material foreign subsidiaries, local internal auditors (sometimes, an agent of the parent company) are appointed.

The internal auditors of each of the material subsidiaries in Israel and abroad report to their respective boards of directors or audit committees.

Leumi's Internal Audit Division supervises the audit activity in the representative offices in accordance with the directive of the Bank of Israel and subject to the local laws.

The Chief Internal Auditor and the team of auditors in the Leumi Group in Israel comprise, on average, 88.7 positions for 2017, as detailed below:

	Average number of auditor positions in the Leumi Group in Israel
The Bank	80.1
Subsidiaries in Israel	1.5
Subsidiaries abroad	3.5
Total	88.7*

* Of which 3.4 positions on average are maternity leave/unpaid leave.

In addition, 5.4 positions were invested on an outsourcing basis.

Furthermore, local auditors are employed in subsidiaries abroad in 17.3 positions (including outsourcing).

The number of positions was approved by the Audit Committee in Israel, based on the annual and the multi-year work plan.

The Chief Internal Auditor may, within the framework of the budget, use outsourcing for the execution of work that requires special knowledge or in the event of insufficient staff.

For details of benefits and amounts paid or recorded for provision for 2017 in NIS thousands to the Chief Internal auditor see Chapter Salaries of Senior Officeholders below

The total payments to the Chief Internal Auditor and the components thereof are submitted to and approved by the Audit Committee.

The Board of Directors believes that the holding of securities by the Chief Internal Auditor and the remuneration paid to her do not affect the exercise of her professional discretion.

The Chief Internal Auditor operates in accordance with the professional standards of the Institute of Internal Auditors in Israel and the Institute of Internal Auditors (IIA).

In addition, the Chief Internal Auditor operates in accordance with the directives and instructions of the Supervisor of Banks, including Proper Conduct of Banking Business Directive No. 307 regarding the Internal Audit function.

The Audit Committee and the Board of Directors have noted the Chief Internal Auditor's written statement, according to which he complies with the requirements set forth in the abovementioned generally accepted professional standards, and he operates in accordance with the directives and instructions of the Supervisor of Banks. On the basis of this statement and on the basis of her role, as expressed at the meeting of the Audit Committee of the Board of Directors, the Audit Committee and the Board of Directors are satisfied that the Chief Internal Auditor meets all said requirements.

Audit reports and records of findings are issued to the audited entities in writing, after discussion with them regarding the findings of the audit. In addition, close to the time of issuing the reports and records, discussions are also held regarding material findings with the heads of the divisions and the President & CEO.

Material audit reports and records of the examination's findings are discussed by the Audit Committee each month, and occasionally, several times a month. In the audit committee, in addition to the Chief Auditor there are also representatives of the Internal Audit division and the heads of the audited Divisions.

Towards the meetings of the Audit Committee, the Chairman of the Audit Committee, in consultation with the Chief Internal Auditor, determines which audit reports and records of the examination's findings will be presented in their entirety for discussion at the Audit Committee. Furthermore, summaries of all the audit reports and records issued by the Internal Audit Division throughout the relevant period, are submitted on an ongoing basis for the perusal of all the members of the Audit Committee. They may peruse any audit report they wish and make a request to the Chairman for them to be presented in their entirety for discussion by the Audit Committee.

At the end of the first and second halves of the year, the Internal Auditor submits reports summarizing the audit operations to the Chairman of the Board of Directors, the President and Chief Executive Officer and the Chairman of the Audit Committee, the Audit Committee and the Board of Directors, including a summary of the material findings, the auditor's recommendations and the audited entity's responses for the relevant periods.

In addition, the Chief Internal Auditor submits to the Chairman of the Board of Directors, the President and Chief Executive Officer and the Chairman of the Audit Committee, the Audit Committee and the Board of Directors an annual report summarizing the audit operations during the course of the entire year, including monitoring the performance of the annual work plan and an assessment of the effectiveness of the Bank's internal control framework.

The work plan of the Internal Audit Division for 2017 was submitted to the Audit Committee on December 19 2016 and approved in the Committee on December 22 2016, and submitted to the Board of Directors on February 2 2017 and approved in the Board of Directors on February 6 2017.

The Internal Auditor's report for the first half of 2017 was submitted to the Audit Committee on August 21 2017 and was discussed by the Committee on August 27 2017 and reported to the Board of Directors on September 26 2016.

The Internal Auditor's report for the second half of 2017 was submitted to the Audit Committee on February 21 2018 and was discussed by the Committee on February 25 2018 and reported to the Board of Directors on March 5 2018.

The Internal Auditor's annual report for 2017 will be discussed by the Audit Committee on March 22 2018 and discussed by the Board of Directors on March 25 2018.

The Internal Audit Division's work plan for 2018 was submitted to the Audit Committee on January 25 2018 and approved in the Committee on January 30 2018, submitted to the Board of Directors on January 31 2018 and approved in the Board of Directors on February 4 2018.

The Chief Internal Auditor has been provided with documents and information as specified in section 9 of the Internal Audit Law and was given access to information, as specified in that section. He has continuous and direct access to the Bank's information systems, including access to financial data.

The internal auditors who carry out audits of the subsidiaries in Israel and abroad have been provided with documents and information as specified in section 9 of the Internal Audit Law and have been given access to information, as specified in that section. They have continuous and direct access to the information systems of the subsidiaries in Israel and abroad, including financial data.

The Board of Directors and the Audit Committee believe that the scope, nature and continuity of operations and the work plan of the Chief Internal Auditor are reasonable under the circumstances, and that they enable the Internal Audit to achieve its goals in the Group.

Independent Auditors' Fees [a][b][c]

	Consolidated		Bank	
	2017	2016	2017	2016
	NIS thousands			
For auditing activity:[d]				
Joint auditors	**20,635**	22,382	**11,669**	11,736
Other auditors	**306**	3,372	**-**	-
Total	**20,941**	25,754	**11,669**	11,736
For audit related services:[f]				
Joint auditors	**3,602**	4,021	**3,326**	3,548
Other auditors	**-**	-	**-**	-
For tax services:[e]				
Joint auditors	**2,279**	2,011	**486**	793
Other auditors	**295**	408	**-**	-
For other services:				
Joint auditors	**3,925**	5,590	**2,866**	4,054
Other auditors	**1,269**	292	**-**	-
Total	**11,370**	12,322	**6,678**	8,395
Total auditors' fees	**32,311**	38,076	**18,347**	20,131

a. Board of Director's Report to the Annual General Meeting on the auditors' fees in respect of audit and additional services, under sections 165 and 167 of the Companies Law, 1999.

b. Auditors' fees include payments to partnerships and corporations under their control and also payments required by the VAT Law.

c. Including fees paid and accumulated fees.

d. Audit of annual financial statements and review of interim reports.

e. Includes the audit of tax reconciliation reports, assessment discussions and tax consultancy.

f. Audit related fees, mainly include: prospectuses, special certificates, comfort letters, and forms or reports to authorities which require the auditor's signature.

Remuneration of Senior Office-Holders

The Bank's Senior Officer-Holder Remuneration Policy for Part of 2016 and for 2017, 2018 and 2019

The Bank's General Meeting on November 3 2016, approved the new remuneration policy for the Bank's office-holders, effective from October 12 2016 to year-end 2019 (hereinafter the "remuneration policy"), following the approval of the Board of Directors, in accordance with the approval and recommendations of the Remuneration Committee. The remuneration policy is based on the provisions of Amendment 20 to the Companies Law regarding the conditions of service and employment of office-holders in the Bank, on the provisions of the amended Proper Conduct of Banking Business Directive 301A regarding the remuneration policy in a banking corporation and on the provisions of the Remuneration of Office-holders in Financial Corporations Law (Special Approval and Disallowance of Expense for Tax Purposes due to Exceptional Remuneration), 2016 (hereinafter the "Remuneration Limitation Law").

The remuneration policy provides the framework for the remuneration of office-holders in the Bank and includes, inter alia, reference to the components of fixed remuneration, which is the main remuneration for office-holders, including fixed salary, social benefits, conditions related to salary and retirement terms and termination of employment, as well as components of variable remuneration, which include any remuneration which is not fixed, including an annual performance-based bonus, qualitative personal bonus and special bonus in respect of special events. The Chairman of the Board of Directors and the President and CEO of the Bank will not be entitled to a variable annual bonus. However, they may be entitled to additional payment – a fixed component which is not eligible for social provisions in an amount equal to the difference between the maximum remuneration that will be payable by law and the cost of their current employment.

The total variable bonuses for an office-holder were limited to a ceiling of 6 monthly salaries in a year (and, in addition, one salary, as a special bonus) and for the Board of Directors of the Bank, the power to reduce the performance-based bonus accordingly, at its discretion. Furthermore, the new remuneration policy provides, pursuant to Directive 301A, a mechanism of recovery of the variable bonuses, including criteria for recovery, circumstances for activating the recovery mechanism and the period of recovery.

The remuneration policy further provided arrangements for deferring payments of the various bonuses to office-holders and the terms for releasing bonuses which had been deferred, which would apply prior to the inception of the new remuneration policy.

In addition, the remuneration policy includes instructions regarding the retention of rights accumulated for the period of employment preceding October 122016, including rights which will be paid on retirement (e.g., enhanced compensation, early pension and non-contributory old-age benefit) and instructions regarding the option of freezing rights as stated above, and depositing them in an external fund, which will pay the rights accumulated on the date to be duly determined.

For more information regarding the remuneration policy, please see Convening of the Special General Meeting of the Bank published on October 21 2016 (Ref. no. 2016-01-066408) and Note 23E.

For more information regarding the update of the terms of employment of the Chairman of the Board of Directors and of the President & CEO, please see the financial statements, Note 23B.

Salaries of Senior Office-Holders

For the year ended December 31 2017

Below are details of the benefits and amounts which were paid or provided in the 2017 and 2016 to the Chairman of the Board of Directors and to the recipients of the highest salaries among the senior office holders of the Group. The benefits described below do not include benefits in respect of banking services that are granted to employees in the Bank, such as benefits regarding interest on deposits of monies with the Bank, interest benefits in respect of mortgages, discounts or exemptions from commissions for banking services provided by the Bank, etc. The amounts of the benefits in respect of the banking services mentioned, regarding each recipient, are not material. Certain private banking customers, including customers who are included in arrangements between the Bank and employee groups, are occasionally awarded benefits that are similar to those granted to Bank employees and in some cases, even exceed them.

Details of recipient of remuneration (1)			Remuneration for services				
Name	Position	Holding in the capital of the Bank	Salary	Bonuses	Social benefit provisions	Value of the benefit (4)	Total (2)
		%					
Mr. David Brodet (7)	Chairman of the Board of Directors	0.011	2,413	-	368	87	2868
Ms. Rakefet Russak-Aminoach (6)	President and CEO	0.025	2,411	-	430	38	2,879
Mr. Avner Mendelson (14)	CEO, Bank Leumi USA	-	1,734	3,857	436	1,953	7,980
Shawn McGowen (15)	Head of Commercial Banking, Bank Leumi USA	-	1,560	2,774	204	871	5,409
Mr. Yaron Bloch (16)	General Manager, Leumi Partners	-	1,549	2,231	406	124	4,310
Mr. Gil Karni (17)	Managing Director, Leumi ABL	-	897	1,389	1,085	836	4,207
Ms. Hilla Eran-Zick (9)	Head of Human Resources Division	0.006	1,237	414	951	103	2,705
Mr. Shmulik Arbel (10)	Head of Commercial Unit, Commercial and Corporate Division	0.006	1,008	465	605	108	2,186
Ms. Sharon Gur (11)	Chief Internal Auditor and Head of Internal Auditing Division	0.008	948	435	634	101	2,118
Ms. Bosmat Ben-Zvi (12)	Chief risk Officer and Head of Risk Division	0.004	1,153	525	296	86	2,060

1. Those receiving remuneration hold 100%, full-time positions.
2. Excluding salary tax. Including provisions for provident funds and severance pay pursuant to the law for Mr. David Brodet in the amount of NIS 345 thousand, Ms. Rakefet Russak-Aminoach in the amount of NIS 356 thousand, Ms. Hilla Eran Zick in the amount of NIS 182 thousand, Mr. Shmulik Arbel in the amount of NIS 148 thousand, Ms. Sharon Gur – in the amount of NIS 137 thousand and Ms. Bosmat Ben Zvi in the amount of NIS 165 thousand.
3. Provisions for social benefits include severance, provident and pension (including "budgetary pension" arrangement which applied to veteran employees and senior office holders – for details see Note 23.a.1), supplementary education fund, non-competition period and National Social security and completion of

reserves for the above due to changes in salary during the reporting period. Senior employees of the Bank have personal and special employment contracts with the Bank. For details regarding retirement of senior officeholders and their entitlement to advance notice prior to termination of work relations see Note 23.b.1.

4. The benefit includes, inter alia, car and telephone expenses.

5. For details regarding the officeholders' entitlement to bonuses in accordance with the new remuneration policy, please see note 23.e.

6. Ms. Rakefet Russak-Aminoach has served as President and CEO of the Bank since May 1 2012.

   On November 3 2016, the General Meeting of the Bank approved the new terms of service and employment of the President and CEO of the Bank, in accordance with the new remuneration policy. The President and CEO's terms of service and employment are in line with the Law of Remuneration of Officeholders in Financial Corporations (Special Approval and Prohibition on Tax Expense in respect of an Unusual Bonus) – 2016 (hereinafter: the "Remuneration Limitation Law") and include a fixed remuneration component which is added to reach the maximum remuneration amount allowed in a bank under the Remuneration Limitation Law (NIS 2.52 million per year).

   According to the President and CEO's new terms of service and employment, she is not entitled to an annual variable bonus.

   For more information on the President and CEO's new terms of service and employment, please see Note 23.b.2 and the Bank's immediate report on convening a general meeting dated October 21 2016 (Ref. No. 2016-01-066408).

7. On November 3 2016, the General Meeting of the Bank approved the new terms of service and employment of the Chairman of the Board of Directors of the Bank, in accordance with the new remuneration policy. The Chairman's terms of service and employment are in line with the Remuneration Limitation Law and include a fixed remuneration component which is added to reach the maximum remuneration amount allowed in a bank under the Remuneration Limitation Law (NIS 2.52 million per year).

   According to the Chairman's new terms of service and employment, he is entitled to fixed remuneration alone and social benefit and related expenses, as is customary for officeholders in the Bank.

   For more information regarding the Chairman's terms of employment, see Note 23.b.3 and the Bank's immediate report on convening a general meeting dated October 21 2016 (Ref. No. 2016-01-066408).

8. During the reporting period, an unexpected expense was recorded, which is not included in the above table, due to revised actuarial calculations and/or interest rate changes by the Bank of Israel, for the Bank's liabilities in respect of rights purchased in the past, prior to the enactment of the Remuneration Limitation Law, by employees who were under the terms of Generation A and Generation B at the Bank. These employees purchased during their work at the Bank, until October 2016 and in accordance with their previous employment terms with the Bank, rights to a defined benefit pension (old-age pension and interim pension in case of retirement under certain terms prior to reaching retirement age) and/or other rights.

9. Ms. Hila Eran-Zick serves as member of management, and as of April 1 2017 - as Head of the Human Resources Division. Until March 31 2017, Ms. Eran-Zick served as Head of the Risk Management Division and as Chief Risk Officer in the Bank. Ms. Eran-Zick's terms of service and employment have been adjusted to the provisions of the Remuneration Limitation Law as of October 2016. During the reporting period, an expense not included in the above table was recorded in respect of the Bank's liabilities as detailed in comment 8 above, totaling NIS 603 thousand.

