

BANK LEUMI OF ISRAEL LTD.
AND ITS INVESTEE COMPANIES

Summary of Financial Statements
as at June 30 2018
(Unaudited)

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Report of the Board of Directors and Management

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

Condensed Financial Information and Main Performance Indicators

Following are the Main Performance Indicators (in %)

	As at June 30 2018	As at December 31	
		2017	2017
Main Performance Indicators:			
Return on equity ^(c)	9.9	9.6	9.8
Return on average assets ^{(c)(e)}	0.73	0.69	0.72
CET1 capital ratio	11.17	11.21	11.43
Leverage ratio	7.00	6.93	6.94
Liquidity coverage ratio	124	127	122
Ratio of income ^(b) to average assets ^{(c)(e)}	3.00	3.04	3.07
Efficiency ratio	61.9	62.2	63.1
Ratio of net interest income to average assets ^{(c)(e)}	1.98	1.87	1.84
Ratio of fees and commissions to average assets ^{(c)(e)}	0.93	0.93	0.94
Additional performance indicators:			
Ratio of total capital to risk components ^(a)	14.34	14.97	14.99
Capital (excluding non-controlling interests) to balance sheet ratio	7.7	7.4	7.4
Percentage of tax provision from net income, before taxes	32.1	36.2	35.2
Loan loss expenses for loans to the public, net ^{(c)(f)}	0.09	0.11	0.06
Of which: Expenses in respect of general provision out of loans to the public, net ^{(c)(f)}	0.19	0.18	0.20
Net interest income to average outstanding interest-bearing assets (NIM) ^(c)	2.20	2.07	2.05
Total income to total assets under management by the Group ^{(b)(c)(d)}	0.92	0.98	0.95
Total operating and other expenses for total assets under Group's management ^{(c)(d)}	0.57	0.61	0.60
Main credit quality indicators:			
Percentage of loan loss provision in respect of loans to the public out of outstanding loans to the public ^(f)	1.36	1.39	1.36
Percentage of impaired loans to the public in arrears of 90 days or more out of outstanding loans to the public ^(f)	1.35	1.75	1.54
Percentage of accounting write-offs net of average credit to the public ^(f)	(0.03)	(0.13)	(0.15)

(a) Capital - including non-controlling interests and various adjustments.

(b) Total income - net interest income and noninterest income.

(c) Annualized.

(d) Including off-balance-sheet operations.

(e) Average assets are total income-generating and other balance sheet assets.

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

Following are the Main Income Statement Data:

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2018	2017	2018	2017	2017
In NIS millions					
Net income attributable to the banking corporation's shareholders	903	876	1,633	1,498	3,172
Interest income, net	2,414	2,165	4,420	4,038	8,046
Expenses (income) in respect of loan losses	(14)	42	116	143	172
Noninterest income	1,169	1,220	2,283	2,507	5,428
Of which: Fees and commissions	1,042	1,007	2,087	2,025	4,138
Total operating and other expenses	2,153	2,020	4,151	4,070	8,501
Of which: Salary and related expenses ^(a)	1,225	1,117	2,293	2,236	4,591
<u>Net income attributable to the banking corporation's</u>					
Basic, diluted net profit	0.59	0.57	1.07	0.98	2.08

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

Following are the Main Balance Sheet Data:

	As at June 30		As at December 31
	2018	2017	2017
In NIS millions			
Total assets	450,448	436,967	450,838
Of which: Cash and deposits with banks	71,315	69,352	82,067
Securities	82,113	78,470	77,299
Loans to the public ^(a)	272,065	264,534	267,952
Total liabilities	414,934	404,074	417,285
Of which: Deposits by the Public	361,220	342,766	362,478
Deposits from banks	3,473	4,330	5,156
Bonds, promissory notes and subordinated bonds	16,954	22,337	15,577
Total capital attributed to shareholders of the banking corporation	34,679	32,521	33,167

(a) Including the credit for Leumi Card, which has been classified as a held-for-sale asset since March 31 2018. For more information regarding the held-for-sale operation, please see the section entitled "Main Changes in the Reporting Period" and Note 16g.

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

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

Forward looking information is usually worded using words or expressions such as "the Bank believes", "the Bank expects", "the Bank aims", "the Bank plans", "the Bank estimates", "the Bank's policy", "the Bank's plans", the Bank's forecast", "expected", "strategy", "targets", "may impact" and additional expressions indicating that the reference is to future forecasts rather than past facts.

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

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

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

Main Changes in the Reporting Period

Leumi Card

On July 28 2018, pursuant to the provisions of the Law for Increasing Competition and Reducing Concentration in Israel's Banking Market (Legislative Amendments), 2017, and after weighing the various alternatives, and following a process for the sale of the Bank's holdings in the company, an agreement was signed between the Bank and Warburg Pincus Financial Holdings (Israel LTD.), a corporation under the control of investment fund Warburg Pincus, for the sale of the Bank's entire interests in Leumi Card.

Leumi Card is presented as a held-for-sale disposal group. Leumi Card's balance sheet balances are presented as a single figure under assets and liabilities. There is no change in the manner of presentation in the income statement.

Following are Leumi Card's Balances for the Purpose of Leumi Group's Consolidated Financial Statements

	June 30	December 31	
	2018	2017	2017
	In NIS millions		
Assets			
Cash and deposits with banks	34	27	28
Loans to the public	8,037	7,807	8,286
Loan loss provision	(144)	(104)	(121)
Loans to the public, net	7,893	7,703	8,165
Investments in associates	11	4	6
Buildings and equipment	218	175	172
Other assets	173	117	129
Total assets	8,329	8,026	8,500
Liabilities			
Deposits from the public	71	70	65
Deposits from banks	230	1	-
Other liabilities	5,836	6,141	6,404
Total liabilities	6,137	6,212	6,469

For more information regarding the held-for-sale operation, please see the section entitled "Main Investee Companies", "Leumi Card" and Note 16g.

Trends, Phenomena, Developments and Material Changes

Main Developments in the Israeli Economy¹

The composite state-of-the-economy index, which is published by the Bank of Israel and reflects the development of the economy's real activity, was up by 1.7% from January to June (an annualized 3.5%) while the index's growth in the 12 months ended May 2018 reached 3.6%. The expected growth rate for 2018, according to a forecast published by the Bank of Israel's Research Department on July 9, is 3.7%.

The Global Economy

In July 2018, the International Monetary Fund (IMF) revised its estimates for global growth and forecast for 2018. In 2018, according to the revised forecasts, the global economy is expected to grow by 3.9% in real terms, similarly to the previous forecast from April 2018. The expected growth rate for the US in 2018 remains 2.9% (similarly to the previous forecast). The growth forecast for the Eurozone was downgraded (from 2.4% to 2.2%), inter alia on the back of weaker than expected figures in the first quarter, particularly in Germany and France.

The State Budget and its Funding

In the first six months of 2018, the state budgetary deficit reached NIS 8.0 billion, compared with a NIS 8.8 billion budgetary deficit in the same period last year. In the 2018 budget, the planned deficit is NIS 38.5 billion, which is 2.9% of the GDP. The cumulative deficit in the 12 months ended June 2018 amounted to 1.9% of the GDP. The Government's tax revenue in January to June amounted to NIS 155.2 billion, according to the annual collection forecast (i.e., there was no unexpected surplus).

Foreign Trade and Capital Flows

Israel's cumulative deficit in the first half of 2018 amounted to NIS 11.5 billion, compared with a NIS 5.2 billion deficit in the same period last year. The increase in the trade deficit stems from a significant increase in imports (including all components: raw materials, investment products and consumer products) compared with a more moderate increase in exports.

From January to May 2018, direct non-resident investments in Israel through the banking system reached NIS 2.9 billion while financial investments in Israel by nonresidents amounted to NIS 4.2 billion. On the other hand, investments overseas by Israeli residents (direct investments through the banks in Israel and financial investments) amounted to \$3.7 billion, so that foreign investments in Israel were slightly higher than outgoing investments in foreign currency.

Exchange Rate and Foreign Exchange Reserves

In the first six months of 2018, the shekel devalued against the USD by 5.3% and 2.5% against the euro.

The Bank of Israel's foreign exchange reserves stood at \$114.8 billion at the end of June 2018, compared with \$113 billion at the end of December 2017.

During the first half of the year, foreign currency purchases by the Bank of Israel - as part of the purchase plan to offset the effects of the natural gas production on the shekel's exchange rate - reached \$0.75 billion. In total, the Bank of Israel purchased \$2.6 billion in foreign currency during the January to June 2018.

Inflation and Monetary Policy

The "in-lieu" Consumer Price Index was up by 0.9% in the first half of 2018. In the last 12 months ended in June 2018, its increase amounted to 1.3% with the main contribution (more than half of the increase) coming from housing item category, which was up 2.8% in the past year.

The "known" Consumer Price Index was up 0.9% in the first half of the year.

During the first half of the year, there was no change in the Bank of Israel's interest rate, which stands at 0.1%, a level also maintained in the interest rate announcement issued in July 2018. The Monetary Committee indicated its intention

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

to uphold the expansionary policy as long as needed to support the inflationary environment's remaining within the target range.

Israel's Capital Market

The Shares and Convertibles Index was up in January to June 2018 by 0.9%, with price decreases in the first quarter of the year, mainly on the back of share price declines in stock exchanges worldwide, while share price hikes were recorded in the second quarter on the back of positive financial reports and global share price hikes.

The average daily trade volume of shares and convertibles was up during the first half of the year by 2.1% over the 2017 average, totaling 1.43 billion.

The government bond market was characterized by price increases during the first half of the year, with slight price declines, mainly in the second quarter. The CPI-Linked Government Bond Index was down 0.2%, while the Unlinked Government Bond Index was down 1.0% (the Fixed-Interest-Rate Bond Index was down 1.1%, while the Variable-Interest-Rate Bond Index, Gilon, was up by a slight 0.1%).

The Non-Government (corporate) CPI-Linked Bond Index was up by a slight 0.1% in January through June 2018, following a 6.2% increase in 2017.

Financial Assets Held by the Public

The value of the public's financial assets portfolio as at the end of May 2018 was NIS 3,674 billion, a 1.6% increase compared to December 2017. The weight of the shares (Israeli and foreign) out of the Israeli public's financial asset portfolio was 23.0% at the end of May 2018, compared to 22.6% at the end of December 2017.

Material Changes in Financial Statement Items

During July 2018, the Bank entered into an agreement for the sale of its holdings in Leumi Card, which amount to 80%. The consideration for the entire sale of Leumi Card was NIS 2.5 billion (with the Bank's share being NIS 2 billion). On meeting certain preconditions, the Bank will be entitled to an additional consideration of up to NIS 273 million (hereinafter - the "Contingent Consideration") in the future. Subject to the completion of the transaction, the Bank is expected to record, at the transaction completion date, a profit (net of tax) of NIS 234 million (the consideration for the purpose of calculating said profit does not include the Contingent Consideration). For more information, please see the section entitled "Main Investee Companies", "Leumi Card".

In addition, in July 2018, Leumi completed the sale the holdings of Leumi Partners, a subsidiary wholly owned by the Bank, in Avgol Industries. In the third quarter, the Bank is expected to record a pre-tax revenue of NIS 124 million from the sale.

As aforesaid, the expected profit from the sale of Leumi Card and the profit from the sale of Avgol will be expressed in the coming quarters.

It should also be noted that during May 2018, the sale of 15% of BLUSA was completed. Until that time, BLUSA was a wholly owned subsidiary of the Bank, responsible for the Group's US activities. The consideration paid in respect of the sold shares totaled NIS 141 million. The profit from the transaction was recognized directly in equity and was not reflected in profit and loss.

Following is an Analysis of the Results for the Reporting Period:

The net income attributable to the shareholders (hereinafter: the "net income") in the first half of 2018 (hereinafter: the "reporting period") totaled NIS 1,633 million compared with NIS 1,498 million in the same period last year. The net income in the second quarter of 2018 totaled NIS 903 million compared with NIS 876 million in the second quarter last year.

The return on equity during the reporting period was 9.9% compared with 9.6% in the first half of last year. The return on equity in the second quarter of 2018 stood at 11.1% compared with 11.3% in the second quarter of last year.

The CET1 capital to risk-weighted components ratio stood at 11.17% as at June 30 2018. For more information, please see Note 9B.

On August 13 2018, the Bank's Board of Directors approved a dividend distribution of 40% of the Bank's net income as per the second quarter of 2018. The dividend amount approved in respect of the quarter totaled NIS 361 million. The accumulated dividend amount per the first half of the year totals NIS 653 million.

It should be noted that according to the Bank's buyback plan approved in March 2018 in the amount of up to NIS 700 million, the Bank purchased, as of the financial statements' approval date, shares in the amount of NIS 303 million. On the eve of the publication of the current financial statements, the Bank entered into an agreement with an external Stock Exchange member, under which the Bank will transfer an additional total of NIS 397 million for the continued execution of the buyback plan. For more information, please see the section entitled "Capital and Capital Adequacy".

The dividend approved from the beginning of 2018 and the buybacks executed since the beginning of 2018 total NIS 956 million.

Net interest income for the first half of 2018 was up by NIS 382 million, a 9.5% year-on-year increase. The increase in net interest income stems from an increase in interest rate spreads and an increase in the average outstanding balance of loans to the public and deposits with banks, as well as from bonds and capital notes redemptions. The increase was also affected by the 0.9% increase in the CPI in the first half of the year, compared with 0.7% in the same period last year.

Loan loss provisions for the first half of 2018 reflect a 0.09% expense out of the loans to the public, net, compared with 0.11% in the same period last year.

The loan loss expenses in the second quarter of the year were less than zero (income totaled NIS 14 million).

Noninterest finance income in the first half of 2018 amounted to NIS 140 million compared with NIS 452 million for the same period last year. Most of the decrease is on the back of the shekel's devaluation against the US dollar and pound sterling as well as derivative instruments.

The processing fees in the first half of 2018 were up by NIS 62 million over the same period last year, inter alia on the back of increased credit card turnovers.

Operating expenses were up in the first half of 2018 by NIS 81 million compared with the same period last year. Most of the growth is on the back of salary expenses, which increased by NIS 57 million following the ROE bonus - due to the high ROE in the first half of the year, and the bonus granted in respect of structural changes.

Tax expenses in the first half of 2018 totaled NIS 783 million, compared with NIS 844 million in the same period last year. The year-on-year decrease in tax expenses stems mainly from a decrease in the statutory tax rate, from recognition of a tax asset following the sale of shares in a subsidiary, as well as from positive exchange rates in respect of investments abroad, which do not constitute taxable income, vs. negative exchange rates in the same period last year.

Basic earnings per share attributable the shareholders during the reporting period was NIS 1.07 compared with NIS 0.98 during the same period last year.

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

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

Material Developments in Income, Expenses and Other Comprehensive Income

Following is the Change in Net Income in the Second Quarter of 2018 Compared to Corresponding Period of the Previous Year:

	For the three months ended June 30			
	2018	2017	Change	
	In NIS millions		In NIS millions	In %
Interest income, net	2,414	2,165	249	11.5
Expenses (income) in respect of loan losses	(14)	42	(56)	-
Noninterest income	1,169	1,220	(51)	(4.2)
Operating and other expenses	2,153	2,020	133	6.6
Profit before taxes	1,444	1,323	121	9.1
Provision for taxes	521	456	65	14.3
Profit after taxes	923	867	56	6.5
Bank's share in associates' profits	2	15	(13)	(86.7)
Net income attributable to non-controlling interests	(22)	(6)	(16)	-
Net income attributable to the banking corporation's shareholders	903	876	27	3.1
Return on capital (%)	11.1	11.3		
Basic earnings per share (NIS)	0.59	0.57		

Following is the Change in Net Income in the Second Half of 2018 Compared to the Corresponding Period Last Year:

	For the six months ended June 30			
	2018	2017	Change	
	In NIS millions		In NIS millions	In %
Interest income, net	4,420	4,038	382	9.5
Expenses for loan losses	116	143	(27)	(18.9)
Noninterest income	2,283	2,507	(224)	(8.9)
Operating and other expenses	4,151	4,070	81	2.0
Profit before taxes	2,436	2,332	104	4.5
Provision for taxes	783	844	(61)	(7.2)
Profit after taxes	1,653	1,488	165	11.1
Bank's share in associates' profits	12	25	(13)	(52.0)
Net income attributable to non-controlling interests	(32)	(15)	(17)	-
Net income attributable to the Bank's shareholders	1,633	1,498	135	9.0
Return on capital (%)	9.9	9.6		
Basic earnings per share (NIS)	1.07	0.98		

Following is the Net Income Development by Quarter:

	2018		2017			
	Q2	Q1	Q4	Q3	Q2	Q1
In NIS millions						
Interest income, net	2,414	2,006	2,090	1,918	2,165	1,873
Expenses (income) in respect of loan losses	(14)	130	26	3	42	101
Noninterest income	1,169	1,114	1,615	1,306	1,220	1,287
Operating and other expenses	2,153	1,998	2,355	2,076	2,020	2,050
Profit before taxes	1,444	992	1,324	1,145	1,323	1,009
Provision for taxes	521	262	472	376	456	388
Profit after taxes	923	730	852	769	867	621
Bank's share in associates' profits	2	10	7	60	15	10
Net income attributable to non-controlling interests	(22)	(10)	(5)	(9)	(6)	(9)
Net income attributable to the Bank's shareholders	903	730	854	820	876	622
Return on capital (%)	11.1	9.0	10.8	10.3	11.3	8.1
Basic earnings per share (NIS)	0.59	0.48	0.57	0.54	0.57	0.41

Net Interest Income

Net interest income in the first half of the year, the Leumi Group's net interest income was NIS 4,420 million, compared with NIS 4,038 million in the same period last year, a 9.5% increase.

The increase in net interest income stems from an increase in the interest rate spreads, an increase in the average outstanding loans to the public, deposits with banks and from bonds and capital notes redemptions. In addition, the results of the first half of the year were positively affected by the CPI in the amount of NIS 208 million compared with a positive effect of NIS 140 million in the same period last year.

Net interest income in the second quarter of the year was NIS 2,414 million, compared with NIS 2,165 million in the same period last year, a 11.5% increase. The increase stems, inter alia, from a positive effect of the CPI in the second quarter of the year, which totaled NIS 282 million, compared with a positive effect of NIS 192 million in the same quarter last year.

The ratio between the net interest income and the average balance of interest-bearing assets (the net interest margin on interest-bearing assets) in the first six months of the year was 2.20% versus 2.07% in the same period last year.

Total interest spread in the reporting period was 1.96% versus a 1.84% spread in the same period last year.

The following table presents interest spread information by segment:

In the CPI segment, the interest rate spread during the reporting period stood at 1.27% compared with 1.03% in the same period last year. In the foreign exchange segment, the interest rate spread was 0.78% versus 1.12% in the same period last year. In the unlinked shekel segment, the interest rate spread was 2.17% versus 2.08% in the same period last year.

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

Expenses for Loan Losses

	For the six months ended June 30			
	2018	2017	Change	
	In NIS millions		In NIS millions	In %
Income in respect of loan losses - specific	(144)	(100)	(44)	44.0
Expenses in respect of loan losses - general	260	243	17	7.0
Total expense for loan losses	116	143	(27)	(18.9)
Ratios (in %):				
% of specific income for loan losses out of total loans to the public, net ^(a)	(0.10)	(0.07)		
% of general expense for loan losses out of total loans to the public, net ^(a)	0.19	0.18		
% of total expense for loan losses out of total loans to the public, net ^(a)	0.09	0.11		

	2018		2017			
	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions					
Income in respect of loan losses - specific	(69)	(75)	(127)	(133)	(38)	(62)
Expenses in respect of loan losses - general	55	205	153	136	80	163
Total loan loss expense (income)	(14)	130	26	3	42	101
Ratios (in %):						
% of specific income for loan losses out of total loans to the public, net ^(a)	(0.10)	(0.11)	(0.19)	(0.20)	(0.06)	(0.10)
% of general expense for loan losses out of total loans to the public, net ^(a)	0.08	0.30	0.23	0.20	0.12	0.25
% of total expense (income) for loan losses out of total loans to the public, net ^(a)	(0.02)	0.19	0.04	-	0.06	0.15

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

For more information on loan loss expenses, please see Note 6 and Note 13.

Noninterest Income

	For the six months ended June 30			
	2018	2017	Change	
	In NIS millions		In NIS millions	In %
Noninterest finance income	140	452	(312)	(69.0)
Fees and commissions	2,087	2,025	62	3.1
Other income	56	30	26	86.7
Total	2,283	2,507	(224)	(8.9)

	2018		2017			
	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions					
Noninterest finance income	89	51	245	222	197	255
Fees and commissions	1,042	1,045	1,070	1,043	1,007	1,018
Other income	38	18	300	41	16	14
Total	1,169	1,114	1,615	1,306	1,220	1,287

The weight of noninterest income out of the total income (i.e., net interest income and noninterest income) in the first half of the year stood at 34.1% compared with 38.3% in the same period last year and 40.3% in the entire 2017.

Following is a Breakdown of Noninterest Finance Income:

	For the six months ended June 30			
	2018	2017	Change	
	In NIS millions		In NIS millions	In %
Income in respect of derivatives and exchange rate differentials, net	18	511	(493)	(96.5)
Gains on sale of available-for-sale bonds, net	14	35	(21)	(60.0)
Gains on investment in shares, including dividends	37	88	(51)	(58.0)
Realized and unrealized gains (losses) from adjustments to fair value of held-for-trading bonds and shares, net ^(a)	71	(182)	253	+
Total	140	452	(312)	(69.0)

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

	2018		2017			
	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions					
Income (expenses) in respect of derivatives and exchange rate differentials, net	61	(43)	264	4	121	390
Gains on sale of available-for-sale bonds, net	(11)	25	33	47	30	5
Gains (losses) on investment in shares, including dividends	38	(1)	(42)	15	42	46
Gains on sold loans, net	-	-	-	9	-	-
Realized and unrealized gains (losses) from adjustments to fair value of held-for-trading bonds and shares, net ^(a)	1	70	(10)	147	4	(186)
Total	89	51	245	222	197	255

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

Below is a Breakdown of Fees and Commissions:

	For the six months ended June 30			
	2018	2017	Change	
	In NIS millions		In NIS millions	In %
Account management	354	349	5	1.4
Activity in securities and certain derivatives	334	332	2	0.6
Credit cards	544	520	24	4.6
Handling of loans	93	91	2	2.2
Financial product distribution fees and commissions	159	147	12	8.2
Exchange differences	181	161	20	12.4
Loan fees and commissions	261	268	(7)	(2.6)
Other fees and commissions	161	157	4	2.5
Total fees and commissions	2,087	2,025	62	3.1

Fees and commissions in the first half of 2018 increased by 3.1% compared with the same period last year, mainly on the back of increased credit card turnovers.

	2018		2017			
	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions					
Account management	175	179	182	170	171	178
Activity in securities and certain derivatives	166	168	173	170	163	169
Credit cards	276	268	278	277	265	255
Handling of loans	47	46	48	44	42	49
Financial product distribution fees and commissions	79	80	82	78	74	73
Exchange differences	87	94	94	83	77	84
Loan fees and commissions	130	131	133	140	133	135
Other fees and commissions	82	79	80	81	82	75
Total fees and commissions	1,042	1,045	1,070	1,043	1,007	1,018

Following is a Breakdown of Other Income:

	For the six months ended June 30			
	2018	2017	Change	
	In NIS millions		In NIS millions	In %
Gains on reserve for severance pay	9	19	(10)	(52.6)
Other income, including on sale of buildings and equipment	47	11	36	+
Total	56	30	26	86.7

	2018		2017			
	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions					
Gains on reserve for severance pay	6	3	11	11	12	7
Other income, including on sale of buildings and equipment	32	15	289	30	4	7
Total	38	18	300	41	16	14

Operating and Other Expenses

	For the six months ended June 30			
	2018	2017	Change	
	In NIS millions		In NIS millions	In %
Salary and related expenses ^(a)	2,293	2,236	57	2.5
Depreciation and amortization	286	342	(56)	(16.4)
Maintenance expenses for buildings and	501	491	10	2.0
Other expenses ^(a)	1,071	1,001	70	7.0
Total operating and other expenses	4,151	4,070	81	2.0

	2018		2017			
	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions					
Salary and related expenses ^(a)	1,225	1,068	1,259	1,096	1,117	1,119
Depreciation and amortization	126	160	149	155	159	183
Maintenance expenses for buildings and equipment	250	251	273	251	239	252
Other expenses ^(a)	552	519	674	574	505	496
Total operating and other expenses	2,153	1,998	2,355	2,076	2,020	2,050

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

Operating expenses constitute 61.9% of all income compared with 62.2% in the same period last year and 63.1% for the entire 2017.

Total annualized operating and other expenses constitute 1.85% of the entire balance sheet, versus 1.87% in the same period last year and 1.89% for the entire 2017.

Salary Expenses

	For the six months ended June 30			
	2018	2017	Change	
	In NIS millions		In NIS millions	In %
Salaries and related expenses ^(a)	2,115	2,077	38	1.8
Pension, severance and retirement expenses ^(a)	178	159	19	11.9
Total salary expenses	2,293	2,236	57	2.5

(a) In the first half of 2017, NIS 43 million was presented in a different line item, as grants outside the ordinary course of business. In the first half of 2018, a grant in respect of participation in the Bank's structural changes in excess of the above amount was charged. As a result, both the NIS 43 million in the first half of 2017 and the grant in respect of the structural changes were included in the salary line item rather than in the grants outside the regular course of business line item.

(b) Reclassified following retroactive application of the Banking Supervision Department's directives on improving the presentation of expenses in respect of pension and other post-employment benefits. Please see Note 1.B.3. The total effect on the first half of 2017 was NIS 331 million.

Most of the increase is related to the ROE bonus following the high ROE in the first half of the year and on the back of the bonus granted in respect of structural changes, which are higher than the bonuses granted in the same period last year.

	2018		2017			
	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions					
Salaries and related expenses ^(a)	1,132	983	1,178	1,012	1,033	1,044
Pension, severance and retirement expenses ^(a)	93	85	81	84	84	75
Total salary expenses	1,225	1,068	1,259	1,096	1,117	1,119

(a) In the first quarter of 2017, NIS 43 million was presented in a different line item, as grants outside the ordinary course of business. In the second quarter of 2018, a grant in respect of participation in the Bank's structural changes in excess of the above amount was charged. As a result, both the NIS 43 million in the first half of 2017 and the grant in respect of the structural changes were included in the salary line item rather than in the grants outside the regular course of business line item.

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

In addition to the salary expenses detailed above, the depreciation costs, building maintenance and other expenses total NIS 1,858 million in the reporting period, compared with NIS 1,834 million in the same period last year, a 1.3% increase.

Tax Expenses

The Leumi Group's provision for tax on income in the reporting period totaled NIS 783 million, compared with NIS 844 million in the same period last year. The provision for tax on income for the reporting period is 32.1% of the pretax net income, versus 36.2% in the same period last year – a 4.1 percentage point decrease. The year-on-year decrease in tax rates stems mainly from a decrease in the statutory tax rate, from recognition of a tax asset following the sale of shares in a subsidiary, as well as from positive exchange rates in respect of investments abroad, which do not constitute taxable income, vs. negative exchange rates in the same period last year.

Following is a Summary of the Comprehensive Income Statement:

Other comprehensive income (loss) components attributed to non-controlling interests							
	Adjustments in respect of presentation of available-for-sale securities at fair value	Translation adjustments, ^(a) net of the hedging effect ^(b)	The banking corporation's ownership interests in OCI of investees accounted for under the equity method	Adjustments in respect of employee benefits	Total	Other comprehensive loss attributable to non-controlling interests	OCI (loss) attributable to the Bank's shareholders
In NIS millions							
Balance as at March 31 2017	(75)	(128)	10	(1,837)	(2,030)	(4)	(2,026)
Net change during the period	(16)	(64)	1	(417)	(496)	-	(496)
Balance as at June 30 2017	(91)	(192)	11	(2,254)	(2,526)	(4)	(2,522)
Balance as at March 31 2018	(62)	(178)	13	(2,800)	(3,027)	(4)	(3,023)
Net change during the period	(124)	47	5	694	622	6	616
Sale of interests in subsidiaries to non-controlling interests	-	(13)	-	-	(13)	(44)	31
Balance as at June 30 2018	(186)	(144)	18	(2,106)	(2,418)	(42)	(2,376)

Other comprehensive income (loss) components attributed to non-controlling interests							
	Adjustments in respect of presentation of available-for-sale securities at fair value	Translation adjustments, ^(a) net of the hedging effect ^(b)	The banking corporation's ownership interests in OCI of investees accounted for under the equity method	Adjustments in respect of employee benefits	Total	OCI attributable to non-controlling interests	Other comprehensive loss attributable to the Bank's shareholders
In NIS millions							
Balance as at December 31 2016	(86)	(79)	18	(2,169)	(2,316)	(4)	(2,312)
Net change during the period	(5)	(113)	(7)	(85)	(210)	-	(210)
Balance as at June 30 2017	(91)	(192)	11	(2,254)	(2,526)	(4)	(2,522)
Balance as at December 31 2017	75	(195)	15	(2,950)	(3,055)	(4)	(3,051)
Net change during the period	(261)	64	3	844	650	6	644
Sale of interests in subsidiaries to non-controlling interests	-	(13)	-	-	(13)	(44)	31
Balance as at June 30 2018	(186)	(144)	18	(2,106)	(2,418)	(42)	(2,376)

Other comprehensive income (loss) components attributed to non-controlling interests							
	Adjustments in respect of presentation of available-for-sale securities at fair value	Translation adjustments, ^(a) net of the hedging effect ^(b)	The banking corporation's ownership interests in OCI of investees accounted for under the equity method	Adjustments in respect of employee benefits ^(c)	Total	OCI attributable to non-controlling interests	Other comprehensive loss attributable to the Bank's shareholders
In NIS millions							
Balance as at December 31 2016	(86)	(79)	18	(2,169)	(2,316)	(4)	(2,312)
Net change during the year	161	(116)	(3)	(781)	(739)	-	(739)
Balance as at December 31 2017	75	(195)	15	(2,950)	(3,055)	(4)	(3,051)

(a) Adjustments arising from the translation of financial statements of foreign operations whose functional currency is different from the banking corporation's functional currency.

(b) Net gains (losses) in respect of hedging of a net investment in foreign currency.

(c) The adjustments for employee benefits in 2017 include the cost of the voluntary retirement plan published in July 2017.

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

The Leumi Group's **balance sheet** totaled, as at June 30 2018, NIS 450.4 billion versus NIS 450.8 billion as at the end of 2017 – a 0.1% decrease and a 3.1% increase compared with June 2017.

The value of assets denominated in, and linked to, foreign currency out of the Group's total balance sheet is NIS 95.2 billion, 21.1% of total assets. In the first half of 2018, the shekel devalued against the US dollar by 5.3%, 2.5% against the euro, and 2.7% against the pound sterling. The change in the shekel's exchange rate against all foreign currencies contributed to a 0.9% increase in the Group's total balance sheet.

Total assets under the Group's management – total balance sheet and securities portfolios of customers, provident funds and study funds for which operational management and deposit management services are provided - reached NIS 1,463 billion, compared with a total of NIS 1,425 billion as at the end of 2017.

1. Following are the Changes in the Main Balance Sheet Items:

	June 30	December 31	Change	
	2018	2017	From December 2017	From June 2017
	In NIS millions		In %	
Balance sheet total	450,448	450,838	(0.1)	3.1
Cash and deposits with banks	71,315	82,067	(13.1)	2.8
Securities	82,113	77,299	6.2	4.6
Loans to the public, net ^(a)	272,065	267,952	1.5	2.8
Buildings and equipment	2,737	2,986	(8.3)	(7.3)
Deposits from the public	361,220	362,478	(0.3)	5.4
Deposits from banks	3,473	5,156	(32.6)	(19.8)
Bonds, promissory notes and subordinated bonds	16,954	15,577	8.8	(24.1)
The Bank's shareholders' equity	34,679	33,167	4.6	6.6

(a) Including the credit for Leumi Card, which has been classified as a held-for-sale asset since March 31 2018. For more information regarding the held-for-sale operation, please see the section entitled "Main Changes in the Reporting Period" and Note 16g.

2. Following are the Changes in the Main Off Balance Sheet Items:

	June 30	December 31	Change	
	2018	2017	From December 2017	From June 2017
	In NIS millions		In %	
Letters of credit, net	1,348	1,202	12.1	26.5
Loan guarantees, net	5,407	5,400	0.1	3.6
Guarantees for home buyers	19,120	19,297	(0.9)	(1.8)
Guarantees and other commitments, net	15,754	15,702	0.3	3.5
Derivative instruments ^(a)	799,682	635,790	25.8	28.6
Options - all types	289,220	155,751	85.7	+

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

3. Following are the Changes in Customers' Off-Balance-Sheet Financial Assets in the Leumi Group:

	June 30	December 31		In %
	2018	2017	Change	
	In NIS millions		In NIS millions	
Securities portfolios ^(a)	711,826	692,085	19,741	2.9
Assets for which operating services are provided: ^{(a)(b)(c)}				
Mutual funds	47,302	51,425	(4,123)	(8.0)
Provident and pension funds	134,861	118,564	16,297	13.7
Study funds	118,659	112,356	6,303	5.6

(a) Including changes in the market value of securities and value of securities of mutual funds and provident funds in the Group's custody, for which operational management and custody services are provided.

(b) The Group does not manage mutual funds, provident funds and study funds in Israel.

(c) Assets of customers to which the Group provides operational management services, including provident fund balances of customers who receive consulting services from Leumi.

Net Loans to the Public

Net loans to the public in the Leumi Group, including Leumi Card's outstanding credit - which is classified as of March 31 2018 as a held-for-sale asset - totaled as at June 30 2018 NIS 272.1 billion compared with NIS 268.0 billion as at the end of 2017, a 1.5% increase over December 31 2017.

It should be noted that the change in the shekel's foreign exchange rates against all foreign currencies contributed to a 0.6% increase in the total loans to the public, including the outstanding balance of Leumi Card, which is classified as a held-for-sale asset.