10. Mr. Shmulik Arbel serves as member of management, and as of April 1 2017, as Head of the Corporate Department in the Bank's Corporate and Commercial Division. Mr. Arbel's terms of service and employment have been adjusted to the provisions of the Remuneration Limitation Law as of October

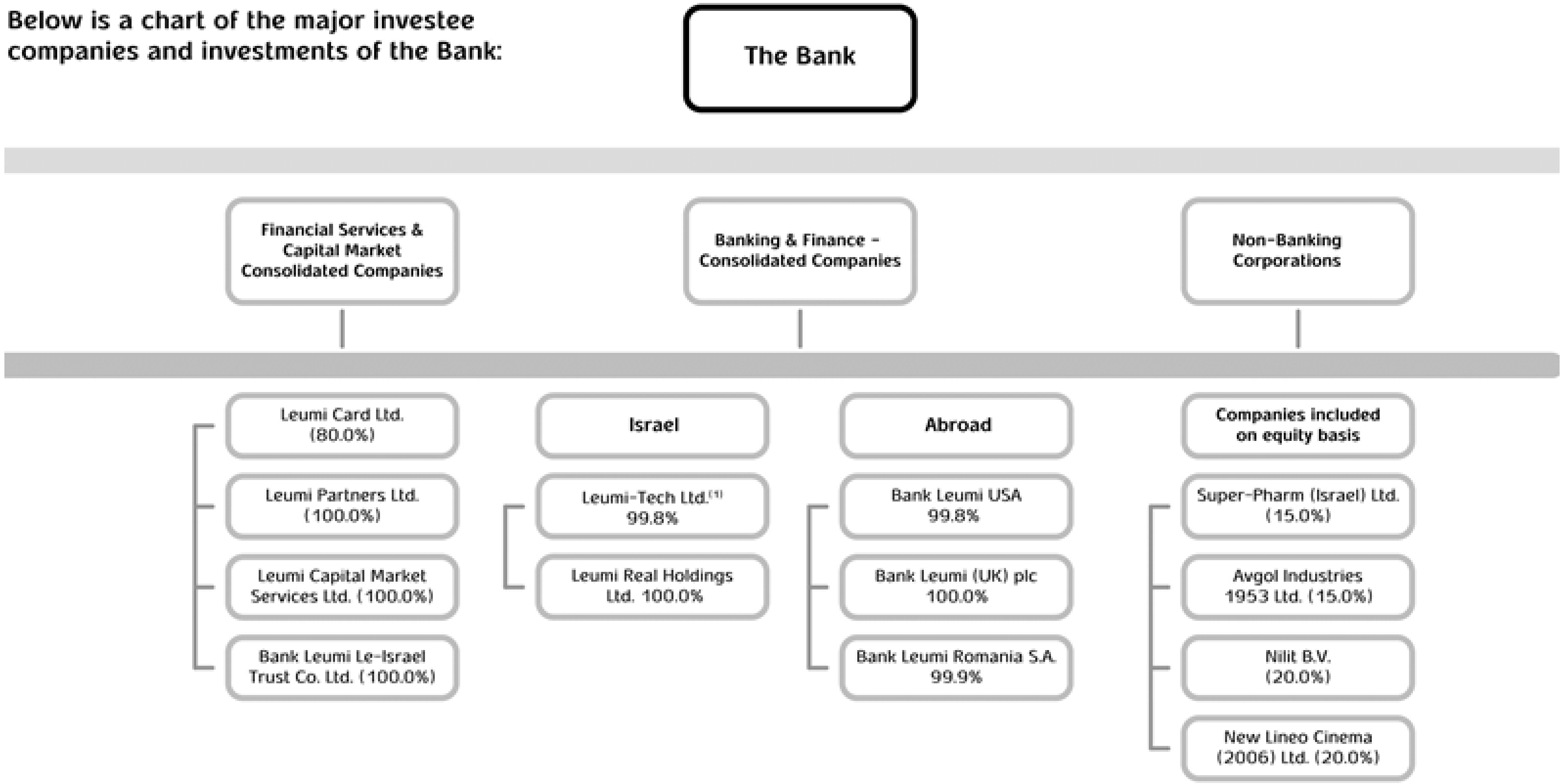
2016. During the reporting period, an expense not included in the above table was recorded in respect of the Bank's liabilities as detailed in comment 8 above, totaling NIS 721 thousand.

11. Ms. Sharon Gur has served since May 1 2017 as the Bank's Chief Internal Officer, Head of the Internal Control Division and member of management. Ms. Gur's terms of service and employment have been adjusted to the provisions of the Remuneration Limitation Law. During the reporting period, an expense not included in the above table was recorded in respect of the Bank's liabilities as detailed in comment 8 above, totaling NIS 1,419 thousand.
12. Ms. Bosmat Ben Zvi is a member of management, and since April 1 2017, as the Bank's Chief Risk Officer and Head of the Risk Management Division. Ms. Ben Zvi's terms of service and employment have been adjusted to the provisions of the Remuneration Limitation Law. During the reporting period, an expense not included in the above table was recorded in respect of the Bank's liabilities as detailed in comment 8 above, totaling NIS 2,181 thousand.
13. For more information regarding the terms of service and employment of the Bank's members of management, including the remuneration policy, terms of retirement and bonuses, please see Note 23.
14. Mr. Avner Mendelson serves as the CEO of Bank Leumi USA, a wholly-owned and controlled subsidiary of the Bank, since September 1 2013. The current salary and bonuses to Mr. Mendelson as set forth in the table above have been determined in accordance with the remuneration policy (of Bank Leumi USA) and in accordance with which what is customary with regard to the salary of CEOs of banks of similar size and activity in the United States. Mr. Mendelson's salary also includes additional related expenses, such as rent and the grossing-up of these expenses.
15. Mr. Shawn McGowen is Head of Commercial Banking at Bank Leumi USA (BLUSA), a wholly-owned subsidiary of the Bank and under its full control. The current salary and bonuses for Mr. McGowen, as detailed in the table above, were determined in accordance with BLUSA's remuneration policy.
16. Mr. Yaron Bloch serves as CEO of Leumi Partners Ltd., a wholly-owned subsidiary of the Bank and under its full control, since January 1 2011 and as Chairman of Board of Leumi Card as of March 23 2017. Mr. Bloch's annual bonus, as outlined in the table above, was approved by the Remuneration Committee and Board of Directors of Leumi Partners, in accordance with Mr. Bloch's employment agreement and Leumi Partners' officeholder remuneration policy.
17. Mr. Gil Karni serves as CEO of Leumi UK, after having served as CEO of Leumi Romania until November 30 2017. Leumi UK and Leumi Romania are wholly-owned subsidiaries of the Bank and under its full control. Mr. Karni's bonuses, as outlined in the table above, include a retirement bonus for his end of employment by Leumi Romania and a signing bonus in respect of his appointment as CEO of Leumi UK.
18. Loans granted under favorable terms are granted under terms generally excepted for all employees in the Bank and their amounts have been determined according to consistent criteria. The said loans amount in aggregate to negligible sums (a few thousand shekels) and therefore, are not presented in the table.
19. Directors and other officeholders have been insured by the Bank under directors' and other officers' liability insurance policies covering the Bank and its investee companies. The proportional insurance premium paid is not included in the above tables, as it is insignificant. The total premium amounted to NIS 6,862 thousand and relates to all office-holders in the insured group.
20. Having held discussions, received explanations and appropriate and relevant background material, and having examined the remuneration, taking into account the activities of the Bank and the Group and their results in 2017, and after noting the Bank's group remuneration policy and the remuneration policy in the Group companies, as well as the performance and activity of each senior officer in the Bank or in the Group, the Board of Directors believes that the remuneration to abovementioned senior officers, as set out in the table and the explanations above, represents remuneration that in no way exceeds fair and reasonable remuneration under the circumstances, taking into consideration the contribution of each of the office-holders, as stated in the Bank's operating results and the remuneration, as aforesaid, is in favor of the Bank.

2016								
Details of recipient of remuneration (1)			Remuneration for services			Other remuneration		
Name	Position	Holding in the capital of the Bank	Salary	Bonuses	Social benefit provisions	Share-based payment	Value of the benefit	Total
		%	NIS thousands					
Mr. David Brodet	Chairman of the Board of Directors	0.007	2,153	691	781	691	126	4,442
Ms. Rakefet Russak-Aminoach	President and CEO	0.029	2,708	1,215	1,629	1,215	126	6,894
Mr. Avner Mendelson	CEO, Bank Leumi USA	-	1,654	2,115	316	-	2,079	6,164
Mr. Yaron Bloch	General Manager, Leumi Partners	-	1,548	2,373	370	-	116	4,407
Mr. Paul Hurd	Managing Director, Leumi ABL	-	705	2,931	106	-	67	3,809
Mr. Phil Woodward	Deputy Managing Director, Leumi ABL	-	634	2,931	95	-	69	3,729
Mr. Dan Yerushalmi	First Executive Vice-President, Head of Leumi Technologies Division	0.008	1,554	700	581	710	20	3,565
Professor Daniel Tsiddon	Deputy Chief Executive Officer	-	1,174	594	1,100	594	85	3,574
Mr. Dan Cohen	First Executive Vice-President, Head of Banking Division	0.015	1,250	607	657	607	116	3,237
Ms. Hila Eran-Zick	First Executive Vice President, Head of Risk Management Division	0.006	1,127	560	679	350	112	2,828

For more information and explanations regarding the salaries and terms of service of the officeholders included in the above table in respect of 2016, please see Officeholders' salaries in the Bank's 2016 financial statements.

Below is a chart of the major investee companies and investments of the Bank:



Voting rights – 99.8%.

Control of the Bank

Since March 24 2012, the Bank is defined, according to the provisions of the law, as a banking corporation without core control and there is no shareholder who is defined as a controlling shareholder of the Bank.

On December 19 2017 Altshuler Shaham Ltd. became an interested party of the Bank. To the Bank's best knowledge, as of December 31 2017 it holds, via entities under its control, 5.05% of the Bank's issued share capital and voting rights for details see Immediate Report dated December 21 2017 (Ref. no. 2017-01-114784).

For updated information regarding the holdings of interested parties of the Bank, see Immediate Report on the Holdings Position of Interested Parties and Senior Office Holders, dated January 7 2018 (Ref no. 2017-01-014253)

Annual General Meeting and Election of Directors

On October 3 2017, the Annual General Meeting of the Bank's shareholders was held, at which it was resolved, inter alia, to re-appoint the Ms. Z. Samet as an External Director pursuant to the Proper Banking Conduct Business Regulation No. 301, who meets the requirements of E.D. and by specific arrangement (for more information, please see Section 1.4.2 to the Notice to Convene a General Meeting published by the Bank) and Dr. Samer Haj Yehia as a director with the status of "Other director." The said directors were chosen from amongst candidates proposed by the Committee for the Appointment of Directors in banking corporations, as detailed in Changes in the Board of Directors and Immediate Reports regarding the Convening of a General Meeting and its resolutions dated August 28 2017 (Ref. no. 2017-01-074968), September 28, 2017 (Ref no. 2017-01-086014) and October 3, 2017 (Ref. no. 2017-01-087916).

Ms. Z. Samet began her third term on November 22 2017, as detailed in the Immediate Report dated November 22 2017 (Ref. No. 2017-01-102880).

Dr. S Haj Yehia began his second term on Oct0ber 30 2017, as detailed in the Immediate Report dated October 30 2017 (Ref. No. 2017-01-094777).

Property, Plant and Equipment

Buildings and equipment - the amortized cost of buildings and equipment as at December 31 2017 amounted to NIS 3.0 billion, similar to last year.

Investments in buildings and equipment as at December 31 2017 are as follows:

	Cost	Accumulated depreciation	Net book value	Cost
	December 31			
	2017			2016
	NIS millions			
Buildings and land	3,190	1,869	1,321	1,401
Equipment, furniture and vehicles	3,897	3,008	889	943
Software	4,952	4,176	776	803
Total	12,039	9,053	2,986	3,147

The above buildings and equipment are used mainly for the Group's activities. Buildings that are not used by the Group and are leased to non-Group parties, which included in the consolidated balance sheet as at December 31 2017, amounted to NIS 51 million.

Real estate

The majority of the premises in which the Groups conducts its business in Israel are owned by the Bank or by subsidiaries. Most of the properties in which the Groups conducts its business abroad are leased.

Data regarding the breakdown of the areas of the Bank, Binyanei Bank Ltd. and Lin City Center Ltd are as follows:

	December 31	
	2017	2016
	M^2 thousands	
Owned	235	244
Rented	104	98
Total	339	342

Information systems

Bank Leumi has two principal computer centers, a primary one, in Keshev, and a secondary one, in Tel Aviv. In addition, there is a third copy of data kept at an off-site facility in the Jerusalem area.

The Bank's primary computer complex is based on an underground facility protected at an acceptable level against rocket attack, biological and chemical warfare and earthquakes. The facility was constructed with advanced technology enabling high-level day-to-day operation and independent functioning in times of emergency. To the Bank's understanding, the infrastructure in the computer center has a Tier-3 survival and redundancy level and is in accordance with international standards.

Bank Leumi has two mainframe IBM computers, for use by the production, development and testing systems and the emergency recovery program. The Mortgage Department's main computer center is also located in Keshev and receives services from IBM and its backup-site has been constructed in Tel Aviv.

Leumi's information security and cyber security are based on the principle of banking secrecy and various laws and directives, such as the provisions of the Protection of Privacy Law and related regulations, the provisions of the Computers Law, Bank of Israel directives, and generally accepted international standards of information and cyber security.

Based on these directives, Bank Leumi undertakes extensive activity to define and implement a cyber-defense strategy and policy organizational information security policy, with an emphasis on devising work programs for the implementation of control and information security mechanisms, setting up systems and integrating information security management, and planning and execution of information security controls, including the drafting of procedures.

In an era in of increasing threats from external and internal organizational factors, Leumi is prepared for computer attacks and is taking steps to hedge the risks arising from various types of cyber-attacks. In addition, the Bank is taking steps, in coordination with the Banking Supervision Department in the Bank of Israel, and in cooperation with the banking sector, National CERT (Cyber Emergency Response Team), to strengthen its capability to handle cyber threats.

The operations and computer department of subsidiaries in Israel and abroad are based on independent systems, with the managements and boards of directors of those subsidiaries having professional and administrative responsibility, and in coordination with Leumi's IT strategy.

For more information regarding the agreement to provide computer services of Union Bank, please see Material Agreements.

In 2017, the Group invested in equipment including software some NIS 533 million, compared with some NIS 994 million in 2016. The budget was adapted to support the strategic goals as defined by the Bank Management.

In 2017, the following products/services were added:

- In June 2017 PEPPER and PEPPER PAY were launched, offering account management services, credit cards, checking, loans, deposits and payment groups.
- New digital services were added, enabling customers to select a PIN code for their debit cards, deposit postdated checks at ATMs, withdraw foreign currency from their foreign currency accounts at ATMs, and recover their password and username on the website and app.
- New services were added for business customers with the aim of transitioning activity from brick-and-mortar branches to the digital domain, such as: receiving on-call loans (bridge loans and large short-term loans); viewing authorizations to conduct online transactions; retrieving postdated checks with a future deposit dates (retail and business); obtaining additional information on transactions; currency exchange for retail and business customers; bank transfers both online and through the app and signature authorizations (for a single beneficiary or multiple beneficiaries, including wages) on the app.
- A new digital system was developed for factoring transactions for business customers on the Bank's secured website, allowing the customer to conduct and keep track of transactions on a dedicated website instead of past processes which were based on scanned paper forms.
- The deployment of the new CRM system in all of the branches of the Commercial Banking Department and the Retail Division was completed, including the centers of excellence and logistics of both divisions. The support solution was extended to include the Compliance Department and the Digital Bank in order to produce a consistent and synergistic customer snapshot across the various units. An innovative, tablet-based solution was provided to the customer advisors in the Corporate and Commercial Division, in line with the CRM system solution, and bankers are now capable of transferring documents to their customers.
- A big data infrastructure was built to store large data volumes which will be used to store built-in data and non-built-in data (charts and files) with cost and storage space savings. The large data volume allows for quality identification of customer needs (personalization) and for offering relevant value propositions and other big data advantages (smart banking).

For more information, please see Note 16.

Intangible Assets

1. The Bank is the sole proprietor of the "Leumi" trademark, and its accompanying design logo, in the banking and finance services field in Israel.
2. In addition, the Group makes use of the names of its companies and their logos for the purposes of its activities, and the names of services and products, some of which are registered as trademarks and service marks.
3. The Group has registered databases in which information is stored regarding, *inter alia*, customers, suppliers and employees of Leumi, with advanced technological means that are designed to protect customer activity and the Bank's business activity, while reducing the risks arising from the use of information systems.
4. The Group holds various intellectual property rights and user rights in various computer programs and information systems for the purpose of managing its business, including the provision of services to its customers.
5. The Group has intangible assets and goodwill from the acquisition of companies. For more information, see Note 15.

Human Resources

Number of personnel

In 2017, the number of positions in the Group was down by 435, a 3.7% year-on-year decrease. The annual average number of positions in the Group fell by 596, a 4.9% year-on-year decline.

The number of positions at the end of 2017 reflects a decrease of 2,913 (20.6%) positions over the course of six years.

The fall in the number of positions was achieved through a reduction of the Bank's workforce as part of the efficiency moves, which included structural changes in the Bank's divisions e.g.: moving back-office activities to centers of expertise, improving efficiency in the divisions' headquarters and through early voluntary retirement measures, natural retirement and other streamlining measures carried out in the subsidiaries in Israel and abroad, in addition to the closure of overseas branches and offices.

	Positions at year end		Average positions in year	
	2017	2016	**2017**	2016
The Bank in Israel	**8,867**	9,285	**9,294**	9,853
Consolidated subsidiaries in Israel	**1,475**	1,477	**1,500**	1,496
Total of the Group in Israel	**10,342**	10,762	**10,794**	11,349
Consolidated subsidiaries abroad	**859**	874	**867**	906
Group total in Israel and abroad	**11,201**	11,636	**11,661**	12,257

* Position – means a full time position including specific overtime, working hours of employees from temporary employment agencies and employment of external consultants.

Positions by operating segment - management's approach:

	Average positions in 2017		Average positions in 2016	
	Managerial staff	Clerical staff	Managerial staff	Clerical staff
Banking	**1,943**	**4,950**	2,057	5,304
Commercial	**444**	**728**	434	705
Corporate	**157**	**222**	196	283
Real estate	**102**	**99**	123	126
Capital market	**249**	**232**	280	255
Others and adjustments	**83**	**85**	49	43
Total Bank	**2,978**	**6,316**	3,139	6,714
Subsidiaries in Israel	**203**	**1,297**	212	1,284
Subsidiaries abroad	**471**	**396**	467	439
Total	**3,652**	**8,009**	3,818	8,439

The number of positions by operating segment is based on the management of personnel according to the Bank's main lines of business, with various adjustments, and on the basis of estimates. The number of positions by operating segment includes employees of the headquarters units, who serve all or some of the Bank's operating segments.

Natural retirement

During the course of 2017 approximately 83 employees left the Bank by way of natural retirement.

As of the date of the report, over the coming five years, approximately 480 employees are expected to leave by natural retirement, 97 of whom during 2018.

Education

The percentage of employees with academic education in the Bank is on an upward trend mainly due to the departure of Bank employees who were not university graduates as part of the early retirement plan in the past two years.

The percentage of university graduates in the Bank was 76.5% of all employees at the end of 2017, compared with 73.5% in 2016 and 70.1% in 2015. The percentage of university graduates among the managerial staff reached 96.7% in 2017, compared with 96.0% in 2016 and 95.6% in 2015.

Age and tenure

In the last years there has been a decreased in the average tenure of Bank employees, mainly due to the early retirement plans which took place over the past two years

The average age of Bank's employees at the end of 2017 was 43.3 years, compared with 44.0 years in 2016 and 44.9 in 2015. The average tenure of employees at the end of 2017 was 15.8 years, compared with 17.0 in 2016 and 18.0 in 2015.

Remuneration mechanism and salary structure

The salary structure and remuneration level of the Bank's employees is affected mainly from the current collective wage agreements. In general, the annual remuneration is differential and is based on an employee's rank, wage level, suitability for the position, contribution to the company and manager's evaluation.

Employee rights

Labor relations between the Bank and its employees in Israel, save for those with personal employment contracts, are primarily based upon a basic collective labor agreement known as the "Labor Constitution" and supplementary and collective agreements. The terms of employment of members of the Bank's Management and certain other senior employees are regulated by personal employment contracts. For more information, please see Note 23.

Labor and Salary Costs (in the Bank)

	2017	2016	2015
	NIS thousands		
Cost per employee position (excluding bonus)*	**351.7**	351.2	345.3
Cost per employee position (including bonus)*	**392.6**	388.6	385.7
Salary per employee position (excluding bonus)*	**240.9**	240.7	237.9
Salary per employee position (including bonus)*	**273.9**	270.9	270.4

* Cost per employee position does not include pension expenses, costs of voluntary retirement, retroactive severance pay, shares to employees, collective salary agreement, 2016 signing-on bonus, jubilee bonus, sick leave and grossing-up of salaries for employees abroad.

Training and Development

In an era of frequent organizational changes, in which Bank employees are required to change their position or attain new knowledge or skills, and all while undergoing intensive efficiency processes associated with intensified voluntary retirement, the areas of training, knowledge management and retention are becoming central catalysts for the organization. The Bank's Management has defined a goal of supporting the business units in reaching their goals in a changing environment and to deepen and invest in professional development of Bank employees. To this end, in 2017, Leumi employees participated in 69,150 training days.

Training activities in 2017 focused on reinforcing professional knowhow of the employees and managers with an emphasis on core banking areas and designated training activities supporting organizational change processes. This is undertaken according to the Bank's business targets. Furthermore, the Training Department supported the early retirement processes with regard to aspects of knowledge retention and support for the retirees in the future.

Digital learning

In 2017, there was a continuation in the trend of intensifying digital learning in Leumi as a part of the learning culture in the organization. In 2017, Leumi employees were drilled and certified in 15 regulation learning programs and participated in almost 38,500 hours of "digital" learning (learning at the employee's desk), which comprised 56% of this year's learning

Knowledge management

2017 was marked by innovation. During the year we worked to find dedicated solutions to various knowledge management needs by defining an appropriate methodology for the characteristics of the unique and through a number of technologies. The following are leading projects in this area:

- My Leumi – enhancement of the "My Leumi" website and transforming it to one access point for the employees in which they can find all of information relevant to them in the various areas of human resources. Furthermore, establishment of a knowledge infrastructure for dedicated work processes for the Center of Service for the Employee and support in on-going work.
- PEPPER Knowledge Administration – building all of the knowledge needed to support the banker in the digital bank. Inter alia by creating work processes, insights and support in the day-to-day management.
- Digital Directorate – establishment of a dedicated knowledge directorate dealing with the digital activities in the area of the Israel IL project, which enables quick and accurate access to all of the loan products, in addition to establishing a knowledge community for the digital leaders.
- Knowledge retention for the benefit of the organization with data cleaning and structuring in order to make the knowledge supportive of the activities of the various units.
- Creation of specific professional forums for the formation of operational and management methodologies, recruiting content specialists and building informal knowledge.

Employee involvement in community outreach

Leumi's Management views the involvement of its employees in the community as a key channel in the area of the Bank's social responsibility. Leumi encourages its employees to take an active role in volunteer projects and become involved in the community life in those communities in which the Bank is active.

During the course of 2017, over 3,300 employees – from various units within the Bank - engaged in voluntary activity for a total of 33,350 of volunteer activity.

The Bank's activities are based on a network of social leaders in the Bank's divisions, numbering some 360 representatives

Many thousands of people benefit every year from the direct impact of volunteer work by Leumi's employees.

Employees from throughout the country are involved in a range of activities, inter alia, participation in the annual traditional Passover food collection, distributing food packages to needy families so that they can enjoy a festive Passover meal. In 2017, 1,100 employees participated in preparing and distributing 2,900 packages to needy families. In addition, packaging campaigns took place and 550 food packages were handed out to needy families who celebrate the Ramadan festival.

Alongside these many activities, the Bank chose to link with Leumi's vision of empowering the future generation through a strategic connection with "Follow Me - Youth Leading Change". This connection has been active since 2002, the non-profit aims to include youth at high risk in Israeli society, through education for values, leadership development and the giving of tools. The non-profit runs 350 activity frameworks countrywide, in which 6,000 youth participated annually from all segments, in leadership groups and IDF preparation. The navigation groups, matriculation learning centers, empowerment of youth of Ethiopian descent, pre-army preparatory programs, communal housing for gap-year programs in the communities, Nachal Seed groups and more.

The Leumi Group is the main sponsor of the non-profit and grants extensive support of its operations; Leumi volunteers with the program's participants on a continual basis and in annual events and the Bank's CEO heads the "Friends of the Association." In the framework of the joint activity, some 1,200 Leumi employees volunteered with the non-profit in 2017.

In addition, the Bank participates in activities in cooperation with associations such as "Atidim", Ort", "Etgarim", "LaTet", "Pa'amonim", "Shi'ur Ahar", and others.

Appointments and Retirements

Appointments:

Ms. Hila Eran-Zick, member of the Bank's management and Head of the Risk Management Division, was appointed Head of the Human Resources Division, effective April 1 2017.

Mr. Shmulik Arbel, Head of the Commercial Department, was appointed member of Bank's management, with the rank of First Executive Vice-President, reporting to the Head of the Corporate and Commercial Division, effective April 1 2017.

Ms. Bosmat Ben Zvi, C.P.A. was appointed Head of the Risk Management Division and member of Bank's management with the rank of First Executive Vice President, effective April 1 2017.

Mr. Ronen Agassi, C.P.A. was appointed Head of the Capital Markets Division and member of Bank's management with the rank of First Executive Vice President, effective April 9 2017.

Ms. Sharon Gur was appointed Chief Internal Auditor and member of the Bank's management with the rank of First Executive Vice President, effective May 1 2017.

Mr. Hanan Friedman, Adv., member of Bank Management and Head of the Legal Counsel Division, was appointed as Head of the Strategy and Regulation Division, effective June 1 2017.

Ms. Irit Roth, Adv. was appointed Chief Legal Counsel, Head of the Legal Division and member of Bank's management with the rank of First Executive Vice President, effective June 1 2017.

Mr. Shai Basson was appointed Head of Leumi Technologies Division and member of Bank's management with the rank of First Executive Vice President, effective September 1 2017.

Mr. Ilan Boganim was appointed Head of CDO, CTO and Infrastructure Department and member of Bank's management with the rank of First Executive Vice President, reporting to the Head of Leumi Technologies Division, effective September 1 2017.

Ms. Liat Shuv C.P.A., was appointed Chief Compliance Officer and Head of Compliance and Enforcement Department, effective January 1 2018.

Termination of Position:

Mr. Zeev Morag who served as Chief Compliance Officer, and an office-holder, retired from office at the end of 2017.

Retirements:

Ms. Michal Carmi Dana, member of Bank's management and Head of Human Resources Division, retired from office on February 28 2017.

Mr. Yoel Mintz, member of Bank's management and Head of International Credit and Real Estate Division, retired from office on March 31 2017, after 38 years of working at Leumi, 4.5 years of which were as member of management. After his retirement, he continues to serve as Chairman of the Board of Directors of Bank Leumi UK and Chairman of the Board of Directors of Bank Leumi Romania.

Mr. Dan Yerushalmi, member of the Bank's management and Head of Leumi Technologies Division, retired from office on April 15 2017 after 4 years of working at Leumi.

Mr. Sasson Mordecai, member of the Bank's management and Chief Internal Auditor, retired from office on April 302017, after 34 years of working for Leumi, six of which were as Chief Internal Auditor.

Mr. Yitzhak Naor, Head of the Corporate Department, retired from office on February 28 2017, after 42 years of working at Leumi, 5 years of which were as Head of the Corporate Department.

Appointments and retirements in subsidiaries:

Mr. Eli Katzav, CEO of Bank Leumi UK, retired from office on August 31 2017.

Mr. Gil Karni, CEO of Bank Leumi Romania, was appointed to the position of CEO of Bank Leumi UK, effective November 22 2017.

Mr. Manfred Rauchwerger who, until a year ago, served as Deputy CEO Bank Leumi Romania, was appointed Acting Chief Executive Officer of Bank Leumi Romania effective September 29 2017

Organizational Structure

The Leumi Group's organizational structure, according to lines of business and head-office services, as described below, combines the activity of companies in the fields of banking, finance, the capital market and financial services.

Business Lines

Leumi is organized into business lines that focus on different market sectors, each business line specializes in providing a service to a group of customers. This form of organization enables the customers to enjoy a high standard of professional service, varied distribution channels, products that are adapted to their requirements and fast and flexible decision-making processes.

Following is a description of the areas of responsibility for Leumi's four lines of business:

1. **Banking Division** – the Division conducts its activity via a structure of four business lines was implemented: Small Businesses, Private Banking, Premium and Retail. The business lines operate in a format of independent profit and loss centers.

   The Banking Division manages the activity of private and small commercial customers, who receive the full range of services through 188 branches and by means of a variety of technological/direct distribution channels, including Leumi Call, which provides services to customers via telephone, mobile phones and the Internet. The services and products are adapted to all the customer sectors differentially according to the nature of their banking activity, their characteristics and their needs.

   Small Businesses Department – In January 2016, the Small Businesses Department was established, operating as an independent profit and loss management center, responsible for all small business customer activity.

   Premium Department – On January 1 2017, the Premium Department was set up to operate in the format of the management of an independent profit and loss center. The Premium Department is responsible for the activity of customers with a large financial wealth.

   Retail Department – On January 1 2017, the Retail Department was set up, to operate in the format of an independent profit and loss center. The department is responsible for household customers and growth, such as, youth, discharged soldiers, students, new immigrants, retirees and salaried employees.

   Private Banking Department - Responsible for private banking activity in Israel. The department has five private banking centers in Israel for Israeli residents and foreign residents and four branches.

   Mortgage Department – The main activity of the Mortgage Department is in the sector for loans to purchase housing and in the sector for any-purpose loans with a housing mortgage, with specific skill and expertise in the area. The department operates through 82 representative offices, most of which are located in the Banking Division's branches, with a few in independent locations. The department operates a business center which coordinates activity in credit, underwriting and the transfer of loan funds to customers. The department also operates telephone call-centers which allow the submission of requests for approval in principle of a credit facility via telephone and the Internet, and the provision of a qualitative service to existing borrowers regarding managed loans. As part of the extension of housing loans, individual loans are made in the department to participants in a purchasing group.