In addition to loans to the public, the Group invests in corporate securities, which total - as at June 30 2018 - NIS 15,716 million compared to NIS 13,241 million as at the end of 2017, and which also embody credit risk.

Following are the Changes in Loans to the Public, after Loan Loss Provision by Main Economic Sectors:

	June 30	December 31		Change net of the effect of exchange rate differentials	
	2018	2017	Change		
	In NIS millions		In %		
Individuals - housing loans	78,892	77,506	1,386	1.8	1.8
Individuals - other	36,084	38,160	(2,076)	(5.4)	(5.6)
Construction and real estate	55,546	52,514	3,032	5.8	4.9
Commercial	28,014	26,762	1,252	4.7	3.9
Industry	19,576	19,097	479	2.5	0.8
Other	53,953	53,913	40	0.1	(0.5)
Total	272,065	267,952	4,113	1.5	0.9
Less balances classified as held for sale assets ^(a)	7,893	-			
Total	264,172	267,952			

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

For more information regarding changes in loans and credit risk by economic sector, please see the section entitled "Credit Risk".

Problem Credit Risk

Following is the Problem Credit Risk after Specific and General Provisions:

	June 30			December 31		
	2018			2017		
	Balance-sheet	Off balance-sheet	Total	Balance sheet ^(b)	Off balance-sheet	Total
In NIS millions						
Impaired credit risk, net	2,179	69	2,248	2,791	100	2,891
Substandard credit risk, net	449	26	475	727	49	776
Credit risk under special supervision, net	2,637	696	3,333	2,529	876	3,405
Less problem loan risk of outstanding balances classified as held for sale assets ^(a)	(333)	(8)	(341)	-	-	-
Total	4,932	783	5,715	6,047	1,025	7,072

	June 30	December 31
	2018	2017 ^(b)
In NIS millions		
Problem credit risk - commercial	5,757	6,772
Problem credit risk - retail	1,747	1,639
Less problem loan risk of outstanding balances classified as held for sale assets ^(a)	(395)	-
Total	7,109	8,411
Balance of loan loss provision	1,448	1,339
Less outstanding balance of loan loss provision classified as held-for-sale assets ^(a)	(54)	-
Problem debt after loan loss provision	5,715	7,072

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

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

For more information regarding problem loans, please see the section entitled "Credit risk" and Note 13.

Reclassification of Outstanding Loan Balances Granted to Individuals (Excluding Housing Loans) and Loans to Small Businesses

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

Following the above, as part of the notes to the financial statements as at June 30 2017 and December 31 2017, the outstanding balances of loans to individuals (excluding housing loans) and loans to small businesses were reclassified from non-problem loans to problem loans. A total of NIS 255 million and a total of NIS 252 million were reclassified in respect of loans to individuals, gross (excluding housing loans) and a total of NIS 225 million and NIS 221 million were reclassified in respect of loans to small businesses, gross, respectively.

The total classification to gross impaired debts in respect of individuals stood at NIS 224 million as at June 30 2017 (NIS 178 million classified from non-problem debts and NIS 46 million classified from unimpaired problem debt) and a total of NIS 215 million as at December 31 2017 (NIS 176 million classified from non-problem debt and NIS 39 million classified from unimpaired problem debt). The total amount classified to gross impaired debt in respect of loans to small businesses stood at NIS 254 million as at June 30 2017 (NIS 161 million classified from non-problem debt and NIS 93 classified from unimpaired problem debt) and a total of NIS 237 million as at December 31 2017 (NIS 157 million classified from non-problem debt and NIS 80 million classified from unimpaired problem debt). Please see also Note 6.

It should be noted that, as a result, the loan loss provision was revised during the first quarter of the year. The effect of the revision on the financial performance for the first half and first quarter of the year is immaterial.

Securities

The Group's investments in securities as at June 30 2018 amounted to NIS 82.1 billion, compared to NIS 77.3 billion at the end of 2017, a 6.2% increase.

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

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

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

Following is the Classification of the Securities Item in the Consolidated Balance Sheet:

	June 30 2018				December 31 2017			
	Held-to-maturity securities	Available-for-sale securities ^(a)	Held-for-trading securities ^(b)	Total	Held-to-maturity securities	Available-for-sale securities ^(a)	Held-for-trading securities ^(b)	Total
In NIS millions								
Bonds								
Of the Israeli government	813	38,818	5,121	44,752	35	36,633	3,204	39,872
Of foreign governments	-	8,781	70	8,851	-	10,755	82	10,837
Of Israeli financial institutions	-	11	178	189	-	11	90	101
Of foreign financial institutions ^(c)	-	10,137	252	10,389	-	9,653	142	9,795
Asset-backed (ABS) or mortgage-backed (MBS)	1,074	9,016	285	10,375	353	8,529	268	9,150
Of other Israeli entities	-	165	243	408	-	70	111	181
Of other foreign entities	513	3,129	277	3,919	478	2,352	299	3,129
Shares and mutual funds	-	3,227	3	3,230	-	2,927	1,307	4,234
Total securities^(d)	2,400	73,284	6,429	82,113	866	70,930	5,503	77,299

(a) Including unrealized gains (losses) from fair value adjustments totaling NIS (296) million in other comprehensive income (December 31 2017 - NIS 146 million).

(b) Including unrealized gains (losses) from fair value adjustments totaling NIS (16) million in the total income statement (December 31 2017 - NIS 9 million).

(c) Most bonds of foreign financial institutions are rated Supranational or are state-backed.

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

As at June 30 2018, about 89.2% of the Group's nostro (own) portfolio was classified as available for sale and 7.8% - as held for trading. About 3.9% of the securities' value is investments in shares of companies that is not equity accounted, but rather recorded at cost or market value of the listed shares.

For information on the value of securities by method of measurement, please see Note 15A.

Available-for-Sale Portfolio

1. In the first half of 2018, there was a NIS 396 decrease (before tax) in other comprehensive income in respect of available-for-sale securities, compared with a NIS 3 million decrease (before tax) in the corresponding period last year.
2. Net gains on the sale of available-for-sale bonds - amounting to NIS 14 million, compared with net gains of NIS 35 million in the corresponding period last year, and net gains on investments in shares in the amount of NIS 19 million, compared with NIS 78 million in the corresponding period last year - were stated in profit and loss.

The net accumulated balance of fair value adjustments of available-for-sale securities as at June 30 2018 totaled a negative NIS 186 million (after tax) compared with a positive amount of NIS 75 million as at the end of 2017. These amounts represent net unrealized gains (losses) as at the reporting date.

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

Held-for-Trading Portfolio

As at June 30 2018, the held-for-trading portfolio has NIS 6.4 billion in bonds, compared with NIS 4.2 billion in bonds as at December 31 2017. As at June 30 2018, the held-for-trading portfolio constituted 7.8% of the Group's own (nostro) portfolio, compared with 7.1% as at December 31 2017.

Realized and unrealized losses in respect of held-for-trading bonds in the amount of NIS 15 million were recorded in the income statement, compared with losses of NIS 174 billion in the same period last year.

For more information on the portfolio's composition, please see Note 5.

Investment in Foreign Securities

A. Investment in Foreign Asset-Backed Securities

The Group's asset-backed (mortgage and non-mortgage) securities portfolio, all investment-grade, amounted to NIS 10.4 billion (about \$2.8 billion) as at June 30 2018, compared to NIS 9.2 billion as at the end of 2017. Out of the above portfolio, as at June 30 2018, NIS 9.0 billion (about \$2.5 billion) is classified to the available-for-sale portfolio and the remainder - to the held-for-trading and held-to-maturity portfolios.

The available-for-sale foreign asset-backed securities, including investment in mortgage-backed bonds, totaled NIS 7.1 billion as at June 30 2018. 97% of all asset-backed mortgages in the available-for-sale portfolio was issued by US federal agencies (FNMA, FHLMC, GNMA) and, as of the reporting date, are rated AAA.

As of June 30 2018, the total net impairment from mortgage-backed bonds charged to shareholders' equity was NIS 189 million.

Total mortgage-backed bonds that are neither government-backed (USA) nor backed by US federal institutions total NIS 441 million.

The weighted average maturity for the entire mortgage-backed bond portfolio is 3.9 years (average duration). In addition to the mortgage-backed bonds, the Group's available for sale portfolio also includes other non-mortgage asset-backed bonds totaling NIS 2.0 billion, of which CLO bonds account for NIS 1.2 billion. The weighted average maturity for the entire non-mortgage asset-backed bond portfolio is 3.8 years.

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

B. Investment in Foreign Non-Asset-Backed Securities

The Group's securities portfolio as at June 30 2018 includes NIS 28.5 billion (\$7.8 billion) in foreign non-asset-backed securities. Out of the above portfolio, NIS 27.0 billion (about \$7.4 billion) is classified to the available-for-sale portfolio and the remainder - to the held-for-trading and held-to-maturity portfolios. 99.1% of the total securities are investment grade and include mainly securities of the US government, banks and financial institutions as well as bonds of investment grade corporations, and the remainder are mainly securities issued by the Israeli government.

For more information regarding exposure to foreign financial institutions, please see the section entitled "Credit Risk".

As of June 30 2018, the total accumulated impairment of share capital in respect of foreign non-asset backed securities in the available-for-sale portfolio was NIS 173 million (i.e., NIS 114 million after tax).

As aforesaid, in addition to the available-for-sale portfolio, the held-for-trading portfolio and held-to-maturity portfolio also include non-asset-backed securities. The held-for-trading portfolio mainly includes securities issued by governments, banks and financial institutions. 91.7% of the securities in the held-for-trading portfolio are investment-grade.

The value of the non-asset backed held-for-trading portfolio as at June 30 2018 was NIS 0.6 billion (\$0.2 billion). The difference between the fair value and the amortized cost, if any, is recorded in the income statement.

Investments in Bonds Issued in Israel

As at June 30 2018, investments in bonds issued in Israel totaled NIS 42.7 billion, of which NIS 42.1 billion was in shekel-denominated bonds issued by the Israeli government and the remainder - in corporate bonds. 29.5% of corporate bonds investments - which constitute NIS 0.2 billion - were included in the available-for-sale portfolio, and the remainder - in the held-for-trading portfolio.

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

All corporate bonds in the held-for-trading portfolio are listed and traded on the Stock Exchange.

Investments in Shares and Funds

Investments in shares and funds totaled NIS 3,230 million in June 30 2018, of which NIS 2,243 million was tradable and NIS 987 million - non-tradable. Of the total investment, NIS 3,227 million is classified to the available-for-sale portfolio and NIS 3 million - to the held-for-trading portfolio.

The required capital in respect of these investments is NIS 444 million as of June 30 2018.

For more information, please see Note 5.

Deposits by the Public

The public's deposits with the Group amounted to NIS 361.2 billion as at June 30 2018, compared to NIS 362.5 billion at the end of 2017, a 0.3% decrease and a 5.4% increase compared to June 30 2017.

The change in the shekel's exchange rate against all foreign currencies increased the total deposits from the public by 1.4% so that, net of the effect of the change, the deposits from the public decreased by 1.8%.

Bonds, Capital Notes and Subordinated Bonds

Bonds, capital notes and subordinated bonds totaled NIS 17.0 billion as at June 30 2018 compared with NIS 15.6 billion as at the end of 2017, an 8.8% increase and a 24.1% decrease compared with June 2017.

Shelf Prospectus and Bond Issue

On May 25 2018, the Bank published a shelf prospectus under a permit issued by the Israel Securities Authority.

Under a shelf prospectus report dated June 19 2018, the Bank issued, on June 21 2018, Series 179 bonds totaling NIS 1.29 billion. The bonds are payable in two equal installments dated June 30 2024 and June 30 2026. The bonds are linked to the Consumer Price Index and carry an annual interest rate of 0.83%, payable annually on June 30 of each year from 2019 to 2026 (inclusive).

The Series 179 bonds are not recognized for regulatory capital purposes.

Under a shelf prospectus report dated July 5 2018, the Bank issued, on July 8 2018, Series 401 subordinated bonds totaling NIS 613.8 million and Series 402 subordinated bonds totaling NIS 209.1 million.

The Series 401 subordinated bonds are payable in one lump sum on July 31 2028, with the issuer having an early repayment option not prior to July 31 2023 and no later than August 31 2023. The subordinated bonds are linked to the Consumer Price Index, carry a fixed annual interest rate of 1.64% until the July 31 2023. At this date, if the Bank does not exercise its early repayment option, the subordinated bonds' nominal interest rate shall be revised at to the

difference between the benchmark interest rate (as defined in the shelf prospectus report) on the issue date and the one on the interest revision date.

The Series 402 subordinated bonds are payable in one lump sum on July 31 2033, with the issuer having an early repayment option not prior to July 31 2024 and no later than August 31 2028. The subordinated bonds are linked to the Consumer Price Index, carry a fixed annual interest rate of 2.78% until the July 31 2028. At this date, if the Bank does not exercise its early repayment option, the subordinated bonds' nominal interest rate shall be revised at to the difference between the benchmark interest rate (as defined in the shelf prospectus report) on the issue date and the one on the interest revision date.

If circumstances of a trigger event (a trigger event for non-occurrence or trigger event for absorption of the principal loss amount, the earlier of the two) were to occur, the subordinated bonds shall be converted into shares according to the average closing prices of the Bank's shares on the Tel Aviv Stock Exchange in the 14 consecutive trading days preceding the date on which the conversion notice was issued or according to the set floor rate (NIS 10.9025 per share), the highest of the two.

These subordinated bonds (Series 401 and 402) are eligible for inclusion in Tier 2 as of the issue date.

Capital and Capital Adequacy

Equity attributable to the Bank's shareholders totaled NIS 34,679 million on June 30 2018 compared with NIS 33,167 million as at the end of 2017, a 4.6% increase. The increase is mainly due to the net income for the period and other comprehensive income on the back of decreased negative adjustments in respect of employee benefits resulting from an increase in the discount rate. The increase was partially offset by the dividend distribution during the period and the Bank's buyback plan.

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

The equity to total asset ratio reached 7.7% on June 30 2018, compared with 7.4% as at December 31 2017.

Capital Adequacy Structure

	June 30	December 31	
	2018	2017	2017
	In NIS millions		
Capital base for capital ratio purposes			
CET1 capital, after regulatory capital deductions and adjustments	35,011	33,527	34,653
Tier 2 capital, after deductions	9,945	11,236	10,820
Total capital	44,956	44,763	45,473
Balance of risk-weighted assets ^(a)			
Credit risk	285,655	271,671	277,344
Market risk	5,481	6,308	4,464
Operational risk	22,349	21,129	21,484
Total balance of risk-weighted assets	313,485	299,108	303,292
Capital-to-risk weighted components ratio			
Ratio of CET1 capital to risk-weighted components	11.17%	11.21%	11.43%
Total capital ratio to risk components	14.34%	14.97%	14.99%

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

Regulatory Capital Structure

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

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

1. Tier 1 Capital, including Common Equity Tier 1 Capital (CET1) and Additional Tier 1 Capital.
2. Tier 2 Capital.

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

Common Equity Tier 1 Capital and Additional Tier 1 Capital

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

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

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

Tier 2 Capital

Tier 2 capital mainly includes capital instruments and the balance of the Group's loan loss provisions, subject to the ceiling prescribed by the directives.

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

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

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

Restrictions on Capital Structure

The following restrictions were provided in Proper Conduct of Banking Directive No. 202:

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

Capital Adequacy

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

The Bank of Israel's Capital Adequacy Targets:

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

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

As a result, the minimum capital requirements applicable to the Bank as of June 30 2018 are 10.25% for the Common Equity Tier 1 capital ratio and 13.75% for the total capital ratio.

The Bank's Capital Planning and Capital Adequacy Targets:

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

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

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

Adjustments to Common Equity Tier 1 Capital:

Measurement of the Employee Benefits Liability

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

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

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

Relief for Operational Efficiency Plans

In January 2016, the Banking Supervision Department published a letter, *Operational Efficiency of the Banking System in Israel*. According to the letter, a banking corporation which complies with the set terms, will be granted a relief, whereby it may spread the effect of the plan on the capital ratios and leverage ratio over a period of five years, on a straight line basis.

In June 2016, the Bank's Board of Directors approved an efficiency plan at a cost of NIS 438 million (after tax). As of June 30 2018, 40% of the plan's costs were attributed to the regulatory capital.

In June 2017, the Banking Supervision Department published a letter, "Operational Efficiency of the Banking System in Israel - Efficiency in the Real Estate Domain." The letter extended the effective date of the relief in respect of the manpower streamlining plan. In July 2017, the Board of Directors approved an additional efficiency plan at a cost of NIS 204 million (after tax). As of June 30 2018, 20% of the plan's costs were attributed to the regulatory capital.

Additional Regulatory Changes in respect of Capital Measurement Requirements

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

In December 2017, the Basel Committee on Banking Supervision completed its revision of the overall capital adequacy framework. As part of the revisions, also known as Basel IV, significant revisions were made in the manner of calculating risk-weighted assets for the purpose of the Tier 1 capital requirements. Inter alia, changes were made in the method of calculating capital requirements according to the standardized approach to credit risk, a uniform standardized approach was prescribed with regard to operating risk, and changes were made in the measurement of market risks. Under the rules of the Basel Committee, these changes are due to take effect gradually from January 1 2022 to January 1 2027.

Presently, the Bank does not know how and when these rules will be adopted by Israel's Banking Supervision Department.

[Circulars amending Proper Conduct of Banking Business following the Law for Minimizing Market Centralization and Promoting Economic Competition in the Israeli Banking Market \(the "Strum Law"\)](#)

During July 2018, the Bank of Israel published circulars amending Proper Conduct of Banking Business Directives, with the objective of granting the credit companies relief following their split from the banks. According to one of the amendments, the banks would weight credit granted to credit card companies similarly to credit granted to banks.

For more information regarding the main amendments proposed by the draft, please see "Laws and Regulations Governing the Banking System."

[Draft revision of Proper Conduct of Banking Business Directive No. 332, Buybacks by Banking Corporations.](#)

On July 16 2018, the Bank of Israel published a draft revision of Proper Conduct of Banking Business Directive No. 332, Buybacks by Banking Corporations, for public comment. The draft revokes the buyback prohibition and allows banking corporations to carry out share buybacks subject to certain preconditions. The draft also revises the restrictions imposed on granting loans guaranteed by securities issued by the banking corporation.

[Sale of 15% of BLM](#)

On May 22 2018, the deal for bringing in strategic partners to BLUSA was completed. Under the agreement, each of the partners acquired 7.5% of the share capital of Bank Leumi Corporation - an American corporation through which the Bank controls BLUSA. Under the terms and conditions of the agreement, the consideration paid for the sold shares was NIS 141 million. The transaction was accounted for as a capital transaction and the difference between the consideration and the minority The minority interest in equity is recognized directly in equity.

For more information, please see the section entitled "Main Investee Companies", "Bank Leumi USA".

[Sale of Leumi Card Ltd.](#)

Pursuant to the Law for Increasing Competition and Reducing Concentration in Israel's Banking Market (Amendments), 2017, the Bank is required to sell its stake in Leumi Card by February 1 2020. On July 18 2018, an agreement was signed between the Bank and Azrieli (hereinafter: the "Sellers") - a corporation controlled by investment fund Warburg Pincus, for the sale of the Sellers' entire holdings in Leumi Card. The agreement includes several preconditions, including obtaining the regulatory approvals required by law.

For more information, please see the section entitled "Main Investee Companies", "Leumi Card" and Note 16g.

[Following is a sensitivity analysis of the main factors affecting the capital adequacy of the Leumi Group:](#)

- Change in the volume of risk-weighted assets – Leumi's risk-weighted assets amounted to NIS 313.5 billion at the end of June 2018. Every 1% increase in risk-weighted assets (about NIS 3 billion) will reduce the Common Equity Tier 1 capital ratio by 0.11%, and the total capital ratio by 0.14%.
- Accrued profit or a change in the capital reserve – Leumi's Common Equity Tier 1 capital was NIS 35.0 billion at the end of June 2018. Total capital amounts to NIS 45.0 billion. Accrual of net income and/or positive change in the capital reserve of each NIS 1 billion will improve the Common Equity Tier 1 Capital ratio and the total capital ratio by 0.32%.
- Liabilities for employee benefits – The actuarial liability for employees is discounted according to an eight-quarter moving average of market yields, which are affected by the Government of Israel's bond curve and by the U.S. AA corporate bond spread. A change of 0.1% across the discount rate curve, under the assumption that the curve rises and falls uniformly, means a cumulative effect of 0.07% on the Common Equity Tier 1 capital ratio and total capital ratio. Of which, according to a moving average calculation for eight quarters, an increase of 0.01% in the Common Equity Tier 1 Capital ratio and the total capital ratio for the current quarter.

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

[Dividend Distribution Policy](#)

On March 29 2017, the Bank's Board of Directors approved a dividend distribution policy, effective as of the publication date of the financial statements for the first quarter of 2017. Pursuant to said policy, each quarter, the Bank will distribute a dividend constituting 20% of the Bank's net profit according to the Bank's financial statements for the

previous quarter, and subject to, among other things, the Bank complying with its capital adequacy targets after the dividend distribution.

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

In accordance with the revised policy, on August 13 2018, the Board of Directors approved, in respect of the second quarter of 2018, a dividend of 40% of the quarter's net income. The dividend approved amounted to NIS 361 million, which is 23.92 agorot per share of NIS 1 par value. The Board of Directors designated August 28 2018 as the record date for dividend payment purposes and September 6 2018 as the payment date. The final dividend amount per share is subject to changes following the Bank's buyback.

[Details on paid dividend](#)

Announcement date	Payment date	Dividend per share	Cash dividend
		In agorot	In NIS millions
May 25 2017	June 22 2017		8.17124
August 15 2017	September 11 2017		11.50175
November 21 2017	December 21 2017		21.51328
March 6 2018	March 28 2018		22.41 ¹ 342
May 24 2018	June 19 2018		19.18 ² 292

[The Bank's Share Buyback Plan](#)

Following the financial statements for the first quarter of 2018 regarding the Bank's preparation for carrying out a buyback in the amount of up to NIS 700 million, including by way of the safe harbor protection mechanism published by the Israel Securities Authority (Legal Position No. 199-8), and the Bank's contracting of an external member of the Stock Exchange, an initial amount of NIS 350 million was transferred for the purpose of the buyback, until the date of the current financial statements' publication, the Bank has purchased (through the independent external Stock Exchange member it has contracted), 13,667,294 shares in the amount of NIS 303 million pursuant to said plan, and the tranche was concluded.

On the eve of the publication of the current financial statements, the Bank entered an agreement with the external Stock Exchange member for the execution of an additional buyback tranche, also under the safe harbor protection mechanism published by the Israel Securities Authority as aforesaid, under which an amount of NIS 397 million will be transferred to the Stock Exchange member to carry out the buyback, with the date set for the current tranche being August 15 2018; the agreement will be in force until the earliest of any of the following: (a) March 31 2019; (b) Upon completion of the buyback tranche in the said amount; (c) A legal impediment to the continued validity of the agreement with the Stock Exchange member; (d) The Bank's announcement whereby it no longer meets the Bank of Israel's capital adequacy conditions to conduct the buyback.

For more information, please see Note 9B.

¹ Pursuant to the immediate report dated March 6 2018, the dividend per share amount was revised following the vesting of PSUs and issue of 497,781 new ordinary shares.

² Following the complementary report dated June 4 2018.

Operating Segments - Management Approach

Operating segments reporting according to management's approach presents the Bank's results by business line, in accordance with the Bank's organizational structure. The Bank's business lines specialize in providing services to customer segments with similar characteristics and needs. For a description of the main operating segments, please see the section entitled "Operating Segments" in the 2017 Annual Financial Statements.

Following is a Summary of Financial Performance according to Management's Approach:

For the three months ended June 30 2018												
In NIS millions												
	The Bank									Sub-sidiaries in Israel	Foreign subsidi-aries ^(a)	Total
	Retail, premium & Private Banking	Small Busi-nesses	Mort-gages	Banking - Total	Com-mercial	Business	Real Estate	Capital Markets	Other and adjust-ments			
Interest income, net	517	334	229	1,080	286	144	128	393	-	101	282	2,414
Noninterest income (expenses)	335	122	1	458	105	53	79	120	22	286	46	1,169
Total income	852	456	230	1,538	391	197	207	513	22	387	328	3,583
Loan loss expenses (income)	23	65	3	91	(46)	(48)	(6)	(10)	(2)	19	(12)	(14)
Total operating and other expenses	725	285	72	1,082	189	85	34	94	227	219	223	2,153
Profit (loss) before tax	104	106	155	365	248	160	179	429	(203)	149	117	1,444
Tax expenses (benefit)	35	36	53	124	85	54	61	142	(4)	28	31	521
Net income (loss) attributable to the banking corporation's shareholders	69	70	102	241	163	106	118	287	(199)	105	82	903

(a) Excluding inter-company balances in the amount of NIS 34 million.

For the three months ended June 30 2017												
In NIS millions												
	The Bank									Sub-sidiaries in Israel	Foreign subsidi-aries ^(a)	Total
	Retail, premium & Private Banking	Small Busi-nesses	Mort-gages	Banking - Total	Com-mercial	Business	Real Estate	Capital Markets	Other and adjust-ments			
Interest income, net	491	326	211	1,028	248	143	112	320	2	68	244	2,165
Noninterest income	325	119	3	447	104	50	81	120	24	309	85	1,220
Total income	816	445	214	1,475	352	193	193	440	26	377	329	3,385
Loan loss expenses (income)	59	66	(9)	116	5	(58)	(50)	(1)	-	14	16	42
Total operating and other expenses	706	242	69	1,017	169	68	30	79	198	257	202	2,020
Profit (loss) before tax	51	137	154	342	178	183	213	362	(172)	106	111	1,323
Tax expenses (benefit)	18	48	54	120	62	64	74	125	(42)	25	28	456
Net income (loss) attributable to the banking corporation's shareholders	33	89	100	222	116	119	139	236	(130)	91	83	876

(a) Including inter-company balances in the amount of NIS 15 million.

For the six months ended June 30 2018

In NIS millions

	The Bank									Subsidiar- ies in Israel	Foreign subsidi- aries ^(a)	Total
	Retail, premium & Private Banking	Small Busines- ses	Mortgages	Banking - Total	Commer- cial	Busi- ness	Real Estate	Capital Markets	Other and adjust- ments			
Interest income, net	1,002	667	448	2,117	558	285	251	469	-	193	547	4,420
Noninterest income	674	249	2	925	206	107	155	82	61	564	183	2,283
Total income	1,676	916	450	3,042	764	392	406	551	61	757	730	6,703
Loan loss expenses (income)	107	113	9	229	(11)	(66)	(78)	3	(7)	48	(2)	116
Total operating and other expenses	1,396	542	136	2,074	363	147	63	165	452	456	431	4,151
Profit (loss) before tax	173	261	305	739	412	311	421	383	(384)	253	301	2,436
Tax expenses (benefit)	59	89	104	252	141	106	144	132	(104)	54	58	783
Net income (loss) attributable to the banking corporation's shareholders	114	172	201	487	271	205	277	253	(280)	181	239	1,633
Balances as at June 30 2018												
Loans to the public, net	29,889	26,852	80,066	136,807	37,244	33,654	22,323	3,200	5,624	615 ^(b)	24,705	264,172
Deposits by the public	154,617	35,823	-	190,440	46,127	19,978	5,415	74,073	186	-(b)	25,001	361,220
Assets under management	175,814	19,328	-	195,142	23,153	19,476	1,199	453,460	23,777	278,575	17,866	1,012,648

(a) Including inter-company balances in the amount of NIS 48 million.

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

For the six months ended June 30 2017

In NIS millions

	The Bank									Subsidiar- ies in Israel	Foreign subsidi- aries ^(a)	Total
	Retail, premium & Private Banking	Small Busines- ses	Mortgages	Banking - Total	Commer- cial	Busi- ness	Real Estate	Capital Markets	Other and adjust- ments			
Interest income, net	945	640	412	1,997	483	284	220	437	-	129	488	4,038
Noninterest income	655	242	1	898	206	109	165	374	60	602	93	2,507
Total income	1,600	882	413	2,895	689	393	385	811	60	731	581	6,545
Loan loss expenses (income)	83	133	(7)	209	9	(65)	(35)	(16)	(9)	31	19	143
Total operating and other expenses	1,449	492	143	2,084	340	135	64	152	405	489	401	4,070
Profit (loss) before tax	68	257	277	602	340	323	356	675	(336)	211	161	2,332
Tax expenses (benefit)	24	90	97	211	119	113	124	238	(71)	54	56	844
Net income (loss) attributable to the banking corporation's shareholders	44	167	180	391	221	210	232	437	(265)	167	105	1,498
Balance as at June 30 2017												
Loans to the public, net	31,236	27,161	78,872	137,269	34,978	32,431	19,550	4,294	5,564	8,220	22,228	264,534
Deposits by the public	154,834	34,786	-	189,620	41,234	19,704	5,393	62,337	70	70	24,338	342,766
Assets under management	167,600	17,460	-	185,060	24,682	20,414	1,400	387,811	26,206	235,885	18,639	900,097

(a) Excluding inter-company balances in the amount of NIS 28 million.

For the year ended December 31 2017												
In NIS millions												
	The Bank									Subsidiaries in Israel	Foreign subsidiaries ^(a)	Total
	Retail, premium & Private Banking	Small Businesses	Mortgages	Banking - Total	Commercial	Business	Real Estate	Capital Markets	Other and adjustments			
Interest income (expense), net	1,923	1,308	843	4,074	1,014	581	461	632	-	292	992	8,046
Noninterest income	1,320	492	5	1,817	407	227	325	812	390	1,175	275	5,428
Total income	3,243	1,800	848	5,891	1,421	808	786	1,444	390	1,467	1,267	13,474
Loan loss expenses (income)	157	273	13	443	26	(72)	(316)	(13)	(25)	75	54	172
Total operating and other expenses	2,984	1,060	296	4,340	725	280	132	306	864	1,022	832	8,501
Profit (loss) before tax	102	467	539	1,108	670	600	970	1,151	(449)	370	381	4,801
Tax expenses (benefit)	36	163	189	388	235	210	340	404	(123)	89	149	1,692
Net income (loss) attributable to the banking corporation's shareholders	66	304	350	720	435	390	630	750	(326)	341	232	3,172
Balances as at December 31 2017												
Loans to the public, net	30,214	27,438	78,626	136,278	35,712	33,152	20,684	4,437	5,712	8,773	23,204	267,952
Deposits by the public	154,063	35,369	-	189,432	43,484	21,614	6,425	76,065	93	65	25,300	362,478
Assets under	173,036	19,750	-	192,786	24,432	21,228	1,293	432,806	22,448	260,155	19,282	974,430

(a) Including inter-company balances in the amount of NIS 30 million.

Regulatory Operating Segments

For a description of the main operating segments, please see the section "Operating Segments" in the 2017 Annual Financial Statements.

For the three months ended June 30 2018										
In NIS millions										
	Activity in Israel								Foreign operations	Total
	House-holds	Private banking	Small- and micro businesses	Mid-sized businesses	Corporations	Institutional entities	Financial management	Other		
Interest income, net	686	34	535	194	321	32	339	-	273	2,414
Noninterest Income	382	40	205	85	153	47	134	33	90	1,169
Total income	1,068	74	740	279	474	79	473	33	363	3,583
Expenses (income) in respect of loan losses	48	-	62	(127)	14	2	4	(4)	(13)	(14)
Total operating and other expenses	843	33	416	151	128	75	111	172	224	2,153
Profit (loss) before tax	177	41	262	255	332	2	358	(135)	152	1,444
Tax Expenses	49	14	88	87	110	1	139	1	32	521
Net income (loss) attributable to the Bank's shareholders	114	27	173	166	221	2	221	(137)	116	903

For the three months ended June 30 2017										
In NIS millions										
Activity in Israel									Foreign operations	Total
	House-holds	Private banking	Small- and micro busi-nesses	Mid-sized busi-nesses	Corpo-rations	Institu-tional entities	Financial manage-ment	Other		
Interest income, net	665	26	480	166	292	16	281	(1)	240	2,165
Noninterest Income	383	40	183	79	160	43	241	18	73	1,220
Total income	1,048	66	663	245	452	59	522	17	313	3,385
Expenses (income) in respect of loan losses	41	-	56	(20)	(53)	3	2	-	13	42
Total operating and other expenses (income)	856	30	347	122	133	58	105	166	203	2,020
Profit (loss) before tax	151	36	260	143	372	(2)	415	(149)	97	1,323
Tax expenses (benefit)	46	13	92	51	129	-	139	(43)	29	456
Net income (loss) attributable to the Bank's shareholders	99	23	168	92	243	(2)	291	(106)	68	876
For the six months ended June 30 2018										
In NIS millions										
Activity in Israel									Foreign operations	Total
	House-holds	Private banking	Small- and micro busi-nesses	Mid-sized busi-nesses	Corpo-rations	Institution al entities	Financial manageme nt	Other		
Interest income, net	1,348	59	1,043	373	633	56	379	-	529	4,420
Noninterest Income	820	81	412	167	309	99	187	53	155	2,283
Total income	2,168	140	1,455	540	942	155	566	53	684	6,703
Expenses (income) in respect of loan losses	143	-	135	(137)	(29)	-	10	(4)	(2)	116
Total operating and other expenses	1,717	61	784	274	244	138	145	355	433	4,151
Profit (loss) before tax	308	79	536	403	727	17	411	(298)	253	2,436
Tax expenses (benefit)	86	27	181	138	243	6	128	(84)	58	783
Net income (loss) attributable to the Bank's shareholders	196	52	354	263	483	12	296	(214)	191	1,633
Balance as at June 30 2018										
Loans to the public, gross ^(a)	105,104	461	59,212	26,300	58,421	848	-	-	25,015	275,361
Deposits from the public ^(b)	107,521	25,596	51,703	35,706	47,927	67,838	-	-	25,000	361,291
Assets under management	71,994	47,292	44,678	21,761	75,237	693,482	40,339	-	17,865	1,012,648

(a) Including balances classified as held for sale assets in the amount of NIS 8,037 million.
Including balances classified as held for sale liabilities in the amount of NIS 71 million.