   Investment Counseling Department is responsible for the construction and assimilation of the advisory doctrine and all its aspects and provides investment and pension advisors with an address for inquiries regarding professional automated topics and legal and ethical subjects. The department makes ongoing and continuous assessments of what is happening in the capital and money markets in Israel and around the world and distributes reviews and reports to investment advisors in order to keep them up to date regarding what is happening in the economic environment. In this context, the department constructs and operates decision-supporting systems and models for the use of the Bank's advisors. In addition, the department is responsible for the pension counseling centers.

   For more information regarding the change in structure of the Banking Division, please see below.

2. **Corporate and Commercial Division -** includes four departments: The Corporate Department, the Commercial Banking Department, the Construction and Real Estate Department and the Special Loans Department (as detailed below). The merger of the two latter departments into the Corporate and Commercial Division was completed on April 1 2017. The Division includes headquarter units which provide services to the Division.

   In addition, the division is responsible for designing special transactions, which include project financing, financing the means of control, organizing syndicates, selling debts, examining investment and trade programs and international finance.

   Corporate Department - Manages the banking activity of the large business companies in the economy on the basis of sector expertise and synergy between industries. The department includes three business sectors: a technology and tourism sector, a sector for chemicals, energy, consumption and municipalities, industry, transportation and infrastructure.

   Commercial Banking Department - Manages the activity of middle-market commercial companies, through 24 business branches, organized on a geographical basis into 5 commercial districts and the Leumitech Business Center.

   In 2017, the Bank launched the Commercial 2020 Project, which includes the transfer of the operational activity from the commercial branches to the performance centers, and other measures to improve the experience of the commercial customer. In 2017, the central performance center commenced operations, adding to the northern performance center which commenced operations in 2016.

   Construction and Real Estate Department - Manages the large building companies, promoters and contractors in the economy with specific skill and expertise in all areas of real estate in the economy. Financial services are provided both to finance the activity of the customers in Israel through the Bank's branches, and to fund their activity abroad, including cooperation in extending credit with the Bank's overseas units. Through the offices abroad, credit is also granted to local entrepreneurs who are active in the field of real estate, hotels and nursing retirement homes.

   Special Loans Department - Deals with corporate customers who are in difficulty, while attempting to assist in the recovery of active customers through business help and support or by taking steps to collect the debts of corporate customers whose rehabilitation is not possible. In addition, the unit coordinates the professional assistance required for clarifying demands and claims against the Bank and consultation for the entire Bank on topics related to its area of expertise.

3. **Capital Markets Division** - Responsible for managing the Group's financial assets in Israeli currency and foreign exchange; management of the *nostro*; the activity of the Bank's trading room (on January 1 2018, structural changes were introduced to trading rooms – the foreign currency and derivatives, Israeli securities and foreign securities trading rooms were merged into a single, customer-oriented trading room); developing innovative financial products and investment products; supplying customers with sophisticated trading platforms, determining the collateral requirements from customers operating in derivatives and monitoring activity, managing the assets and liabilities of the Bank and managing market risks; management of the formulation of a price policy and financial margins in the Bank; relations with financial institutions abroad; co-ordination of the Bank's capital market (through the subsidiary, Leumi Capital Market Services Ltd.), and banking and operational services; and services for customers active in the capital and financial markets, including institutions.

In addition to the division according to lines of business, the Leumi Group has the following headquarters units which provide services to the business units:

Finance Division -Responsible for coordinating and preparing the Bank's work plan; managing profit centers and financial and managerial measurement; planning and managing the Group's capital; preparing the Bank's expenditure budget and monitoring its application, sharing in setting priorities in the investment budget, contacts with investors and analysts; monitoring economic developments and preparing sectoral reviews and economic forecasts; formulating concepts, processes and organizational and administrative solutions; devising models for optimizing resources, directing overseas units and analyzing their activity, coordinating the policy regarding commissions and insurance of the Bank. In addition, the division is responsible for providing procurement services (general, construction and technological), construction and maintenance.

Accounting Division - Responsible for managing, developing and determining the Bank's accounting guidelines, managing the Bank's books of account, preparing the financial statements of the Bank and the Group, the relationship with the Bank of Israel in all accounting matters and related reports and monitoring regulatory changes related to accounting and their assimilation in the Bank and in the Group. In addition, the Accounting Division is responsible for managing the tax affairs of the Bank and the Group, assessing the effectiveness of the key controls of the SOX 404 working process, calculating capital adequacy and reporting to the public in accordance with the Basel directives.

Human Resources Division - Responsible for formulating and implementing the strategy of the Bank's human resources policy and, within this overall context, for selecting and placing employees, remuneration, salary structure, labor relations, developing and promoting employees, banking training – managerial and general, assimilation of the "Leumi Way" code of ethics, intra-organizational communications, internal advocacy, individual care, organizational counseling and development, employee involvement in the community and employee welfare. The division is responsible for managing the assets and providing the various logistical services in the area of launching and managing the logistical center in the Bank and in the subsidiaries in Israel.

Leumi Technologies Division - Responsible for computing and the operational deployment of the Bank and the Group, including the computerization of Union Bank, in accordance with an agreement with Bank Leumi. As part of its function, the division coordinates the formulation and determination of the strategy, policy and activity regarding technological development, computerization, operations, data technology, communications, cyber, data protection, security, and also supporting the overseas units in all matters related to technological services, operations and receiving the assistance required from Bank Leumi in Israel and extending automated solutions required for achieving Leumi's business goals.

Legal Counsel Division - Responsible for overall legal counsel to the Bank and its subsidiaries in Israel and for managing legal risks in the Bank and the Group. It is also responsible for expressing opinions regarding various legal matters and for the infrastructure of legal forms and opinions, following legislative and regulatory proceedings, legal advice for new products developed or integrated into the activity of the Bank and Group, and is responsible for dealing with claims against the Bank, the employment of outside attorneys and their supervision. In addition, the Division is responsible for the Ombudsman's Bureau, whose function is to examine customer complaints, and for the Compliance and Enforcement Department, which is responsible for implementing compliance programs in the Bank and in the Group, including the prohibition of money laundering, the prohibition on the financing of terrorism, and administrative enforcement.

Internal Audit Division - Responsible for the internal audit of the Leumi Group. The Division operates by virtue of the Internal Audit Law – 1992, Proper Conduct of Banking Business Directives of the Bank of Israel and directives of the Board of Directors. In addition, the Division acts in accordance with the professional standards of the Institute of Internal Auditors.

The Division deals, in an independent, impartial manner, with the examination and assessment of the Group's internal control system, including: examining the work and control processes, examining the method by which various risks are managed in the Group, maintaining the Bank's assets, minimizing exposures, complying with the rules of ethics and proper governance, implementing the directives of the Board of Directors, the management and the Bank's procedures and examining operational efficiency. In addition, the Audit Division conducts an independent review of the internal process for assessing the Group's capital adequacy (ICAAP). The Chief Internal Auditor reports directly to the Chairman of the Board of Directors.

Risk Management Division - Responsible for risk management in the Group and in the Bank, and coordinates risk management at the Group level in the main risk areas: credit, market and. The Division operates with an emphasis on independence from business units (risk-taking). The Division's objective is to create a strong infrastructure for managing and controlling risks that will support the achievement of business targets, in accordance with the defined risk appetite. In addition, the Division is responsible for assisting the Board of Directors in defining the risk appetite, leading risk policy, developing and defining tools for measuring and pricing risks in the various activities; identifying, measuring and controlling the major risk focal points in the Group and the changes occurring in them and examining the risks inherent in new activities. The Division also includes the Credit Risk Management Department.

Credit Risk Management Department (CRM) - Responsible for the analysis of specific credit risk in excess of NIS 25 million and for examining the appropriateness of the classifications and allowances for credit losses. The Department is divided into three sections: analysis of corporate credit risk, analysis of credit risk in the real estate sector and commercial credit risk. The analysis of the risks is achieved as part of the process of approving the credit and is presented to the relevant credit committee before making the decisions.

The **Digital Banking Division** is responsible for leading, accelerating and implementing advanced digital innovation, with an emphasis on leading digital strategy and assimilating innovative digital products in all digital channels, along with the credit lines and business targets. The Division also manages and leads the Big Data and data analytics activity at the Bank level and manages marketing while outlining the marketing strategy and implementing it in all of the Bank's business lines.

The **Strategy and Regulation Division** is responsible for assisting Group Management and the Board of Directors in defining and planning Bank and Group strategy and its validation, examining and analyzing subjects with strategic implications, and providing leadership of key projects in the Bank (including the application of the Strum Committee recommendation, streamlining processes in the Bank and the selling of Leumi Card. The Division includes the strategy, regulation, O&M, the international back-office and the representative office in China.

During the year, several significant organizational changes were made in Leumi

Banking Division

In light of changes and trends in the global business environment and in banking in Israel, it was decided to change from a geographical structure (regions) to business lines, which operate as independent profit centers: Private Banking Department, Small Businesses Department, Premium Banking Department, Retail Banking Department and Mortgage Department.

The Bank is conducting a strategic assessment regarding centralizing the operations of the various Bank units in 2019, as part of the Operations Division, which will provide services to all of the Bank's business lines. In this framework, the Bank is currently forming an operations department for the Banking Division as well as for additional units from other divisions. The decision is in line with the Bank's strategy to continuously improve the quality and availability of its services and mitigate operational risk.

Corporate and Commercial Division

On April 1 2017, the Construction and Real Estate Department and the Special Loans Department, which belong to the International and Credit and Real Estate Division, were merged into the Corporate and Commercial Division. This merger is intended to deepen the synergy in the Bank's corporate and commercial credit activity for all market sectors.

Strategy and Regulation Division

On June 1 2017, the Strategy and Regulation Division was established, reporting to the President and CEO. The Division is responsible for the Bank's strategy, regulation and O&M and the leadership of a variety of key projects of the Bank.

Corporate Secretary

Effective June 1 2017 the Corporate Secretary reports to the Chairman of the Board of Directors.

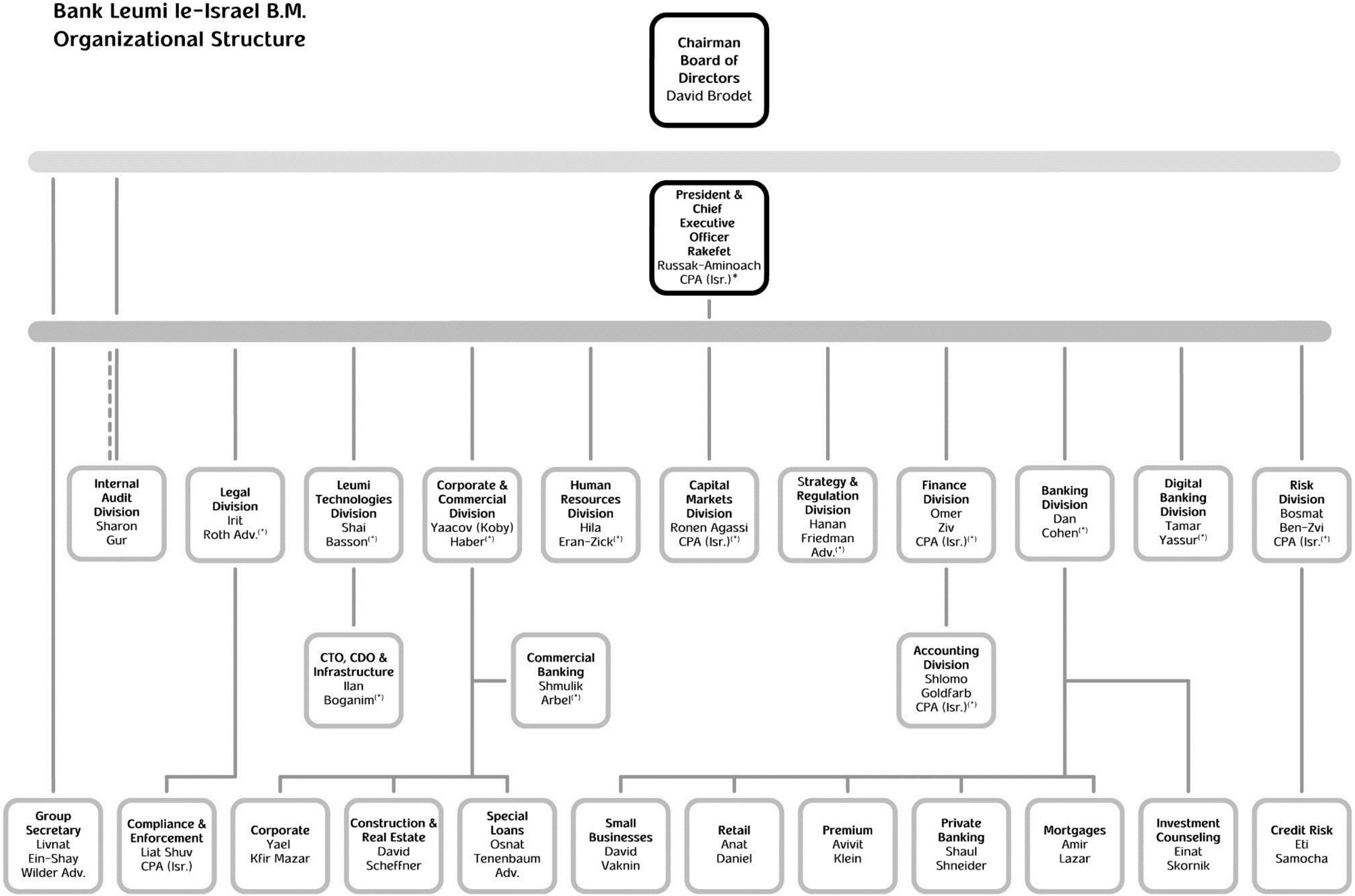
CTO, CDO and Infrastructure Department

On September 1 2017, the CTO, CDO and Infrastructure Department began reporting to the Head of Leumi Technologies Division. Pursuant to the activity in the department, the following areas will operate: CDO (Chief Data Officer), CTO (Chief Technology Officer), responsibility for the development of the systems of the digital bank and responsibility for the core system replacement project.

Compliance and Enforcement Department

Effective January 1 2018 the Compliance Department reports to the Legal Counsel Division. From the establishment of the Strategy and Regulation Division until year-end 2017, the Compliance Department reported to the Strategy and Regulation Division.

Bank Leumi le-Israel B.M.
Organizational Structure



* Member of Management

Legal Proceedings

1. The Bank is party to legal proceedings, including petitions to approve derivative claims and petitions to approve class actions, brought against it by customers and former customers of the Bank, as well as various third parties, who consider themselves damaged or harmed by the Bank’s activity in the ordinary course of its business.

   In the opinion of the Bank's Management, based on legal opinions, appropriate provisions have been included in the Financial Statements to cover possible damages in respect of all the claims.

   The grounds for claims against the Bank are different and varied, including assertions as to the non-execution of instructions or their late execution, petitions for approval of attachments imposed by third parties on assets of debtors which, according to them, are held by the Bank, assertions that interest charged is not in accordance with the interest rates agreed upon between the Bank and the customer, interest rates deviating from those permitted by law, assertions regarding commissions charged, assertions relating to securities, labor relations, drawing checks without cover, and failure to honor checks.

   For more information regarding claims filed against the Bank in material amounts, please see Note 26.

2. As part of measures taken to recover debts during the ordinary course of its business, the Bank initiated, *inter alia,* various legal proceedings against debtors and guarantors, as well as proceedings to realize collateral. The financial statements contain allowances for credit losses that were made by the Bank based on an assessment of all the risks involved in the credit to the various sectors of the economy and taking into account the extent of the information concerning the relevant debtor/guarantor with regard to their financial stability and the collateral provided to the Bank to secure ensure the repayment of the debt.

Material Agreements

1. Following the publication of the circular by the Supervisor of Banks regarding measurement and disclosure of impaired debts, credit, and the allowance for credit losses (the banks, including the Bank, reached an agreement with the Tax Authority regarding recognition of allowances for credit losses for tax purposes. The agreement was signed on 19 March 2012 and is effective for impaired debts that were recorded as of January 1 2011. (The previous arrangement applies to doubtful debts registered before December 31, 2010).

   For more information, please see Note 8.

2. A compromise agreement for the regulation of tax payments in Israel in respect of profits of the Bank's subsidiaries abroad, between the Bank and the Assessing Officer for Large Enterprises. from August 1987. This agreement is in force until such time as one of the parties gives a year's notice of its intention to propose changes to the agreement.

3. An agreement from April 2005 between the Bank and the Tax Authority, in connection with an offset of taxes in respect of the profits of an overseas subsidiary and a follow-up letter from the Tax Authority dated 29 June 2014, in connection with an offset of taxes in respect of the profits of subsidiaries abroad.

   For more information, please Note 8.

4. An agreement between the Bank and Union Bank Ltd. (“Union Bank”), which was extended from time to time, for providing computing and operational services to Union Bank and its related entities, until December 31 2019. On December 31 2016, the agreement's termination period between the parties began.

   On December 28 2016, the Antitrust Authority extended the exemption from the approval of the above agreement until December 31 2019, in accordance with the conditions stipulated therein.

5. Pursuant to the agreement dated February 28 2016 between the Bank and institutional entities from Harel Insurance and Finances Ltd. (hereinafter: "Harel") from June 13 2016 until the end of the agreement on December 31 2017 the parties jointly extended secured housing loans (under the Bank's

management), secured, inter alia, in mortgages and pledges on contractual rights in connection with land.

Harel's participation in the joint extension of housing loans with the Bank in stood at NIS 3.9 billion in 2016 and NIS 2.4 billion in 2017.

Pursuant to the agreement, the parties will continue, after the date of termination of the agreement, to jointly extend, in cases and under conditions detailed in the agreement, housing loans which are related to housing loans jointly extended during the term of the agreement or related to the loan documents which were signed during the term of the agreement.

6. The Bank granted office-holders and others letters of indemnity. For more information, please see Note 26F.

7. For more information regarding the agreement related to subsidiaries, please see Main Investee Companies.

Legislation and Regulations relating to the Banking System

Some of the information in this chapter is "forward-looking information". For the meaning of this term and the consequences arising from this meaning, please see Forward-Looking Information.

A large number of proposals for changes in regulations and changes in various provisions of the law were made during the reporting period, which could have an impact on the characteristics of the Group's activity, the scope of activity in some of the Group's areas of activity, the rate of profitability in some of the Group's activity and the credit risks and the operating and legal risks to which the Group is exposed. Most of the regulations are at various stages of discussion, and consequently, it is not possible to assess whether they will be issued as binding directives and, if issued, what the ultimate directives that are established will be. Accordingly, at this stage, it is not possible to estimate the impact that these regulations will have on the overall activity of the Group, if any. This chapter outlines regulations which have come into effect during the period of the report and directives which are expected to come into effect, whose impact on the Bank is expected to be significant.

Legislation

Insolvency and Economic Rehabilitation Bill, 2016

On February 6 2018 the Knesset's Constitutional and Legislative Committee approved in a second and third reading the proposed Insolvency and Economic Rehabilitation Law, which includes a reform of insolvency proceedings of individuals and corporations. The bill includes instructions related to all kinds of debtors – individuals and corporations. The bill version, in its second and third readings, includes, inter alia, a directive providing that a secured creditor in a floating lien will be entitled to repay his/her secured debt from the current lien only up to an amount equivalent to 75% of the value of the assets to which the lien applies. The balance of the assets under the lien will be used as payment to the general creditors. This directive is likely to impair the value of the current liens held by the Bank.

Securities Law (Amendment No. 63), 2017 – Change in the Structure of the Stock Exchange

On April 6 2017, an amendment to the said law was published. The main aim of the law is to convert the Stock Exchange into a for-profit corporation with an ownership structure segregated from access to trading, which is able to represent significant competition to stock exchanges in international markets and an alternative trading arena in Israel and abroad. For this purpose, the Stock Exchange will undergo a structural change with the approval of the courts, at the end of which it will change from a company limited by guarantee to a company with a share capital, to be divided between the members of the Stock Exchange.

On September 7 2017 the Courts approved the arrangement to structural change of the Stock Exchange.

The main points of the law are as follows:

- Access to trading will not necessitate ownership in the Stock Exchange, but rather will be based on a contractual commitment between the Stock Exchange and the members.

- With effect from the date on which the court approved the structural change, the holdings of the existing Stock Exchange members, in excess of 5%, will be turned into treasury stock and will not accord any right, and there will be no obligation to sell them in excess of this percentage, for five years from the date of approval of the arrangement as aforesaid, or until the date of issue of the shares of the Tel Aviv Stock Exchange to the public and their registration for trading, whichever is earlier.
- The current members of the Stock Exchange will be entitled to the proceeds from the sale of their holdings, as aforesaid, only out of the shareholders' equity of the Stock Exchange. The current members of the Stock Exchange who sell their holdings will transfer the full amount of the difference between the sale proceeds they receive and the value of the holdings sold by them to the Stock Exchange, according to the shareholders' equity of the Stock Exchange, according to its 2015 financial statements.
- No person may hold the means of control in the Stock Exchange at a rate of 5% or more, except under to a holding permit granted by the Securities Authority. In addition, no person may control the Stock Exchange, except under a permit granted by the Authority. In any event, a banking corporation and a Stock Exchange member will not be entitled to receive a holding or control permit in the Stock Exchange.
- The Stock Exchange will be able to distribute a dividend to the shareholders.
- Corporate governance – Most of the directors will be independent. It is provided that as long as the members of the Stock Exchange (the banks) hold more than 50%, most of the independent directors will be appointed by and external committee (the Committee for Locating Candidates).
- The Finance Minister will have authority to grant and suspend a Stock Exchange license. It is prohibited to offer trading services in securities through the Securities Trading System, unless it is managed by the Stock Exchange.
- The Stock Exchange will publish the commissions which the Stock Exchange members collect from their customers in a comparable format, and the Stock Exchange members are required to report to it regarding these commissions, as well as any change therein.

As a consequence of the provisions of the law, the Bank will be required to sell its holdings in the Stock Exchange exceeding a rate of 5%; this, pursuant to the outline and time-tables stipulated for this purpose according to the law.

On January 18 2018 the Bank issued an offer to the Stock Exchange to sell its holdings in the Stock Exchange, as a response to the proposal to shareholders to purchase their shares dated December 28 2017.

Pursuant to the Stock Exchanges proposal, the total offered compensation for the purchase of all of the Stock Exchange's shares will be in amount of NIS 500 million.

The Bank's offer is valid until April 18 2018.

Non-Bank Loan Arrangement Law (Amendment no. 5), 2017 – Fair Credit Law

On August 9 2017, an amendment to the Non-Bank Loan Arrangement Law was published, comparing the norms applicable to non-institutional lenders and those applicable to institutional lenders (insurers, banks, ancillary corporations, clearers, etc.), *inter alia*, on the following subjects:

- Borrower disclosure obligations
- Limits regarding the maximum cost of loans
- Rules regarding the advancement of the loan repayment date

The law applies to borrowers who are individuals. However, the Justice Minister, with the consent of the Finance Minister, the Governor of the Bank of Israel and with the approval of the Constitution, Law and Justice Committee, will be able to expand the incidence of the law or some of its sections to types of corporations.

The law will come into force on November 9 2018, and obliges the Bank to make appropriate contractual and computer preparations.

Memorandum of Payment Services Law, 2017

The memorandum was published by the Justice Ministry in July 2017 further to the recommendations of the Committee for the Promotion of Advanced Means of Payment in Israel.

The memorandum discusses the significant provisions and consumer protections in the area of payment services and proposes regulating two main contract systems: (1) one, between a payment system provider (an issuer of the means of payment or a manager of a payment account) and the payer; and (2) the other, between a payment service provider (a clearer or payment account manager) and a beneficiary (the recipient of the payment).

The payment services to which the memorandum relates are: payment account management, the issue of the means of payment (an agreed object or process between a payment service provider and the payer, which is intended to execute the payment transaction), clearing of a payment transaction (the deposit of money in a payment account, its withdrawal from a payment account, or its transfer to or from a payment account), and any other service provided by the Justice Minister, with the consent of the Finance Minister and the Governor of the Bank of Israel to the order.

The memorandum proposes replacing the Debit Cards Law, 1986 with a new law reflecting technological developments in the field, and is also based on the European Regulation according to the principles provided in the Payment Service Directive.

The implementation of the law, if accepted, is expected to oblige the Bank to make appropriate preparations.

Directive of the Banks Supervision Department

Banking directive 450 – debt collection procedures

On February 1 2017 the Fair Banking Directive No. 450 was published – Debt Collection Procedures. The directive determines the actions which bank must undertake when collecting debts from private customers or small businesses, which do not repay their loans appropriately, in order to increase the fairness and transparency vis-à-vis the customers.

The following topics are covered by the directive: policy and regulations to handle debt collection with the involvement of the senior management and the Board of Directors; creation of a designated function to handle debt collections; expansion of the fair disclosure requirements to the customer; availability of information and direct contact with the Bank; obligation to send detailed notifications; monitoring and supervising the banking corporation and their representatives' and fees and so forth.

In order to meet the requirements of the directive, the Bank is requirement to make appropriate preparations.

Letter of the Banking Supervision Department regarding increasing operational efficiency of the banking system in Israel – Streamlining the real estate domain

In January 2016, the Banking Supervision Department published a letter discussing operational streamlining of the banking system in Israel. The present draft, which was published on June 13 2017, expands the aforesaid letter of the Bank of Israel.

As part of the expansion, it is clarified that the Banking Supervision Department encourages the banking corporations, in addition to streamlining personnel expenses, to examine possibilities for reducing costs of real estate and maintaining the head office and management units, including re-examining their geographical location.

The Banking Supervision Department will approve reliefs for a banking corporation on the subject of capital adequacy in respect of the implementation of a streamlining program in the field of real estate, subject to various conditions set forth in the letter.

The relief in the measurement of regulatory capital will be reduced for the period of the streamlining program. At the end of this period, regulatory capital will be measured without the effect of the relief.

The effect of the letter regarding efficiency encouragement of January 2016 will be extended by an additional year and a half until June 30 2018. The extension of the effective term of the letter will enable a banking corporation (a) to examine and execute a streamlining program in the field of real estate and (b) to expand the streamlining program in the area of personnel.

Banking Rules (Service to the Customer) (Commissions) (Amendment), 2017

The amendment to the rules was published in *Official Gazette* on August 24 2017.

The main points of the amendment are as follows:

- An obligation to grant a discount in the commission tariff of a service provided via a direct channel, compared to the commission tariff for the same service provided via a teller. A summary of the comparison between the tariffs of the direct channel and the teller's tariffs should be presented.
- The regulation of the matter of commissions on cash withdrawal from automatic devices.
- The rules were amended in a way which facilitates the collection of a higher commission from an occasional customer executing activity by teller.

It is estimated that the amendment is expected to result in a reduction in the amount of commissions collected by the Bank pursuant to these rules.

Amendment to Proper Conduct of Banking Business Regulation 315, Additional Provision for Doubtful Debts

On July 10 2017, the Banking Supervision Department published the abovementioned amendment. According to the amendment, the Bank will be required to comply with the sectoral debt restriction, such that the debt to a particular sector must not exceed 20% of the total debts of the public to the banking corporation.

With regard to the "Real estate construction and industry and trade of building products" sector, the draft provides that, under certain conditions, a banking corporation is entitled to set the restriction percentage at 22%. At the same time, the requirement to make an additional provision and a general provision in the case of exceeding the limits prescribed in the directive was canceled, in view of the lack of effectiveness of these provisions and as a part of the desire to ease and simplify the regulations. Instead of the aforementioned provision, a banking corporation, in which a deviation from the limits specified in the directive has occurred, must notify the Banking Supervision Department without delay, along with a plan to cancel the deviation as soon as possible.

Additional matters

Various legislative initiatives in the area of increasing competition in the retail credit market

Recently, a special emphasis has been placed on legislation which encourages competition, mainly in all matters relating to the area of retail credit. This trend is reflected in various legislative provisions and initiatives which are intended to ease the entry of new players to the market, *inter alia*, through an increase in the sources at their disposal, the provision of mitigating regulatory scales, and granting reliefs in connection to payment and clearing systems.

Following are a number of examples of the provisions intended to encourage competition, as mentioned above:

- The Law for Increasing Competition and the Reduction in Concentration in the Banking Market in Israel (Legislative Amendments), 2017 – which requires large banks (Leumi and Poalim) to sell their credit card companies within a certain period of time prohibits these banks from operating, issuing or clearing credit card transactions and holding means of control in corporations engaged in such activities requires the Bank, during a defined transition period, to operate the credit card issuance through external operators. The law establishes various restrictions which apply to large banks regarding contacting a customer for the purpose of "credit card renewal" and also requires the banks, during a defined period, to reduce their customers' credit lines. As a result of the aforementioned law, the Bank is required to sell subsidiary Leumi Card Ltd. within a certain period of time, as determined by the law.

  For more information regarding Leumi Card, please see Main Investee Companies, Investees in Israel, under the Leumi Card section.

- Supervision of Financial Services (Regulated Financial Services), 2016, which will take effect on June 1 2017, and provides an overall framework for the regulation of the non-banking and non-institutional credit market in Israel;
- Regulation of the policy for activities of banking corporations vis-à-vis their customers in the PTP realm.
- The decision of the Antitrust Authority regarding the forwarding of minutes of an engagement used for executing debit card transactions to all players in the market;
- A draft of the Rules of the Banking Supervision Department to regulate the status and operation of a hosted clearer;
- The status and activities of clearing hosts;
- A proposed regulation to permit crowdfunding loans to corporations in an exemption from a prospectus (Peer to Business – P2B);
- A proposal for updates in the investment rules applicable to institutional entities;
- Chapter on banking in the proposal Economic Plan Law (legal amendments to the Memorandum of the Economic Plan for the 2019 Fiscal Year) – it is proposed that a bank will allow its customer who wishes to transfer his or her financial activity from the bank in which he or she maintains an account to another bank, and to do so via an online method which is comfortable, safe and at no expense to the customer, all within seven business days from the date on which the customer made such request, or within another timeframe to be determined by the Governor with the approval of the Finance Minister. The Governor, with the approval of the Finance Minister is entitled to determine that this will not apply to a small bank (which asset worth does not exceed 5% of the total assets of the banking system in Israel) or digital banks, or will apply after the period determined. The Supervisor of Banks shall issue directives to realize the obligation of mobility.

The above changes, alongside the initiatives taken by the Bank of Israel, such as the construction of a credit database, the encouragement to streamline the banking system and the promotion of regulations supporting the transition to digital banking via online channels, are expected to impact the banking market in Israel in coming years.