For the six months ended June 30 2017										
In NIS millions										
	Activity in Israel								Foreign operations	Total
	House-holds	Private banking	Small-and micro busi-nesses	Mid-sized busi-nesses	Corpora-tions	Institu-tional entities	Financial manage-ment	Other		
Interest income, net	1,305	46	930	325	569	33	353	-	477	4,038
Noninterest Income	812	84	367	158	332	88	499	34	133	2,507
Total income	2,117	130	1,297	483	901	121	852	34	610	6,545
Expenses (income) in respect of loan losses	60	1	132	(25)	(36)	3	(9)	-	17	143
Total operating and other expenses	1,785	63	691	247	264	125	146	346	403	4,070
Profit (loss) before tax	272	66	474	261	673	(7)	715	(312)	190	2,332
Tax expenses (benefit)	84	23	166	92	235	(2)	255	(66)	57	844
Net income (loss) attributable to the Bank's shareholders	173	43	308	169	438	(5)	485	(246)	133	1,498
Balance as at June 30 2017										
Loans to the public, gross	110,049	490	52,524	25,255	54,755	2,090	-	-	22,576	267,739
Deposits by the Public	111,450	29,014	40,261	31,449	47,115	59,142	-	-	24,335	342,766
Assets under management	77,610	51,181	29,669	16,918	80,717	588,652	36,711	-	18,639	900,097
For the year ended December 31 2017										
In NIS millions										
	Activity in Israel								Foreign operations	Total
	House-holds	Private banking	Small-and micro busi-nesses	Mid-sized busi-nesses	Corpora-tions	Institu-tional entities	Financial manage-ment	Other		
Interest income, net	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
Expenses (income) in respect of loan losses	178	1	255	(20)	(298)	2	-	-	54	172
Total operating and other expenses	3,890	130	1,444	518	541	264	180	699	835	8,501
Profit (loss) before tax	307	136	963	501	1,601	(15)	1,285	(329)	352	4,801
Tax expenses (benefit)	84	48	336	177	558	(4)	432	(90)	151	1,692
Net income (loss) attributable to the Bank's shareholders	192	88	626	324	1,042	(11)	945	(236)	202	3,172
Balance as at December 31 2017										
Loans to the public, gross	108,523	540	54,323	25,728	56,449	2,087	-	-	23,507	271,157
Deposits by 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

Main Investee Companies

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

The Bank's total investment in investee companies (including in capital notes) was NIS 11.4 billion as at June 30 2018, compared with NIS 11.5 billion as at December 31 2017, with the investee companies contributing NIS 382 billion to the Group's net income in the first half of 2018, compared with a net income of NIS 242 million in the corresponding period last year.

Consolidated Companies in Israel

The Bank's total investment (including by way of capital notes) in its Israeli consolidated subsidiaries was NIS 7,297 million as at June 30 2018, compared with NIS 7,166 million as at December 31 2017. Their subsidiaries' contribution to the Group's net income in the first half of 2018 was NIS 156 million, compared with NIS 160 million in the corresponding period last year, a 2.5% decrease. The Group's return on investment in the Israeli consolidated subsidiaries was 5.1% in the first half of 2018, compared with 5.5% in the corresponding period last year.

Leumi Card Ltd.

The Bank holds, through wholly-owned corporations, 80% of Leumi Card Ltd. (hereinafter: "Leumi Card" or the "Company") with the Azrieli Group holding 20% of the Company's shares.

Pursuant to the Law for Increasing Competition and Reducing Concentration in Israel's Banking Market (Amendments), 2017, the Bank is required to sell its stake in the Company by February 1 2020.

The Company's Sale

On July 28 2018, pursuant to the provisions of the said Law and after weighing the various alternatives, and following a process for the sale of the Bank's holdings in the Company, an agreement was signed between the Bank and Azrieli (hereinafter: the "Sellers") and Warburg Pincus Financial Holdings (Israel LTD.), a corporation under the control of investment fund Warburg Pincus (hereinafter: the "Acquirer"), for the sale of the Bank's entire interests in Leumi Card.

Following are the main points of the agreement:

1. The consideration to be paid to the Sellers for their entire holdings in Leumi Card is NIS 2.5 billion (with the Bank's share being NIS 2 billion).
2. Except for adjustment in respect of dividend distribution, if Leumi Card shall distribute dividends to its shareholders before the transaction has been finalized, the consideration amount shall not be adjusted.
3. The consideration shall be paid in three installments. The two deferred payments, which shall be made following the completion date, shall be secured by way of an autonomous bank guarantee (or similar autonomous guarantee issued by an insurer), which shall be provided to the Sellers to secure the payments, as aforesaid:
The installments shall be as follows:
 - A total of NIS 1,047 million shall be paid on completion of the transaction.
 - A total of NIS 342 million shall be paid 12 months after the transaction has been completed.
 - A total of NIS 1,111 million shall be paid within 24 months of finalizing the transaction.
4. The agreement includes several preconditions, including obtaining the regulatory approvals required by law. A period of three months was set for meeting the preconditions, with an extension option [extension by 3 additional months at any of the parties' request, following which the Bank alone shall be entitled to extend the period by three additional months. In addition, a mechanism was set to shorten the period and cancel the agreement in the event that it becomes apparent that the regulatory approvals are not likely to be obtained. If the transaction is not completed by December 31 2018, the consideration amount shall bear an annual interest rate of 8% from January 1 2019 until the transaction has been completed.
5. The agreement includes representations as is customary in company sale transactions as well as a reimbursement mechanism in respect of breach of representations. The reimbursement mechanism determines a 1.5% minimum for activating the mechanism and is restricted to a maximum total

reimbursement rate of 10% of the transaction amount (excluding in respect of breach of material representations or in case of fraud).

6. The agreement includes an appendix describing the main financing terms and conditions the Bank has agreed to grant Leumi Card for its ongoing activity, after the completion of the transaction. The actual granting of financing is subject to entering a separate agreement between Leumi Card and the Bank, after obtaining the approval of the authorized company organs at Bank Leumi and the Company.

As part of the negotiations with the Acquirer, the Bank has agreed to include several terms and conditions in the operating agreement to be signed between the Bank and Leumi Card (hereinafter: the "Operational Agreement"). In exchange to the Bank's agreement to include these conditions, the Bank shall be paid - six years from the effective date of the operating agreement - a total of NIS 50 million to NIS 128 million.

Subject to overachieving the results of Leumi Card outlined in the business model presented to the acquirer as part of the sale procedure, the Bank shall be paid - five years after the operation agreement came into effect - a total of NIS 145 million. Under certain circumstances, provided the Bank shall be eligible for the additional payment, the said payment may be postponed for a period of up to two years, and shall bear interest.

The Acquirer granted Leumi Partners, a wholly-owned subsidiary of the Bank, an option to acquire up to 20% of the corporation through which the Acquirer shall acquire Leumi Card, under the same terms and conditions in which the Acquirer shall acquire Leumi Card provided that were the option to be exercised, Leumi Partner's holding would be a passive financial holding, with no influence on directing the activity of the company. As aforesaid, the exercise of the option is subject, inter alia, to obtaining the required regulatory approvals. The exercise or non-exercise of said option or completion of the transaction in accordance with the option shall have no effect on the execution of Leumi Card's sale agreement.

Subject to the completion of the transaction and under the assumption that the sale shall meet the necessary terms and condition for accounting recognition at the completion date, following the receipt of autonomous bank guarantee for the postponed payments, and taking into account the transaction costs, the Bank is expected to record a post-tax profit of NIS 234 million.

On August 1 2018, the Supervisor of Banks notified the Bank that the Bank of Israel opposes the exercise of the option given to Leumi Partners to acquire an additional 20% of the corporation through which the buyer shall acquire Leumi Card. The non-exercise of said option shall have no effect on the execution of Leumi Card's sale agreement.

As aforesaid, the completion of the agreement is subject to meeting various preconditions.

On July 23 2018, Leumi Card filed with the Israel Securities Authority a second draft of an IPO prospectus, shelf prospectus and offer of sale.

For more information regarding preparations for the application of the Law for Increasing Competition and Reducing Concentration in Israel's Banking Market (Legislative Amendments), 2017, please see the 2017 Annual Financial Statements section entitled "Main Investee Companies", Leumi Card and in Note 10.

Regulation

From April to August 2018, various directives regarding debit cards were published, including in respect of clearing dates of debit card transactions.

For more information, please see the section entitled "Laws and Regulations Governing the Banking System".

Agreement to Issue Credit Cards to Shufersal Customers

On August 29 2017, Shufersal Ltd. (hereinafter - "Shufersal") notified Leumi Card that it does not wish to renew the agreement for the issue of credit cards that has been in place since 2006 and, later on, Shufersal reported to the Tel Aviv Stock Exchange that it had signed a statement of principles with another company for the issue and operation of credit cards to the Shufersal club customers. Pursuant to the agreement between Shufersal and Leumi Card, the termination date of the agreement was January 18 2018, with Leumi Card continuing to operate the credit card club until the cards' expiry or cancellation by the customers, whichever the earlier.

As of March 31 2018, the number of valid credit cards held by Shufersal Club Members totaled 395 thousand cards.

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

[Labor Dispute](#)

On July 17 2018, Leumi Card was notified of a labor dispute in the Company by the National Federation of Labor in the Ramat Gan and Bnei Brak district.

[Leumi Partners Ltd.](#)

On July 25 2018, Leumi Partners Ltd. completed the sale of its entire stake in Avgol Industries 1953 Ltd. (hereinafter: the "Company") to Indorama Ventures Spain S.L. – a privately held company incorporated in Spain. The sold shares represent 14.96% of the equity and voting rights.

The Bank is expected to record a pre-tax profit of NIS 124 million from the sale in the financial statements of the third quarter of 2018.

Following the information about a transaction between Leumi Partners Ltd. and Direct Insurance Financial Investments Ltd. in the 2017 Annual Financial Statements, the transaction shall not be completed after the preconditions for the transactions failed to be met by July 31 2018.

[Bank Leumi of Israel Trust Company Ltd.](#)

On April 17 2018, the deal between the Bank and Hermetic for the sale of 75% of the Trust Company's shares was finalized. The finalized transaction is not expected to have a material effect on the financial results.

[Videa Investment Management of the Leumi Group Ltd.](#)

On June 17 2018, Videa Investment Management of the Leumi Group Ltd., a subsidiary wholly-owned by the Bank, received a license to manage investment portfolios from the Israel Securities Authority.

[Foreign Consolidated Companies](#)

The Bank's total investment (including by way of capital notes) in its foreign consolidated subsidiaries was NIS 4,021 million as at June 30 2018, compared with NIS 4,143 million as at the end of 2017.

The foreign offices' contribution to the NIS net income of the Group in the first half of 2018 amounted to NIS 224 million compared with NIS 81 million in the same period last year.

Regarding legal claims and other issues related to the consolidated companies, please see Note 10.

[Bank Leumi USA](#)

On January 22 2018, the Bank entered into an agreement to bring in two strategic partners to Bank Leumi USA (BLUSA). Under the agreement, each of the partners acquired 7.5% of the share capital of Bank Leumi Corporation - an American corporation through which the Bank controls BLUSA. On May 22 2018, the deal was finalized, after several preconditions set in the agreement were met. Under the terms and conditions of the agreement, the consideration paid for the sold shares was NIS 141 million. The transaction was accounted for as a capital transaction and the difference between the consideration and the minority interest in equity is recognized directly in equity. For more information, please see the immediate report dated May 22 2018.

[Bank Leumi Romania \(BLROM\)](#)

On June 14 2018, Leumi signed a binding agreement with British investment fund Argo Capital Management Limited for the sale of the Bank's entire holdings in Bank Leumi Romania. The finalization of the transaction is subject to several preconditions, including regulatory approvals. The transaction is not expected to have a material effect on the Bank's financial results. For more information, please see the immediate report dated June 14 2018.

Risk Exposure and Management Thereof

This section was written in great detail in the 2017 Report of the Board of Directors and Management and the 2017 Risk Management Report and should therefore be read in conjunction with the respective sections in the abovementioned reports.

Managing risks and maximizing returns against them are fundamental to the Bank's business activity. The key risks managed by the Bank are financial ones: credit risks - which are integral to the Bank's core business, as well as market and liquidity risks. In addition to the business risks, the Bank's activity gives rise to related risks, the management of which is a precondition for meeting the Group's ongoing and long-term objectives. These risks include operational risks, such as technological and cyber risks, legal risks, regulatory risks, reputation risks, compliance risks, conduct risks and strategic risk.

The main objectives of Leumi's risk management are: to maintain the Group's stability and support the achievement of its business goals. These objectives are achieved while meeting the predefined risk appetite, the policy and the limitations deriving therefrom, which form the boundaries for the Bank's business activity. This framework is managed subject to adequate control and reporting mechanisms. The Bank continually upgrades its risk management infrastructure and analyzes the risk outlook, to enable informed decision-making.

During the reporting period there were no changes in the severity of the risk factors in relation to the table published in the 2017 Annual Financial Statements.

Credit Risk

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

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

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

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

The Group-level credit and credit risk policy paper is the primary expression of the Bank's credit risk strategy, outlining the Bank's framework and overarching principles for the Bank's policy papers as well as those of each of its subsidiaries, in Israel and abroad. In addition, the paper includes the credit restrictions defined and managed at the Group level.

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

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

For more information regarding the developments in the credit portfolio and quality indicators characterizing the portfolio, please see the next section and the Risk Management Report.

Problem Credit Risk and Non-Performing Assets

	June 30 2018		
	Balance-sheet	Off balance-sheet	Total
	In NIS millions		
1. Problem debt risk:^(a)			
Impaired credit risk	2,747	215	2,962
Substandard credit risk	590	28	618
Credit risk under special supervision ^(b)	3,153	771	3,924
Less problem loan risk of outstanding balances classified as held for sale assets ^(c)	(387)	(8)	(395)
Total problem credit risk	6,103	1,006	7,109
Of which: Unimpaired debts in arrears of 90 days or more ^(b)	966	-	966
2. Non-performing assets:			
Impaired debts	2,372	-	2,372
Assets received in respect of settled loan	10	-	10
Less impaired debts of balances classified as held for sale assets ^(c)	(40)	-	(40)
Total non-performing assets	2,342	-	2,342
	June 30 2017		
	Balance sheet ^(d)	Off balance-sheet	Total
	In NIS millions		
1. Problem debt risk:^(a)			
Impaired credit risk	3,834	306	4,140
Substandard credit risk	939	88	1,027
Credit risk under special supervision ^(b)	2,895	1,330	4,225
Total problem credit risk	7,668	1,724	9,392
Of which: Unimpaired debts in arrears of 90 days or more ^(b)	846	-	846
2. Non-performing assets:			
Impaired debts	3,331	-	3,331
Assets received in respect of settled loan	9	-	9
Total non-performing assets	3,340	-	3,340
	December 31 2017		
	Balance sheet ^(d)	Off balance-sheet	Total
	In NIS millions		
1. Problem debt risk:^(a)			
Impaired credit risk	3,318	253	3,571
Substandard credit risk	894	52	946
Credit risk under special supervision ^(b)	2,944	950	3,894
Total problem credit risk	7,156	1,255	8,411
Of which: Unimpaired debts in arrears of 90 days or more ^(b)	863	-	863
2. Non-performing assets:			
Impaired debts	2,590	-	2,590
Assets received in respect of settled loan	13	-	13
Total non-performing assets	2,603	-	2,603

Note: Balance-sheet and off-balance-sheet credit risk is stated before the effect of loan loss provision and the effect of collateral that is deductible for the purpose of specific and general indebtedness.

(a) Risk in respect of impaired, substandard or special supervision loans.

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

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

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

Following is a Breakdown of Credit Risk Indicators

	June 30	December 31	
	2018 ^(a)	2017 ^(b)	2017 ^(b)
	In %		
Percentage of impaired loans to the public out of outstanding loans to the public	1.00	1.43	1.22
Percentage of unimpaired loans to the public in arrears of 90 days or more out of outstanding loans to the public	0.35	0.32	0.32
Percentage of problem loan risk in respect of the public out of total credit risk to the public	1.84	2.38	2.11
Percentage of impaired non-performing loans (NPLs) out of total credit to the public	0.86	1.24	0.96
Percentage of expenses in respect of loan losses out of the average outstanding balance of loans to the public	0.04	0.05	0.06
Percentage of net write-offs in respect of loans to the public from the outstanding average balance of loans to the public	(0.03)	(0.13)	(0.15)

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

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

Following is a Breakdown of Credit Risk Indicators for Loan

	June 30	December 31	
	2018 ^(a)	2017 ^(b)	2017 ^(b)
	In %		
Percentage of loan loss provision in respect of loans to the public out of outstanding loans to the public	1.4	1.4	1.4
Percentage of loan loss provision in respect of loans to the public out of outstanding impaired loans to the public	136.9	97.4	111.4
Percentage of loan loss provision in respect of loans to the public out of outstanding impaired loans to the public and outstanding balance of loans to the public in arrears of at least 90 days	101.2	79.7	88.4
Percentage of net write-offs in respect of loans to the public out of the loan loss provision in respect of loans to the public	(2.3)	(9.4)	(11.1)

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

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

Credit Concentration

Credit Portfolio Diversification among Various Economic Sectors

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

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

Total Credit Risk to the Public by Economic Sector

June 30 2018										
Total credit risk ^(a)				Debts ^(b) and off-balance sheet credit risk (excluding derivatives) ^(c)						
	Credit rating ^(f)	Problem ^(e)	Total ¹	¹ Of which:			Loan losses ^(d)			
				Debts ^(b)	Problem ^(e)	Impaired	Expenses (income) in respect of loan losses	Net write-offs	Balance of loan loss provision	
In NIS millions										
In respect of borrower activity in Israel - Public-commercial										
Agriculture	2,160	2,081	79	2,159	1,814	79	46	(19)	(3)	(40)
Mining and quarrying	995	994	1	906	345	1	1	(2)	-	(1)
Industry	23,429	22,650	779	23,128	15,454	779	413	(59)	(61)	(425)
Construction & real estate - construction ^(g)	50,659	49,852	807	50,528	19,870	807	302	(30)	(8)	(319)
Construction & real estate – real estate activity	28,739	28,131	608	28,604	25,221	608	402	(48)	(54)	(377)
Power and water supply	4,368	3,959	409	4,286	3,268	409	226	36	1	(88)
Trade	29,332	28,593	739	29,196	23,986	741	314	39	61	(286)
Hotels, accommodation and food services	3,254	3,103	151	3,232	2,786	151	132	18	1	(44)
Transportation and storage	7,818	7,462	356	7,762	6,237	349	54	9	12	(58)
Communications and IT services	5,619	5,551	68	5,300	3,773	68	31	(6)	(2)	(35)
Financial services	25,784	25,765	19	13,884	10,739	19	10	(7)	1	(176)
Business and other services	10,698	10,483	215	10,662	7,497	215	85	35	20	(170)
Public and community services	9,210	9,129	81	9,181	7,593	81	35	6	8	(60)
Commercial - Total^(h)	202,065	197,753	4,312	188,828	128,583	4,307	2,051	(28)	(24)	(2,079)
Individuals - housing loans	80,535	79,771	764	80,534	78,855	764	-	17	1	(461)
Individuals - other	64,639	63,721	918	64,633	36,213	918	302	126	77	(811)
Less balances classified as held-for-sale assets ⁽ⁱ⁾	(19,257)	(18,862)	(395)	(19,257)	(8,037)	(395)	(41)	-	-	158
Total loans to the public - Activity in Israel	327,982	322,383	5,599	314,738	235,614	5,594	2,312	115	54	(3,193)
Banks in Israel	3,364	3,364	-	1,050	967	-	-	(2)	-	(1)
Less balances classified as held for sale assets ⁽ⁱ⁾	(32)	(32)	-	(32)	(32)	-	-	-	-	-
Banks in Israel - Total	3,332	3,332	-	1,018	935	-	-	(2)	-	(1)
Government of Israel	45,759	45,759	-	76	76	-	-	-	-	-
Total Activity, Israel	377,073	371,474	5,599	315,832	236,625	5,594	2,312	113	54	(3,194)

(a) Balance-sheet credit risk and off-balance-sheet credit risk, including for derivatives. Including debt, bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivatives and credit risk embodied in off-balance-sheet financial instruments, as calculated for the purpose of per-borrower credit limitations in the amounts of NIS 236,626, 45,289, 931, 5,621 and 88,606 million, respectively.

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

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

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

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

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

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

(h) Outstanding balance of commercial debt includes housing loans in the amount of NIS 1,087 million extended to purchasing groups in the process of construction.

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

Total Credit Risk to the Public by Economic Sector (cont.)

June 30 2018										
Total credit risk ^(a)			Debts ^(b) and off-balance sheet credit risk (excluding derivatives) ^(c)							
			¹ Of which:					Loan losses ^(d)		
Total	Credit rating ^(f)	Problem ^(e)	Total ¹	Debts ^(b)	Problem ^(e)	Impaired	Expenses (income) in respect of loan losses	Net write-offs	Balance of loan loss provision	
In NIS millions										
In respect of borrower activity abroad - Public-commercial										
Agriculture	74	74	-	74	43	-	-	(1)	-	(1)
Mining and quarrying	104	104	-	104	31	-	-	-	-	-
Industry	8,350	8,013	337	6,652	4,525	337	37	-	(1)	(36)
Construction and real estate ^(g)	14,800	14,118	682	14,312	11,026	682	333	(11)	19	(137)
Power and water supply	370	370	-	78	16	-	-	-	-	-
Trade	6,361	6,350	11	5,995	4,351	11	4	3	11	(62)
Hotels, accommodation and food services	2,217	2,214	3	2,200	2,145	3	-	(3)	-	(15)
Transportation and storage	85	69	16	69	57	16	15	5	6	(22)
Communications and IT services	2,588	2,512	76	2,120	1,045	76	19	5	-	(26)
Financial services	17,147	17,070	77	2,228	1,440	77	77	(2)	-	(44)
Business and other services	7,149	6,906	243	6,208	5,468	243	84	8	(2)	(30)
Public and community services	589	589	-	579	407	-	-	(1)	-	(17)
Commercial, Total	59,834	58,389	1,445	40,619	30,554	1,445	569	3	33	(390)
Individuals -										
housing loans	506	475	31	505	505	31	31	-	-	(6)
Individuals - Other	710	676	34	709	651	34	5	-	-	(5)
Total loans to the public - Activity overseas										
	61,050	59,540	1,510	41,833	31,710	1,510	605	3	33	(401)
Foreign banks	34,313	34,313	-	10,985	10,064	-	-	-	-	-
Less balances classified as held for sale assets ^(h)	(2)	(2)	-	(2)	(2)	-	-	-	-	-
Foreign banks - Total	34,311	34,311	-	10,983	10,062	-	-	-	-	-
Foreign governments	9,985	9,985	-	1,135	681	-	-	-	-	-
Total activity outside Israel	105,346	103,836	1,510	53,951	42,453	1,510	605	3	33	(401)
Total	482,419	475,310	7,109	369,783	279,078	7,104	2,917	116	87	(3,595)

- (a) Balance-sheet credit risk and off-balance-sheet credit risk, including for derivatives. Including debt, bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivatives and credit risk embodied in off-balance-sheet financial instruments, as calculated for the purpose of per-borrower credit limitations in the amounts of NIS 42,452, 33,594, -, 6,465 and 22,835 million, respectively.
- (b) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
- (c) Credit risk for off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations, excluding for derivatives.
- (d) Including for off-balance-sheet credit instruments (presented in the balance sheet under "Other liabilities").
- (e) Balance-sheet and off-balance sheet credit risk that is impaired, substandard or under special supervision, including housing loans for which there is allowance according to the delinquency period and housing loans for which there is no allowance based on the delinquency period which are in arrears of 90 days or more.
- (f) Credit risk whose credit rating at the reporting date matches the credit rating for granting new credit in accordance with the Bank's policy.
- (g) Including housing loans extended to certain purchasing groups currently in the process of construction.
- (h) For more information regarding the held-for-sale operation, please see the section entitled "Main Changes in the Reporting Period" and Note 16g.

Total Credit Risk to the Public by Economic Sector (cont.)

June 30 2017										
Total credit risk ^(a)			Debts ^(b) and off-balance sheet credit risk (excluding derivatives) ^(c)							
Total	Credit rating ^(f)	Problem ^(e)	Total ¹	¹ Of which:			Loan losses ^(d)			
				Debts ^(b)	Problem ^(e)	Impaired	Expenses (income) in respect of loan losses	Net write-offs	Balance of loan loss provision	
In NIS millions										
In respect of borrower activity in Israel - public-commercial										
Agriculture	2,185	2,036	149	2,183	1,875	149	83	4	6	(54)
Mining and quarrying	933	924	9	907	423	9	1	1	-	(1)
Industry	21,844	20,659	1,185	21,560	14,457	1,181	608	85	134	(458)
Construction & real estate - construction ^(g)	47,796	46,222	1,574	47,668	16,744	1,574	381	42	27	(340)
Construction & real estate - real estate activity	27,386	26,379	1,007	27,284	24,137	1,001	794	(54)	(24)	(400)
Power and water supply	4,795	4,435	360	4,349	3,242	360	253	2	1	(67)
Trade	28,434	27,392	1,042	28,259	23,332	1,031	285	25	52	(285)
Hotels, accommodation and food services	2,866	2,684	182	2,841	2,634	182	67	(6)	(7)	(27)
Transportation and storage	8,386	8,116	270	8,293	6,976	270	180	8	9	(39)
Communications and IT services	5,295	5,189	106	5,077	3,646	105	94	(3)	(2)	(69)
Financial services	20,765	20,425	340	14,793	10,767	338	334	(63)	(54)	(192)
Business and other services	9,335	9,157	178	9,312	6,652	178	89	13	22	(132)
Public and community services	8,452	8,374	78	8,429	7,254	78	39	6	7	(47)
Commercial - Total ^(h)	188,472	181,992	6,480	180,955	122,139	6,456	3,208	60	171	(2,111)
Individuals - housing loans	79,715	79,015	700	79,714	77,996	700	-	(11)	3	(450)
Individuals - Other	68,807	67,983	824	68,797	38,756	824	289	72	132	(745)
Total loans to the public - Activity in Israel	336,994	328,990	8,004	329,466	238,891	7,980	3,497	121	306	(3,306)
Banks in Israel	4,032	4,032	-	1,216	1,156	-	-	-	-	(1)
Government of Israel	45,204	45,204	-	154	154	-	-	-	-	-
Activity in Israel - Total	386,230	378,226	8,004	330,836	240,201	7,980	3,497	121	306	(3,307)

- (a) Balance-sheet credit risk and off-balance-sheet credit risk, including for derivatives. Including debt, bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivatives and credit risk embodied in off-balance-sheet financial instruments, as calculated for the purpose of per-borrower credit limitations in the amounts of NIS 240,200, 44,717, 1,031, 4,361 and 95,921 million, respectively.
- (b) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
- (c) Credit risk for off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations, excluding for derivatives.
- (d) Including for off-balance-sheet credit instruments (presented in the balance sheet under "Other liabilities").
- (e) Balance-sheet and off-balance sheet credit risk that is impaired, substandard or under special supervision, including housing loans for which there is allowance according to the delinquency period and housing loans for which there is no allowance based on the delinquency period which are in arrears of 90 days or more.
- (f) Credit risk whose credit rating at the reporting date matches the credit rating for granting new credit in accordance with the Bank's policy.
- (g) Including housing loans extended to certain purchasing groups currently in the process of construction.
- (h) Outstanding balance of commercial debt includes housing loans in the amount of NIS 945 million extended to purchasing groups in the process of construction.

Total Credit Risk to the Public by Economic Sector (cont.)

June 30 2017										
Total credit risk ^(a)			Debts ^(b) and off-balance sheet credit risk (excluding derivatives) ^(c)							
			¹ Of which:					Loan losses ^(d)		
								Expenses (income) in respect of loan losses	Net write-offs	Balance of loan loss provision
Total	Credit rating ^(f)	Problem ^(e)	Total ¹	Debts ^(b)	Problem ^(e)	Impaired				
In NIS millions										
In respect of borrower activity										
abroad - Public-commercial										
Agriculture	158	158	-	156	56	-	-	(1)	-	(1)
Mining and quarrying	9	9	-	9	4	-	-	-	-	-
Industry	8,028	7,750	278	6,638	4,331	278	89	(1)	2	(39)
Construction and real estate ^(g)	14,578	13,726	852	13,910	9,813	852	322	2	7	(173)
Power and water supply	223	223	-	79	23	-	-	-	-	-
Trade	6,051	6,019	32	5,858	3,858	32	28	19	3	(82)
Hotels, accommodation and food services	1,983	1,979	4	1,971	1,725	4	-	2	-	(12)
Transportation and storage	103	65	38	89	72	38	38	8	8	(13)
Communications and IT services	2,005	1,991	14	1,710	914	14	-	-	-	(1)
Financial services	15,485	15,398	87	2,253	1,416	87	87	(5)	13	(43)
Business and other services	5,756	5,725	31	5,441	5,196	31	21	-	9	(32)
Public and community services	798	791	7	795	478	7	7	-	-	(17)
Commercial - Total	55,177	53,834	1,343	38,909	27,886	1,343	592	24	42	(413)
Individuals - housing loans	501	472	29	501	500	29	28	(2)	1	(7)
Individuals - Other	540	524	16	539	462	16	16	-	-	(2)
Total loans to the public - Activity overseas	56,218	54,830	1,388	39,949	28,848	1,388	636	22	43	(422)
Foreign banks	26,514	26,514	-	8,226	8,180	-	-	-	-	-
Foreign governments	10,975	10,975	-	1,212	465	-	-	-	-	-
Total activity outside Israel	93,707	92,319	1,388	49,387	37,493	1,388	636	22	43	(422)
Total	479,937	470,545	9,392	380,223	277,694	9,368	4,133	143	349	(3,729)

- (a) Balance-sheet credit risk and off-balance-sheet credit risk, including for derivatives. Including debt, bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivatives and credit risk embodied in off-balance-sheet financial instruments, as calculated for the purpose of per-borrower credit limitations in the amounts of NIS 37,494, 30,575, -, 7,005 and 18,633 million, respectively.
- (b) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
- (c) Credit risk for off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations, excluding for derivatives.
- (d) Including for off-balance-sheet credit instruments (presented in the balance sheet under "Other liabilities").
- (e) Balance-sheet and off-balance sheet credit risk that is impaired, substandard or under special supervision, including housing loans for which there is allowance according to the delinquency period and housing loans for which there is no allowance based on the delinquency period which are in arrears of 90 days or more.
- (f) Credit risk whose credit rating at the reporting date matches the credit rating for granting new credit in accordance with the Bank's policy.
- (g) Including housing loans extended to certain purchasing groups currently in the process of construction.

Total Credit Risk to the Public by Economic Sector (cont.)

December 31 2017										
Total credit risk ^(a)			Debts ^(b) and off-balance sheet credit risk (excluding derivatives) ^(c)							
			1Of which:					Loan losses ^(d)		
								Expenses (income) in respect of loan losses	Net write-offs	Balance of loan loss provision
Total	Credit rating ^(f)	Problem ^(e)	Total ¹	Debts ^(b)	Problem ^(e)	Impaired				
In NIS millions										
In respect of borrower activity in Israel - public-commercial										
Agriculture	2,184	2,023	161	2,183	1,883	161	73	9	2	(57)
Mining and quarrying	959	958	1	932	514	1	-	-	-	(1)
Industry	23,004	21,991	1,013	22,771	14,956	1,010	578	104	147	(463)
Construction & real estate - construction ^(g)	49,685	48,458	1,227	49,624	18,932	1,227	335	72	47	(345)
Construction & real estate - real estate activity	27,695	26,917	778	27,612	24,439	778	645	(302)	(252)	(389)
Power and water supply	4,264	3,919	345	4,184	2,803	345	237	(7)	6	(54)
Trade	27,455	26,697	758	27,327	22,680	754	258	56	87	(278)
Hotels, accommodation and food services	3,232	3,071	161	3,206	2,753	161	58	(6)	(8)	(27)
Transportation and storage	8,160	7,685	475	8,099	6,792	468	167	38	22	(61)
Communications and IT services	5,169	5,100	69	4,964	3,582	68	58	(28)	3	(37)
Financial services	21,721	21,707	14	14,021	11,189	8	2	(76)	(56)	(188)
Business and other services	9,966	9,790	176	9,940	7,154	176	91	42	40	(147)
Public and community services	8,924	8,848	76	8,910	7,440	76	35	28	22	(58)
Commercial - Total^(h)	192,418	187,164	5,254	183,773	125,117	5,233	2,537	(70)	60	(2,105)
Individuals - housing loans	79,034	78,313	721	79,034	77,448	722	-	(10)	8	(443)
Individuals - Other	68,622	67,739	883	68,616	38,368	883	327	189	229	(763)
Total loans to the public - Activity in Israel	340,074	333,216	6,858	331,423	240,933	6,838	2,864	109	297	(3,311)
Banks in Israel	3,921	3,921	-	1,701	1,650	-	-	2	-	(3)
Government of Israel	41,161	41,161	-	129	129	-	-	-	-	-
Activity, Israel - Total	385,156	378,298	6,858	333,253	242,712	6,838	2,864	111	297	(3,314)

(a) Balance-sheet credit risk and off-balance-sheet credit risk, including for derivatives. Including debt, bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivatives and credit risk embodied in off-balance-sheet financial instruments, as calculated for the purpose of per-borrower credit limitations in the amounts of NIS 242,714, 40,102, 1,161, 3,286 and 97,893 million, respectively.

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

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

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

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

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

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

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

Total Credit Risk to the Public by Economic Sector (cont.)