Parliamentary Investigation Committee on the Conduct of the Financial System in Loan Arrangements for Large Borrowers

On July 5 2017, the Knesset plenum approved the Knesset Committee's proposal to set up a Parliamentary Inquiry Committee headed by the Chairman of the Economic Affairs Committee, Knesset member Eitan Cabel, which will discuss the conduct of banks, institutional entities and regulators regarding the allocation of loans to large business borrowers from 2003 onwards. The Inquiry Committee will submit a report detailing its actions and conclusions to the Knesset, at the end of its deliberations. As of the date of the report's publication, the Committee has not yet started its deliberations, but according to the press, it is expected to do so soon.

ABS – Exemption from Restrictive Arrangement Approval – Decision of the Antitrust Authority of September 24 2017

On September 24 2017, the Antitrust Authority granted an exemption under certain conditions from a restrictive arrangement approval between an ABS company and the shareholders of the company, including Bank Leumi. The following matters were provided in the conditions of the exemption:

- At the beginning of 2018 and for no consideration, ABS will transfer all of its rights in the EMV Credit Protocol to an association, to be established by ABS and other users join as members of the association. With effect from the date of transferring the rights in the Protocol, ABS will cease to engage in the activity of the of operating services for a limited amount of time).
- The requirements for joining the ABS systems will be egalitarian. ABS will not refuse to a request from any entity to connect to its systems, if it complies with the joining requirements.
- A restriction on the distribution of dividends to shareholders in ABS is canceled. With effect from the end of 2019 or the date on which ABS ceases to supply any services to the association, whichever is earlier,

ABS is entitled to distribute a dividend to its shareholders, if the following conditions are fulfilled: ABS's rights in the Protocol are transferred to the association and no shareholder holds more than 10% of the means of control in ABS. The decision stipulates a special arrangement with regard to the distribution of surpluses accrued in ABS as of the date of reaching the decision, which will be transferred to the existing shareholders.

International Regulations

FATCA and the Standard for Automatic Exchange of Financial Account Information

OECD - Standards for Automatic Exchange of Financial Account Information

On July 14 2016 the Law for the Amendment of the Income Tax Ordinance (no. 227) was published, regarding the implementation of the FATCA agreement and agreements for the Automatic Exchange of Information between the State of Israel and other countries, pursuant to the Standard ("implementation agreements"). Inter alia, the law gives authority to the Finance Minister to provide regulations regarding the obligation of a reporting Israeli financial institution to identify the tax residency of its customers and to transfer information to the Israeli Tax Authority regarding an account which has been identified as "reportable".

The Income Tax Regulations (Implementation of the FATCA Agreement), 2016 were published on August 4 2016, the first reporting date was established in the regulations up to September 20 2016. The Bank complies with the requirements applicable to it by virtue of the regulations.

With regard to the implementation of the CRS standard, the Ministry of Finance issued a press release dated January 1 2017, detailing that the first report by the State of Israel is expected to be in September 2018 and the information to be transferred will relate to 2017 and thereafter. Regulations for the implementation of the Standard have yet to be published.

The Bank continues to apply the FATCA requirements and to prepare itself for compliance with the CRS requirements. The implementation of these regulations involves significant and complex preparatory procedures.

PSD2 – Payment Services Directive

A European directive in the area of payment services, which is intended to conform the existing regulation in this area to the changing technology; and this, inter alia, by increasing and enhancing the efficiency of payment systems in Europe; the granting of better protection for the consumer; the granting of possibility of providers of new services in this area; the advancement of innovation in the area of payments; the granting of guidelines regarding the use of innovative payment transfer methods (apps, mobile and so forth); as well as improving the pricing and safety in the area of payments.

The directive includes a requirement that banks divulge to third party information regarding its customers' payment accounts (subject to the customer's approval), via open and dedicated communication interfaces (Open APIs). The banks are required to ensure that these interfaces provide continuous information which is accessible and without hitches. The banks will be able to utilize innovations allowed by the directive in order to serve as third parties themselves, and this via the provision of information gathering services and payment initiation services.

The directive came in force in January 2018. The European Union countries are requirement to enact local regulations for implementation of the directive.

Taxation

Corporate tax rate tax - On January 5 2016, the Law for the Amendment of the Income Tax Ordinance (No. 216), 2016 was published, reducing the corporate tax rate from 26.5% to 25%, effective from 2016 onwards. On December 29 2016, the Economic Efficiency Law (Legislative Amendments for Achieving the Budget Targets for the 2017 and 2018 Budgets), 2016 (hereinafter: "the Efficiency Law") was published, providing, inter alia, reduction in the rate of corporate tax rate from 25% to 23% in two tranches: in the first tranche – the tax rate fell to 24% from January 1 2017 and in the second tranche, the tax rate will fall to 23% from January 1 2018 and thereafter.

The balances of deferred taxes as of December 31 2016 and December 31 2017 were calculated at the tax rates expected to be in force at the date of reversal. Accordingly, the impact of the changes outlined above in the corporate tax rate on the financial statements as at December 31 2016 is reflected in a decrease in net deferred tax balances receivable amounting to NIS 380 million. This decrease was recognized against deferred tax expenses amounting to NIS 303 million and against capital amounting to NIS 77 million.

The current taxes for the reported periods are computed in accordance with the tax rates presented in the table below.

The taxes applicable to the profit of the banking corporations include companies tax levied pursuant to the Income Tax Ordinance and profit tax levied pursuant to the Value Added Tax Law.

The following is a table of the statutory tax rates applicable to banking corporations:

Year	Profit and salary tax rate	Income tax rate	Overall tax rate	Comments
2015	17.75%	26.50%	37.58%	Derives from a decrease in value added tax effective 1 October 2015 to a rate of 17%
2016	17.00%	25.00%	35.90%	Derives from a decrease in corporate tax rate effective January 1 2016
2017	17.00%	24.00%	35.04%	Derives from a decrease in corporate tax rate effective January 1 2017
2018 and thereafter	17.00%	23.00%	34.19%	Derives from a decrease in corporate tax rate effective January 1 2018

On December 22 2017 the President of the United States signed the tax reform - Tax Cuts and Job Act. Pursuant to the Reform the corporate tax rate was reduced from 35% to 21%. For the 2018 tax year the deferred tax balance as at December 31 2017 in the consolidated subsidiary, Bank Leumi U.S.A. (BLUSA) is calculated in accordance with the expected tax rates. The effect of the aforesaid changes in the corporate tax rate in the U.S. on December 31 2017 Consolidated Financial Statements is immaterial.

Credit Ratings

The table below shows the credit ratings of Israel and of the Bank on February 25 2018:

	Rating agency	Long-term rating	Outlook	Short-term rating
State of Israel	Moody's	A1	stable	P-1
	S&P	A+	positive	A-1
	Fitch	A	stable	F1
Bank Leumi: Foreign currency	Moody's	A2	stable	P-1
	S&P	A-	positive	A-2
	Fitch	A	stable	F1
Local rating (in Israel)	S&P Ma'alot	AAA	stable	-
	Midroog	Aaa	stable	P-1

On February 14, 2017, Fitch credit rating agency ratified the Bank's rating and the rating outlook.

On March 19, 2017, Moody's credit rating agency ratified the Bank's rating and outlook.

On June 21, 2017, Fitch credit rating agency ratified the Bank's rating and the rating outlook.

On August 6, 2017, S&P credit rating agency raised the State of Israel outlook to positive.

On August 9, 2017, Moody's credit rating agency ratified the Bank's rating and outlook.

On August 14, 2017, Midroog credit rating agency ratified the Bank's rating and outlook.

On October 24, 2017, S&P credit rating agency raised the Bank's outlook to positive.

On October 24, 2017, S&P Ma'alot credit rating agency ratified the Bank's rating and outlook.

On December 13 2017, S&P International Credit Rating Agency affirmed international rating of Bank Leumi USA, the Bank's subsidiary. The long-term rating of Bank Leumi USA was approved at a level of 'BBB+' and the outlook on the rating was affirmed as positive.

On January 3 2018 S&P credit rating agency ratified the Bank's rating and the rating outlook.

On January 21 Moody's credit rating agency ratified the Bank's rating and outlook.

On February 7 2018 Fitch credit rating agency ratified the Bank's rating and rating outlook.

Main Operating Segments according to Management's Approach – more information

A. Management approach – Retail segment

General

The retail segment is characterized by the provision of value offers and financial services to households and private individuals, small and mid-sized businesses and wealthy customers in Israel and worldwide (Private Banking). These offers and services are provided to customers according to their changing needs and preferences, in accordance with other relevant characteristics.

Structure and features of the segment

Branches:

Households and private individuals – A wide deployment of 188 branches countrywide. Services to customers in the branch are provided by teams of bankers according to customer segments. The teams coordinate the handling of the customer in all aspects and specialize in dealing with the customer's characteristics and needs.

Private Banking customers – the sector in Israel is managed in five unique Private Banking centers deployed countrywide – Tel Aviv, Jerusalem, Haifa and Herzliya Pituach. The centers serve wealthy private customers, Israeli and foreign residents according to their language and are acquainted with their customers' needs, preferences and areas of interest. In addition, the department has four designated branches for those customers with investment portfolios of between NIS 1.5 million and NIS 6 million, located in Haifa, Rehovot, Tel Aviv and Herzliya.

Online and digital channels

Banking services are also provided on the Leumi website, Leumi Digital app for mobile, a telephone call center in LeumiCall, Leumi information devices and other advanced internet and mobile solutions.

The segment operates, inter alia, both to expand the scope of customers receiving Leumi Call telephone service center and to expand activity in the digital channels (thousands of transactions are carried out through the internet or mobile phone each day).

In addition, Leumi recently launched the payments app, PEPPER PAY, and the banking app PEPPER, which are initial central milestones in the area of digital banking which will be **managed entirely by mobile**. The new apps allow users to enjoy a personal, quality and advanced customer experience based on a response to their needs, in a user-friendly, fair and personally-tailored way "any time, any place".

Developments in the markets of the segment and its customers' characteristics

Competition is affected by changes in demographic and economic data in the country's population, changes in private consumption and the customers' savings characteristics.

Competition in the segment is increasing and is on a strengthening trend. In recent years, competition has developed in retail banking on the part of financial entities, mainly in credit cards (in the area of consumer credit), insurance companies, retail marketing networks and financial technological ventures. Some of the competition comes from entities which are not regulated by the Bank of Israel or are not regulated at all and which do not work under the restrictions applicable to banks.

Products and services

The Bank has defined the small and mid-sized businesses in the market, and targeting and accordingly launched the Leumi business arena, which is an envelope of exclusive and innovative tools and services.

Private credit: The Bank offers customers various credit products which match their needs and the various stages in their lives. In recent years, there has been a significant increase in credit to household in Israel. The loans are attractive, *inter alia*, as a result of the low rates of interest in the market. Still, the level of leverage of households in Israel is low compared with developed countries around the world. However, the trend is one of an increase is credit volumes and with it, the risk.

The Bank's policy is to take steps to disperse the credit risk by determining the rate of exposure frameworks in the loan portfolio. The management of the loan portfolio is achieved according to risk and yield versus risk considerations.

The Bank offers housing loans to private customers, both from the Bank's funds and as part of government assistance programs, through representative offices in the various branches dispersed throughout the country which belong to the Mortgage Department. The Mortgage Department has 80 representative offices operating in the branches of Leumi and 2 independent representative offices.

State-guaranteed fund

On January 17 2016, the Ministry of Finance announced that the proposal of the Leumi-Menorah Partnership won first place from the bids submitted as part of the State tender to finance small and medium-sized businesses.

The fund commenced operations in April 2016. Pursuant to the joint activities of the partnership, loans are made to small and medium-sized businesses with a government guarantee.

The loans are jointly financed by Leumi – 60% and Menorah – 40%.

In 2017 the fund extended loans to retail customers in an amount of NIS 420 million.

Customers

The Bank is able to offer its services with adaptations to the following various population groups in the segment:

B. Management approach – Commercial Banking segment

General

Commercial banking - specializes in the provision of the entire spectrum of financial services to middle-market business entities in all sectors of the economy. The interested parties of the business companies in the segment, including shareholders and senior office holders, are sometimes also dealt with in this segment.

Service and marketing to these companies are carried out on an individual basis, including the financing of transactions with credit instruments tailored to the customers' unique requirements, the adaptation of investment products and financial instruments for hedging risks, the financing of international trade transactions and the financing of start-up companies.

The commercial banking segment also includes activities outside of Israel through the Bank's subsidiaries abroad. Companies that are served by the Commercial Banking Department can also opt to work with these offices, in expanding their overseas activities.

Structure and characteristics of the segment

The segment is managed in Israel by the Commercial Banking Department, which is a part of the Commercial Corporate Division. The principal contact with customers is through designated commercial branches located throughout the country and through technological services, like direct channels, cash management system, etc. The Commercial Department has 24 business branches located in industrial zones and in the major cities, which are attributed geographically to five commercial districts and the LeumiTech business center in Herzliya. The branches specialize in the management of business activities characteristic of the segment's customers, giving the Department a competitive advantage.

Development in the markets of the segment, and in its customers' characteristics

The main activities of the segment's customers are in the local market, in the industrial, infrastructure, hi-tech, trade and services and real estate sectors of the economy, and also, markets abroad,

Expectations for 2018 are for continuation of moderate economic growth around the world and in Israel which is expected to have implications for export customers and customers active in the middle-market segment. Accordingly, the Commercial Banking Department takes particularly cautious steps in managing the credit risks, regularly reviewing the customer population, and, in particular, sensitive customers, in particular, and reviewing trends of development and their implications.

Products and services

The Commercial Banking Department has a wide range of products designed for its different customers, including, inter alia, financing revolving capital requirements, financing long-term investments, foreign trade finance, rental property finance and C/L finance, invoice discounting and factoring, financing of mergers and acquisitions, etc.

Leumi is the first Israeli bank to launch a cash management system, an innovative and secured portal, which includes a package of advanced financial services and products. The portal enables, *inter alia,* the receipt of centralized data regarding accounts in the various banks, monetary balances and movements, etc.

Customers

Customers belong to the Commercial Banking Department are medium-sized business companies from various sectors of industry: commerce, industry, real estate, hi-tech, etc. In addition, the Commercial Banking Department also provides services for interested parties in those companies.

As a rule, customers with a volume of approved loan facilities between more than NIS 10 million and NIS 120 million (inclusive) or with a business turnover of between more than NIS 20 million and up to NIS 400 million will be associated with the commercial banking segment. In addition, the segment includes startup companies with any credit facility or business turnover.

C. Management approach – Corporate Segment

General

The Corporate banking segment specializes in providing banking and financial services to large corporations, some of which have multi-national activities. The services are based on providing an overall solution for the customer’s needs, with a view to the entire range of their business activity.

Structure and characteristics of the segment

The Corporate banking segment is managed in Israel by the Corporate Department of the Corporate and Commercial Division. The Corporate Department operates via three sectors: technology and tourism, chemicals, trade and municipalities and industry, transportation and infrastructure. Customers receive services from customer relations managers, who coordinate the Group’s services vis-à-vis the customer and specialize in the market sector in which the customer operates. The segment provides a comprehensive range of banking services to all types of companies in the various sectors. The customers' accounts are managed mainly through the business unit in Tel Aviv (located in the Tel Aviv Main Branch) which specializes in handling large customers and customers with diverse activities, and, as relevant, through the Bank's offices abroad. Special/complex transactions, for example, the acquisition of means of control, examination of investment programs and the financing of projects, international trade activity, finance of foreign debtors/domestic debtors, financial transactions executed by way of a syndicate, etc. are handled by designated units specializing in handling transactions of this kind, due to the complexity and risk level involved.

Developments in the segment's markets and characteristics of its customers

The corporate segment cautiously manages credit risk, regularly examining the population of customers and focusing on sensitive customers and checking development trends and the implications for them.

Products and services

Services provided include, *inter alia*, ongoing financing according to the customers’ needs, financing of investments to maintain and expand operations, provision of solutions in the spheres of financing and international trade (including financing credit insurance or private insurance companies of projects abroad), financing and guidance of national and international projects, financing of mergers and acquisitions, extension of finance in large transactions through organization of syndicates cooperating with the institutional entities and foreign and Israeli banks, financial instruments to hedge against currency risks, interest risks and fluctuations in commodities prices. The service also includes the initiation and promotion of banking services to the companies, managements and employees of companies.

Customers

The segment's customers are mostly characterized by their leading position in the market and dominance in their field of activity. Some of these are public companies from a variety of different sectors of the economy, with complex organizational structures comprised of numerous management echelons and a broad span of control.

As a rule, customers with approved loan facilities exceeding NIS 120 million (inclusive) or customers with a business turnover of more than NIS 400 million are included in the corporate banking segment. Customers with a facility of up to NIS 80 million are also included in the corporate banking segment, if their total obligo in the banking system exceeds NIS 250 million.

D. Management approach – Real estate segment

General

The Real Estate Department specializes in providing banking and financial services, mainly in the area of construction and real estate. The financing of the construction sector projects is effected through the use of instruments and special analysis tools, adopting considered policy. The financing of the projects is achieved through a closed financing format (construction loan) with frequent close supervision and monitoring and with an emphasis on meticulous examination of each project.

Structure and characteristics of the segment

The Real Estate segment in Israel is mostly managed by the Real Estate Department, which is one of four departments in the Corporate and Commercial Division. The Real Estate Department operates through two sectors: corporate real estate, and real estate enterprise. The department provides a comprehensive range of banking services to construction companies and the large developers and contractors in the market, with expertise and specific skill in all areas of real estate in the market. Customers' accounts are managed mainly in the business unit in the Tel Aviv Main Branch which specializes in dealing with large customers and those with varied activities and, as relevant, in the Bank's offices abroad. Service to the customer is provided by the customer relations managers, who coordinate the Group's services vis-à-vis the customer and specialize in the market sector in which the customer operates.

Developments in markets of the segment and in the characteristics of its customers

The real estate market in Israel is a part of the total corporate activity in the Israeli economy. Expectations for 2018 are for a continuation in moderate economic growth in Israel, which, inter alia, will also have implications for the domestic market.

The real estate segment manages credit risks with extreme caution with regular review of customer populations and focusing on sensitive customers and examining trends of developments and their repercussions.

In 2017, the housing real estate property market was characterized by slowdown in the number of transactions, specifically the pace of sales of new apartments. It is likely that the slowdown in the pace of sales results from the reduction in the scope investors in the market and the creation "occupied demand" amongst those awaiting the "Affordable Housing" program. That said, the impact on the price of apartments of the "Affordable Housing" program, is still not clear, particularly in areas of demand.

The commercial real estate market is greatly affected by developments in private household consumption. The change in consumer preferences and the continuing increase in the volumes of on-line purchases, which impact parameters such as rent prices and occupancy rates, have remained relatively stable over the last few years. This stability is significant also in the office real estate market, which is highly correlated with customer populations, particularly those customers who are sensitive to the effects of trends and developments.

In 2018, as in previous years, real estate activity is expected to be affected by the following factors: the macroeconomic situation, regulatory changes, particularly those relating to the residential housing market; implementation of government programs, the main one being "Affordable Housing", building completions (particularly in the office market) and the volumes of investments in national infrastructure by the State.

Products and services

Construction and real estate financing is effected by using specific analysis and monitoring tools which assist in the decision-making process and control of financial support given to the various projects and assets. Financing is carried out, directing the diversity of the loan portfolio and distinguishing between the various segments – housing, rental property with a designation for commerce and offices, construction for industry and commerce. The financing of projects during the period of construction, and particularly, for housing, will, in general, be effected using the construction loan method which facilitates frequent close supervision of the project being financed.

In addition, pursuant to the financing of the area of construction and real estate, the segment also deals with the extension of credit, support of the initiation and development of real estate and hotel projects, the purchase of rental properties, including nursing retirement homes and their operation through the Bank's overseas units.

In 2017, noting the various regulatory requirements, the segment continued implementing a considered credit policy distinguishing between the various degrees of risk, and the determination of credit margins and its conditions, respectively.

The financing of business activity in in the main service centers of the Bank abroad contributes to the dispersal of risks through exposure to various macroeconomic environments and various characteristics of customers. Accordingly, the Bank is taking steps to increase its participations in transactions of the its offices abroad

Customers

Customers of the department include the large and mid-sized companies in the market in the area of real estate development, performance and infrastructure contractors and selected business companies engaged in real estate development and contractors and in the area of rental property.

Customers of the Construction and Real Estate Department with total approved facilities of over NIS 50 million in real estate projects (CL), over NIS 80 million in the area of performance and infrastructure contactors and over NIS 120 million in financing of rental property (NIS 80 million per single property) are included in the real estate segment.

E. Management approach – Capital Markets segment

General

1. The financial management of the Bank and of the Group deals with the managing the dealing room and providing various services to banks and institutional investors, and acting as a "customer manager" for them. The main areas of activity of the segment are as follows:

    - Management of the *nostro*, by way of the investment of the Bank's independent financial means in tradable and non-tradable investment instruments and management of direct investments, in the companies' tradable and non-tradable shares, with the non-bank investments being managed by Leumi Partners.
    - Management of the dealing room, which provide trading services to customers of the Bank, including market-making, primarily in currencies, securities and derivative instruments;
    - Management of sources and applications and liquidity;
    - Management of market risk exposures – including the management of basis, interest and liquidity exposures;
    - Price management – by setting transfer prices and costing special financial transactions;
    - Management of banking activity of institutional customers and other corporations with extensive activity in the capital market;
    - Development of financial instruments.

Structure of the segment

Financial management is carried out by the Capital Markets Division, which centralizes and coordinates the topic at Group level. The financial management activity includes the banking portfolio and the trading portfolio, as well as providing service to customers active in the capital and money markets, including institutional customers. Activity in the banking portfolio is managed in the ALM Department and includes the management of sources and applications and exposure to market risks and liquidity. Activity for commerce is performed by the trading rooms and *nostro* units in Israeli and foreign currencies.

The main tools for management of the banking portfolio – transfer prices, activity in the available-for-sale *nostro* portfolios and the use of derivative instruments.

The main areas of responsibility of ALM – Management of the Bank's financial capital and exposures to market risks, management of corporate and statutory liquidity and liquidity risk, as well as the allocation of sources to the various applications by means of the implementation of transition price policy. This policy is determined according to: The Bank's requirements, planning and management of the mix of sources and applications, developments in the corporate environment and forecasts. Within this framework, the methodology for settling accounts between the profit centers is also determined, and the complex and special transactions are priced.

The day-to-day management of the liquidity is applied pursuant to the Bank's policy and according to the requisite directives. The management is carried out by a designated unit, whose main function is the optimal planning and management of the liquidity balances, subject to the risk appetite, ensuring a level of liquidity which enables corporate activity, compliance with all the Bank's financial obligations in a normal business environment and in stress scenarios. The measurement, analysis, planning and reporting is carried out through Summix (formerly Risk Pro) risk management system, which provides vast information on any financial activity of the Bank and on market and liquidity risks inherent therein. The system facilitates review and control of the effect of various scenarios (price and quantity) on the Bank's financial profitability and capital.

For a description of the main points of policy for investments in securities (*nostro*), please see Structure and Development of Assets and Liabilities, Capital and Capital Adequacy, Securities.

Profit of the segment

The segment's profit is mainly influenced by the *nostro* activities, the dealing room and ALM management, the management of customers and corporates with extensive capital market activity, as well as the results of non-banking companies included on equity basis. The principal components of net profit are as follows:

- Results of market risk management, including the changes that have occurred in transfer prices. Income and expenses resulting from changes in transfer prices are attributed in full to the financial segment, to which all of the market risks from the other operating segments are also transferred;
- Profits/losses from the realization of securities and from provisions for declines in values of securities in respect of declines of a non-temporary nature, and from unrealized profits/losses from adjustments of securities for trading to market value;
- Adjustments of derivative instruments to market value;
- Effects of foreign currency/shekel exchange rate and consumer price index differentials, including adjustments from the translation of overseas investments, including the effects of related taxes;
- Income deriving from market-making activity;
- Income/expenses deriving from the investment for pension, jubilee and regular holiday reserves;
- Particular costs relating to pension liabilities, calculated on an actuarial basis;
- Profits of consolidated companies.

Operating expenses of the segment include mainly direct operating expenses, as well as indirect expenses involved in the management of market risks, management of the independent securities (the *nostro*) portfolios and management of the dealing room.

Developments in the markets

In 2017, the stock and debt markets experienced a series of sharp increases, short-term interest rates in the U.S. continued on a rising trend (mainly towards the end of the year), whereas in Israel, in contrast to the global trend, there was a decline in market interest rates during the year.

Products and services

Most of the segment's activity involves custodian services, brokerage and negotiable and non-negotiable derivatives. In addition, the Bank provides operating services to provident fund, mutual fund and investment fund management companies.

Customers

The segment's customers are insurance companies, provident funds, continuing education funds, pension funds, mutual funds, index funds, commercial banks and investment banks, as well as other customers with vast operations in the capital markets.

Income and Expense Rates[a] and Analysis of the Changes in Interest Income and Expenses

Part A – Average balances and interest rates - assets

	2017			2016			2015		
	Average balance[b]	Interest income	Rate of income	Average balance[b]	Interest income	Rate of income	Average balance[b]	Interest income	Rate of income
	NIS Millions		%	NIS Millions		%	NIS Millions		%
Interest-bearing assets									
Loans to the public[c]									
In Israel	236,619	8,231	3.48	238,767	7,757	3.25	229,093	7,265	3.17
Outside Israel	23,227	968	4	23,366	940	4	23,069	905	4
Total[i]	259,846	9,199	3.54	262,133	8,697	3.32	252,162	8,170	3.24
Credit to the government									
In Israel	650	25	3.85	502	18	3.59	448	15	3.35
Outside Israel	-	-	-	10	-	-	13	-	-
Total	650	25	3.85	512	18	3.52	461	15	3.25
Deposits in banks									
In Israel	5,092	103	2.02	7,529	84	1.12	9,654	68	0.70
Outside Israel	487	1	0.21	754	2	0.27	987	2	0.20
Total	5,579	104	1.86	8,283	86	1.04	10,641	70	0.66
Deposits in central banks									
In Israel	45,884	47	0.10	34,420	36	0.10	27,544	35	0.13
Outside Israel	4,271	9	0.21	5,451	6	0.11	4,642	4	0.09
Total	50,155	56	0.11	39,871	42	0.11	32,186	39	0.12
Securities borrowed or purchased under resale agreements									
In Israel	1,115	2	0.18	1,455	2	0.14	1,732	3	0.17
Outside Israel	-	-	-	-	-	-	-	-	-
Total	1,115	2	0.18	1,455	2	0.14	1,732	3	0.17
Bonds available for sale[d]									
In Israel	62,543	498	0.80	60,198	536	0.89	42,997	326	0.76
Outside Israel	5,208	130	2.50	5,016	102	2.03	4,581	73	1.59
Total	67,751	628	0.93	65,214	638	0.98	47,578	399	0.84
Bonds for trading[d]									
In Israel	7,912	54	0.68	11,088	68	0.61	11,330	83	0.73
Outside Israel	159	1	0.63	69	1	1.45	304	5	1.64
Total	8,071	55	0.68	11,157	69	0.62	11,634	88	0.76
Total interest-bearing assets	393,167	10,069	2.56	388,625	9,552	2.46	356,394	8,784	2.46
Receivables for noninterest bearing credit cards	6,784			6,508 (j)			6,030		
Other noninterest bearing assets[e]	38,514			37,672 (j)			44,959 (j)		
Total assets	438,465	10,069		432,805	9,552		407,383 (j)	8,784	
Total income-bearing assets attributable to activity outside Israel	33,352	1,109	3.33	34,666	1,051	3.03	33,596	989	2.94

Part B – Average balances and interest rates – liabilities and capital

	2017			2016			2015		
	Average balance[b]	Interest income	Rate of income	Average balance[b]	Interest income	Rate of income	Average balance[b]	Interest income	Rate of income
	NIS Millions		%	NIS Millions		%	NIS Millions		%
Interest-bearing liabilities									
Deposits from the public									
In Israel	**241,181**	**(1,188)**	**(0.49)**	238,902	(1,093)	(0.46)	221,889	(821)	(0.37)
On demand	**102,912**	**(34)**	**(0.03)**	90,324	(15)	(0.02)	75,133	(13)	(0.02)
Term deposits	**138,269**	**(1,154)**	**(0.83)**	148,578	(1,078)	(0.73)	146,756	(808)	(0.55)
Outside Israel	**15,581**	**(141)**	**(0.90)**	16,849	(131)	(0.78)	16,570	(124)	(0.75)
On demand	**4,966**	**(24)**	**(0.48)**	3,740	(10)	(0.27)	2,943	(7)	(0.24)
Term deposits	**10,615**	**(117)**	**(1.10)**	13,109	(121)	(0.92)	13,627	(117)	(0.86)
Total	**256,762**	**(1,329)**	**(0.52)**	255,751	(1,224)	(0.48)	238,459	(945)	(0.40)
Government deposits									
In Israel	**161**	**(3)**	**(1.86)**	154	(4)	(2.60)	149	(4)	(2.68)
Outside Israel	**548**	**-**	**-**	583	-	-	421	-	-
Total	**709**	**(3)**	**(0.42)**	737	(4)	(0.54)	570	(4)	(0.70)
Deposits from central banks									
In Israel	**40**	**-**	**-**	-	-	-	-	-	-
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**40**	**-**	**-**	-	-	-	-	-	-
Deposits from banks									
In Israel	**4,152**	**(17)**	**(0.41)**	4,416	(15)	(0.34)	5,100	(11)	(0.22)
Outside Israel	**22**	**-**	**-**	13	-	-	40	(3)	(7.50)
Total	**4,174**	**(17)**	**(0.41)**	4,429	(15)	(0.34)	5,140	(14)	(0.27)
Securities loaned or sold as part of reselling agreements									
In Israel	**467**	**(2)**	**(0.43)**	812	(2)	(0.25)	958	(3)	(0.31)
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**467**	**(2)**	**(0.43)**	812	(2)	(0.25)	958	(3)	(0.31)
Debentures									
In Israel	**20,810**	**(672)**	**(3.23)**	24,204	(781)	(3.23)	21,237	(700)	(3.30)
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**20,810**	**(672)**	**(3.23)**	24,204	(781)	(3.23)	21,237	(700)	(3.30)
Total interest-bearing liabilities	**282,962**	**(2,023)**	**(0.71)**	285,933	(2,026)	(0.71)	266,364	(1,666)	(0.63)
Non-interest bearing deposits from the public	**88,804**	**88,804**	**88,804.00**	81,458	81,458	81,458.00	76,278	76,278	76,278.00
Receivables for noninterest bearing credit cards	**6,451**	**6,451**	**6,451.00**	6,112	6,112	6,112.00	6,430	6,430	6,430.00
Other noninterest bearing liabilities	**27,789**	**27,789**	**27,789.00**	29,333	29,333	29,333.00	30,702	30,702	30,701.56
Total liabilities	**406,006**	**(2,023)**	**(2,023.00)**	402,836	(2,026)	(2,026.00)	379,774	(1,666)	(1,666.00)
Total capital	**32,459**	**32,459**	**32,459.00**	29,969	29,969	29,969.00	27,609	27,609	27,609.38
Total liabilities and capital	**438,465**	**(2,023)**	**(2,023.00)**	432,805	(2,026)	(2,026.00)	407,383	(1,666)	(1,666.00)
Interest spread	**-**	**8,046**	**1.85**	-	7,526	1.75	-	7,118	1.84
Net return on interest-bearing assets	**2**	**2**	**1.84**	2	2	1.84	2	2	1.84
In Israel	**359,815**	**7,078**	**1.97**	353,959	6,606	1.87	322,798	6,256	1.94
Outside Israel	**33,352**	**968**	**2.90**	34,666	920	2.65	33,596	862	2.57
Total	**393,167**	**8,046**	**2.05**	388,625	7,526	1.94	356,394	7,118	2.00
Total interest-bearing liabilities attributed to activity outside Israel	**16,151**	**(141)**	**(0.87)**	17,445	(131)	(0.75)	17,031	(127)	(0.75)