December 31 2017										
Total credit risk ^(a)			Debts ^(b) and off-balance sheet credit risk (excluding derivatives) ^(c)							
			1Of which:					Loan losses ^(d)		
								Expenses (income) in respect of loan losses	Net write-offs	Balance of loan loss provision
Total	Credit rating ^(f)	Problem ^(e)	Total ¹	Debts ^(b)	Problem ^(e)	Impaired				
In NIS millions										
In respect of borrower activity										
abroad - Public-commercial										
Agriculture	100	100	-	98	60	-	-	-	-	(1)
Mining and quarrying	35	35	-	35	30	-	-	-	-	-
Industry	7,564	7,249	315	6,420	4,567	315	78	(5)	5	(32)
Construction and real estate ^(g)	14,223	13,313	910	13,496	9,748	910	431	19	80	(136)
Power and water supply	260	260	-	87	22	-	-	-	-	-
Trade	6,371	6,350	21	6,203	4,406	21	21	19	3	(71)
Hotels, accommodation and food services	2,250	2,250	-	2,234	2,056	-	-	5	1	(15)
Transportation and storage	84	63	21	67	50	21	21	18	8	(15)
Communications and IT services	1,829	1,808	21	1,596	875	21	21	8	-	(9)
Financial services	16,071	15,992	79	2,135	1,527	79	79	(5)	1	(43)
Business and other services	6,430	6,279	151	6,160	5,411	151	14	6	15	(28)
Public and community services	627	627	-	618	441	-	-	-	-	(17)
Commercial - Total	55,844	54,326	1,518	39,149	29,193	1,518	665	65	113	(367)
Individuals -										
housing loans	510	480	30	509	509	30	29	(3)	1	(7)
Individuals - Other	608	603	5	608	522	5	5	(1)	-	(4)
Total loans to the public - Activity										
overseas	56,962	55,409	1,553	40,266	30,224	1,553	699	61	114	(378)
Foreign banks	31,247	31,247	-	11,251	10,214	-	-	-	-	-
Foreign governments	12,047	12,047	-	1,210	586	-	-	-	-	-
Total activity outside Israel	100,256	98,703	1,553	52,727	41,024	1,553	699	61	114	(378)
Total	485,412	477,001	8,411	385,980	283,736	8,391	3,563	172	411	(3,692)

- (a) Balance-sheet credit risk and off-balance-sheet credit risk, including for derivatives. Including debt, bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivatives and credit risk embodied in off-balance-sheet financial instruments, as calculated for the purpose of per-borrower credit limitations in the amounts of NIS 41,022, 32,963, -, 6,294 and 19,977 million, respectively.
- (b) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
- (c) Credit risk for off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations, excluding for derivatives.
- (d) Including for off-balance-sheet credit instruments (presented in the balance sheet under "Other liabilities").
- (e) Balance-sheet and off-balance sheet credit risk that is impaired, substandard or under special supervision, including housing loans for which there is allowance according to the delinquency period and housing loans for which there is no allowance based on the delinquency period which are in arrears of 90 days or more.
- (f) Credit risk whose credit rating at the reporting date matches the credit rating for granting new credit in accordance with the Bank's policy.
- (g) Including housing loans extended to certain purchasing groups currently in the process of construction.

Activity and Risk Boundaries in the Construction and Real Estate Industry

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

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

The Bank's Construction and Real Estate Credit Distribution, by Credit to Individual Borrowers

		June 30	December 31	
		2018	2017	2017
		Outstanding loan balance		
Credit to a single borrower in NIS thousands		In NIS millions		
From	To			
-	300	2,081	1,698	1,777
300	600	1,876	1,768	1,846
600	1,200	2,744	2,963	3,012
1,200	2,000	2,355	2,385	2,338
2,000	4,000	3,481	3,398	3,483
4,000	8,000	4,461	4,255	4,309
8,000	20,000	6,605	6,583	6,614
20,000	40,000	6,876	5,944	6,624
40,000	200,000	22,523	22,894	22,504
200,000	400,000	11,776	10,936	12,752
400,000	800,000	11,165	12,473	11,520
800,000	1,200,000	5,632	3,976	3,045
1,200,000	1,600,000	1,332	-	1,232
Total		82,907	79,273	81,056

Borrower group¹

Restrictions on Indebtedness of a Borrower and a Group of Borrowers

- As at June 30 2018, the Group has no credit exposure to a borrower group whose indebtedness exceeds 15% of the Bank's share capital (as defined by Proper Conduct of Banking Business Directive No. 313).
- As at June 30 2018, the Group has no credit exposure to large borrowers and bank borrower groups whose indebtedness exceeds 10% of the Bank's share capital. The aggregate regulatory limit for these exposures is 120% of the Bank's capital.

¹ A borrower group is all of the following: The borrower, a person controlling the borrower and anyone controlled by that person or borrower, excluding banks. If a corporation is controlled by more than one person, it is necessary to include in the same group of borrowers the controlling parties for which the controlled corporation is material (such as from a capital standpoint), including the corporation or any other entity under their control. If a corporation is held by more than one person, the owners should include a non-controlling party, for whom the banking corporation is material (e.g. from a capital standpoint), with the owned corporation and any other entity controlled by the owners in a single group of borrowers. Borrowers that are associated with the investee in such a manner that harming the financial stability of any one of them could affect the financial stability of the other or that the same factors could affect the financial stability of both.

Exposure to Foreign Countries

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

June 30 2018							
Balance sheet exposure ^(a)							
Country	Cross-border balance sheet exposure			Balance-sheet exposure of the banking corporation's foreign offices to local residents			
				Balance sheet exposure before deduction of local liabilities	Deduction for local liabilities	Net balance sheet exposure after deduction of local liabilities	
	To governments ^(c)	To banks	To others				
In NIS millions							
United States	2,936	2,192	13,483	23,079	12,473	10,606	
UK	338	5,311	2,663	5,801	1,763	4,038	
France	2,221	1,067	299	-	-	-	
Switzerland	-	843	636	22	22	-	
Germany	542	4,151	238	-	-	-	
Others	2,887	5,960	5,018	1,074	568	506	
Total exposure to foreign countries ^(e)	8,924	19,524	22,337	29,976	14,826	15,150	
Total exposure to LDC countries	332	1,424	1,107	1,063	563	500	
Total exposure to the GIPS countries ^(d)	470	71	165	-	-	-	

June 30 2018							
Balance sheet exposure ^(a)				Off-balance-sheet exposure ^{(a)(b)}			
Country				Cross-border balance sheet exposure			
				Repayment period			
	Total balance sheet exposure	Problem balance-sheet credit risk	Of which: Outstanding balance of impaired debts	Of which: Total off balance-sheet exposure	Of which: Off balance-sheet problem credit risk	Up to 12 months	More than 12 months
In NIS millions							
United States	29,217	1,010	393	6,533	-	6,230	12,381
UK	12,350	183	124	9,052	88	4,494	3,818
France	3,587	13	12	1,846	-	2,712	875
Switzerland	1,479	88	-	1,849	-	845	634
Germany	4,931	45	-	1,967	-	2,900	2,031
Others	14,371	105	92	2,617	-	5,469	8,396
Total exposure to foreign countries	65,935	1,444	621	23,864	88	22,650	28,135
Total exposure to LDC countries	3,363	77	75	1,448	-	337	2,526
Total exposure to the GIPS countries ^(d)	706	-	-	234	-	378	328

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

Country	June 30 2017					
	Balance sheet exposure ^(a)					
	Cross-border balance sheet exposure			Balance-sheet exposure of the banking corporation's foreign offices to local residents		
				Balance sheet exposure before deduction of local liabilities	Deduction for local liabilities	Net balance sheet exposure after deduction of local liabilities
	To government ^(c)	To banks	To others			
In NIS millions						
United States	3,696	2,413	9,962	22,066	11,049	11,017
UK	175	3,184	3,382	6,155	1,668	4,487
France	2,237	1,090	282	-	-	-
Switzerland	-	568	504	62	62	-
Germany	428	3,211	370	-	-	-
Others	2,801	5,230	5,758	1,054	524	530
Total exposure to foreign countries	9,337	15,696	20,258	29,337	13,303	16,034
Total exposure to LDC countries	212	1,134	877	1,040	520	520
Total exposure to the GIPS countries ^(d)	319	10	186	-	-	-

Country	June 30 2017						
	Balance sheet exposure ^(a)			Off-balance-sheet exposure ^{(a)(b)}			
				Cross-border balance sheet exposure			
				Repayment period			
	Total balance sheet exposure	Problem balance-sheet credit risk	Of which: Outstanding balance of impaired debts	Total off balance-sheet exposure	Of which: Off balance-sheet problem credit risk	Up to 12 months	More than 12 months
In NIS millions							
United States	27,088	1,093	338	7,243	-	4,830	11,241
UK	11,228	181	181	5,924	-	2,849	3,892
France	3,609	13	13	2,036	-	2,660	949
Switzerland	1,072	-	-	1,933	-	535	537
Germany	4,009	-	-	2,087	-	1,496	2,513
Others	14,319	118	107	2,844	-	7,172	6,617
Total exposure to foreign countries	61,325	1,405	639	22,067	-	19,542	25,749
Total exposure to LDC countries	2,743	102	100	2,013	-	452	1,771
Total exposure to the GIPS countries ^(d)	515	-	-	198	-	446	69

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

	December 31 2017					
	Balance sheet exposure ^(a)					
	Cross-border balance sheet exposure			Balance-sheet exposure of the banking corporation's foreign offices to local residents		
				Balance sheet exposure before deduction of local liabilities	Deduction for local liabilities	Net balance sheet exposure after deduction of local liabilities
	To govern-ments ^(c)	To banks	To others			
In NIS millions						
Country						
United States	7,668	1,461	11,073	23,080	12,345	10,735
UK	174	4,534	2,901	6,031	1,729	4,302
France	1,624	1,012	210	-	-	-
Switzerland	92	710	554	44	41	3
Germany	334	2,950	674	-	-	-
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 the GIPS countries ^(d)	470	74	231	-	-	-

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

- (a) Balance-sheet and off-balance-sheet credit risk, problem commercial credit risk and impaired debts are stated before the effect of the provision for loan losses and the effect of collateral that is deductible for the purpose of specific and general indebtedness and before the effect of bilateral offsetting for derivatives.
- (b) Credit risk for off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations, before the effect of bilateral offsetting for derivatives.
- (c) Including governments, public institutions, and central banks.
- (d) Exposure to the GIPS countries includes: Portugal, Italy, Greece and Spain.
- (e) Including balances classified as held for sale assets in the amount of NIS 2 million.

Notes:

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

Part B - As at June 30 2018 and for comparative periods, there is no aggregate balance sheet exposure to foreign countries, the total exposure to each of which ranges between 0.75% and 1% of total consolidated assets or between 15% and 20% of equity, whichever the lower.

Part C - The total exposure amount to foreign countries with liquidity issues as defined by the Bank of Israel (a country receiving financial support from the IMF or whose commitments are rated CCC or lower) amounts to NIS 538 million in respect of 8 countries (on June 30 2017 - NIS 697 million in respect of 10 countries and as at December 31 2017 - NIS 610 million in respect of 9 countries).

Credit Exposure to Foreign Financial Institutions

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

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

Following is the Credit Exposure to Foreign Financial Institutions^(a):

	As at June 30 2018		
	Balance sheet	Current off	Current credit
	risk ^(b)	balance-sheet	
		credit risk ^(c)	risk
	In NIS millions		
Current credit risk to foreign financial institutions ^(d)			
AA- to AAA	15,363	828	16,191
A- to A+	4,519	639	5,158
BBB- to BBB+	361	221	582
B- to BB+	27	10	37
Lower than: B-	1	-	1
No credit rating	426	-	426
Total current credit risk to foreign financial institutions ^(e)	20,697	1,698	22,395
Problem Credit Risk	-	-	-

As at June 30 2017			
	Balance sheet risk ^(b)	Current off balance-sheet credit risk ^(c)	Current credit risk
In NIS millions			
Current credit risk to foreign financial institutions^(d)			
AA- to AAA	12,912	913	13,825
A- to A+	3,784	671	4,455
BBB- to BBB+	276	221	497
B- to BB+	4	16	20
Lower than: B-	11	1	12
No credit rating	201	-	201
Total current credit exposure to foreign financial institutions	17,188	1,822	19,010
Problem Credit Risk	-	-	-
As at December 31 2017			
	Balance sheet risk ^(b)	Current off balance-sheet credit risk ^(c)	Current credit risk
In NIS millions			
Current credit risk to foreign financial institutions^(d)			
AA- to AAA	14,983	913	15,896
A- to A+	3,747	613	4,360
BBB- to BBB+	281	298	579
B- to BB+	10	11	21
Lower than: B-	14	18	32
No credit rating	396	1	397
Total current credit exposure to foreign financial institutions	19,431	1,854	21,285
Problem Credit Risk	-	-	-

(a) Foreign financial institutions include the following: banks, investment banks, brokers/dealers, insurers and institutional entities.

(b) Deposits with banks, credit to the public, securities borrowed or bought under agreements to resell, other assets in respect of derivatives (fair value of derivatives), and investments in bonds, including bonds of banks rated "subordinated" total NIS 319 million as at June 30 2018 (on June 30 2017 - NIS 321 million and on December 31 2017 - NIS 253 million).

(c) Mainly guarantees and commitments to extend credit (excluding off-balance-sheet derivatives).

(d) To rate the foreign financial institutions to which it has credit exposure, the Bank relies solely on the ratings of Moody's and S&P.

(e) Including balances classified as held for sale assets and liabilities in the amount of NIS 2 million.

Comments:

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

Housing Loan Portfolio Risks

Credit Risk Developments

During the reporting period, credit performance in respect of housing loan applications in Israel increased both for residential and investment purposes.

Following trends in recent years, and to ensure effective risk management, the Banks monitors its housing loan portfolio on a regular basis, while analyzing trends in risk characteristics and concentrations, placing main emphasis on the following: loan-to-value (LTV) ratios, monthly repayment capacity, credit ratings under the Bank's internal statistical model.

The Bank adheres to a balanced underwriting policy that takes into account the borrower's repayment capacity, loan-to-value ratio, linkage base and interest, etc., in compliance with all the requirements of the Banking Supervision Department.

The Bank also extends individual housing loans to members of housing purchase groups. Extending loans to members of housing purchase groups provides a response to market demand by private organizations, non-profits, historic landowners, etc. From a risk standpoint, the loans are extended to various, geographically diversified, populations following close scrutiny of each borrower's repayment capacity.

Following are Data on the Performance of New Loans and Refinancing Loans for the Purchase of Residential Apartments with Mortgaging of Residential Apartments in Israel

	For the six months ended June 30		Rate of change
	2018	2017	
	In NIS millions		In %
Out of the Bank's funds	5,727	3,845	48.9
By the government of Israel:			
Directed loans	45	12	+
Non-recourse loans	7	4	75.0
Total new loans	5,779	3,861	49.7
Recycled loans	914	473	93.2
Total performance	6,693	4,334	54.4

Disclosure on Housing Loans

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

Development of Total Outstanding Housing Loans in Israel, net

	Outstanding balance of loan portfolio	Rate of change
	In NIS millions	In %
December 31 2016	78,184	(2.4)
December 31 2017	77,005	(1.5)
June 30 2018	78,397	1.8

During the reporting period, there was a slight increase in the amount of housing loans granted by the Bank.

Data on New Housing Loans in Israel

During the reporting period, the Bank granted new housing loans in the amount of NIS 5.7 billion from its own resources. During 2017, the Bank granted new housing loans in the amount of NIS 8.3 billion from its own resources.

The average loan extended by the Bank during the reporting period was NIS 726 thousand, compared with NIS 529 thousand in 2017 and NIS 555 in 2016.

It should be noted that on December 31 2017, the Bank's joint loan venture with Harel (hereinafter: "Joint Venture") came to an end. The data for 2017 and 2016 relate to the Bank's exposure during the Joint Venture period and do not take into account the customers' exposure, which was higher (in 2017, the average customer exposure was NIS 708 thousand). Following the end of the Joint Venture in the first quarter of 2018, the customer's exposure is identical to the Bank's.

Net Development of Total Outstanding Housing Loans in Israel, by Linkage Type

	Unlinked In NIS millions	% of the loans portfolio In %	CPI-linked In NIS millions	% of the loans portfolio In %	Foreign currency In NIS millions	% of the loans portfolio In %	Portfolio - Total In NIS millions
December 31 2016	44,955	57.5	31,986	40.9	1,243	1.6	78,184
December 31 2017	45,588	59.2	30,407	39.5	1,010	1.3	77,005
June 30 2018	46,760	59.6	30,630	39.1	1,007	1.3	78,397

Net Development of the Outstanding Housing Loans Portfolio, in Israel, by Variable and Fixed Interest

	Fixed		Variable		Foreign currency	Total loan portfolio
	Unlinked In NIS millions	Linked	Unlinked	Linked		
December 31 2016	13,706	11,792	31,249	20,194	1,243	78,184
December 31 2017	13,858	12,002	31,730	18,405	1,010	77,005
June 30 2018	14,069	12,352	32,691	18,278	1,007	78,397

Development of New Housing Loans by Interest Track, in Israel

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

	2018		2017		2016		
	Q2	Q1	Q4	Q3	Q2	Q1	Annual average
	Rate of performance						
	In %						
Fixed - linked	15.8	15.0	13.9	15.9	15.1	16.6	18.7
Variable every 5 years or more - linked	16.6	15.6	15.7	16.9	16.8	16.1	13.3
Variable up to 5 years - linked	0.1	-	0.1	0.1	0.1	0.2	0.6
Fixed - Unlinked	28.8	31.3	31.8	28.5	30.0	28.0	30.2
Variable every 5 or more years - Unlinked	5.9	6.3	7.0	6.4	7.0	7.3	7.7
Variable up to 5 years - unlinked	32.7	31.2	31.0	32.0	30.8	31.2	29.2
Variable - foreign currency	0.1	0.6	0.5	0.2	0.2	0.6	0.3

The percentage of new variable-interest housing loans granted by the Bank during the reporting period was 54.6%, compared with 55.0% in 2017. The data refer to all variable interest tracks and the various linkage segments, including loans in which the interest rate changes every five years or more. Excluding loans in which the variable interest rate changes every 5 or more years - which do not qualify as a variable interest loan under the Banking Supervision Department's directive - the percentage of variable-rate housing loans extended during the reporting period is 32.4% compared to 31.7% in the entire 2017.

Following is the Balance of Outstanding Housing Loans and the Outstanding Loans in Arrears of over 90 days, in Israel

	Recorded outstanding debt	Amount in arrears	% of amount in arrears
	In NIS millions		In %
December 31 2016	78,645	719	0.9
December 31 2017	77,448	722	0.9
June 30 2018	78,855	764	1.0

As of June 30 2018, the loan loss provision, which includes the general provision for housing loans, is NIS 458 million, constituting 0.58% of the housing loans' outstanding balance (compared with NIS 443 million as at December 31 2017), which constitutes 0.57% of the outstanding housing loans.

Development of New Outstanding Credit Granted in Israel at a Loan-To-Value Ratio of over 60%

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

	2018		2017				2016
	Q2	Q1	Q4	Q3	Q2	Q1	Annual average
LTV ratio	In % ^(a)						
Over 60 to 70, inclusive	18.0	18.0	19.8	19.8	16.9	15.7	16.1
Over 70 to 80, inclusive	16.3	13.0	16.8	15.9	17.8	14.3	14.7
Over 80	0.05	0.20	0.17	0.08	0.04	0.10	0.12

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

On March 15 2018, Section 72 to Directive 203 of the Bank of Israel was amended, so that the capital allocation for housing loans granted from that date – with a loan to value ratio of 60% or more – was reduced from 75% to 60%.

Development of the Loan-to-Value (LTV) Ratio, Outstanding Loans Portfolio in Israel

The average LTV ratio per the loan portfolio's outstanding balance stood at 45.8% as at June 30 2018 compared with 46.0% in 2017.

Development of New Loans, in which the Repayment Ratio is Lower than 2.5, in Israel

The percentage of loans with a repayment ratio of less than 2.5 on the loan approval date in the reporting period was 0.4% of the total number of new loans granted, compared to 1.4% in 2017.

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

Development of New Loans, for which the Repayment Dates Are Longer than 25 years in Israel

The percentage of new housing loans, the repayment of which is longer than 25 years under the loan agreements, stood during the reporting period at an average of 35.7% of the new loans granted as compared with an average of 34.9% during 2017 and 35.9% in 2016.

Credit Risk in respect of Loans to Individuals (Excluding Housing Loans)

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

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

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

Following are Developments in outstanding Credit Risk in respect of Loans to Individuals (in Israel, Excluding Housing Loans)

	Balance of credit risk
	In NIS millions
December 31 2016	49,987
December 31 2017	48,477
June 30 2018	46,077

Following is a Distribution of the Balance Sheet Credit Risk in respect of Loans to Individuals, by Remaining Loan Period (in Israel, Excluding Housing Loans)

	June 30 2018		December 31 2017	
	In NIS millions	% of portfolio	In NIS millions	% of portfolio
Up to 12 months	5,466	19.0	5,975	19.5
Over one year to 3 years	5,124	17.8	5,245	17.1
Over 3 years to 5 years	9,078	31.5	9,360	30.5
Over 5 years to 7 years	5,997	20.8	6,578	21.5
Over 7 years	474	1.7	566	1.9
No repayment period ^(a)	2,654	9.2	2,927	9.5
Total	28,793	100.0	30,651	100.0

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

Following is a Distribution of the Total Credit Risk in respect of Loans Granted by the Bank to Individuals, by Individual Borrower's Indebtedness (in Israel, Excluding Housing Loans)

Credit risk amount in NIS thousands		June 30 2018		December 31 2017	
From	To	In NIS millions	% of portfolio	In NIS millions	% of portfolio
-	25	5,114	11.1	5,043	10.4
25	50	7,213	15.6	7,268	15.0
50	75	6,572	14.3	6,782	14.0
75	100	5,749	12.5	6,031	12.4
100	150	8,254	17.9	8,623	17.8
150	200	5,148	11.2	5,440	11.3
200	300	4,842	10.5	5,293	10.9
Over 300		3,185	6.9	3,997	8.2
Total credit risk		46,077	100.0	48,477	100.0

Following is a Distribution of the Total Credit Risk in respect of Loans Granted by the Bank to Individuals, By Main Credit Products (in Israel, Excluding Housing Loans)

	June 30 2018		December 31 2017	
	In NIS millions	% of portfolio	In NIS millions	% of portfolio
Current balances and utilized credit card balances	6,690	14.5	7,365	15.2
Car purchase loans (secured)	1,937	4.2	2,257	4.6
Other loans	20,166	43.8	21,029	43.4
Total balance-sheet credit risk	28,793	62.5	30,651	63.2
Unutilized current account credit	6,660	14.5	6,870	14.2
Unutilized credit card facilities	10,323	22.3	10,617	21.9
Other off balance sheet credit risk	301	0.7	339	0.7
Total off balance-sheet credit risk	17,284	37.5	17,826	36.8
Total credit risk	46,077	100.0	48,477	100.0

Following is a Distribution of the Balance Sheet Credit Risk in respect of Loans Granted by the Bank to Individuals, by Linkage Segment and Interest Tracks (in Israel, Excluding Housing Loans)

	June 30 2018			Total balance- sheet credit risk	% of portfolio
	Unlinked	Linked	Foreign currency		
	In NIS millions				
					In %
Current account balances	2,177	-	16	2,193	7.6
Utilized credit card balances	4,441	-	56	4,497	15.6
Other variable interest loans	20,769	41	15	20,825	72.4
Total variable interest loans	27,387	41	87	27,515	95.6
Fixed interest loans	1,208	45	25	1,278	4.4
Total balance-sheet credit risk	28,595	86	112	28,793	100.0

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

Following are the Outstanding Balances of the Financial Assets Portfolio of Private Individuals with the Bank, with a Total Credit Risk (in Israel, Excluding Housing Loans)

	June 30 2018	December 31 2017
	In NIS millions	
Deposits by the Public	99,505	104,850
Securities portfolios	68,235	75,498
Total financial asset portfolio	167,740	180,348
Total indebtedness to customers with financial asset portfolios	34,720	38,087

Following is a Breakdown of the Balance Sheet Credit Risk in respect of Loans to Individuals by Fixed Income, ^(a) (in Israel, excluding Housing Loans)

	June 30 2018		December 31 2017	
	In NIS millions	In %	In NIS millions	In %
Income				
Accounts without fixed income	2,312	8.0	2,697	8.8
Of which: Loan repayment accounts ^(b)	1,648	5.7	1,985	6.4
Less than NIS 10 thousand	9,386	32.6	9,783	31.9
More than NIS 10 thousand and less than NIS	9,430	32.7	9,765	31.9
NIS 20 thousand or more	7,665	26.7	8,406	27.4
Total	28,793	100.0	30,651	100.0

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

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

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

	June 30 2018	December 31 2017 ^(a)	December 31 2017 ^(a)
	In NIS millions		
Non-problem loans	28,276	31,338	30,105
Problem unimpaired loans	254	201	135
Problem impaired loans	263	98	411
Total balance-sheet credit risk	28,793	31,637	30,651
Percentage of problem debt risk out of total balance sheet credit risk to individuals	1.8%	0.9%	1.8%

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

For more information, including in respect of problem debt and loan loss expenses, please see Note 6 and Note 13 in Risk Exposure, Credit Risk, under Total Credit Risk to the Public by Economic Sector.

The Bank's Exposure to Leveraged Loans

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

Leveraged financing is defined and managed by the Bank in accordance with up-to-date directives.

[The Aggregate Outstanding Balances of Loans for Leveraged Borrowers, each of which has a Credit Balance of at least 0.5% of the Bank's Tier 1 capital](#)

	June 30			December 31		
	2018			2017		
	Off			Off		
	Balance	balance		Balance	balance	
	-sheet	-sheet	Total	-sheet	-sheet	Total
Economic sector	In NIS millions					
Mining and quarrying	80	251	331	229	152	381
Industry and manufacturing	777	28	805	1,019	9	1,028
Power, gas, steam and A/C provision	759	144	903	734	101	835
Trade	542	196	738	444	24	468
Transportation and storage	190	15	205	380	31	411
Hotels, accommodation services and food	282	-	282	-	-	-
Real estate and construction	89	102	191	7	160	167
Financial services	-	-	-	483	14	497
Total	2,719	736	3,455	3,296	491	3,787

Market Risk

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

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

Market Risk Management Policy

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

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

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

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

Exposure to Market Risks Arising from Employee Pension Obligations

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

Interest Rate Risk

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

The interest exposure policy is to limit the effect of potential changes in interest rates on the potential erosion of economic value¹ and the finance profit for the upcoming year.

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

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

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

Below is a Summary of Exposures To Unexpected Changes in Interest Rates at the Group level (before tax, in NIS millions)^(a):

Scenario	The potential change in economic value as a result of the scenario								
	As at June 30 2018			As at June 30 2017			As at December 31 2017		
	Increase of 1%	Decrease of 1%	Increase of 0.1%	Increase of 1%	Decrease of 1%	Increase of 0.1%	Increase of 1%	Decrease of 1%	Increase of 0.1%
In NIS									
Banking portfolio	(508)	413	(51)	(362)	145	(26)	(411)	306	(41)
Held-for-trading portfolio	(106)	106	(11)	(48)	54	(5)	(38)	25	(3)
In foreign currency									
Banking portfolio	(24)	(88)	(1)	(4)	(78)	5	175	(249)	22
Held-for-trading portfolio	(6)	(1)	0	(25)	(38)	1	32	47	2

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

Capital Exposure to an Immediate Increase or Decrease in Interest Rates (before tax, in NIS millions):

	Exposure in NIS			Foreign currency exposure		
	As at June 30 2018					
	Increase of 1%	Decrease of 1%	Increase of 0.1%	Increase of 1%	Decrease of 1%	Increase of 0.1%
Capital exposure to an immediate increase/decrease in interest rates ^(a)	1,351	(1,740)	151	(541)	479	(53)
	As at June 30 2017					
	Increase of 1%	Decrease of 1%	Increase of 0.1%	Increase of 1%	Decrease of 1%	Increase of 0.1%
Capital exposure to an immediate increase/decrease in interest rates ^(a)	1,294	(1,685)	145	(405)	282	(35)
	As at December 31 2017					
	Increase of 1%	Decrease of 1%	Increase of 0.1%	Increase of 1%	Decrease of 1%	Increase of 0.1%
Capital exposure to an immediate increase/decrease in interest rates ^(a)	1,615	(2,083)	180	(349)	352	(34)

(a) The measurement includes exposure to an immediate change in the interest rate of the Bank's own (nostro) portfolios, revalued according to market value and the actuarial obligation for employees. The measurement does not include the sensitivity effect of the plan assets to changes in interest rates estimated - as at June 30 2018 - in a decrease of NIS 133 million in the value of the assets (on June 30 2017 - NIS 149 million; on December 31 2017 - NIS 134 million) under a scenario of a 1% interest rate increase. Neither does the measurement include the effects of the transitional provisions of the Employee Benefits Standard, on which the capital adequacy ratio calculation is based.

The Sensitivity of the Assets' and Liabilities' Fair Value to the Interest Rate

Fair value of Financial Instruments before the Effect of Potential Interest Rate Changes:

June 30 2018						
	NIS		NIS, including NIS linked to foreign currency			
	Unlinked	CPI-linked	USD	Euro	Other	Total
In NIS millions						
Financial assets	288,764	46,288	68,496	9,414	10,460	423,422
Amounts receivable in respect of derivative and off-balance-sheet financial instruments	256,663	8,377	258,064	75,427	45,823	644,354
Financial liabilities ^(a)	240,895	48,926	98,510	12,472	6,620	407,423
Amounts payable in respect of derivative and off-balance-sheet financial instruments	278,359	12,563	230,484	72,721	50,445	644,572
Net fair value of financial instruments	26,173	(6,824)	(2,434)	(352)	(782)	15,781

June 30 2017						
	NIS		NIS, including NIS linked to foreign currency			
	Unlinked	CPI-linked	USD	Euro	Other	Total
In NIS millions						
Financial assets	284,174	47,568	58,274	10,759	9,529	410,304
Amounts receivable in respect of derivative and off-balance-sheet financial instruments	261,183	6,996	187,253	62,772	26,185	544,389
Financial liabilities ^(a)	237,207	54,442	85,093	12,813	6,922	396,477
Amounts payable in respect of derivative and off-balance-sheet financial instruments	280,958	11,036	162,663	61,110	29,621	545,388
Net fair value of financial instruments	27,192	(10,914)	(2,229)	(392)	(829)	12,828

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

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

Effect of Potential Changes in Interest Rates on The Fair Value^(c) of Financial Instruments:

June 30 2018								
Net fair value of financial instruments net of the effect of interest rate changes ^(a)							Change in fair value	
NIS	NIS, including NIS linked to foreign currency							
Unlinked	CPI-linked	USD ^(b)	Euro	Other	Total	Total	Total	
In NIS millions						In NIS	In %	
Immediate concurrent	25,026	(5,423)	(3,123)	(377)	(793)	15,310	(471)	(2.98)
Immediate concurrent	26,049	(6,671)	(2,503)	(354)	(783)	15,738	(43)	(0.27)
Immediate concurrent	27,306	(8,623)	(1,836)	(329)	(768)	15,750	(31)	(0.20)
June 30 2017								
Net fair value of financial instruments net of the effect of interest rate changes ^(a)							Change in fair value	
NIS	NIS, including NIS linked to foreign currency							
Unlinked	CPI-linked	USD ^(b)	Euro	Other	Total	Total	Total	
In NIS millions						In NIS	In %	
Immediate concurrent	26,303	(9,393)	(2,773)	(424)	(835)	12,878	50	0.39
Immediate concurrent	27,106	(10,743)	(2,277)	(393)	(830)	12,863	35	0.27
Immediate concurrent	28,017	(12,915)	(1,793)	(385)	(823)	12,101	(727)	(5.67)
December 31 2017								
Net fair value of financial instruments net of the effect of interest rate changes ^(a)							Change in fair value	
NIS	NIS, including NIS linked to foreign currency							
Unlinked	CPI-linked	USD ^(b)	Euro	Other	Total	Total	Total	
In NIS millions						In NIS	In %	
Immediate concurrent	24,819	(8,690)	(2,404)	(317)	(771)	12,637	166	1.33
Immediate concurrent	25,771	(10,222)	(1,964)	(312)	(765)	12,508	37	0.30
Immediate concurrent	26,912	(12,610)	(1,403)	(310)	(757)	11,832	(639)	(5.12)

(a) The measurement includes exposure to an immediate change in the interest rate of the Bank's own portfolios, revalued according to market value and the actuarial obligation for employees. The measurement does not include the sensitivity effect of the plan assets to changes in interest rates estimated - as at June 30 2018 - in a decrease of NIS 133 million in the value of the assets (on June 30 2017 - NIS 149 million; on December 31 2017 - NIS 134 million) under a scenario of a 1% interest rate increase. Neither does the measurement include the effects of the transitional provisions of the Employee Benefits Standard, on which the capital adequacy ratio calculation is based.

(b) Of which: The effect of compound financial assets: An immediate corresponding increase of 1% - NIS (369) million (as of June 30 2017 - NIS (260) million and as of December 31 2017 - NIS (283) million), an immediate corresponding decrease of 1% - NIS 288 million (on June 30 2017 - NIS 182 million; on December 31 2017 - NIS 199 million).

An immediate corresponding increase of 2% - NIS (768) million (as of June 30 2017 - NIS (545) million and as of December 31 2017 - NIS (592) million), an immediate corresponding decrease of 2% - NIS 450 million (on June 30 2017 - NIS 286 million; on December 31 2017 - NIS 317 million, respectively).

(c) Excluding the estimated value of income from early repayment fees.

Exposure to Interest Rate Changes

June 30 2018							
	Demand of up to one month	More than 1 month and up to 3 months	More than three months and up to 12 months	More than one year to three years	More than three years to five years	More than five years to ten years	More than ten years to twenty years
In NIS millions							
Unlinked NIS							
Financial assets, amounts receivable in respect of derivatives and off-balance-sheet financial instruments							
Assets Financial ^(a)	211,177	14,229	29,220	14,576	8,926	7,218	2,322
Derivative financial instruments (net of options)	44,460	71,341	53,776	43,062	20,719	17,293	226
Options (by underlying asset)	984	986	2,617	1,126	18	-	2
Off balance-sheet financial instruments	-	-	-	-	-	-	-
Total fair value	256,621	86,556	85,613	58,764	29,663	24,511	2,550
Financial liabilities, amounts payable in respect of derivatives and off-balance-sheet financial instruments							
Financial liabilities ^(a)	205,313	5,105	7,937	17,803	2,051	2,578	96
Derivative financial instruments (net of options)	57,891	65,944	74,115	36,590	19,289	17,136	201
Options (by underlying asset)	2,729	1,472	2,508	126	270	2	19
Off balance-sheet financial instruments	-	-	41	-	-	-	-
Total fair value	265,933	72,521	84,601	54,519	21,610	19,716	316
Financial instruments, net							
Sector's exposure to interest rate changes	(9,312)	14,035	1,012	4,245	8,053	4,795	2,234
Sector's cumulative exposure	(9,312)	4,723	5,735	9,980	18,033	22,828	25,062
CPI-linked NIS							
Financial assets, amounts receivable in respect of derivatives and off-balance-sheet financial instruments							
Assets Financial ^(a)	2,356	2,104	8,128	13,872	10,216	5,086	2,653
Derivative financial instruments (net of options)	706	420	2,241	2,293	1,421	1,296	-
Options (by underlying asset)	-	-	-	-	-	-	-
Off balance-sheet financial instruments	-	-	-	-	-	-	-
Total fair value	3,062	2,524	10,369	16,165	11,637	6,382	2,653
Financial liabilities, amounts payable in respect of derivatives and off-balance-sheet financial instruments							
Financial liabilities ^(a)	1,711	966	5,069	15,122	5,179	3,942	834
Derivative financial instruments (net of options)	383	297	2,175	5,386	2,991	1,213	-
Options (by underlying asset)	-	-	-	-	-	-	-
Off balance-sheet financial instruments	-	-	118	-	-	-	-
Total fair value	2,094	1,263	7,362	20,508	8,170	5,155	834
Financial instruments, net							
Sector's exposure to interest rate changes	968	1,261	3,007	(4,343)	3,467	1,227	1,819
Sector's cumulative exposure	968	2,229	5,236	893	4,360	5,587	7,406

(a) Excluding balance sheet outstanding derivatives, the fair value of off-balance-sheet financial instruments and of fair value of compound financial instruments. The "no repayment period" column shows the non-capitalized balance-sheet balance, including past due balances, in the amount of NIS 726 million as at June 30 2018.

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

As at June 30 2017						As at December 31 2017					
Over twenty years	Without repayme nt period	Total fair value	Internal rate of return	Average effective life ^(b)	Total fair value	Internal rate of return	Average effective life ^(b)	Total fair value	Internal rate of return	Average effective life ^(b)	
			In %	In years		In %	In years		In %	In years	
552	544	288,764	3.09	0.64	284,174	2.88	0.62	293,416	2.97	0.59	
53	-	250,930	-	1.35	253,485	-	1.51	211,445	-	1.48	
-	-	5,733	-	0.59	7,698	-	0.65	7,919	-	0.76	
-	-	-	-	-	-	-	-	-	-	-	
605	544	545,427	3.09	0.97	545,357	2.88	1.02	512,780	2.97	0.96	
-	12	240,895	0.91	0.28	237,207	0.99	0.35	247,997	0.85	0.27	
26	-	271,192	-	1.23	274,982	-	1.43	231,365	-	1.34	
-	-	7,126	-	0.38	5,951	-	0.57	7,509	-	0.77	
-	-	41	-	0.50	25	-	0.50	30	-	0.50	
26	12	519,254	0.91	0.78	518,165	0.99	0.92	486,901	0.85	0.79	
579											
25,641											
1,859	14	46,288	2.25	4.10	47,568	2.58	3.73	45,077	2.42	4.09	
-	-	8,377	-	2.48	6,996	-	2.40	7,058	-	2.38	
-	-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	-	-	
1,859	14	54,665	2.25	3.85	54,564	2.58	3.56	52,135	2.42	3.85	
-	-	32,823	0.49	2.75	38,143	0.71	2.73	32,634	0.47	2.97	
-	-	12,445	-	2.64	10,891	-	2.56	12,170	-	2.57	
-	-	-	-	-	-	-	-	-	-	-	
-	-	118	-	-	145	-	-	127	-	-	
-	-	45,386	0.49	2.71	49,179	0.71	2.68	44,931	0.47	2.85	
1,859											
9,265											

Exposure to Interest Rate Changes

	June 30 2018						
	Demand of up to one month	More than 1 month and up to 3 months	More than 3 months and up to 12 months	More than one year to three years	More than three years to five years	More than five years to ten years	More than ten years to twenty years
In NIS millions							
Foreign currency and foreign currency-linked^(d)							
Financial assets, amounts receivable in respect of derivatives and off-balance-sheet financial instruments							
Assets Financial ^(a)	41,485	14,130	9,868	7,419	4,954	8,388	1,568
Of which: Compound financial instruments	2,879	556	562	1,179	1,840	2,332	917
Derivative financial instruments (net of options)	113,312	83,980	102,511	41,183	10,986	18,317	316
Options (by underlying asset)	3,369	2,027	3,430	(108)	(59)	-	-
Off balance-sheet financial instruments	-	-	-	-	-	-	-
Total fair value	158,166	100,137	115,809	48,494	15,881	26,705	1,884
Financial liabilities, amounts payable in respect of derivatives and off-balance-sheet financial instruments							
Financial liabilities ^(a)	91,823	11,694	11,473	1,743	224	238	4
Derivative financial instruments (net of options)	80,681	95,677	98,799	34,804	13,706	21,752	418
Options (by underlying asset)	1,539	1,518	3,497	799	(18)	6	37
Off balance-sheet financial instruments	-	-	14	-	-	-	-
Total fair value	174,043	108,889	113,783	37,346	13,912	21,996	459
Financial instruments, net							
Sector's exposure to interest rate changes	(15,877)	(8,752)	2,026	11,148	1,969	4,709	1,425
Sector's cumulative exposure	(15,877)	(24,629)	(22,603)	(11,455)	(9,486)	(4,777)	(3,352)
Total exposure to interest rate changes							
Financial assets, amounts receivable in respect of derivatives and off-balance-sheet financial instruments							
Financial assets ^{(a)(c)}	255,018	30,463	47,216	35,867	24,096	20,692	6,543
Derivative financial instruments (net of options)	158,478	155,741	158,528	86,538	33,126	36,906	542
Options (by underlying asset)	4,353	3,013	6,047	1,018	(41)	-	2
Off balance-sheet financial instruments	-	-	-	-	-	-	-
Total fair value	417,849	189,217	211,791	123,423	57,181	57,598	7,087
Financial liabilities, amounts payable in respect of derivatives and off-balance-sheet financial instruments							
Financial liabilities ^{(a)(c)(e)}	298,847	17,765	24,479	34,668	7,454	6,758	934
Derivative financial instruments (net of options)	138,955	161,918	175,089	76,780	35,986	40,101	619
Options (by underlying asset)	4,268	2,990	6,005	925	252	8	56
Off balance-sheet financial instruments	-	-	173	-	-	-	-
Total fair value	442,070	182,673	205,746	112,373	43,692	46,867	1,609
Financial instruments, net							
Sector's exposure to interest rate changes	(24,221)	6,544	6,045	11,050	13,489	10,731	5,478
Sector's cumulative exposure	(24,221)	(17,677)	(11,632)	(582)	12,907	23,638	29,116
And interest rate exposure in respect of liabilities for employee benefits, gross - Pension and severance pay							
	61	123	553	1,295	1,354	3,428	5,374

- (a) Excluding balance sheet outstanding derivatives, the fair value of off-balance-sheet financial instruments and of fair value of compound financial instruments. The "no repayment period" column shows the non-capitalized balance-sheet balance, including past due balances, in the amount of NIS 669 million as at June 30 2018.
- (b) Weighted average by fair value of the average duration.
- (c) Including non-monetary items featured in the "No repayment period" column.
- (d) Including foreign-currency linked NIS.
- (e) Excluding fair value of the actuarial liabilities to employees and excluding the value of the plan assets.

More than 20 years	Without repayment period	Total fair value	As at June 30 2017				As at December 31 2017			
			Internal rate of return	Average effective life ^(b)	Total fair value	Internal rate of return	Average effective life ^(b)	Total fair value	Internal rate of return	Average effective life ^(b)
			In %	In years		In %	In years		In %	In years
345	213	88,370	2.89	1.58	78,562	1.52	1.05	85,375	2.21	1.21
88	-	10,353	3.17	4.40	8,804	2.60	3.49	9,150	2.60	3.49
50	-	370,655	-	0.85	267,020	-	0.93	273,787	-	1.05
-	-	8,659	-	0.20	9,190	-	0.32	7,482	-	0.32
-	-	-	-	-	-	-	-	-	-	-
395	213	467,684	2.89	0.98	354,772	1.52	0.93	366,644	2.21	1.07
1	6	117,206	1.51	0.15	104,465	0.60	0.17	113,013	1.83	0.14
421	-	346,258	-	1.05	244,582	-	1.16	248,447	-	1.29
-	-	7,378	-	0.52	8,805	-	0.88	7,785	-	1.21
-	-	14	-	0.50	7	-	0.50	16	-	0.50
422	6	470,856	1.51	0.82	357,859	0.60	0.84	369,261	1.83	0.94
(27)										
(3,379)										
2,756	4,885	427,536	2.74	1.17	414,582	1.86	1.06	429,634	2.60	1.06
103	3,135	633,097	-	1.07	529,099	-	1.23	494,645	-	1.26
-	216	14,608	-	0.36	17,191	-	0.47	15,641	-	0.55
-	-	-	-	-	-	-	-	-	-	-
2,859	8,236	1,075,241	2.74	1.10	960,872	1.86	1.14	939,920	2.60	1.16
1	892	391,798	0.78	0.45	380,958	0.34	0.54	395,323	0.77	0.46
447	2,530	632,425	-	1.16	532,168	-	1.33	495,111	-	1.35
-	23	14,527	-	0.45	14,839	-	0.75	15,342	-	0.99
-	189	362	-	0.10	367	-	0.04	364	-	0.09
448	3,634	1,039,112	0.78	0.88	928,332	0.34	1.00	906,140	0.77	0.95
2,411										
31,527										
4,311	-	16,499	2.46	14.98	16,662	2.60	15.32	17,995	2.36	14.24

General comments:

1. The periodic data in the table state the present value of future cash flows discounted at the internal rate of return that brings them to the fair value of the financial instrument, in accordance with the assumptions used to calculate the fair value of the financial instrument. For more information regarding the assumptions used to calculate the fair value of the financial instruments, please see Note 15A.
2. An internal rate of return is the interest rate that discounts the expected cash flows from a financial instrument to the fair value included in respect thereof.
3. The average effective average duration of a class of financial instruments is an approximation of the percentage change in the fair value of the financial instrument class which will result from a small change (0.1% increase) in each financial instrument's internal rate of return.
4. The effect of hedge transactions is included in Total assets or Total liabilities, as relevant.
5. Estimates of early mortgage repayments and of deposit withdrawals by the public, respectively, were taken into account in calculating the average duration of the assets and liabilities. After neutralizing the effect of the original average duration models, in the CPI-linked segment, the assets' average duration is 4.57 years, the liabilities' average duration is 2.79 years, and the IRR gap is 1.37%. In the unlinked shekel segment - the assets' average duration is 0.97 years, the liabilities' average duration is 1.04 years, and the IRR gap is 2.06%. In addition, in managing interest-rate exposures, the Bank treats a portion of the NIS-denominated current account and foreign currency balances as a long-term liability (spread over one and ten years), rather than up to one month according to the Reporting to the Public directives.
6. More information on the exposure to interest rate changes in each financial assets and liabilities segment, by balance sheet item, will be provided on request.

Liquidity Risk

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

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

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

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

Operational Risk

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

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

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

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

Other Risks

Regulation and compliance risks

Regulation risk

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

The increase in regulatory requirements in Israel and abroad affects the Group's business model, profitability and capital adequacy requirements.

The Bank monitors these developments, studies them and prepares accordingly.

Compliance risk

a. Compliance Risk, Prohibition on Money Laundering and Financing of Terrorism

To effectively manage compliance risk, Leumi has in place a compliance and enforcement array, headed by the Chief Compliance Officer. The latter is responsible, among other things, for meeting the legal requirements of

the prohibition on money laundering and financing of terrorism. The Chief Compliance Officer also serves as the securities law enforcement officer and the responsible officer for FATCA, as detailed below.

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

The Department is in regular contact with subsidiaries in Israel and abroad, for the purpose of monitoring the implementation of compliance issues as a whole and implementation of the Group's compliance policy.

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

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 characterized by a lack of well-defined 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

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

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

The Criteria List instructs corporations, inter alia, to appoint an enforcement officer. His/her function, according to the Criteria List, is to be responsible for implementing the enforcement program.

c. FATCA - Foreign Account Tax Compliance Act

Pursuant to the Income Tax (Amendment No. 227) Ordinance and the Income Tax (Implementation of the FATCA Agreement) Regulations, 2016, the Bank is required to conduct identification procedures for customers and transfer information regarding accounts held by American citizens to the Israel Tax Authority, to be transferred to the Internal Revenue Service.

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

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

d. Common Reporting Standard (CRS)

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

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

Legal Risk

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

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

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

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

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

Reputational Risk

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

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

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

Strategic Risk

Strategic risk is defined as the risk of a material decline in profitability arising from a decrease in income which cannot be compensated for through a sufficient reduction in expenses or by finding other sources of income. Such a decline may result from erroneous strategic decisions, an inability to implement adequate strategies, inadequate implementation of decisions or lack of response to or preparation for changes in the business environment (industry-specific, economic, regulatory, consumer-related or technological).

Strategic risk may be one whose damage affects the Bank's business model or one of its material business lines. This type of risk may have an effect on profit that is insignificant in the immediate term, but which may become dramatic in the long term.

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

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

Macroeconomic Risk

Macroeconomic risk is the risk to the Group's income and capital arising from macroeconomic conditions, including a low interest rate environment, global political power relations and their impact on global trade – the US's economic policy, social and political processes in Europe and geopolitical instability in conflict zones around the world, inter alia on the back of the increased threat of terrorism. Lately, risks are arising from possible developments in the global trade domain, with emphasis on the US-China trade relations. If there situation takes a turn for the worse, amounting to an

ongoing "trade war", it may have an adverse effect on global growth. As a result, the Israeli economy may also be adversely affected.

The Bank monitors emerging risks as aforesaid. However, during the reporting period, there have been no material changes in the macroeconomic risk and its management by the Bank.

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

Conduct Risk

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

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

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

Accounting Policies and Estimates on Critical Issues

Overview

The financial statements are prepared in accordance with the generally accepted accounting principles and the directives and instructions of the Banking Supervision Department regarding the preparation of annual and quarterly financial statements of a banking corporation as detailed in Note 1 to the Annual Financial Statements as at December 31 2017. The preparation of the consolidated financial statements in accordance with generally accepted accounting principles and directives of the Banking Supervision Department requires Management to use of estimates and assessments which affect the reported amounts of assets and liabilities as well as income and expense amounts.

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

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

Liabilities for Employee Benefits

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

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

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

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

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

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

As at June 30 2018, the accumulated other comprehensive income in respect of benefits to employees totaled a negative balance of NIS 2,106 million after tax, a NIS 844 million after tax decrease in the negative reserve balance compared with December 31 2017. The outstanding liability in respect of employee benefits as at June 30 2018 according to a discount rate based on Israeli corporate bonds ("deep market according to the Israel Securities Authority") is NIS 548 million greater than the actual outstanding liability.

Controls and Procedures Regarding Financial Statements Disclosures

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

[The Supervisor of Bank's directives require the following:](#)

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

The Bank regularly applies the directive to the Leumi Group.

During 2018, the Bank is validating and updating material control processes and conduct effective evaluations of its entire internal system of control over financial reporting.

[Disclosure controls and procedures](#)

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

[Changes in internal control](#)

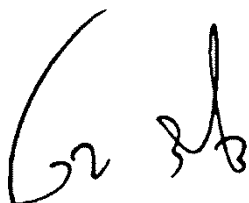
In the quarter ended June 30 2018, no material change has occurred in the Bank's internal control over financial reporting which has had a material effect, or is reasonably expected to have a material effect, on the Bank's internal control over financial reporting.

Board of Directors

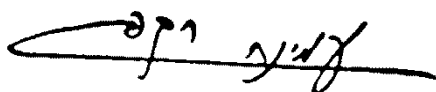
From January to June 2018, Leumi's Board of Directors held 16 plenum meetings and its committees held 35 meetings.

At a Board meeting held on August 13 2018, the Board resolved to approve and publish the Group's condensed consolidated unaudited financial statements as at June 30 2018 and for the period then ended.

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



David Brodet
Chairman of the Board



Rakefet Russak-Aminoach
President and Chief Operating Officer

August 13 2018

Certification

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

1. I have reviewed the quarterly report of Bank Leumi of Israel Ltd. (hereinafter: the "Bank") for the quarter ended June 30 2018 (hereinafter: the "Report").
2. To my knowledge, the Report does not contain any misrepresentation of a material fact, or omit a representation of a material fact, that is necessary in order for the representations included in it - under the circumstances in which such representations were included - to be misleading as to the reporting period.
3. To my knowledge, the quarterly report and other financial information included in the Report fairly represent, in all material aspects, the Bank's financial position, financial performance and changes in shareholders' equity and cash flows as at the dates and for the periods presented in the Report.
4. I and others at the Bank signing this certification are responsible for the establishment and implementation of controls and procedures regarding the Bank's disclosure and internal control over financial reporting (as defined in the Reporting to the Public Directives regarding "Report of the Board of Directors and Management"). In addition:
 - (a) We have established such controls and procedures, or caused such controls and procedures to be established under our oversight, with the aim of ensuring that material information about the Bank and its consolidated companies is brought to our attention by others in the Bank and companies, especially during the preparation of the Report;
 - (b) We have established such internal controls over the financial reporting or have caused such controls to be established under our oversight, with the aim of providing reasonable assurance as to the reliability of the financial reporting and that the financial statements for external purposes have been prepared in accordance with the generally accepted accounting principles and the directives and instructions of the Banking Supervision Department;
 - (c) We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in the report our conclusions regarding the effectiveness of the disclosure controls and procedures as at the end of the reporting period according to our evaluation; and
 - (d) The Report discloses any change in the Bank's internal control over financial reporting which occurred during the quarter and has materially affected, or is reasonably expected to affect, the Bank's internal control over financial reporting; and
5. I and others at the Bank signing this certification have disclosed to the joint independent auditors, the Board of Directors, and the Board of Directors' committees, based on our most recent evaluation of the internal control over financial reporting, the following:
 - (a) All significant deficiencies and material weaknesses in the establishment or implementation of the internal controls over financial reporting that may harm the Bank's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, involving management or other employees who have a significant role in the Bank's internal control over financial reporting

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

August 13 2018

Rakefet Russak-Aminoach

President and Chief Operating Officer

Certification

I, Omer Ziv, hereby certify as follows:

1. I have reviewed the quarterly report of Bank Leumi of Israel Ltd. (hereinafter: the "Bank") for the quarter ended June 30 2018 (hereinafter: the "Report").
2. To my knowledge, the Report does not contain any misrepresentation of a material fact, or omit a representation of a material fact, that is necessary in order for the representations included in it - under the circumstances in which such representations were included - to be misleading as to the reporting period.
3. To my knowledge, the quarterly report and other financial information included in the Report fairly represent, in all material aspects, the Bank's financial position, financial performance and changes in shareholders' equity and cash flows as at the dates and for the periods presented in the Report.
4. I and others at the Bank signing this certification are responsible for the establishment and implementation of controls and procedures regarding the Bank's disclosure and internal control over financial reporting (as defined in the Reporting to the Public Directives regarding "Report of the Board of Directors and Management"). In addition:
 - (a) We have established such controls and procedures, or caused such controls and procedures to be established under our oversight, with the aim of ensuring that material information about the Bank and its consolidated companies is brought to our attention by others in the Bank and companies, especially during the preparation of the Report;
 - (b) We have established such internal controls over the financial reporting or have caused such controls to be established under our oversight, with the aim of providing reasonable assurance as to the reliability of the financial reporting and that the financial statements for external purposes have been prepared in accordance with the generally accepted accounting principles and the directives and instructions of the Banking Supervision Department;
 - (c) We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in the report our conclusions regarding the effectiveness of the disclosure controls and procedures as at the end of the reporting period according to our evaluation; and
 - (d) The Report discloses any change in the Bank's internal control over financial reporting which occurred during the quarter and has materially affected, or is reasonably expected to affect, the Bank's internal control over financial reporting; and
5. I and others at the Bank signing this certification have disclosed to the joint independent auditors, the Board of Directors, and the Board of Directors' committees, based on our most recent evaluation of the internal control over financial reporting, the following:
 - A. All significant deficiencies and material weaknesses in the establishment or implementation of the internal controls over financial reporting that may harm the Bank's ability to record, process, summarize and report financial information; and
 - B. Any fraud, whether or not material, involving management or other employees who have a significant role in the Bank's internal control over financial reporting

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

August 13 2018

Omer Ziv

First Executive Vice President

Head of Finance Division

Certification

I, Shlomo Goldfarb, hereby certify as follows:

1. I have reviewed the quarterly report of Bank Leumi of Israel Ltd. (hereinafter: the "Bank") for the quarter ended June 30 2018 (hereinafter: the "Report").
2. To my knowledge, the Report does not contain any misrepresentation of a material fact, or omit a representation of a material fact, that is necessary in order for the representations included in it - under the circumstances in which such representations were included - to be misleading as to the reporting period.
3. To my knowledge, the quarterly report and other financial information included in the Report fairly represent, in all material aspects, the Bank's financial position, financial performance and changes in shareholders' equity and cash flows as at the dates and for the periods presented in the Report.
4. I and others at the Bank signing this certification are responsible for the establishment and implementation of controls and procedures regarding the Bank's disclosure and internal control over financial reporting (as defined in the Reporting to the Public Directives regarding "Report of the Board of Directors and Management"). In addition:
 - (a) We have established such controls and procedures, or caused such controls and procedures to be established under our oversight, with the aim of ensuring that material information about the Bank and its consolidated companies is brought to our attention by others in the Bank and companies, especially during the preparation of the Report;
 - (b) We have established such internal controls over the financial reporting or have caused such controls to be established under our oversight, with the aim of providing reasonable assurance as to the reliability of the financial reporting and that the financial statements for external purposes have been prepared in accordance with the generally accepted accounting principles and the directives and instructions of the Banking Supervision Department;
 - (c) We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in the report our conclusions regarding the effectiveness of the disclosure controls and procedures as at the end of the reporting period according to our evaluation; and
 - (d) The Report discloses any change in the Bank's internal control over financial reporting which occurred during the quarter and has materially affected, or is reasonably expected to affect, the Bank's internal control over financial reporting; and
5. I and others at the Bank signing this certification have disclosed to the joint independent auditors, the Board of Directors, and the Board of Directors' committees, based on our most recent evaluation of the internal control over financial reporting, the following:
 - (a) All significant deficiencies and material weaknesses in the establishment or implementation of the internal controls over financial reporting that may harm the Bank's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, involving management or other employees who have a significant role in the Bank's internal control over financial reporting

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

August 13 201

Shlomo Goldfarb

First Executive Vice President

Chief Accounting Officer

Head of Accounting Division

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

Introduction

We have reviewed the accompanying financial information of Bank Leumi of Israel Ltd. and its subsidiaries (hereinafter: the "Bank"), which includes the condensed consolidated interim balance sheet as at June 30 2018 and the condensed consolidated interim income statement, comprehensive income statement, statement of changes in equity and cash flow statement for the three-month and six-month periods then ended. The Board of Directors and management are responsible for the preparation and presentation of the financial information for these interim periods in accordance with Israeli GAAP for interim financial reporting and in accordance with the Banking Supervision Department's directives and guidelines. Our responsibility is to express a conclusion regarding the financial information for this interim period based on our review.

Review scope

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

Conclusion

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

Without qualifying our above conclusion, we draw attention to Note 10B. Section 3 regarding claims filed against a consolidated company, including petitions to approve class actions.

The Bank is unable to estimate the implications of the above, if any, on the Bank, on its financial position and on the results of its operations and whether such implications will be material.

Somekh Chaikin
CPAs

Kost Forer Gabbay & Kasierer
CPAs

Joint Independent Auditors

August 13 2018

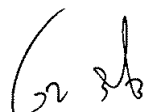
BANK LEUMI OF ISRAEL LTD. AND ITS CONSOLIDATED COMPANIES
Condensed Consolidated Income Statement
For the period ended June 30 2018

		For the three months ended June 30		For the six months ended June 30		For the year ended December 31
		2018	2017	2018	2017	2017
		Unaudited				Audited
	Note	In NIS millions				
Interest income	2	3,188	2,887	5,609	5,206	10,069
Interest expense	2	774	722	1,189	1,168	2,023
Interest income, net	2	2,414	2,165	4,420	4,038	8,046
Loan loss expenses (income)	6, 13	(14)	42	116	143	172
Interest income, net of expenses for loan losses		2,428	2,123	4,304	3,895	7,874
Noninterest income						
Noninterest finance income	3	89	197	140	452	919
Fees and commissions		1,042	1,007	2,087	2,025	4,138
Other income		38	16	56	30	371
Total noninterest income		1,169	1,220	2,283	2,507	5,428
Operating and other expenses						
Salaries and related costs		1,225	1,117 ^(a)	2,293	2,236 ^(a)	4,591 ^(a)
Buildings and equipment - maintenance and depreciation		376	398	787	833	1,661
Other expenses		552	505 ^(a)	1,071	1,001 ^(a)	2,249 ^(a)
Total operating and other expenses		2,153	2,020	4,151	4,070	8,501
Profit before taxes		1,444	1,323	2,436	2,332	4,801
Provision for taxes on profit		521	456	783	844	1,692
Profit after taxes		923	867	1,653	1,488	3,109
The Bank's share in profits of associates, after tax		2	15	12	25	92
Net income						
Before attribution to non-controlling interests		925	882	1,665	1,513	3,201
Attributable to non-controlling interests		(22)	(6)	(32)	(15)	(29)
Attributable to the Bank's shareholders		903	876	1,633	1,498	3,172
Basic and diluted earnings per share (in NIS)						
Basic net income attributable to the Bank's shareholders	3A	0.59	0.57	1.07	0.98	2.08
Diluted net income attributable to the Bank's shareholders	3A	0.59	0.57	1.07	0.98	2.08

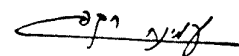
(a) Reclassified following retroactive application of the Banking Supervision Department's directives on improving the presentation of expenses in respect of pension and other post-employment benefits. Please see Note 1.B.3.

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

David Brodet
Chairman of the Board




Rakefet Russak-Aminoach
President and CEO



Omer Ziv
First Executive Vice President
Head of Finance Division



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



Date the financial statements were approved: August 13 2018

BANK LEUMI OF ISRAEL LTD. AND ITS CONSOLIDATED COMPANIES
Condensed Consolidated Statements of Comprehensive Income
For the period ended June 30 2018

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2018	2017	2018	2017	2017
	Unaudited				Audited
	In NIS millions				
Net income before amount attributable to non-controlling interests	925	882	1,665	1,513	3,201
Net income attributable to non-controlling interests	22	6	32	15	29
Net income attributable to the Bank's shareholders	903	876	1,633	1,498	3,172
Other comprehensive income (loss), before taxes					
Adjustments in respect of stating available-for-sale securities at fair value, net	(189)	(23)	(396)	(3)	259
Adjustments from translation of financial statements, net ^(a) , after hedging effect ^(b)	(5)	(46)	(1)	(34)	(39)
Adjustments of liabilities in respect of employee benefits ^(c)	1,057	(639)	1,282	(137)	(1,177)
The Bank's share in other comprehensive income (loss) of associates	6	(3)	3	(11)	(10)
Other comprehensive income (loss), before taxes	869	(711)	888	(185)	(967)
Relevant tax effect	(260)	215	(251)	(25)	232
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	609	(496)	637	(210)	(735)
Other comprehensive (loss) attributable to non-controlling interests	(38)	-	(38)	-	-
Other comprehensive income (loss) attributable to the Bank's shareholders, after taxes	647	(496)	675	(210)	(735)
Comprehensive income before attribution to non-controlling interests	1,534	386	2,302	1,303	2,466
Other comprehensive loss (income) attributable to non-controlling interests	(16)	6	(6)	15	29
Comprehensive income attributable to the Bank's shareholders	1,550	380	2,308	1,288	2,437

(a) Adjustments from the translation of the financial statements of a foreign operation whose functional currency is different from Bank's functional currency.

(b) Hedges - net gains (losses) in respect of hedging of a net investment in foreign currency.

(c) Mostly reflects adjustments in respect of actuarial estimates, as at the end of the period, of defined benefit plans and a deduction of amounts previously recorded in "Other comprehensive income."

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

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

BANK LEUMI OF ISRAEL LTD. AND ITS CONSOLIDATED COMPANIES
Condensed Consolidated Balance Sheet as at June 30 2018

		June 30	December 31	
		2018	2017	2017
		Unaudited	Audited	
	Note	In NIS millions		
Assets				
Cash and deposits with banks		71,315	69,352	82,067
Securities ^{(a)(b)}	5	82,113	78,470	77,299
Securities borrowed or purchased under agreements to resell		931	1,031	1,161
Loans to the public	6, 13	267,324	267,739	271,157
Loan loss provision	6, 13	(3,152)	(3,205)	(3,205)
Loans to the public, net		264,172	264,534	267,952
Loans to governments		757	619	715
Investments in investee companies		869	883	807
Buildings and equipment		2,737	2,954	2,986
Intangible assets and goodwill		17	16	16
Assets in respect of derivatives	11	12,076	11,361	9,573
Other assets ^(a)		7,132	7,747	8,262
Held-for-sale assets ^(d)		8,329	-	-
Total assets		450,448	436,967	450,838
Liabilities and capital				
Deposits from the public	7	361,220	342,766	362,478
Deposits from banks		3,473	4,330	5,156
Deposits from governments		552	625	452
Securities lent or sold under agreements to repurchase		559	244	558
Bonds, promissory notes and subordinated bonds		16,954	22,337	15,577
Liabilities in respect of derivative instruments	11	11,323	12,078	9,740
Other liabilities ^{(a)(c)}		14,716	21,694	23,324
Held-for-sale liabilities ^(d)		6,137	-	-
Total liabilities		414,934	404,074	417,285
Equity attributable to the Bank's shareholders	9	34,679	32,521	33,167
Non-controlling interests		835	372	386
Total capital		35,514	32,893	33,553
Total liabilities and capital		450,448	436,967	450,838

(a) For more information regarding amounts measured at fair value, please see Note 15A.

(b) For more information on securities pledged to lenders, please see Note 5.

(c) Of which: Loan loss provision for off balance sheet credit instruments - NIS 442 million (on June 30 2017 - NIS 523 million, on December 31 2017 - NIS 484 million).

(d) For more information, please see Note 16g.

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

BANK LEUMI OF ISRAEL LTD. AND ITS CONSOLIDATED COMPANIES

Condensed Statement of Changes in Equity

For the period ended June 30 2018

	For the three months ended June 30 2018 (unaudited)		
		Capital reserves	
	Share capital	Premium	Stock compensation- and other transactions ^(a)
	In NIS millions		
Balance as at March 31 2018	7,111	1,736	30
Net income for the period	-	-	-
Other comprehensive income, net, after tax effect	-	-	-
Paid dividend	-	-	-
Purchase of shares as part of the buyback plan	(7)	(153)	-
Sale of interests in subsidiaries to non-controlling interests	-	17	-
Balance as at June 30 2018	7,104	1,600	30

	For the three months ended June 30 2017 (unaudited)		
		Capital reserves	
	Share capital	Premium	Stock compensation- and other transactions ^(a)
	In NIS millions		
Balance as at March 31 2017	7,109	1,722	36
Net income for the period	-	-	-
Other comprehensive loss, net, after tax effect	-	-	-
Paid dividend	-	-	-
Issue of shares	1	7	(8)
Employee benefit in respect of stock compensation transactions	-	-	10
Balance as at June 30 2017	7,110	1,729	38

(a) Including NIS 10 million in other capital reserves.

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

Total share capital and capital reserves	Accumulated other comprehensive income (loss)	Retained earnings	Total	Non-controlling interests	Total capital
8,877	(3,023)	27,710	33,564	386	33,950
-	-	903	903	22	925
-	616	-	616	6	622
-	-	(292)	(292)	-	(292)
(160)	-	-	(160)	-	(160)
17	31	-	48	421	469
8,734	(2,376)	28,321	34,679	835	35,514

Total share capital and capital reserves	Accumulated other comprehensive income (loss)	Retained earnings	Total	Non-controlling interests	Total capital
8,867	(2,026)	25,414	32,255	366	32,621
-	-	876	876	6	882
-	(496)	-	(496)	-	(496)
-	-	(124)	(124)	-	(124)
-	-	-	-	-	-
10	-	-	10	-	10
8,877	(2,522)	26,166	32,521	372	32,893

BANK LEUMI OF ISRAEL LTD. AND ITS CONSOLIDATED COMPANIES

Statement of Changes in Equity (cont.)