Part C – Average balances and interest rates – additional interest-bearing assets and liabilities attributed to activities in Israel

	2017			2016			2015		
	Average balance[(b)]	Interest income (expense)	Income (expense) rate	Average balance[(b)]	Interest income)expense(	Income (expense) rate	Average balance[(b]	Interest income)expense(	Income (expense) rate
		NIS millions	%		NIS millions	%		NIS millions	%
Unlinked NIS									
Total interest-bearing assets	**263,930**	**6,334**	**2.40**	252,026	6,030	2.39	222,907	5,648	2.53
Total interest-bearing liabilities	**193,677**	**(553)**	**(0.29)**	185,536	(624)	(0.34)	169,944	(503)	(0.30)
Interest spread			**2.11**			2.05			2.23
CPI-linked NIS									
Total interest-bearing assets	**47,373**	**1,657**	**3.50**	51,140	1,482	2.90	52,685	1,294	2.46
Total interest-bearing liabilities	**34,595**	**(935)**	**(2.70)**	41,381	(948)	(2.29)	42,457	(858)	(2.02)
Interest spread			**0.80**			0.61			0.44
Foreign currency (incl. NIS linked to foreign currency)									
Total interest-bearing assets	**48,512**	**969**	**2.00**	50,793	989	1.95	47,206	853	1.81
Total interest-bearing liabilities	**38,539**	**(394)**	**(1.02)**	41,571	(323)	(0.78)	36,932	(178)	(0.48)
Interest spread			**0.98**			1.17			1.33
Total activity in Israel									
Total interest-bearing assets	**359,815**	**8,960**	**2.49**	353,959	8,501	2.40	322,798	7,795	2.41
Total interest-bearing liabilities	**266,811**	**(1,882)**	**(0.71)**	268,488	(1,895)	(0.71)	249,333	(1,539)	(0.62)
Interest spread			**1.78**			1.69			1.79

Part D – Analysis of the changes in interest income and interest expenses

	2017VS.2016			2016VS.2015		
	Increase (decrease) due to change(h)		Net change	Increase (decrease) due to change(h)		Net change
	Quantity	Price		Quantity	Price	
	In NIS millions					
Interest-bearing assets						
Credit to the public						
In Israel	(75)	549	474	314	178	492
Outside Israel	(6)	34	28	12	23	35
Total	(81)	583	502	326	201	527
Other interest-bearing assets						
In Israel	47	(62)	(15)	139	75	214
Outside Israel	(16)	46	30	8	19	27
Total	31	(16)	15	147	94	241
Total interest-bearing income	(50)	567	517	473	295	768
Other interest-bearing liabilities						
Deposits from the public						
In Israel	11	84	95	78	194	272
Outside Israel	(11)	21	10	2	5	7
Total	-	105	105	80	199	279
Other interest-bearing liabilities						
In Israel	(107)	(1)	(108)	58	26	84
Outside Israel	-	-	-	-	(3)	(3)
Total	(107)	(1)	(108)	58	23	81
Total interest expenses	(107)	104	(3)	138	222	360
Total net interest	57	463	520	335	73	408

Quarterly Consolidated Income Statement – Multi-Quarter Information

	For the year ended December 31							
	2017				2016			
	4	3	2	1	4	3	2	1
	In NIS millions							
Interest income	2,569	2,294	2,887	2,319	2,316	2,607	2,704	1,925
Interest expenses	479	376	722	446	449	637	670	270
Net interest income	2,090	1,918	2,165	1,873	1,867	1,970	2,034	1,655
Expenses (income) from credit losses	26	3	42	101	46	106	(154)	(123)
Net interest income after expenses for credit losses	2,064	1,915	2,123	1,772	1,821	1,864	2,188	1,778
Non-interest income								
Noninterest financing income	245	222	197	255	225	499	534	24
Fees and commissions	1,070	1,043	1,007	1,018	994	996	989	988
Other income	300	41	16	14	105	19	15	20
Total noninterest income	1,615	1,306	1,220	1,287	1,324	1,514	1,538	1,032
Operational and other expenses								
Salaries and related expenses	1,441	1,264	1,276	1,291	1,280	1,354	1,546	1,242
Maintenance and buildings & equipment depreciation	422	406	398	435	443	435	425	394
Other expenses	492	406	346	324	557	166	384	354
Total and other operational expenses	2,355	2,076	2,020	2,050	2,280	1,955	2,355	1,990
Profit before tax	1,324	1,145	1,323	1,009	865	1,423	1,371	820
Provisions for taxes on profit	472	376	456	388	425	514	407	371
Profit after taxes	852	769	867	621	440	909	964	449
The Bank's share in investees' profits, after tax	7	60	15	10	10	21	16	19
Net income								
Before attribution to non-controlling interest holders	859	829	882	631	450	930	980	468
Attributed to non-controlling interest holders	(5)	(9)	(6)	(9)	(7)	(11)	(10)	(9)
Attributed to the Bank's shareholders	854	820	876	622	443	919	970	459
Basic diluted profit per share								
Net income attributed to the Bank's shareholders (in NIS)	0.57	0.54	0.58	0.41	0.29	0.60	0.64	0.31

Expenses for Credit Losses

	For the year ended December 31							
	2017				2016			
	4	3	2	1	4	3	2	1
	In NIS millions							
Individual income for credit losses	(128)	(130)	(40)	(31)	(117)	(111)	(254)	(275)
Group expense for credit losses	154	133	82	132	163	217	100	152
Total expense (income) for credit losses	26	3	42	101	46	106	(154)	(123)
Ratio in %								
Individual income for credit losses out of net credit to the public	(0.19)	(0.20)	(0.06)	(0.05)	(0.18)	(0.17)	(0.38)	(0.42)
Group income for credit losses out of net credit to the public	0.23	0.20	0.12	0.20	0.25	0.33	0.15	0.23
Total expense (income) for credit losses out of net total credit to the public	0.04	-	0.06	0.15	0.07	0.16	(0.23)	(0.19)

Noninterest Income

	For the year ended December 31							
	2017				2016			
	4	3	2	1	4	3	2	1
	In NIS millions							
Noninterest financing income	245	222	197	255	225	499	534	24
Fees and commissions	1,070	1,043	1,007	1,018	994	996	989	988
Other income	300	41	16	14	105	19	15	20
Total	1,615	1,306	1,220	1,287	1,324	1,514	1,538	1,032

Commissions

	For the year ended December 31							
				2017				2016
	4	3	2	1	4	3	2	1
	In NIS millions							
Account management	182	170	171	178	178	180	178	179
Transactions in securities and certain derivative instruments	173	170	163	169	143	143	144	162
Credit cards	278	277	265	255	257	268	258	240
Credit handling	48	44	42	49	42	42	45	48
Financial product distribution fees	82	78	74	73	77	72	70	68
Exchange differences	94	83	77	84	81	82	82	82
Finance commissions	133	140	133	135	136	130	136	132
Other commissions	80	81	82	75	80	79	76	77
Total commissions	1,070	1,043	1,007	1,018	994	996	989	988

Salary Expenses

	For the year ended December 31							
	2017				2016			
	4	3	2	1	4	3	2	1
	In NIS millions							
Salary and related expenses	1,136	1,015	1,036	1,002	1,052	1,105	1,140	1,077
Pension and severance pay expenses less fund profits	272	249	240	246	228	249	251	227
Total salary expenses	1,408	1,264	1,276	1,248	1,280	1,354	1,391	1,304
Bonuses and expenses outside the regular course of business	33	-	-	43	-	-	155	(62)
Total salary expenses	1,441	1,264	1,276	1,291	1,280	1,354	1,546	1,242

End of Quarter Consolidated Balance Sheet – Multi-Quarter Information

	31December							
	2017				2016			
	4	3	2	1	4	3	2	1
	In NIS millions							
Assets								
Cash and deposits in banks	82,067	66,953	69,352	68,275	74,757	59,067	57,881	55,648
Securities	77,299	82,098	78,470	77,959	77,201	82,493	84,872	78,727
Securities borrowed or purchased as part of reselling agreements	1,161	872	1,031	903	1,284	896	1,476	1,621
Credit to the public	271,216	269,630	267,786	268,172	265,450	267,895	269,602	(X) 267,672
Provision to credit losses	(3,264)	(3,272)	(3,252)	(3,418)	(X)(3,493)	(3,527)	(3,554)	(X)(3,539)
Net loans to the public	267,952	266,358	264,534	264,754	261,957	264,368	266,048	264,133
Loans to governments	715	695	619	620	642	623	480	412
Investments in investees	807	923	883	878	901	897	923	899
Buildings and equipment	2,986	2,931	2,954	3,016	3,147	3,044	3,042	3,060
Intangible assets and goodwill	16	16	16	17	17	17	17	17
Assets for derivative instruments	9,573	10,954	11,361	11,032	10,654	11,630	12,999	13,150
Other assets	8,262	8,251	7,747	7,844	(X) 8,043	8,723	8,662	7,890
Total assets	450,838	440,051	436,967	435,298	438,603	431,758	436,400	425,557
Liabilities and capital								
Deposits from the public	362,478	350,201	342,766	341,663	346,854	336,851	339,998	330,354
Deposits from banks	5,156	5,279	4,330	4,493	3,394	3,589	4,165	4,441
Deposits from governments	452	539	625	770	900	661	686	808
Securities borrowed or purchased as part of reselling agreements	558	637	244	481	539	553	789	845
Debentures, subordinated notes and deferred subordinated notes	15,577	16,407	22,337	22,689	22,640	23,765	24,151	24,810
Liabilities for derivative instruments	9,740	11,275	12,078	11,272	10,677	12,634	13,743	13,996
Other liabilities	23,324	22,539	21,694	21,309	21,885	22,117	22,455	20,650
Total liabilities	417,285	406,877	404,074	402,677	406,889	400,170	405,987	395,904
Non-controlling interests	386	381	372	366	367	360	349	340
Equity attributed to shareholders	33,167	32,793	32,521	32,255	31,347	31,228	30,064	29,313
Total equity	33,553	33,174	32,893	32,621	31,714	31,588	30,413	29,653
Total liabilities and equity	450,838	440,051	436,967	435,298	438,603	431,758	436,400	425,557

Bank Leumi of Israel Ltd. and its Consolidated Companies
Consolidated Income Statement for the year ended December 31 2017

	2017	2016	2015	2014	2013
	In NIS millions				
Interest income	**10,069**	9,552	8,784	10,012	12,134
Interest expenses	**2,023**	2,026	1,666	2,649	4,777
Net interest income	**8,046**	7,526	7,118	7,363	7,357
Expenses (income) from credit losses	**172**	(125)	199	472	268
Net interest income after expenses for credit losses	**7,874**	7,651	6,919	6,891	7,089
Non-interest income					
Noninterest financing income	**919**	1,282	1,610	795	1,127
Fees and commissions	**4,138**	3,967	4,092	4,167	4,188
Other income	**371**	159	595	179	116
Total noninterest income	**5,428**	5,408	6,297	5,141	5,431
Operational and other expenses					
Salaries and related expenses	**5,272**	5,422	5,544	5,253	5,070
Maintenance and buildings & equipment depreciation	**1,661**	1,697	1,678	1,631	1,821
Other expenses	**-**	-	5	58	88
Total and other operational expenses	**1,568**	1,461	1,609	2,429	1,838
Profit before tax	**8,501**	8,580	8,836	9,371	8,817
Provisions for taxes on profit	**4,801**	4,479	4,380	2,661	3,703
Profit after taxes	**1,692**	1,717	1,691	1,278	1,380
The Bank's share in investees' profits, after tax	**3,109**	2,762	2,689	1,383	2,323
Net income	**92**	66	177	42	(293)
Before attribution to non-controlling interest holders					
Attributed to non-controlling interest holders	**3,201**	2,828	2,866	1,425	2,030
Attributed to the Bank's shareholders	**(29)**	(37)	(31)	(12)	(42)
Attributed to the Bank's shareholders	**3,172**	2,791	2,835	1,413	1,988
Basic diluted profit per share					
Net income attributed to the Bank's shareholders (in	**2.10**	1.85	1.92	0.96	1.35
Attributed to the Bank's shareholders	**2.10**	1.84	1.92	0.96	1.35

Consolidated Balance Sheet as at December 31 2017

	2017	2016	2015	2014	2013
	In NIS millions				
Assets					
Cash and deposits in banks	**82,067**	74,757	60,455	60,615	44,351
Securities	**77,299**	77,201	69,475	52,113	63,735
Securities borrowed or purchased as part of reselling agreements	**1,161**	1,284	1,764	2,000	1,360
Credit to the public	**271,216**	265,450	265,070	256,468	244,757
Provision to credit losses	**(3,264)**	(3,493)	(3,671)	(3,988)	(3,883)
Net loans to the public	**267,952**	261,957	261,399	252,480	240,874
Loans to governments	**715**	642	453	528	558
Investments in investees	**807**	901	924	2,216	1,689
Buildings and equipment	**2,986**	3,147	3,095	3,162	3,028
Intangible assets and goodwill	**16**	17	18	43	99
Assets for derivative instruments	**9,573**	10,654	11,250	16,909	13,054
Other assets	**8,262**	8,043	7,666	6,918	6,056
Total assets	**450,838**	438,603	416,499	396,984	374,804
Liabilities and capital					
Deposits from the public	**362,478**	346,854	328,693	303,397	286,003
Deposits from banks	**5,156**	3,394	3,859	4,556	4,310
Deposits from governments	**452**	900	750	467	397
Securities borrowed or purchased as part of reselling agreements	**558**	539	938	1,238	624
Debentures, subordinated notes and deferred subordinated notes	**15,577**	22,640	21,308	23,678	25,441
Liabilities for derivative instruments	**9,740**	10,677	11,098	15,650	13,487
Other liabilities	**23,324**	21,885	20,746	21,860	19,395
Total liabilities	**417,285**	406,889	387,392	370,846	349,657
Non-controlling interests	**386**	367	340	340	340
Equity attributed to shareholders	**33,167**	31,347	28,767	25,798	24,807
Total equity	**33,553**	31,714	29,107	26,138	25,147
Total liabilities and equity	**450,838**	438,603	416,499	396,984	374,804