For the period ended June 30 2018

	For the six months ended June 30 2018 (unaudited)		
	Share capital	Capital reserves	
		Premium	Stock compensation- and other transactions ^(a)
	In NIS millions		
Balance as at December 31 2017 (audited)	7,110	1,729	38
Effect of first-time application of IFRS 9 on foreign subsidiaries	-	-	-
Net income for the period	-	-	-
Other comprehensive income, net, after tax effect	-	-	-
Dividend paid by consolidated companies	-	-	-
Paid dividend	-	-	-
Stock issues	1	7	(8)
Purchase of shares as part of the buyback plan	(7)	(153)	-
Sale of interests in subsidiaries to non-controlling interests	-	17	-
Balance as at June 30 2018	7,104	1,600	30

	For the six months ended June 30 2017 (unaudited)		
	Share capital	Capital reserves	
		Premium	Stock compensation- and other transactions ^(a)
	In NIS millions		
Balance as at December 31 2016 (audited)	7,109	1,722	36
Net income for the period	-	-	-
Other comprehensive loss, net, after tax effect	-	-	-
Dividend paid by consolidated companies	-	-	-
Paid dividend	-	-	-
Stock issues	1	7	(8)
Employee benefit in respect of stock compensation transactions	-	-	10
Balance as at June 30 2017	7,110	1,729	38

	For the year ended December 31 2017 (audited)		
	Share capital	Capital reserves	
		Premium	Stock compensation- and other transactions ^(a)
	In NIS millions		
Balance as at December 31 2016	7,109	1,722	36
Application of the US tax reform ^(b)	-	-	-
Net income	-	-	-
Other comprehensive loss, net, after tax effect	-	-	-
Dividend paid by consolidated companies	-	-	-
Paid dividend	-	-	-
Issuance of shares	1	7	(8)
Employee benefit in respect of stock compensation	-	-	10
Balance as at December 31 2017	7,110	1,729	38

(a) Including NIS 10 million in other capital reserves.

(b) Effect of income taxes arising from tax rate changes following the tax reform; the taxes were reclassified from other comprehensive income to retained earnings.

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

Total share capital and capital reserves	Accumulated other comprehensive income (loss)	Retained earnings	Total	Non-controlling interests	Total capital
8,877	(3,051)	27,341	33,167	386	33,553
-	-	(19)	(19)	-	(19)
-	-	1,633	1,633	32	1,665
-	644	-	644	6	650
-	-	-	-	(10)	(10)
-	-	(634)	(634)	-	(634)
-	-	-	-	-	-
(160)	-	-	(160)	-	(160)
17	31	-	48	421	469
8,734	(2,376)	28,321	34,679	835	35,514

Total share capital and capital reserves	Accumulated other comprehensive income (loss)	Retained earnings	Total	Non-controlling interests	Total capital
8,867	(2,312)	24,792	31,347	367	31,714
-	-	1,498	1,498	15	1,513
-	(210)	-	(210)	-	(210)
-	-	-	-	(10)	(10)
-	-	(124)	(124)	-	(124)
-	-	-	-	-	-
10	-	-	10	-	10
8,877	(2,522)	26,166	32,521	372	32,893

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

BANK LEUMI OF ISRAEL LTD. AND ITS CONSOLIDATED COMPANIES
Condensed Consolidated Cash Flow Statement
For the period ended June 30 2018

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2018	2017	2018	2017	2017
	Unaudited				Audited
	In NIS millions				
Cash flows from operating activities					
Net income for the period	925	882	1,665	1,513	3,201
Adjustments:					
The Group's share in undistributed profits of associates ^(a)	2	(15)	84	(1)	68
Depreciation of buildings and equipment (including impairment)	126	159	287	342	662
Expenses (income) in respect of loan losses	(14)	42	116	143	172
Gains on sale of loan portfolios	-	-	-	-	(9)
Gains on sale of available-for-sale securities	(12)	(70)	(33)	(113)	(187)
Realized and unrealized gains (losses) from fair value adjustments of held-for-trading securities	(1)	(4)	(71)	182	45
Gain on disposal of an investment in a formerly-consolidated subsidiary	(7)	-	(7)	-	-
Gains on disposal of buildings and equipment	(19)	(2)	(30)	(2)	(278)
Provision for impairment of available-for-sale shares	-	-	-	-	11
Deferred taxes - net	184	3	196	(69)	(231)
Severance pay and pension - increase (decrease) in excess reserves over fund	1,133	(637) ^(b)	1,356	(140) ^(b)	(42)
Interest received beyond the interest accrued during the period in respect of available-for-sale bonds	(4)	55	55	62	100
Interest not yet paid in respect of bonds and subordinated bonds	197	286	289	448	671
Effect of exchange rate differentials on cash and cash equivalent balances	(143)	(107)	(312)	480	447
Other, net	-	(1)	-	(1)	(2)
Net change in current assets:					
Assets in respect of derivatives	(270)	(330)	(2,500)	(711)	1,077
Held-for-trading securities	(628)	(1,728)	(852)	(1,647)	2,948
Other assets	632	344 ^(b)	333	97 ^(b)	(111) ^(b)
Net change in current liabilities:					
Liabilities in respect of derivative instruments	(81)	792	1,630	1,434	(915)
Other liabilities	(2,461)	362	(2,759)	(143)	317
Net cash provided from (for) current activities	(441)	31^(b)	(553)	1,874^(b)	7,944^(b)

(a) Net of dividend received.

(b) Reclassified, including in respect of the application of US GAAP ASC 230, *Statement of Cash Flows*.
See Note 1.B.2.

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

BANK LEUMI OF ISRAEL LTD. AND ITS CONSOLIDATED COMPANIES
Condensed Consolidated Cash Flow Statement (cont.)
For the period ended June 30 2018

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2018	2017	2018	2017	2017
	Unaudited				Audited
	In NIS millions				
Cash flows from investing activities					
Net change in deposits with banks for an original period of more than three months	1,427	(615) ^(a)	(2,022)	(652) ^(a)	(1,085) ^(a)
Net change in loans to the public	248	(536) ^(a)	(3,142)	(4,423) ^(a)	(8,017) ^(a)
Net change in loans to governments	(34)	1 ^(a)	(42)	23 ^(a)	(73) ^(a)
Change in securities borrowed or purchased under agreements to resell	(53)	(128) ^(a)	230	253 ^(a)	123 ^(a)
Purchase of held-to-maturity bonds	(1,120)	-	(1,521)	-	(74)
Proceeds from redemption of held-to-maturity bonds	14	23	33	80	128
Purchase of available-for-sale securities	(27,290)	(14,024)	(54,829)	(42,045)	(90,845)
Proceeds from the sale of available-for-sale securities	13,067	5,448	26,753	19,505	42,394
Proceeds from redemption of available-for-sale securities	13,732	9,690	25,252	22,381	45,187
Proceeds from disposal of investments (purchase of shares) in associates	(35)	9	(152)	9	17
Proceeds from disposal of a formerly-consolidated subsidiary ^(a)	11	-	11	-	-
Proceeds from sale of loan portfolios	14	-	14	-	96
Purchase of buildings and equipment	(146)	(104)	(324)	(319)	(637)
Proceeds from disposal of buildings and equipment	22	6	44	9	315
Proceeds from disposal of assets transferred to the Group's ownership	-	-	-	2	-
Central severance pay fund	54	1 ^(a)	177	297	373
Other	1	-	(19)	-	-
Net cash for investing activities	(88)	(229)	(9,537)	(4,880)	(12,098)
Cash flows from financing activities					
Net change in deposits from banks for an original period of more than three months	580	(88) ^(a)	(1,515)	1,229 ^(a)	2,094 ^(a)
Net change in deposits from the public	(1,725)	1,885 ^(a)	(2,394)	(2,065) ^(a)	17,817 ^(a)
Net change in deposits from governments	(422)	(124) ^(a)	90	(216) ^(a)	(387) ^(a)
Net change in securities loaned or sold under agreements to resell	64	(237) ^(a)	1	(295) ^(a)	19 ^(a)
Issue of bonds and subordinated bonds	1,289	-	1,289	-	-
Redemption of bonds and subordinated bonds	(135)	(638)	(201)	(751)	(7,734)
Dividend paid to shareholders	(292)	(124)	(634)	(124)	(627)
Dividend paid to external shareholders in consolidated companies	-	-	(10)	(10)	(10)
Proceeds of disposal of investments in consolidated companies without loss of control	501	-	501	-	-
Purchase of shares as part of the buyback plan	(160)	-	(160)	-	-
Net cash from (for) financing activities	(300)	674	(3,033)	(2,232)	11,172
Increase (decrease) in cash and cash equivalents, including cash and cash equivalents classified as held-for-sale assets and liabilities^(b)	(829)	476	(13,123)	(5,238)	7,018
Less increase (decrease) in cash and cash equivalents classified as held-for-sale assets and liabilities^(b)	1		3		
Increase (decrease) in cash and cash equivalents	(830)	476	(13,126)	(5,238)	7,018
Balance of cash and cash equivalents at beginning of period	66,713	65,968	78,840	72,269	72,269
Effect of exchange rate fluctuations on cash and cash equivalent balances	143	107	312	(480)	(447)
Balance of cash and cash equivalents at end of period	66,026	66,551	66,026	66,551	78,840

(a) Reclassified, including in respect of the application of US GAAP ASC 230, *Statement of Cash Flows*. See Note 1.B.2.

(b) For more information, please see Note 16g.

BANK LEUMI OF ISRAEL LTD. AND ITS CONSOLIDATED COMPANIES

Condensed Consolidated Cash Flow Statement (cont.)

For the period ended June 30 2018

Interest and Taxes Paid and/or Received and Dividends Received

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2018	2017	2018	2017	2017
	Unaudited		Unaudited		Audited
	In NIS millions				
Interest received	2,633	2,516	5,180	5,175	10,057
Interest paid	(781)	(652)	(1,349)	(1,018)	(2,447)
Dividends received	12	2	108	34	176
Income tax paid	206	(549)	(308)	(901)	(1,855)

Appendix A - Non-Cash Investments and Financing Activities in the Reporting Period:

For the Year Ended December 31 2017

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

On April 6 2017, the bank issued PSUs. As a result, NIS 10 million was reclassified from "Other liabilities" line item to the stock compensation transactions reserve.

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

Appendix B - Proceeds from Disposal of a Formerly-Consolidated Subsidiary^(a)

Assets and Liabilities of the Formerly Consolidated Subsidiary and Cash Inflow from Disposal of the Formerly-Consolidated Subsidiary as at the Sale Date:

	As at June 30 2018
	Unaudited
	In NIS millions
Derecognized cash	7
Assets (excluding cash)	1
Liabilities	3
Identified assets and liabilities	5
Net of transfer to available-for-sale securities	1
Derecognized assets and liabilities	4
Capital gain on disposal of investments in a formerly-consolidated subsidiary	7
Total proceeds on disposal of investments in a formerly-consolidated subsidiary	11

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

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

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Note 1 - Significant Accounting Policies

A. Basis of Financial Reporting

1. Reporting Principles

The condensed consolidated interim financial statements as at June 30 2018 are prepared in accordance with the Israeli GAAP on financial reporting in interim periods and in accordance with the directives and guidelines of the Banking Supervision Department regarding the preparation of quarterly financial statements by a banking corporation. On most topics, the directives are based on US GAAP for banks. In other, less material, topics, the directives are based on certain IFRSs, IFRICS and Israeli GAAP.

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

The accounting principles applied to the preparation of the financial statements are consistent with those applied to the audited annual financial statements as at December 31 2017, except as outlined in Section B below. The financial statements should be read in conjunction with the annual financial statements as at December 31 2017 and their accompanying notes. The condensed consolidated interim financial statements were approved by the Bank's Board of Directors on August 13 2018.

2. Use of Estimates

The preparation of the condensed consolidated financial statements in accordance with Israeli GAAP and the directives and guidelines of the Banking Supervision Department requires Management to use estimates and assessments and to exercise discretion, which affect the reported amounts of assets and liabilities as well as income and expense amounts for the reporting period. It is clarified that the actual results may differ from such estimates.

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

Changes in Estimates

The underlying estimates and assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognized in the period in which the estimates were amended and in any future period affected by the changes.

B. First-time Application of New Accounting Standards, Accounting Standard Revisions, and New Directives Issued by the Banking Supervision Department

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

1. Revenue Recognition

On January 11 2015, a circular was published regarding the adoption of revised accounting principles, Revenue from Contracts with Customers. The circular revises Reporting to the Public Directives following the publication of Update No. 2014-09, which adopts a new standard on revenue recognition for the US GAAP. According to the update, revenue shall be recognized according to the amount expected to be received in consideration of providing the goods or rendering the services to a customer.

The Standard provides a five-stage model for determining the timing and amount for recognizing revenue.

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

Note 1 - Significant Accounting Policies (cont.)

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

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

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

2. Reporting by Banking Corporations in accordance with US GAAP

On October 13 2016, the Banking Supervision Department published a circular entitled "Reporting by Banking Corporations in accordance with US GAAP."

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

- Discontinued operations in accordance with ASC Subtopic 205-20 on "Non-Current Assets Held for Sale and Discontinued Operations."
- Property, plant, and equipment in accordance with ASC Topic 360 "Property, Plant, and Equipment."
- Earnings per share in accordance with ASC Topic 260, "Earnings per Share."
- Statement of cash flows in accordance with ASC Subtopic 230-10, "Statement of Cash Flows."
- Interim reporting in accordance with ASC Topic 270, "Interim Reporting."
- Capitalization of interest costs pursuant to ASC Subtopic 835-20, "Capitalization of Interest."
- Measurement and disclosure of guarantees in accordance with ASC Topic 460, "Guarantees."

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

3. Improved Presentation of Pension and Other Post-Employment Benefits

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

Pursuant to the circular, the salary expenses in the income statement should only include the cost of service. All other components of the benefit's cost shall be stated under "Other expenses."

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

The application of the circular had no material effect on the financial statements, except on the manner of presentation and disclosure, including restatement of comparative information for prior periods.

4. Standard Revision Regarding Stock Compensation

In May 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2017-09, which amends the provisions of ASC 718 regarding stock compensation. The revision is intended to clarify when modification accounting should be implemented following a change in the terms and conditions of stock compensation.

The application of the circular had no material effect on the financial statements.

Note 1 - Significant Accounting Policies (cont.)

C. New Accounting Standards and Directives Issued by the Banking Supervision Department Prior to their Application

Publication topic	Publication's requirements	Effective date and transitional provisions	Effect on the financial statements
ASU 2017-04 on goodwill impairment	In January 2017, the FASB issued ASU 2017-04, which amends ASC 350, "Intangibles - Goodwill and Other." According to the ASU, it is no longer required to calculate the fair value of goodwill and recognize an impairment in respect of the difference between the fair value and carrying amount. Goodwill impairment should be recognized as the difference between the fair value of the reported unit and its carrying amount. However, the impairment loss cannot exceed the goodwill amount attributed to the reporting unit.	The change is to be applied prospectively from January 1 2020.	The implementation of the circular is not expected to have a material effect on the financial statements.
ASU 2017-08 on receivables	In March 2017, the FASB published ASU 2017-08, "Premium Amortization of Purchased Callable Debt Securities" (hereinafter: the "ACU"), which constitutes an update to Subtopic 310-20 - "Receivables - Nonrefundable Fees and Other Costs" (formerly FAS 91). Pursuant to the update, the amortization period of premiums on purchased callable debt securities by the issuer will be shortened from the contractual amortization period to one ending by the earliest early repayment date.	The change is to be applied prospectively from January 1 2019.	The implementation of the circular is not expected to have a material effect on the financial statements.
Adoption of updates to US GAAP for banks - provisions for expected loan losses and other directives	On March 28 2018, the Banking Supervision Department published a letter titled "Adoption of Updates to US GAAP for Banks - Provisions for Expected Loan Losses and other Directives." The letter requires Israeli banks to apply US GAAP for banks on the following topics: Revised accounting treatment of loan loss provisions - CECL The letter adopts US GAAP for expected loan losses as published in ASU 2016-13. The purpose of the new rules is to improve the quality of reporting on a banking corporation's financial position by early recording the provisions for loan losses so as to reinforce the anti-cyclical behavior of the loan loss provisions in order to support a swifter response by banks to a deterioration in borrowers' credit quality and enhance the correlation between credit risk management	This change is to be implemented starting January 1 2021 by recording the cumulative effect of the application of these principles under retained earnings.	The Bank is assessing the effect of the letter on its financial statements.

Note 1 - Significant Accounting Policies (cont.)

Publication topic	Publication's requirements	Effective date and transitional provisions	Effect on the financial statements
	and the manner in which these risks are reflected in the financial statements.		
	The main highlights of the expected changes are as follows:		
	<ul style="list-style-type: none"> a. The loan loss provision will be calculated according to the expected loss over the life of a loan rather than the estimated loss that has been incurred but not yet identified. b. When estimating loan losses, significant use will be made of forward-looking information which shall reflect reasonable forecasts regarding future economic events. c. Disclosure of the effect of the loan granting date on the credit quality of the loan portfolio will be expanded d. A change will be made in the manner in which impairment of bonds in the available-for-sale portfolio will be recorded. e. The new rules for calculating the loan loss provision will apply to loans, held-to-maturity bonds and certain off-balance sheet credit exposures. 		
	<p>Revised treatment of financial instruments</p> <p>The letter adopts US GAAP on recognition and measurement of financial instruments as published in ASU 2016-01. The purpose of the new rules is to simplify the model of reporting on financial instruments and provide users with more useful information for decision making purposes.</p> <p>The main highlights of the expected changes are as follows:</p> <ul style="list-style-type: none"> a. Tradable shares in the available-for-sale portfolio will be measured at fair value through profit or loss rather than unrealized adjustments to fair value in other comprehensive income. b. Changes in the fair value of financial liabilities deriving from instrument-specific credit risk, measured at fair value, will be recognized in other comprehensive income rather than in the income statement. 	<p>The change shall be applied from January 1 2019 according to the transitional provisions included in the American standard. Unrealized gains in respect of shares in the available for sale shares stated in capital reserve shall be reclassified to retained earnings.</p> <p>The change shall be applied from January 1 2019 according to the transitional provisions included in the American standard.</p>	

Note 1 - Significant Accounting Policies (cont.)

Publication topic	Publication's requirements	Effective date and transitional provisions	Effect on the financial statements
	<p>c. The manner of presenting financial instruments in the balance sheet will be updated.</p> <p>Revised accounting treatment of derivatives and hedging activities The letter adopts US GAAP for derivatives and hedging activities as published in ASU 2017-12. The objective of the new rules is to improve financial reporting on hedge ratios so as to better reflect the financial results of the banking corporation's risk management through changes in the designation, measurement and presentation of the hedging results. Another objective is to simplify the application of hedge accounting. The main points of the expected changes are as follows:</p> <p>a. The rules expand the ability to hedge certain risk components, thereby matching the recording of hedging instruments and hedged items in the financial statements.</p> <p>b. The rules facilitate the application of accounting guidelines on hedging, mainly by easing requirements on examining hedge effectiveness and documenting hedges.</p> <p>c. The disclosure of activities in derivatives will be updated.</p>		
	<p>Revised treatment of leases The letter adopts the US GAAP in respect of leases as outlined in ASU 2016-02, including the presentation, measurement and disclosure rules set out by Accounting Standards Codification Topic 842. The main objective of the new rules is to have the financial statements fully reflect the leverage level resulting from long-term leases. The main highlights of the expected changes are as follows:</p> <p>a. Leases longer than 12 months will be recognized in the balance sheet even if a lease is classified as an operating lease.</p> <p>b. In operating leases, an asset shall be recorded in the balance sheet which reflects the corporation's right to use the leased asset against an obligation to pay the lease.</p> <p>c. Leasing transactions in which a banking corporation sells an asset and leases it back may be considered, under certain circumstances, as accounting sales</p>	The change is to be applied from January 1 2020 onwards.	

Note 1 - Significant Accounting Policies (cont.)

Publication topic	Publication's requirements	Effective date and transitional provisions	Effect on the financial statements
Reporting by banking corporations and credit card companies in accordance with US GAAP on leases	<p>transactions subject to meeting certain conditions specified in the new rules.</p> <p>A quantitative disclosure regarding the expected effect of the revised accounting treatment of leases should be included in the financial statements no later than those for the second quarter of 2019.</p> <p>On July 1 2018, the Banking Supervision Department published a circular entitled "Reporting by Banking Corporations and Credit Card Companies in accordance with US GAAP on Leases".</p> <p>As part of the circular, it was clarified, inter alia, that risk-weighted assets in respect of right of use for operating leases recognized in the balance sheet will be weighted by 100% for minimum capital ratio purposes. In addition, the transitional provision requiring to exclude exchange differences for available-for-sale bonds as part of the fair value adjustments of the bonds was extended until January 1 2021.</p>		

Note 2 - Interest Income and Expenses

	For the three months ended June 30		For the six months ended June 30	
	2018	2017	2018	2017
	Unaudited			
	In NIS millions			
A. Interest income^(a)				
From loans to the public	2,870	2,640	5,067	4,744
From loans to governments	9	7	16	12
From deposits with the Bank of Israel and from cash	16	12	35	25
From deposits with banks	34	25	61	54
From securities borrowed or purchased under agreements to resell	1	1	1	1
From bonds ^(b)	258	202	429	370
Total interest income	3,188	2,887	5,609	5,206
B. Interest expense^(a)				
For deposits from the public	(569)	(429)	(884)	(707)
For deposits from governments	(1)	(1)	(2)	(2)
For deposits from banks	(6)	(5)	(12)	(9)
For securities loaned or sold under agreements to repurchase	(1)	(1)	(1)	(1)
For bonds, promissory notes and subordinated bonds	(197)	(286)	(290)	(449)
Total interest expense	(774)	(722)	(1,189)	(1,168)
Total interest income, net	2,414	2,165	4,420	4,038
C. Breakdown of the net effect of hedging derivative instruments^(c)				
From interest income	1	(2)	-	(12)
D. Details on interest income from bonds, on accrual basis				
Available for sale	229	179	395	336
Held for trading	19	21	23	32
Held to maturity	10	2	11	2
Total included in interest income	258	202	429	370

(a) Including an effective component in hedging ratios.

(b) Including interest in respect of mortgage-backed securities (MBSs) in the amount of NIS 53 million and NIS 108 million for the three-month and six-month periods ended June 30 2018 (NIS 51 million and NIS 103 million for the three-month and six-month periods ended June 30 2017).

(c) More information about the effect of hedging derivatives on subsections A. and B.

Note 3 - Noninterest Finance Income

	For the three months ended June 30		For the six months ended June 30	
	2018	2017	2018	2017
	Unaudited			
	In NIS millions			
A. Noninterest finance income for non-trading activities				
A.1. From activities in derivative instruments^(a)				
Net income (expenses) for ALM derivatives ^(b)	1,243	(770)	1,584	(1,939)
Total from activity in derivatives	1,243	(770)	1,584	(1,939)
A.2. From investment in bonds				
Profits from the sale of available for sale bonds ^(g)	8	33	45	53
Losses from the sale of available for sale bonds ^{(f)(g)}	(19)	(3)	(31)	(18)
Total from investment in bonds	(11)	30	14	35
A.3. Exchange rate differentials, net	(1,182)	891	(1,566)	2,450
A.4. Gains (losses) on investment in shares				
Profits from the sale of available for sale shares ^{(c)(g)}	33	52	37	100
Losses from the sale of available for sale shares ^(g)	(10)	(12)	(18)	(22)
Capital gain on disposal of investments in a formerly-consolidated subsidiary	7	-	7	-
Dividend from available for sale shares	8	2	12	10
Losses from investees	-	-	(1)	-
Total investment in shares	38	42	37	88
Total noninterest finance income (expenses) for non-trading activities	88	193	69	634
B. Noninterest finance income in respect of trading activities⁽ⁱ⁾				
Realized and unrealized losses from adjustments to fair value of held-for-trading bonds, net ^(d)	(1)	12	(15)	(174)
Realized and unrealized gains from adjustments to fair value of held-for-trading shares, net ^(e)	2	(8)	86	(8)
Total from trading activities^(h)	1	4	71	(182)
Total noninterest finance income	89	197	140	452

(a) Excluding an effective component in hedging ratios.

(b) Derivatives which constitute part of the Bank's assets and liabilities management system that are not designated for hedging ratios.

(c) There were no material gains from the sale of shares in the three months ended March 31 2018: A NIS 20 million gain on the sale of Henderson Horizon in the three months ended June 30 2018 (gains on the sale of Kenon and Kornit - NIS 14 million and NIS 17 million, respectively, in the three months ended March 31 2017 and a NIS 30 million gain and NIS 11 million gain on the sale of R2NET and Kornit, respectively, in the three months ended June 30 2017).

(d) Of which the losses are: NIS 9 million and NIS 12 million for the three-month and six-month periods ended June 30 2018 in respect of held-for-trading bonds held as at the balance sheet date (gains of NIS 7 million and NIS 12 million for the three-month and six-month periods ended June 30 2017).

(e) Of which the gains are: NIS 4 million related to held-for-trading shares still held as at the balance sheet date for the six-month period ended June 30 2018; there were no gains related to held-for-trading shares still held as at the balance sheet date for the three-month period ended March 31 2018 (there were no losses related to the held-for-trading shares still held as at the balance sheet date in the three-month and six-month period ended June 30 2017).

(f) Including impairment provisions in respect of available-for-sale bonds totaling NIS 6 million and NIS 4 million in the three-month and six-month period ended June 30 2018. (There were no material provisions for impairments in the three- and six-month periods ended June 30 2017).

(g) Reclassified from "Accumulated other comprehensive income".

(h) For interest income from investments in held-for-trading bonds, please see Note 2.

(i) Including exchange rate differentials from trading activities.

Note 3A - Earnings per Ordinary Share

A. Basic Earnings per Share

Calculation of the Bank's diluted earnings per share is divided by the weighted average of the number of the Bank's outstanding ordinary shares, as follows:

	For the three months ended June 30		For the six months ended June 30	
	2018	2017	2018	2017
	Unaudited			
	In NIS millions			
Basic net income				
Net income attributable to the Bank's	903	876	1,633	1,498
Weighted average of the number of shares (in				
Balance as at the beginning of period	1,524,021	1,522,973	1,523,524	1,522,973
Effect of the exercised PSUs and RSUs and	-	529	327	266
Effect of the purchase of shares as part of	(1,407)	-	(707)	-
Weighted average of the number of shares	1,522,614	1,523,502	1,523,144	1,523,239
Basic earnings per share (in NIS)	0.59	0.57	1.07	0.98

B. Diluted Earnings per Share

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

	For the three months ended June 30		For the six months ended June 30	
	2018	2017	2018	2017
	Unaudited			
	In NIS millions			
Diluted net income				
Net income attributable to the Bank's	903	876	1,633	1,498
Weighted average of the number of shares (in				
Balance as at the beginning of period	1,522,614	1,523,502	1,523,144	1,523,239
Effect of yet unexercised PSUs and RSUs	699	685	878	1,489
Weighted average of the number of shares,	1,523,313	1,524,187	1,524,022	1,524,728
Diluted earnings per share (in NIS)	0.59	0.57	1.07	0.98

Note 4 - Accumulated Other Comprehensive Income (Loss)

A. Changes in Accumulated Other Comprehensive Income (Loss) after Tax Effect

1. Changes in Accumulated Other Comprehensive Income (Loss) for the Three-Month Period Ended June 30 2018 and 2017 (Unaudited)

Other comprehensive income (loss) components attributed to non-controlling interests							
	Adjust- ments in respect of presenta- tion of available- for-sale securities at fair value	Translation adjust- ments, ^(a) net of the hedging effect ^(b)	The banking corporation's ownership interests in other comprehen- sive income of investees accounted for under the equity method	Adjust- ments in respect of employee benefits ^(c)	Total	Other compre- hensive loss attributable to non- controlling interests	Other comprehen- sive income (loss) attribu- table to the Bank's share- holders
In NIS millions							
Balance as at March 31 2017	(75)	(128)	10	(1,837)	(2,030)	(4)	(2,026)
Net change during the period	(16)	(64)	1	(417)	(496)	-	(496)
Balance as at June 30 2017	(91)	(192)	11	(2,254)	(2,526)	(4)	(2,522)
Balance as at March 31 2018	(62)	(178)	13	(2,800)	(3,027)	(4)	(3,023)
Net change during the period	(124)	47	5	694	622	6	616
Sale of interests in subsidiaries to non-controlling interests	-	(13)	-	-	(13)	(44)	31
Balance as at June 30 2018	(186)	(144)	18	(2,106)	(2,418)	(42)	(2,376)

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

2. Changes in Accumulated Other Comprehensive Income (Loss) for the Six-Month Periods Ended June 30 2018 and 2017 (Unaudited)

	Other comprehensive income (loss) components attributed to non-controlling interests						
	Adjust- ments in respect of presen- tation of available- for-sale securities at fair value	Translation adjust- ments, ^(a) net of the hedging effect ^(b)	The banking corporation's ownership interests in other compre- hensive income of investees accounted for under the equity method	Adjust- ments in respect of employee benefits ^(c)	Total	Other compre- hensive loss attributable to non- controlling interests	Other compre- hensive loss attribu- table to the Bank's share- holders
In NIS millions							
Balance as at December 31 2016 (audited)	(86)	(79)	18	(2,169)	(2,316)	(4)	(2,312)
Net change during the period	(5)	(113)	(7)	(85)	(210)	-	(210)
Balance as at June 30 2017	(91)	(192)	11	(2,254)	(2,526)	(4)	(2,522)
Balance as at December 31 2017 (audited)	75	(195)	15	(2,950)	(3,055)	(4)	(3,051)
Net change during the period	(261)	64	3	844	650	6	644
Sale of interests in subsidiaries to non-controlling interests	-	(13)	-	-	(13)	(44)	31
Balance as at June 30 2018	(186)	(144)	18	(2,106)	(2,418)	(42)	(2,376)

(a) Adjustments arising from the translation of financial statements of foreign operations whose functional currency is different from the Bank's functional currency.

(b) Net gains (losses) in respect of hedging of a net investment in foreign currency.

(c) Including in respect of reclassifications in balances in equity between other comprehensive income and retained earnings. Please see the Statement of Changes in Equity.

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

A. Changes in Accumulated Other Comprehensive Income (Loss) After Tax Effect (cont.)

3. Changes in Accumulated Other Comprehensive Income (Loss) for the Year Ended December 31 2017 (Audited)

Other comprehensive income (loss) components attributed to non-controlling interests							
Adjustment s in respect of presentatio n of available- for-sale securities at fair value	Translation adjustment s, ^(a) net of the hedging effect ^(b)	The banking corporation's ownership interests in other comprehensi ve income of investees accounted for under the equity method	Adjustmen ts in respect of employee benefits ^(c)	Total	Other comprehensiv e loss attributable to non- controlling interests	Other comprehen sive loss attributabl e to the Bank's shareholde rs	
In NIS millions							
Balance as 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 as at December 31 2017	75	(195)	15	(2,950)	(3,055)	(4)	(3,051)

(a) Adjustments arising from the translation of financial statements of foreign operations whose functional currency is different from the Bank's functional currency.

(b) Net gains (losses) in respect of hedging of a net investment in foreign currency.

(c) Including in respect of reclassifications in balances in equity between other comprehensive income and retained earnings. Please see the Statement of Changes in Equity.

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

B. Changes in Accumulated Other Comprehensive Income (Loss) Components, Before and After Tax Effect

	For the three months ended June 30 (unaudited)					
	2018			2017		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
In NIS millions						
Changes in other comprehensive income (loss) components before attribution to non-controlling interests:						
Adjustments in respect of presentation of available-for-sale securities at fair value:						
Net realized and unrealized gains (losses) from adjustments to fair value	(177)	60	(117)	47	(14)	33
(Gains) in respect of available-for-sale securities reclassified to the income statement ^(a)	(12)	5	(7)	(70)	21	(49)
Net change during the period	(189)	65	(124)	(23)	7	(16)
Translation adjustments^(b):						
Adjustments from translation of financial statements	108	-	108	(100)	-	(100)
Hedges ^(c)	(93)	32	(61)	54	(18)	36
Sale of interests in subsidiaries to non-controlling interests - Hedging effect	(20)	7	(13)	-	-	-
Net change during the period	(5)	39	34	(46)	(18)	(64)
The banking corporation's share in other comprehensive income (loss) of associates accounted for using the equity method	6	(1)	5	(3)	4	1
Net change during the period	6	(1)	5	(3)	4	1
Employee benefits:						
Net actuarial gain (loss)	958	(330)	628	(703)	245	(458)
Net losses reclassified to the income statement ^(d)	99	(33)	66	64	(23)	41
Net change during the period	1,057	(363)	694	(639)	222	(417)
Total net change during the period	869	(260)	609	(711)	215	(496)
Changes in other comprehensive (loss) components attributed to non-controlling interests						
Total change during the period	(38)	-	(38)	-	-	-
Changes in the other comprehensive income (loss) components attributable to the Bank's shareholders						
Total change during the period, net	907	(260)	647	(711)	215	(496)

(a) The pre-tax amount is reported in the income statement under the noninterest finance income line item. See Note 3 - Noninterest Finance Income.

(b) Adjustments arising from the translation of financial statements of foreign operations whose functional currency is different from the Bank's functional currency.

(c) Net gains (losses) in respect of hedging of a net investment in foreign currency.

(d) The pre-tax amount is reported in the income statement under Salaries and related expenses. For more information, please see Note 8 - Employee Benefits.

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

B. Changes in Accumulated Other Comprehensive Income (Loss) Components, Before and After Tax Effect (cont.)

	For the six months ended June 30 (unaudited)					
	2018			2017		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
In NIS millions						
Changes in other comprehensive income (loss) components before attribution to non-controlling interests:						
Adjustments in respect of presentation of available-for-sale securities at fair value:						
Net realized and unrealized gains (losses) from adjustments to fair value	(363)	123	(240)	110	(35)	75
(Gains) in respect of available-for-sale securities reclassified to the income statement ^(a)	(33)	12	(21)	(113)	33	(80)
Net change during the period	(396)	135	(261)	(3)	(2)	(5)
Translation adjustments^(b):						
Adjustments from translation of financial statements	145	-	145	(259)	-	(259)
Hedges ^(c)	(126)	45	(81)	225	(79)	146
Sale of interests in subsidiaries to non-controlling interests - Hedging effect	(20)	7	(13)	-	-	-
Net change during the period	(1)	52	51	(34)	(79)	(113)
The banking corporation's share in other comprehensive income (loss) of associates accounted for using the equity method	3	-	3	(11)	4	(7)
Net change during the period	3	-	3	(11)	4	(7)
Employee benefits:						
Net actuarial gain (loss)	1,082	(370)	712	(285)	104	(181)
Net losses reclassified to the income statement ^(d)	200	(68)	132	148	(52)	96
Net change during the period	1,282	(438)	844	(137)	52	(85)
Total net change during the period	888	(251)	637	(185)	(25)	(210)
Changes in other comprehensive loss components attributed to non-controlling interests						
Total change during the period, net	(38)	-	(38)	-	-	-
Changes in other comprehensive income (loss) components attributed to the Bank's shareholders						
Total change during the period, net	926	(251)	675	(185)	(25)	(210)

(a) The pre-tax amount is reported in the income statement under the noninterest finance income line item. See Note 3 - Noninterest Finance Income.

(b) Adjustments arising from the translation of financial statements of foreign operations whose functional currency is different from the Bank's functional currency.

(c) Net gains (losses) in respect of hedging of a net investment in foreign currency.

(d) The pre-tax amount is reported in the income statement under Salaries and related expenses. For more information, please see Note 8 - Employee Benefits.

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

B. Changes in Accumulated Other Comprehensive Income (Loss) Components, Before and After Tax Effect (cont.)

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

(a) The pre-tax amount is reported in the income statement under the noninterest finance income line item. See Note 3 - Noninterest Finance Income.

(b) Adjustments arising from the translation of financial statements of foreign operations whose functional currency is different from the Bank's functional currency.

(c) Net gains (losses) in respect of hedging of a net investment in foreign currency.

(d) The pre-tax amount is reported in the income statement under Salaries and related expenses. For more information, please see Note 8 - Employee Benefits.

Note 5 - Securities

As at June 30 2018 (unaudited)					
	Balance sheet value	Amortized cost	Unrecognized gains from fair value adjustments	Unrecognized losses from adjustments to fair value	Fair value ^(a)
In NIS millions					
1. Held-to-maturity bonds:					
Of the Israeli government	813	813	-	(2)	811
Mortgage-backed securities (MBS)	1,074	1,074	2	(24)	1,052
Of other foreign entities	513	513	2	(13)	502
Total held-to-maturity bonds	2,400	2,400	4	(39)	2,365
As at June 30 2018 (unaudited)					
	Balance sheet value	Amortized cost (in shares - cost)	Accumulated other comprehensive income (loss)		Fair value ^(a)
			Gains	Losses	
In NIS millions					
2. Available-for-sale securities: Bonds -					
Of the Israeli government	38,818	38,927	49	(158)	38,818
Of foreign governments	8,781	8,786	2	(7)	8,781
Of Israeli financial institutions	11	11	-	-	11
Of foreign financial institutions	10,137	10,197	16	(76)	10,137
Asset-backed (ABS) or mortgage-backed (MBS)	9,016	9,215	10	(209)	9,016
Of other Israeli entities	165	160	5	-	165
Of other foreign entities	3,129	3,213	3	(87)	3,129
Total bonds	70,057	70,509	85	(537)	70,057
Shares and funds^(b)	3,227	3,071	180	(24)	3,227
Total available-for-sale securities^(f)	73,284	73,580	265^(c)	(561)^(c)	73,284

Note 5 – Securities (cont.)

As at June 30 2018 (unaudited)					
	Balance sheet value	Amortized cost (in shares - cost)	Unrealized gains from fair value adjustments	Unrealized losses from fair value adjustments	Fair value ^(a)
In NIS millions					
3. Held for trading securities:					
Bonds -					
Of the Israeli government	5,121	5,129	2	(10)	5,121
Of foreign governments	70	71	-	(1)	70
Of Israeli financial institutions	178	170	8	-	178
Of foreign financial institutions	252	257	-	(5)	252
Asset-backed (ABS) or mortgage-backed (MBS)	285	286	1	(2)	285
Of other Israeli entities	243	248	3	(8)	243
Of other foreign entities	277	281	-	(4)	277
Total bonds	6,426	6,442	14	(30)	6,426
Shares and mutual funds	3	3	-	-	3
Total held-for-trading securities	6,429	6,445	14^(d)	(30)^(d)	6,429
Total securities^(e)	82,113	82,425	283	(630)	82,078
As at June 30 2017 (unaudited)					
	Balance sheet value	Amortized cost	Unrecognized gains from fair value adjustments	Unrecognized losses from adjustments to fair value	Fair value ^(a)
In NIS millions					
1. Held-to-maturity bonds:					
Of the Israeli government	35	35	-	-	35
Mortgage-backed securities (MBS)	424	424	1	(7)	418
Of other foreigners ^(g)	340	340	3	(9)	334
Total held-to-maturity bonds	799	799	4	(16)	787

Note 5 – Securities (cont.)

	As at June 30 2017 (unaudited)				
	Balance sheet value	Amortized cost (in shares - cost)	Accumulated other comprehensive income (loss)		Fair value ^(a)
			Gains	Losses	
	In NIS millions				
2. Available-for-sale securities:					
Bonds -					
Of the Israeli government	36,893	36,995	114	(216)	36,893
Of foreign governments ^(g)	8,548	8,582	2	(36)	8,548
Of Israeli financial institutions	24	23	1	-	24
Of foreign financial institutions	8,657	8,618	49	(10)	8,657
Asset-backed (ABS) or mortgage-backed (MBS)	8,105	8,165	17	(77)	8,105
Of other Israeli entities	282	259	23	-	282
Of other foreigners ^(g)	2,529	2,516	28	(15)	2,529
Total bonds	65,038	65,158	234	(354)	65,038
Shares and funds^(b)	2,671	2,672	55	(56)	2,671
Total available-for-sale securities^(f)	67,709	67,830	289 ^(c)	410 ^(c)	67,709
	As at June 30 2017 (unaudited)				
	Balance sheet value	Amortized cost (in shares - cost)	Unrealized gains from fair value adjustments	Unrealized losses from fair value adjustments	Fair value ^(a)
	In NIS millions				
3. Held for trading securities:					
Bonds -					
Of the Israeli government	7,093	7,086	14	(7)	7,093
Of foreign governments	759	762	-	(3)	759
Of Israeli financial institutions	254	253	1	-	254
Of foreign financial institutions	435	435	1	(1)	435
Asset-backed (ABS) or mortgage-backed (MBS)	275	273	3	(1)	275
Of other Israeli entities	194	191	3	-	194
Of other foreign entities	429	426	4	(1)	429
Total - bonds	9,439	9,426	26	(13)	9,439
Shares and mutual funds	523	534	4	(15)	523
Total held-for-trading securities	9,962	9,960	30 ^(d)	(28) ^(d)	9,962
Total securities^(e)	78,470	78,589	323	(454)	78,458

Note 5 – Securities (cont.)

As at December 31 2017 (audited)					
	Balance sheet value	Amortized cost	Unrecognized gains from fair value adjustments	Unrecognized losses from adjustments to fair value	Fair value ^(a)
In NIS millions					
1. Held-to-maturity bonds:					
Bonds -					
Of the Israeli government	35	35	-	-	35
Mortgage-backed securities (MBS)	353	353	1	(7)	347
Of other foreign entities	478	478	10	(2)	486
Total held-to-maturity bonds	866	866	11	(9)	868
Balance as at December 31 2017 (audited)					
	Balance sheet value	Amortized cost (in shares - cost)	Accumulated other comprehensive income (loss)		Fair value ^(a)
			Gains	Losses	
In NIS millions					
2. Available-for-sale securities: Bonds -					
Of the Israeli government	36,633	36,516	156	(39)	36,633
Of foreign governments	10,755	10,768	3	(16)	10,755
Of Israeli financial institutions	11	11	-	-	11
Of foreign financial institutions	9,653	9,627	44	(18)	9,653
Asset-backed (ABS) or mortgage-backed (MBS)	8,529	8,595	11	(77)	8,529
Of other Israeli entities	70	66	4	-	70
Of other foreign entities	2,352	2,349	18	(15)	2,352
Total bonds	68,003	67,932	236	(165)	68,003
Shares and funds^(b)	2,927	2,852	97	(22)	2,927
Total available-for-sale securities^(f)	70,930	70,784	333^(c)	187^(c)	70,930

Note 5 – Securities (cont.)

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

Comments:

- (a) In most case, fair value data are based on quoted share prices, which do not necessarily reflect the price that can be obtained from selling share blocks.
- (b) Including shares and funds for which no fair value is available, which are stated at cost, in the amount of NIS 987 million (June 30 2017 - NIS 906 million; December 31 2017 - NIS 991 million).
- (c) "Adjustments in respect of the presentation of available-for-sale securities at fair value, net" are included in equity under other comprehensive income, except for securities designated to be hedged at fair value.
- (d) Charged to the income statement but yet unrealized.
- (e) Including impaired interest-accruing bonds in the amount of NIS 7 million (in June 30 2017 – there were no interest-accruing impaired bonds; December 31 2017 - NIS 7 million).
- (f) Total of NIS 10.2 billion out of total foreign currency securities are rated SSA (Supnationals, Sovereign and Agencies) (June 30 2017 - NIS 8.7 billion, December 31 2017 - NIS 9.1 billion).
- (g) Reclassified.

General comments:

Lent securities in the amount of NIS 406 million (as at June 30 2017 - NIS 241 million; as at December 31 2017 - NIS 215 million).

Securities pledged to lenders totaled NIS 4,172 million (as at June 30 2017 - NIS 3,844 million; as at December 31 2017 - NIS 6,377 million).

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

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

Note 5 – Securities (cont.)

More Information on Amortized Cost and Unrecorded Losses, by Duration and Impairment Percentage, of Held-to-Maturity Bonds in an Unrealized Loss Position

June 30 2018 (unaudited)										
Less than 12 months ^(a)						12 or more months ^(b)				
Unrecorded losses from adjustments to fair value						Unrecorded losses from adjustments to fair value				
Amor- tized cost	0- ^(c) 20%	20%- ^(d) 35%	Over 35% ^(e)	Total	Amor- tized cost	0- ^(c) 20%	20%- ^(d) 35%	Over 35% ^(e)	Total	
In NIS millions										
Bonds										
Of the Israeli government	749	2	-	-	2	-	-	-	-	-
Mortgage-backed securities (MBS)	206	7	-	-	7	131	17	-	-	17
Of other foreign entities	323	7	-	-	7	84	6	-	-	6
Total held-to-maturity bonds	1,278	16	-	-	16	215	23	-	-	23
June 30 2017 (unaudited)										
Less than 12 months ^(a)						12 or more months ^(b)				
Unrecorded losses from adjustments to fair value						Unrecorded losses from adjustments to fair value				
Amortiz- ed cost	0- ^(c) 20%	20%- ^(d) 35%	Over 35% ^(e)	Total	Amor- tized cost	0- ^(c) 20%	20%- ^(d) 35%	Over 35% ^(e)	Total	
In NIS millions										
Bonds										
Of the Israeli government	35	-(f)	-	-	-	-	-	-	-	-
Mortgage-backed securities (MBS)	332	7	-	-	7	-	-	-	-	-
Of other foreigners ^(g)	201	9	-	-	9	4	-(f)	-	-	-
Total held-to-maturity bonds	568	16	-	-	16	4	-	-	-	-

(a) Investments in a continuous unrealized loss position for a period of less than 12 months.

(b) Investments in a continuous unrealized loss position for a period of 12 months or more.

(c) Investments whose unrealized loss represents up to 20% of their amortized cost.

(d) Investments whose unrealized loss represents over 20% but no more than 35% of their amortized cost.

(e) Investments whose unrealized loss represents over 35% of their amortized cost.

(f) Losses of less than NIS 1 million.

(g) Reclassified.

Note 5 – Securities (cont.)

More Information on Amortized Cost and Unrealized Losses, by Duration and Impairment Percentage, of Held-to-Maturity Bonds in Unrealized Loss Position (cont.)

	December 31 2017 (audited)									
	Less than 12 months ^(a)					12 or more months ^(b)				
	Unrecorded losses from adjustments to fair value					Unrecorded losses from adjustments to fair value				
	Amortize	20%-	Over			Amor-	20%-	Over		
	d cost	0-(c)20%	(d)35%	35%(e)	Total	tized cost	0-(c)20%	(d)35%	35%(e)	Total
	In NIS millions									
Bonds										
Mortgage-backed	41	-(f)	-	-	-	203	7	-	-	7
Of other foreign entities	-	-	-	-	-	79	2	-	-	2
Total held-to-maturity bonds	41	-	-	-	-	282	9	-	-	9

More Information on Fair Value and Unrealized Losses, by Duration and Impairment Percentage, of Available-For-Sale Securities in an Unrealized Loss Position

	June 30 2018 (unaudited)									
	Less than 12 months ^{(a)(g)}					12 or more months ^{(b)(g)}				
	Unrealized losses					Unrealized losses				
Fair value	0-(c)20%	20%-(d)35%	Over 35%(e)	Total	Fair value	0-(c)20%	20%-(d)35%	Over 35%(e)	Total	
In NIS millions										
Bonds										
Of the Israeli government	20,167	158	-	-	158	25	-(f)	-	-	-
Of foreign governments	4,991	7	-	-	7	36	-(f)	-	-	-
Of foreign financial institutions	3,274	66	-	-	66	1,858	10	-	-	10
Asset-backed (ABS) or mortgage-backed (MBS)	3,430	74	-	-	74	3,933	135	-	-	135
Of other Israeli entities	42	-(f)	-	-	-	-	-	-	-	-
Of other foreign entities	2,025	57	-	-	57	643	30	-	-	30
Shares and mutual funds	288	13	9	-	22	42	2	-	-	2
Total available-for-sale securities	34,217	375	9	-	384	6,537	177	-	-	177

(a) Investments in a continuous unrealized loss position for a period of less than 12 months.

(b) Investments in a continuous unrealized loss position for a period of 12 months or more.

(c) Investments whose unrealized loss represents up to 20% of their amortized cost.

(d) Investments whose unrealized loss represents over 20% but no more than 35% of their amortized cost.

(e) Investments whose unrealized loss represents over 35% of their amortized cost.

(f) Losses of less than NIS 1 million.

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

Note 5 – Securities (cont.)

More Information on Fair Value and Unrealized Losses, by Duration and Impairment Percentage, of Available-for-Sale Securities in an Unrealized Loss Position (cont.)

	June 30 2017 (unaudited)									
	Less than 12 months ^{(a)(f)}					12 or more months ^{(b)(f)}				
	Unrealized losses					Unrealized losses				
Fair value	0-(c)20%	20%-(d)35%	Over 35%(e)	Total	Fair value	0-(c)20%	20%-(d)35%	Over 35%(e)	Total	
In NIS millions										
Bonds										
Of the Israeli government	8,485	216	-	-	216	-	-	-	-	-
Of foreign governments ^(g)	7,020	36	-	-	36	-	-	-	-	-
Of foreign financial institutions	5,181	9	-	-	9	17	1	-	-	1
Asset-backed (ABS) or mortgage-backed (MBS)	5,532	76	-	-	76	43	1	-	-	1
Of other Israeli entities	-	-	-	-	-	-	-	-	-	-
Of other foreign ^(g)	1,102	15	-	-	15	-	-	-	-	-
Shares and mutual funds	1,032	42	-	-	42	170	14	-	-	14
Total available-for-sale securities	28,352	394	-	-	394	230	16	-	-	16
	December 31 2017 (audited)									
	Less than 12 months ^{(a)(f)}					12 or more months ^{(b)(f)}				
	Unrealized losses					Unrealized losses				
Fair value	0-(c)20%	20%-(d)35%	Over 35%(e)	Total	Fair value	0-(c)20%	20%-(d)35%	Over 35%(e)	Total	
In NIS millions										
Bonds										
Of the Israeli government	1,172	4	-	-	4	2,227	35	-	-	35
Of foreign governments	7,846	16	-	-	16	-	-	-	-	-
Of foreign financial institutions	5,915	17	-	-	17	16	1	-	-	1
Asset-backed (ABS) or mortgage-backed (MBS)	4,491	28	-	-	28	2,010	49	-	-	49
Of other Israeli entities	-	-	-	-	-	-	-	-	-	-
Of other foreign entities	1,233	15	-	-	15	-	-	-	-	-
Shares and mutual funds	634	18	-	-	18	93	4	-	-	4
Total available-for-sale securities	21,291	98	-	-	98	4,346	89	-	-	89

(a) Investments in a continuous unrealized loss position for a period of less than 12 months.

(b) Investments in a continuous unrealized loss position for a period of 12 months or more.

(c) Investments whose unrealized loss represents up to 20% of their amortized cost.

(d) Investments whose unrealized loss represents over 20% but no more than 35% of their amortized cost.

(e) Investments whose unrealized loss represents over 35% of their amortized cost.

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

(g) Reclassified.

Note 5 – Securities (cont.)

More Information On Mortgage-Backed and Asset-Backed Available-for-Sale Securities in an Unrealized Loss Position

	June 30 2018 (unaudited)					
	Up to 12 months		More than 12 months		Total	
	Unrealized losses from fair value adjust-ments ^(a)		Unrealized losses from fair value adjust-ments ^(a)		Unrealized losses from fair value adjust-ments ^(a)	
	Fair value		Fair value		Fair value	
In NIS millions						
Mortgage-backed securities (MBS)	1,069	(30)	1,283	(45)	2,352	(75)
Other mortgage-backed securities (Including CMOs, REMICs and stripped MBSs)	1,330	(38)	2,078	(85)	3,408	(123)
Asset-backed securities (ABSs)	1,031	(6)	572	(5)	1,603	(11)
Total	3,430	(74)	3,933	(135)	7,363	(209)

	June 30 2017 (unaudited)					
	Up to 12 months		More than 12 months		Total	
	Unrealized losses from fair value adjust-ments ^(a)		Unrealized losses from fair value adjust-ments ^(a)		Unrealized losses from fair value adjust-ments ^(a)	
	Fair value		Fair value		Fair value	
In NIS millions						
Mortgage-backed securities (MBSs) ^(c)	1,551	(39)	42	(1)	1,593	(40)
Other mortgage-backed securities (Including CMOs, REMICs and stripped MBSs)	3,105	(34)	-	-	3,105	(34)
Asset-backed securities (ABSs) ^(c)	876	(3)	1	-(b)	877	(3)
Total	5,532	(76)	43	(1)	5,575	(77)

	December 31 2017 (audited)					
	Up to 12 months		More than 12 months		Total	
	Unrealized losses from fair value adjust-ments ^(a)		Unrealized losses from fair value adjust-ments ^(a)		Unrealized losses from fair value adjust-ments ^(a)	
	Fair value		Fair value		Fair value	
In NIS millions						
Mortgage-backed securities (MBSs) ^(c)	1,060	(10)	920	(18)	1,980	(28)
Other mortgage-backed securities (Including CMOs, REMICs and stripped MBSs)	1,833	(8)	1,090	(31)	2,923	(39)
Asset-backed securities (ABSs) ^(c)	1,598	(10)	-	-	1,598	(10)
Total	4,491	(28)	2,010	(49)	6,501	(77)

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

(b) Losses of less than NIS 1 million.

(c) Reclassified.

Note 5 – Securities (cont.)

More Information on Held-To-Maturity Mortgage-Backed Securities

	June 30 2018 (unaudited)			
	Amortized cost	Unrecognized gains from fair value adjustments	Unrecognized losses from adjustments to fair value	Fair value
	In NIS millions			
Mortgage-backed securities (MBS)				
Held to maturity pass-through bonds	736	2	-	738
Of which: GNMA-backed securities	550	2	-	552
Securities issued by FNMA and FHLMC	186	-	-	186
Other mortgage-backed securities (Including CMOs and stripped MBSs)	338	-	(24)	314
Of which: Securities issued or backed by FHLMC, FNMA or GNMA	153	-	(18)	135
Total mortgage-backed securities (MBSs)	1,074	2	(24)	1,052
Total held-to-maturity asset-backed securities	1,074	2	(24)	1,052
	June 30 2017 (unaudited) ^(a)			
	Amortized cost	Unrecognized gains from fair value adjustments	Unrecognized losses from adjustments to fair value	Fair value
	In NIS millions			
Mortgage-backed securities (MBS)				
Other mortgage-backed securities (Including CMOs and stripped MBSs)	424	1	(7)	418
Of which: Securities issued or backed by FHLMC, FNMA or GNMA	251	-	(6)	245
Total mortgage-backed securities (MBSs)	424	1	(7)	418
Total held-to-maturity asset-backed securities	424	1	(7)	418
	December 31 2017 (audited)			
	Amortized cost	Unrecognized gains from fair value adjustments	Unrecognized losses from adjustments to fair value	Fair value
	In NIS millions			
Mortgage-backed securities (MBS)				
Other mortgage-backed securities (Including CMOs and stripped MBSs)	353	1	(7)	347
Of which: Securities issued or backed by FHLMC, FNMA or GNMA	169	-	(6)	163
Total mortgage-backed securities (MBSs)	353	1	(7)	347
Total held-to-maturity asset-backed securities	353	1	(7)	347

(a) Restated according to the format prescribed by the Banking Supervision Department circular entitled "Improving the Usability of Banking Corporations' Reports to the Public for 2017 and 2018", which was first applied to the 2017 Annual Financial Statements.

Note 5 – Securities (cont.)

More Information on Mortgage-Backed and Asset-Backed Available-For-Sale Securities

	June 30 2018 (unaudited)			
		Accumulated other comprehensive income (loss) ^(a)		
	Amortized cost	Gains	Losses	Fair value
	In NIS millions			
Mortgage-backed securities (MBS)				
Held to maturity pass-through securities	2,864	2	(75)	2,791
Of which: GNMA-backed securities	495	1	(16)	480
Securities issued by FNMA and FHLMC	2,369	1	(59)	2,311
Other mortgage-backed securities (Including CMOs and stripped MBSs)	4,388	7	(123)	4,272
Of which: Securities issued or backed by FHLMC, FNMA or GNMA	4,180	6	(123)	4,063
Total Mortgage-backed securities (MBSs)	7,252	9	(198)	7,063
Total asset-backed securities (ABSs)	1,963	1	(11)	1,953
Of which: Credit granted to other than individuals - CLO-type bonds	1,249	1	(2)	1,248
Of which: Credit granted to individuals - SBA-backed securities	714	-	(9)	705
Total mortgage-backed and asset-backed available-for-sale securities	9,215	10	(209)	9,016
	June 30 2017 (unaudited) ^(c)			
		Accumulated other comprehensive income (loss) ^(a)		
	Amortized cost	Gains	Losses	Fair value
	In NIS millions			
Mortgage-backed securities (MBS)				
Held to maturity pass-through securities ^(b)	1,650	-	(40)	1,610
Of which: GNMA-backed securities	200	-	(6)	194
Securities issued by FNMA and FHLMC	1,450	-	(34)	1,416
Other mortgage-backed securities (Including CMOs and stripped MBSs)	4,137	5	(34)	4,108
Of which: Securities issued or backed by FHLMC, FNMA or GNMA	3,815	4	(34)	3,785
Total mortgage-backed securities (MBSs)	5,787	5	(74)	5,718
Total asset-backed securities (ABSs) ^(b)	2,378	12	(3)	2,387
Of which: Credit granted to other than individuals - CLO-type bonds	1,579	6	(1)	1,584
Of which: Credit granted to individuals - SBA-backed securities	798	6	(2)	802
Total mortgage-backed and asset-backed available-for-sale securities	8,165	17	(77)	8,105

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

(b) Reclassified.

(c) Restated according to the format prescribed by the Banking Supervision Department circular entitled "Improving the Usability of Banking Corporations' Reports to the Public for 2017 and 2018", which was first applied to the 2017 Annual Financial Statements.

Note 5 – Securities (cont.)

More Information on Mortgage-Backed and Asset-Backed Available-For-Sale Securities (cont.)

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

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

(b) Reclassified.

More Information on Mortgage-Backed and Asset-Backed Held-For-Trading Securities

	June 30 2018 (unaudited)			
	Amortized cost	Unrealized gains from fair value adjustments ^(a)	Unrealized losses from fair value adjustments ^(a)	Fair value
	In NIS millions			
Mortgage-backed securities (MBS)				
Held to maturity pass-through securities	4	-	-	4
Of which: Securities issued by FNMA and FHLMC	4	-	-	4
Other mortgage-backed securities (Including CMOs and stripped MBSs)	48	-	(1)	47
Of which: Securities issued or backed by FHLMC, FNMA or GNMA	-	-	-	-
Total mortgage-backed securities (MBSs)	52	-	(1)	51
Total asset-backed securities (ABSs)	234	1	(1)	234
Total held-for-trading mortgage-backed and asset-backed securities	286	1	(2)	285

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

Note 5 – Securities (cont.)

More Information on Mortgage-Backed and Asset-Backed Held-For-Trading Securities (cont.)

	June 30 2017 (unaudited) ^(b)			
	Amortized cost	Unrealized gains from fair value adjustments ^(a)	Unrealized losses from fair value adjustments ^(a)	Fair value
	In NIS millions			
Mortgage-backed securities (MBS)				
Held to maturity pass-through securities	5	-	-	5
Of which: Securities issued by FNMA and FHLMC	5	-	-	5
Other mortgage-backed securities (Including CMOs and stripped MBSs)	73	-	-	73
Of which: Securities issued or backed by FHLMC, FNMA or GNMA	-	-	-	-
Total mortgage-backed securities (MBSs)	78	-	-	78
Total asset-backed securities (ABSs)	195	3	(1)	197
Total held-for-trading mortgage-backed and asset-backed securities	273	3	(1)	275
	December 31 2017 (audited)			
	Amortized cost	Unrealized gains from fair value adjustments ^(a)	Unrealized losses from fair value adjustments ^(a)	Fair value
	In NIS millions			
Mortgage-backed securities (MBS)				
Held to maturity pass-through securities	4	-	-	4
Of which: Securities issued by FNMA and FHLMC	4	-	-	4
Other mortgage-backed securities (Including CMOs and stripped MBSs)	54	-	-	54
Of which: Securities issued or backed by FHLMC, FNMA or GNMA	-	-	-	-
Total mortgage-backed securities (MBSs)	58	-	-	58
Total asset-backed securities (ABSs)	209	2	(1)	210
Total held-for-trading mortgage-backed and asset-backed securities	267	2	(1)	268

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

(b) Restated according to the format prescribed by the Banking Supervision Department circular entitled "Improving the Usability of Banking Corporations' Reports to the Public for 2017 and 2018", which was first applied to the 2017 Annual Financial Statements.

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

Reclassification of Outstanding Loan Balances Granted to Individuals (Excluding Housing Loans) and Loans to Small Businesses

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

Following the above, as part of the notes to the financial statements, the outstanding balances of loans to individuals (excluding housing loans) and loans to small businesses were reclassified, as at June 30 2017 and December 31 2017, from non-problem debt to problem debt. In respect of gross loans to individuals (excluding housing loans) a total of NIS 255 million and a total of NIS 252 million were reclassified, respectively. In respect of gross loans to small businesses, a total of NIS 225 million and a total of NIS 221 million were reclassified, respectively.

The total classification to gross impaired debts in respect of loans to individuals stood at NIS 224 million as at June 30 2017 (NIS 178 million classified from non-problem debts and NIS 46 million classified from unimpaired problem debt) and a total of NIS 215 million as at December 31 2017 (NIS 176 million classified from non-problem debt and NIS 39 million classified from unimpaired problem debt). The total classification to gross impaired debts in respect of loans to small businesses stood at NIS 254 million as at June 30 2017 (NIS 161 million classified from non-problem debts and NIS 93 million classified from unimpaired problem debt) and a total of NIS 237 million as at December 31 2017 (NIS 157 million classified from non-problem debt and NIS 80 million classified from unimpaired problem debt).

It should be noted that, as a result, the loan loss provision was revised during the first quarter of the year. The effect of the revision on the financial performance for the first half and first quarter is immaterial.

A. Debts^(a), Loans to the Public and Balance of Provision for Loan Losses

	June 30 2018 (unaudited)					
	Loans to the public				Banks and govern- ments	Total
	Commercial	Housing	Private - Other	Total loans to the public		
	In NIS millions					
Recorded outstanding debt balance^(a):						
Examined on specific basis	115,230	31	797	116,058	11,299	127,357
Examined on general basis ¹	43,907	79,329	36,067	159,303	489	159,792
¹ Of which: By extent of arrears	1,087 ^(c)	78,868	-	79,955	-	79,955
Less balances classified as held for sale assets ^(d)	(614)	-	(7,423)	(8,037)	(34)	(8,071)
Total debt^{(a)2}	158,523	79,360	29,441	267,324	11,754	279,078
² Of which:						
Debt restructuring	1,306	-	268	1,574	-	1,574
Other impaired debts	1,097	31	38	1,166	-	1,166
Total impaired debts	2,403	31	306	2,740	-	2,740
Debts in arrears of 90 days or more	127	764	75	966	-	966
Other problem debts	2,255	-	522	2,777	-	2,777
Less balances classified as held for sale assets ^(d)	(5)	-	(382)	(387)	-	(387)
Total problem debts	4,780	795	521	6,096	-	6,096
Balance of loan loss provision as at year end^(a):						
Examined on specific basis	1,550	8	146	1,704	1	1,705
Examined on general basis ³	497	459	636	1,592	-	1,592
³ Of which: By extent of arrears	-	458 ^(b)	-	458	-	458
Less balances classified as held for sale assets ^(d)	(9)	-	(135)	(144)	-	(144)
Total loan loss provision⁴	2,038	467	647	3,152	1	3,153
⁴ Of which: In respect of impaired debt	421	-	105	526	-	526

- (a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
- (b) Including an outstanding general provision that exceeds the amount required under the extent of arrears method, in the amount of NIS 290 million.
- (c) Including outstanding housing loans extended to certain purchasing groups currently in the process of construction.
- (d) For more information, please see Note 16g.

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

A. Note 6A Debts^(a), Credit to the Public and Outstanding Provision for Loan Losses (cont.)

	June 30 2017 (unaudited)					
	Loans to the public					
	Commer- cial ^(d)	Housing	Private - Other ^(d)	Total loans to the public	Banks and govern- ments	Total
	In NIS millions					
Recorded outstanding debt balance^(a):						
Examined on specific basis	110,242	39	879	111,160	8,657	119,817
Examined on general basis ¹	39,783	78,457	38,339	156,579	1,298	157,877
¹ Of which: By extent of arrears	945 ^(c)	78,007	-	78,952	-	78,952
Total debt^{(a)2}	150,025	78,496	39,218	267,739	9,955	277,694
² Of which:						
Debt restructuring	2,042	-	272	2,314	-	2,314
Other impaired debts	1,454	40 ^(d)	21	1,515	-	1,515
Total impaired debts	3,496	40	293	3,829	-	3,829
Debts in arrears of 90 days or more	58	700	88	846	-	846
Other problem debts	2,540	-	436	2,976	-	2,976
Total problem debts	6,094	740	817	7,651	-	7,651
Balance of loan loss provision as at year end^(a):						
Examined on specific basis	1,629	5	105	1,739	1	1,740
Examined on general basis ³	411	452	603	1,466	-	1,466
³ Of which: By extent of arrears	-	448 ^(b)	-	448	-	448
Total loan loss provision⁴	2,040	457	708	3,205	1	3,206
⁴ Of which: In respect of impaired debt	510	-	55	565	-	565

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

(b) Including an outstanding general provision that exceeds the amount required under the extent of arrears method, in the amount of NIS 289 million.

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

(d) Reclassified.

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

A. Note 6A Debts^(a), Credit to the Public and Outstanding Provision for Loan Losses (cont.)

	December 31 2017 (audited)								
	Loans to the public			Total loans to the public	Banks and govern-ments	Total			
	Commer- cial ^(d)	Housing	Private - Other ^(d)						
	In NIS millions								
Recorded outstanding debt balance^(a):									
Examined on specific basis	113,037	29	961	114,027	11,457	125,484			
Examined on general basis ¹	41,273	77,928	37,929	157,130	1,122	158,252			
¹ Of which: By extent of arrears	1,066 ^(c)	77,465	-	78,531	-	78,531			
Total debt^{(a)2}	154,310	77,957	38,890	271,157	12,579	283,736			
² Of which:									
Debt restructuring	1,642	-	262	1,904	-	1,904			
Other impaired debts	1,308	29 ^(d)	70	1,407	-	1,407			
Total impaired debts	2,950	29	332	3,311	-	3,311			
Debts in arrears of 90 days or more	81	722	60	863	-	863			
Other problem debts	2,481	-	490	2,971	-	2,971			
Total problem debts	5,512	751	882	7,145	-	7,145			
Balance of loan loss provision as at year end^(a):									
Examined on specific basis	1,552	5	81	1,638	3	1,641			
Examined on general basis ³	472	445	650	1,567	-	1,567			
³ Of which: By extent of arrears	-	443 ^(b)	-	443	-	443			
Total loan loss provision⁴	2,024	450	731	3,205	3	3,208			
⁴ Of which: In respect of impaired debt	444	-	50	494	-	494			

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

(b) Including an outstanding general provision that exceeds the amount required under the extent of arrears method, in the amount of NIS 283 million.

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

(d) Reclassified.

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

B. Note 6B Change in Loan Loss Provision

	For the three months ended June 30 2018 (unaudited)					
	Loan loss provision					
	Loans to the public					
	Commer- cial	Housing	Private - Other	Total - Public	Banks and governmen ts	Total
	In NIS millions					
Balance of loan loss provision as at the beginning of the reporting period ^(a)	2,542	456	677	3,675	1	3,676
Expenses (income) in respect of loan losses	(62)	11	37	(14)	-	(14)
Write-offs	(188)	(1)	(126)	(315)	-	(315)
Collection of debts written off in previous years	166	1	81	248	-	248
Write-offs, net	(22)	-	(45)	(67)	-	(67)
Adjustments from translation of financial	5	-	-	5	-	5
Less movements classified as held for sale assets ^(a)	(3)	-	(2)	(5)	-	(5)
Balance of loan loss provision as at the end of the reporting period ¹	2,460	467	667	3,594	1	3,595
¹ Of which: For off-balance sheet credit	422	-	20	442	-	442

	For the three months ended June 30 2017 (unaudited)					
	Loan loss provision					
	Loans to the public					
	Commer- cial ^(b)	Housing	Private - Other ^(b)	Total - Public	Banks and govern- ments	Total
	In NIS millions					
Balance of loan loss provision as at the beginning of the reporting period	2,662	470	766	3,898	1	3,899
Expenses (income) in respect of loan losses	2	(11)	51	42	-	42
Write-offs	(255)	(2)	(155)	(412)	-	(412)
Collection of debts written off in previous years	122	-	85	207	-	207
Write-offs, net	(133)	(2)	(70)	(205)	-	(205)
Adjustments from translation of financial	(7)	-	-	(7)	-	(7)
Balance of loan loss provision as at the end of the reporting period ¹	2,524	457	747	3,728	1	3,729
¹ Of which: For off-balance sheet credit instruments	484	-	39	523	-	523

(a) The balance of loan loss provision as at the beginning of the period is presented net of balances classified as held-for-sale in the commercial portfolio in the amount of NIS 6 million and in the individual portfolio in the amount of NIS 147 million, for a total of NIS 153 million. For more information about balances and movements classified as held-for-sale, please see Note 16g.

(b) Reclassified.

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

B. Note 6B Change in the Loan Loss Provision (cont.)

	For the six months ended June 30 2018 (unaudited)					
	Loan loss provision					
	Loans to the public				Banks and govern- ments	Total
	Commer- cial	Housing	Private - Other	Total - Public		
	In NIS millions					
Balance of loan loss provision as at the beginning of the reporting period	2,472	450	767	3,689	3	3,692
Changes stated in equity ^(a)	22	-	-	22	-	22
Balance as at January 1 2018	2,494	450	767	3,711	3	3,714
Expenses (income) in respect of loan losses	(25)	17	126	118	(2)	116
Write-offs	(351)	(2)	(243)	(596)	-	(596)
Collection of debts written off in previous years	342	1	166	509	-	509
Write-offs, net	(9)	(1)	(77)	(87)	-	(87)
Adjustments from translation of financial statements	9	1	-	10	-	10
Less balances classified as held for sale assets ^(b)	(9)	-	(149)	(158)	-	(158)
Balance of loan loss provision as at the end of the reporting period ¹	2,460	467	667	3,594	1	3,595
¹ Of which: In respect of off balance-sheet credit instruments	422	-	20	442	-	442
	For the six months ended June 30 2017 (unaudited)					
	Loan loss provision					
	Loans to the public				Banks and govern- ments	Total
	Commer- cial ^(c)	Housing	Private - Other ^(c)	Total - Public		
	In NIS millions					
Balance of loan loss provision as at the beginning of the reporting period	2,670	473	807	3,950	1	3,951
Expenses (income) in respect of loan losses	84	(13)	72	143	-	143
Write-offs	(441)	(4)	(326)	(771)	-	(771)
Collection of debts written off in previous years	228	-	194	422	-	422
Write-offs, net	(213)	(4)	(132)	(349)	-	(349)
Adjustments from translation of financial	(17)	1	-	(16)	-	(16)
Balance of loan loss provision as at the end of the reporting period ¹	2,524	457	747	3,728	1	3,729
¹ Of which: In respect of off balance-sheet credit instruments	484	-	39	523	-	523

(a) Effect of first-time application of IFRS 9 on foreign subsidiaries.

(b) For more information, please see Note 16g.

(c) Reclassified.

Note 7 - Deposits by the Public

A. Types of Deposits by Location and Type of Depositor

	June 30	December 31	
	2018	2017	2017
	Unaudited	Audited	
	In NIS millions		
In Israel			
Demand deposits			
Non-interest-bearing	88,545	75,706	84,686
Interest-bearing	113,642	108,456	117,740
Total demand deposits	202,187	184,162	202,426
Fixed deposits	134,104	134,269	134,753
Less balances classified as held for sale liabilities ^(a)	(71)	-	-
Total deposits in Israel ¹	336,220	318,431	337,179
Outside Israel			
Demand deposits			
Non-interest-bearing	10,097	9,319	9,420
Interest-bearing	5,726	5,233	4,687
Total demand deposits	15,823	14,552	14,107
Fixed deposits	9,177	9,783	11,192
Of which: Non-interest-bearing	17	23	16
Total deposits outside Israel	25,000	24,335	25,299
Total deposits by the public	361,220	342,766	362,478
¹ Of which:			
Deposits by individuals ^(b)	133,045	140,465	138,685
Deposits from institutionals	67,838	59,142	70,496
Deposits from corporations and others	135,337	118,824	127,998

B. Deposits from the Public by Size

	June 30	December 31	
	2018	2017	2017
	Unaudited	Audited	
Maximum deposit is NIS millions	In NIS millions		
Up to 1 ^(b)	99,953	98,077	99,032
From 1 to 10	91,093	92,154	90,545
From 10 to 100	62,540	58,628	61,271
From 100 to 500	36,941	32,492	35,666
Over 500	70,693	61,415	75,964
Total	361,220	342,766	362,478

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

(b) Excluding balances classified as held for sale liabilities in the amount of NIS 71 million.

Note 8 - Employee Benefits

A. Composition of Benefits

1. Employee Benefits

	As at June 30 2018		As at 2017
	Unaudited		Audited
	In NIS millions		
Retirement benefits - pension and severance pay			
Liability amount	16,499	16,662	17,995
Fair value of plan assets	6,430	6,520	6,708
Excess of liability over plan assets (included in "Other	10,069	10,142	11,287
Accrued jubilee vacation leave			
Liability amount	45	57	47
Fair value of plan assets	-	-	-
Excess of liability over plan assets (included in "Other	45	57	47
Other benefits			
Liability amount	543	552	567
Fair value of plan assets	-	-	-
Amount by which the liability exceeds the plan assets	543	552	567
Total¹			
Surplus of liability in respect of employee benefits over plan assets included in the "Other liabilities" line item	10,657	10,751	11,901
¹ Of which: In respect of benefits to employees abroad	73	104	74

6. Defined Benefit Plan

A. Obligation and Funding Status

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

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2018	2017	2018	2017	2017
	Unaudited				Audited
	In NIS millions				
Obligation in respect of expected benefit as at the	17,443	15,996	17,995	16,948	16,948
Cost of service	39	35	79	72	148
Cost of interest	157	178	317	355	696
Contributions by plan participants	10	12	20	23	46
Actuarial loss (gain)	(946)	742	(1,144)	326	1,560
Changes in foreign exchange rates	2	(6)	15	(25)	(20)
Paid benefits ^(a)	(206)	(295)	(783)	(1,037)	(1,383)
Obligation in respect of expected benefit as at the end	16,499	16,662	16,499	16,662	17,995
Obligation in respect of cumulative benefit as at the	15,697	15,926	15,697	15,926	17,016

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

Note 8 - Employee Benefits (cont.)

A. Composition of Benefits (cont.)

2. Defined Benefit Plan (cont.)

A. Obligation and Funding Status (cont.)

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

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2018	2017	2018	2017	2017
	Unaudited				Audited
	In NIS millions				
Fair value of plan assets as at the beginning of the period	6,377	6,419	6,708	6,819	6,819
Actual return on plan assets	77	119	68	203	399
Plan contributions by the banking corporation	24	28	49	56	131
Contributions by plan participants	10	12	20	23	46
Changes in foreign exchange rates	4	(6)	15	(22)	(17)
Paid benefits ^(a)	(62)	(52)	(441)	(559)	(691)
Other	-	-	11	-	21
Fair value of plan assets as at the end of the reporting	6,430	6,520	6,430	6,520	6,708
Funding status - Net liability recognized at the end of the reporting period	10,069	10,142	10,069	10,142	11,287

3. Amounts recognized in the consolidated balance sheet

	As at June 30	As at	
	2018	2017	2017
	Unaudited		Audited
	In NIS millions		
Amounts recognized in the "Other liabilities" line item	10,069	10,142	11,287
Net liability recognized at the end of the reporting period	10,069	10,142	11,287

4. Amounts recognized in accumulated other comprehensive income before the tax effect

	As at June 30	As at	
	2018	2017	2017
	Unaudited		Audited
	In NIS millions		
Net actuarial loss	3,161	3,398	4,408
Closing balance of accumulated other comprehensive income	3,161	3,398	4,408

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

Note 8 - Employee Benefits (cont.)

A. Composition of Benefits (cont.)

2. Defined Benefit Plan (cont.)

B. Expenditure for the period

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

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2018	2017	2018	2017	2017
	Unaudited				Audited
	In NIS millions				
Cost of service	39	35	79	72	148
Cost of interest	157	178	317	355	696
Expected return on plan assets	(87)	(87)	(173)	(179)	(364)
Amortization of unrecognized amounts - net actuarial loss	97	63	197	145	330
Total benefit cost, net	206	189	420	393	810
Total expense for defined contribution pension plan	53	40	96	77	192
Total expenses included in the income statement	259	229	516	470	1,002

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

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2018	2017	2018	2017	2017
	Unaudited				Audited
	In NIS millions				
Net actuarial loss (gain) for the period	(936)	710	(1,039)	302	1,525
Amortization of unrecognized amounts - net actuarial loss	(97)	(63)	(197)	(145)	(330)
Changes in foreign exchange rates	-	-	-	-	(7)
Other	-	-	(11)	-	(21)
Total recognized in other comprehensive income	(1,033)	647	(1,247)	157	1,167
Total benefit cost, net	206	189	420	393	810
Total recognized in net benefit cost for the period and in other comprehensive income	(827)	836	(827)	550	1,977

3. Estimate of the amounts included in accumulated other comprehensive income expected to be deducted in the income statement as an expense in 2018, before the tax effect

	For the six months ended December 31 2018
	Unaudited
	In NIS millions
Net actuarial loss	146
Total amount expected amortized amount out of accumulated other comprehensive income	146

Note 8 - Employee Benefits (cont.)

A. Composition of Benefits (cont.)

(c) Assumptions^(a)

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

1. The main assumptions used for calculating the liability in respect of the benefit

	June 30	As at	
	2018	2017	2017
	Unaudited	Audited	
	In %		
Capitalization rate	2.47	2.62	2.06
CPI increase (%)	1.60	1.71	1.60
Exit rate	0.1-3.7	0.1-3.7	0.1-3.7
Rate of remuneration increase	0-6.3	0-6.3	0-6.3

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

	June 30	As at	
	2018	2017	2017
	Unaudited	Audited	
	In %		
Capitalization rate	2.08	2.65	2.51
Expected long-term return on plan assets	5.50	5.50	5.50
Rate of remuneration increase	0-6.3	0-6.3	0-6.3

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

	Increase by 1 percentage point			Decrease by 1 percentage point		
	June 30		December	June 30		December
	2018	2017	2017	2018	2017	2017
	Unaudited		Audited	Unaudited		Audited
	In NIS millions					
Capitalization rate	(2,137)	(2,059)	(2,360)	2,649	2,578	2,943
CPI increase (%)	-	(59)	(69)	-	59	69
Exit rate	153	213	159	(151)	(231)	(156)
Rate of remuneration	588	555	702	(515)	(478)	(610)

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

Note 8 - Employee Benefits (cont.)

A. Composition of benefits (cont.)

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

4. Plan Assets

A. Composition of fair value of plan assets

	As at June 30		As at	
	2018	2017	2017	
	Unaudited		Audited	
	In NIS millions			
Cash and deposits with banks	21	155	175	
Shares	2,515	2,611	2,596	
Government bonds	830	1,271	1,274	
Corporate bonds	2,244	2,083	1,912	
Other	820	400	751	
Total	6,430	6,520	6,708	

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

	Allocation target	Percentage of plan assets		
		June 30	December 31	
	2018	2018	2017	2017
	Unaudited	Audited		
	In %			
Cash and deposits with banks	2	-	2	3
Shares	38	39	41	38
Government bonds	19	13	19	19
Corporate bonds	31	35	32	29
Other	10	13	6	11
Total	100	100	100	100

Note 8 - Employee Benefits (cont.)

A. Composition of benefits(cont.)

5. Cash flows

A. Contributions

	Forecast ^(a)	For the three months ended June 30	For the six months ended June 30	For the year ended December 31	
	2018	2018	2017	2018	2017
	Unaudited				Audited
	In NIS				
Contributions	69	34	40	69	79
					177

(a) The estimated contributions that the Bank expects to be made to the defined benefit plan by the end of 2018.

B. Benefits the Bank expects to pay in the future^(a)

Year	In NIS millions
2018	326
2019	769
2020	670
2021	703
2022	715
2023-2027	4,241
2028 and onwards	10,654
Total	18,078

(a) In discounted values.

Note 9A - Capital

Changes in the Bank's Capital

Under the Bank's remuneration program, the precondition for the vesting the second third of the PSUs (which were allotted to the Chairman of the Board, to the President and CEO and to other officeholders of the Bank (hereinafter - the "**Bank's Officeholders**") as part of the approval of the performance-based annual bonus for half of the 2016 annual bonus) (hereinafter - the "**2016 PSUs**") as well as for the vesting of the first third of the PSUs allotted to the Bank's Officeholders as part of the approval of the performance-based annual bonus for half of the 2017 annual bonus) (hereinafter - the "**2017 PSUs**") has been met; therefore, the second third of the 2016 PSUs and the first third of the 2017 PSUs have vested. As a result, on March 5 2018, the Bank's Officeholders were allotted shares, according to the number of 2016 PSUs and 2017 PSUs vested as of that date.

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

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

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

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

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

Shelf Prospectus and Bond Issue

On May 25 2018, the Bank published a shelf prospectus under a permit issued by the Israel Securities Authority.

Under a shelf prospectus report dated June 19 2018, the Bank issued, on June 21 2018, Series 179 bonds totaling NIS 1.29 billion. The bonds are payable in two equal installments dated June 30 2024 and June 30 2026. The bonds are linked to the Consumer Price Index and carry an annual interest rate of 0.83%, payable annually on June 30 of each year from 2019 to 2026 (inclusive).

The Series 179 bonds are not recognized for regulatory capital purposes.

Under a shelf prospectus report dated July 5 2018, the Bank issued, on July 8 2018, Series 401 subordinated bonds totaling NIS 613.8 million and Series 402 subordinated bonds totaling NIS 209.1 billion.

The series 401 subordinated bonds are payable in one lump sum on July 31 2028, with the issuer having an early repayment option not prior to July 31 2023 and no later than August 31 2023. The subordinated bonds are linked to the Consumer Price Index, carry a fixed annual interest rate of 1.64% until the July 31 2023. At this date, if the Bank does not exercise its early repayment option, the subordinated bonds' nominal interest rate shall be revised at to the difference between the benchmark interest rate (as defined in the shelf prospectus report) on the issue date and the one on the interest revision date.

The series 402 subordinated bonds are payable in one lump sum on July 31 2033, with the issuer having an early repayment option not prior to July 31 2024 and no later than August 31 2028. The subordinated bonds are linked to the Consumer Price Index, carry a fixed annual interest rate of 2.78% until the July 31 2028. At this date, if the Bank does not exercise its early repayment option, the subordinated bonds' nominal interest rate shall be revised at to the difference between the benchmark interest rate (as defined in the shelf prospectus report) on the issue date and the one on the interest revision date.

Note 9A – Capital (cont.)

If circumstances of a trigger event (a trigger event for non-occurrence or trigger event for absorption of the principal loss amount, the earlier of the two) were to occur, the subordinated bonds shall be converted into shares according to the average closing prices of the Bank's shares on the Tel Aviv Stock Exchange in the 14 consecutive trading days preceding the date on which the conversion notice was issued or according to the set floor rate (NIS 10.9025 per share), the highest of the two. As of the reporting date, Subordinated Bonds Series 401 and Subordinated Bonds Series 402 are convertible under such circumstances to a total of 68,791,562 and 22,930,521 ordinary shares of the Bank, respectively.

These subordinated bonds (Series 401 and 402) are eligible for inclusion in Tier 2 as of the issue date.

Dividend Distribution Policy

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

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

In accordance with the revised policy, on August 13 2018, the Board of Directors approved, in respect of the second quarter of 2018, a dividend of 40% of the quarter's net income. The dividend approved amounted to NIS 361 million, which is 23.92 agorot per share of NIS 1 par value. The Board of Directors designated August 28 2018 as the record date for dividend payment purposes and September 6 2018 as the payment date. The final dividend amount per share is subject to changes following the Bank's buyback.

Details on paid dividend

Announcement date	Payment date	Dividend per share	Cash dividend
		In agorot	In NIS millions
May 25 2017	June 22 2017		8.17 124
August 15 2017	September 11 2017		11.50 175
November 21 2017	December 21 2017		21.51 328
March 6 2018	March 28 2018	22.41 ¹	342
May 24 2018	June 19 2018	19.18 ²	292

The Bank's Share Buyback Plan

Following the financial statements for the first quarter of 2018 regarding the Bank's preparation for carrying out a buyback in the amount of up to NIS 700 million, including by way of the safe harbor protection mechanism published by the Israel Securities Authority (Legal Position No. 199-8), and the Bank's contracting of an external member of the Stock Exchange, an initial amount of NIS 350 million was transferred for the purpose of the buyback, until the date of the current financial statements' publication, the Bank has purchased (through the independent external Stock Exchange

¹ Pursuant to the immediate report dated March 6 2018, the dividend per share amount was revised following the vesting of PSUs and issue of 497,781 new ordinary shares.

² Following the complementary report dated June 4 2018.

Note 9A – Capital (cont.)

member it has contracted), 13,667,294 shares in the amount of NIS 303 million pursuant to said plan, and the tranche was concluded.

On the eve of the publication of the current financial statements, the Bank entered an agreement with the external Stock Exchange member for the execution of an additional buyback tranche, also under the safe harbor protection mechanism published by the Israel Securities Authority as aforesaid, under which an amount of NIS 397 million will be transferred to the Stock Exchange member to carry out the buyback, with the date set for the current tranche being August 15 2018; the agreement will be in force until the earliest of any of the following: (a) March 31 2019; (b) Upon completion of the buyback tranche in the said amount; (c) A legal impediment to the continued validity of the agreement with the Stock Exchange member; (d) The Bank's announcement whereby it no longer meets the Bank of Israel's capital adequacy conditions to conduct the buyback.

For more information, please see Note 9B.

Note 9B - Capital Adequacy, Leverage and Liquidity

Overview

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

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

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

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

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

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

Volatile Capital Components

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

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

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

For regulatory capital purposes, the pension liability amounts to NIS 16,739 million and the CET1 Capital - to NIS 35,011 million, compared with a book value of NIS 16,848 million and CET1 Capital of NIS 33,282 million.

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

	June 30	December 31	
	2018	2017	2017
	Unaudited	Audited	
	In NIS millions		
A. Data			
Capital base for capital ratio purposes			
CET1 capital, after regulatory capital adjustments and deductions ^(b)	35,011	33,527	34,653
Tier 2 capital, after deductions	9,945	11,236 ^(f)	10,820 ^(f)
Total capital	44,956	44,763	45,473
Balance of risk-weighted assets			
Credit risk ^(b)	285,655	271,671	277,344
Market risks	5,481	6,308	4,464
Operational risk	22,349	21,129	21,484
Total balance of risk-weighted assets	313,485	299,108	303,292
Capital-to-risk weighted components ratio			
Ratio of CET1 capital to risk-weighted components	11.17%	11.21%	11.43%
Total capital to risk components ratio	14.34%	14.97%	14.99% ^(f)
Minimum CET1 capital ratio 1 set by the Banking Supervision Department ^(b)	10.25%	10.26%	10.25%
Minimum total equity set by the Supervisor of Banks ^(a)	13.75%	13.76%	13.75%
B. Major subsidiaries			
Leumi Card Ltd. ^(e)			
Ratio of CET1 capital to risk-weighted components	16.50%	16.00%	15.80%
Total capital to risk components ratio	17.60%	17.00%	16.80%
Minimum CET1 capital ratio 1 set by the Banking Supervision Department ^(d)	8.00%	8.00%	8.00%
Minimum total capital ratio set by the Banking Supervision Department ^(a)	11.50%	11.50%	11.50%
Bank Leumi USA			
Ratio of CET1 capital to risk-weighted components	13.61%	11.72%	11.51%
Total capital to risk components ratio	14.43%	14.18%	13.82%
Minimum CET1 capital ratio set by the local authorities ^(c)	6.38%	5.25%	5.75%
Minimum total capital ratio set by the local authorities ^(c)	9.88%	9.25%	9.25%

- (a) The minimum CET1 capital ratio and minimum total capital ratio required from January 2015 to December 31 2016 are 9% and 12.5%, respectively and from January 1 2017 - 10% and 13.5%, respectively. As of January 1 2015, these ratios are compounded by a capital requirement representing 1% of the housing loans' outstanding balance as of the reporting date. Thus, the minimum CET1 capital ratio and the minimum total capital ratio required by the Banking Supervision Department as of June 30 2018, according to the data as at the reporting date, are 10.25% and 13.75%, respectively.
- (b) These data include adjustments for the efficiency plans prescribed in the Supervisor of Banks' letter dated January 12 2016, entitled "Operational Efficiency of the Banking System in Israel" (hereinafter: "Adjustments for the Efficiency Plan") are deducted gradually until June 30 2021 and June 30 2022, respectively. For more information about the effect of the transitional provisions and adjustments in respect of the efficiency plan, please see Section D. A total of NIS 179 million was added to the balance of risk-weighted assets in respect of the Efficiency Plan (NIS 94 million as at December 31 2017, a NIS 34 million deduction as at June 30 2017).
- (c) The minimum CET1 capital ratio and the minimum total capital ratio required by local regulation are 4.5% and 8%, respectively. These relations are compounded by a capital reservation buffer of 1.875% as at June 30 2018. The requirement will be implemented gradually until 2019, at which time the capital conservation buffer will be 2.5%.
- (d) On June 1 2016, Proper Conduct of Banking Business Directive No. 472, Clearing Houses and Clearing Transactions in Debit Cards, came into force, according to which the Common Equity Tier 1 capital ratio shall not fall below 8% and the total capital ratio shall not fall below 11.5%.
- (e) For more information, please see Note 16g.
- (f) Restated. For more information, please see Note 6.

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

C. Capital Components for Calculating the Capital Ratio

	June 30	December 31	
	2018	2017	2017
	Unaudited	Audited	
	In NIS millions		
1. CET1 capital			
Equity attributable to the Bank's shareholders	34,679	32,521	33,167
Differences between the equity attributable to the Bank's shareholders and Common Equity Tier 1 Capital - minority interests	382	217	229
Differences between the equity attributable to the Bank's shareholders and CET1 capital - in respect of employee benefits	-	451	590
Adjustments in respect of the transition between the accounting yield curve and the 8-quarter yield curve ^(a)	(151)	50	532
Total CET1 capital before regulatory adjustments and deductions	34,910	33,239	34,518
Regulatory adjustments and deductions:			
Goodwill and intangible assets	(206)	(254)	(203)
Deferred taxes receivable	(221)	(344)	(219)
Regulatory adjustments and other deductions - CET1 capital	(67)	(23)	(35)
Total regulatory adjustments and deductions - CET1 capital	(494)	(621)	(457)
Total adjustments in respect of the efficiency plan	595	909	592
Total CET1 capital, after regulatory adjustments and deductions	35,011	33,527	34,653
2. Tier 2 capital			
Tier 2 capital: Instruments before deductions	6,862	8,228	7,773
Tier 2 capital: Provisions before deductions	3,083	3,008 ^(b)	3,047 ^(b)
Total Tier 2 capital before deductions	9,945	11,236	10,820
Deductions:			
Total deductions - Tier 2 capital	-	-	-
Total Tier 2 capital	9,945	11,236	10,820
Total capital	44,956	44,763	45,473

(a) Pursuant to specific approval by the Banking Supervision Department.

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

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

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

D. Effect of the Transitional Provisions and Adjustments for the Efficiency Plan on the CET1 Capital Ratio

	June 30		December 31
	2018	2017	2017
	Unaudited		Audited
	In %		
Capital-to-risk weighted components ratio			
Ratio of CET1 capital to risk-weighted components before applying the effect of the transitional provisions and adjustments in respect of the efficiency plan ^(a)	10.98%	10.70%	11.03%
Effect of the transitional provisions	0.00%	0.20%	0.20%
Ratio of CET1 capital to risk-weighted components before the effect of the transitional provisions and adjustments in respect of the efficiency plan ^(a)	10.98%	10.90%	11.23%
Adjustments in respect of the efficiency plan ^(b)	0.19%	0.31%	0.20%
Ratio of CET1 capital to risk-weighted components	11.17%	11.21%	11.43%

(a) Including the effect of adopting the US GAAP on employee benefits.

(b) These data include adjustments for the efficiency plans prescribed in the Supervisor of Banks' letter dated January 12 2016, Operational Efficiency of the Banking System in Israel. According to the said letter, the reliefs granted in respect of capital adequacy ratios and leverage ratio for the efficiency plans, which were approved by the Board of Directors in June 2016 and in July 2017, are being gradually withdrawn until June 30 2021 and June 30 2022, respectively.

E. Leverage ratio pursuant to the Banking Supervision Department directives

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

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

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

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

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

	As at June 30		As at December 31
	2018	2017	2017
	Unaudited		Audited
	In NIS millions		
A. Consolidated data ^(a)			
Tier 1 capital	35,011	33,527	34,653
Total exposures	499,799	483,683	499,026
Leverage Ratio			
Leverage Ratio	7.00%	6.93%	6.94%
Minimum total capital ratio set by the Banking Supervision Department	6.00%	6.00%	6.00%
B. Major subsidiaries			
Leumi Card Ltd.			
Leverage Ratio	11.10%	11.19%	11.10%
Minimum total capital ratio set by the Banking Supervision Department	5.00%	5.00%	5.00%
Bank Leumi USA			
Leverage Ratio	11.17%	9.64%	9.72%
Minimum total capital ratio set by the Banking Supervision Department	5.00%	5.00%	5.00%

- (a) These data include adjustments for the efficiency plans prescribed in the Supervisor of Banks' letter dated January 12, 2016, Operational Efficiency of the Banking System in Israel. According to the said letter, the reliefs granted in respect of capital adequacy ratios and leverage ratio for the efficiency plans, which were approved by the Board of Directors in June 2016 and in July 2017, are being gradually withdrawn until June 30 2021 and June 30 2022, respectively. The effect of the relief granted in respect of the efficiency plan for the leverage ratio was 0.12% as at June 30 2018 (0.09% and 0.18% as at December 31 2017 and June 30 2017, respectively). For more information about the effect of the transitional provisions and adjustments in respect of the efficiency plan, please see Section D above. In addition, when calculating the leverage ratio, adjustments in respect of the implementation of the discount rate calculated over a moving average of the market yield for the eight quarters ended on the reporting date, in respect of certain actuarial liabilities, as outlined above were taken into account.

F. Liquidity Coverage Ratio Pursuant to the Banking Supervision Department Directives

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

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

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

The liquidity coverage ratio became effective on April 1 2015.

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

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

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

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

	June 30		December 31
	2018	2017	2017
	Unaudited		Audited
	In %	In %	
a. Consolidated data			
Liquidity coverage ratio	124	127	122
Minimum liquidity coverage ratio required by the Banking Supervision Department	100	100	100
b. Banking corporation's data			
Liquidity coverage ratio	124	127	122
Minimum liquidity coverage ratio required by the Banking Supervision Department	100	100	100

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

Note 10 - Contingent Liabilities and Special Commitments

A. Contingent Liabilities and other Special Commitments

	June 30	December 31	
	2018	2017	2017
	Unaudited	Audited	
	In NIS millions		
(1) Long-term leases - rental fees for buildings, equipment and vehicles and maintenance fees in respect of agreements to pay in coming years			
In first year	220	182	228
In second year	190	246	201
In third year	149	160	144
In fourth year	131	131	128
In fifth year	115	113	118
Over 5 years	1,085	1,165	1,109
Total long-term leases	1,890 ^(a)	1,997	1,928
(2) Commitments to purchase securities	705	651	477
(3) Commitments to invest in buildings and equipment and	52 ^(a)	88	37

(a) Including lease balances of NIS 446 million and NIS 36 million in liabilities for investment in buildings and equipment in respect of held-for-sale assets.

	June 30	December 31	
	2018	2017	2017
	Unaudited	Audited	
	In NIS millions		
(4) Loan sale activity			
Carrying amount of sold loans	14	-	87
Cash received	14	-	96
Net income on sale of loans	-	-	9

B. Legal Claims

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

Note 26 to the Annual Financial Statements as at December 31 2017 includes information about all the material legal claims as at the above reporting date. The note includes information regarding material legal claims filed during and after the reporting period, if filed, as well as changes which took place in respect of material legal claims filed in previous reporting periods, but does not include information about legal claims reported in Note 26 to the Annual Financial Statements in which no changes have taken place.

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

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

According to the estimate of the Bank's management and the managements of the consolidated companies, the additional exposure amount in respect of legal claims filed against the Bank and against the consolidated companies on various issues (each of which exceeds NIS 2 million) and the prospects of whose materialization is not minor, amounts to NIS 25 million.

1. As of the financial statements' publication date, no material changes have occurred in respect of the information included in Note 26 to the Annual Financial Statements, except as outlined below:
 - 1.1. On September 7 2011, a petition to approve a class action lawsuit was filed against the Bank (in respect of Leumi Mortgage Bank Ltd.) and against other banks. The total jurisdictional amount against all the respondent banks was NIS 927 million (against Leumi - NIS 327 million). The petitioners claim that the respondent banks charged housing-loan borrowers "advance compound interest", contrary to law and to the loan agreements. On August 16 2015, the court rejected the petition for approval of claim as a class action due to lack of cause of action. On December 7 2015, the plaintiffs appealed the court's decision in the Supreme Court. On March 14 2018, the Supreme Court rejected the appeal. With this, the legal claim was concluded.
 - 1.2. In February and March 2013, the liquidator of two companies in a real estate group filed, through their special administrator, two legal claims against the Bank, as well as against additional banks, entities and persons. The special administrator claims, inter alia, that the defendants allowed the transfer of funds from the companies' accounts to other accounts related to the Group and that the Bank has aided in executing "circular transactions" at quarters' ends, allowing the concealment of the thefts carried out, according to the special administrator's claims, and preventing their exposure in the companies' financial statements. The amounts claimed are NIS 63 million and NIS 102 million (including linkage and interest rate). On June 27 2018, the court approved the settlement agreements signed between the liquidator and all defendants, following a mediation process. The two claims were thus concluded. An additional proceeding filed by the special administrator on behalf of another subsidiary in the Group, on other grounds, is pending.
 - 1.3. On August 28 2013, a petition to approve a class action lawsuit was filed against the Bank and other banks. The Supervisor of Banks, Bank of Israel Governor and Antitrust Commissioner were included as formal respondents. The subject of the petition is the allegedly unlawful charging of commissions for conversion and transfer of foreign currency, without providing fair disclosure thereof. The petitioners claim that the damage caused to customers (according to an "abbreviated" petition filed by the petitioners) is about NIS 2.6 billion (the petitioners claim additional damages which have not been quantified).
On January 20 2015, a court handling the proceedings of another class action approval petition concerning a similar matter - in the amount of NIS 200 million, also against the credit card companies (including against Leumi Card) - decided to transfer the case to the court handling the abovementioned petition.
On March 18 2018, the petitioners appealed the March 1 2018 decision by the Tel Aviv District Court, which rejected the class action approval petition and ordered the petitioners to pay the respondents' legal expenses.
 - 1.4. On March 18 2014, a class action approval petition was filed against the Bank, claiming NIS 155 million, under the claim that as part of the withholding at source carried out by the Bank in respect of securities transactions conducted through the Bank, the latter's systems unlawfully underestimate capital gains and over-estimate capital losses. On August 1 2018, the court approved a settlement agreement for the procedure, and the lawsuit was concluded.
 - 1.5. On April 21 2015, a petition to approve a class action lawsuit was filed against the Bank. The petitioner claims that the Bank did not fulfill its duty to make a reasonable effort to locate holders of dormant accounts, to notify them of the account's existence and to pay them the funds "lying dormant", according to the petitioner, in these accounts. The petitioner raises additional claims

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

regarding the charging of fees and commissions in these accounts, and the transfer of the funds to the account holders without CPI-linkage and interest. The total damage to all members of the group is unquantifiable. On February 26 2018, the court approved a settlement arrangement in this procedure, and the lawsuit was concluded.

- 1.6. On September 8 2016, a petition to approve a class action lawsuit was filed against the Bank and against other banks. The petitioner claimed that the banks charge minimum fees for foreign currency transfers by size, rather than charging a single minimum fee, which - according to the petitioner - is required under banking regulations, and that this common violation of all the respondent banks is, in fact, a restrictive practice contrary to the Antitrust Law. The total damage amount claimed by the petitioner from all the respondents is approximately NIS 500 million. On March 13 2018, a judgment was given by the court, approving the petitioner's withdrawal from the proceeding. With this, the legal claim was concluded.
 - 1.7. On May 15 2017, a petition was filed to approve a class action against the Bank (similar claims have been filed against other banks, including the Bank, on February 12 2017, which are still pending). The petitioners claim that the Bank does not classify businesses as "small businesses" and as a result, unlawfully charges them fees which do not apply to small businesses. The petitioner estimates the damage amount for all respondents to be NIS 462 million. On April 17 2018, the Tel Aviv District court decided to reject the petition for a class action suit filed on May 15 2017. The court has accepted the petition to approve a class action filed on February 12 2017, in which the claimed damage amount was NIS 100 million. On May 31 2018, the petitioners appealed the decision to the Supreme Court.
 - 1.8. On September 11 2017, a petition to approve a class action was filed against the Bank, claiming NIS 150 million. The petitioner claims that the Bank opens accounts under the name of building committee members, rather than condominium-type accounts, as required by law. Moreover, it is claimed that the Bank unlawfully collects commissions from these accounts, does not meet the provisions of the Checks Without Cover Law regarding identification of customers, and does not allow apartment owners to access information pertaining to the bank account. On March 25 2018, a ruling was issued approving the applicant's withdrawal from the proceeding. With this, the legal claim was concluded.
 - 1.9. On May 6 2018, a petition to approve a class action lawsuit was filed against the Bank. The petitioner claims that the Bank does not fulfil its duty to make a reasonable effort to locate inactive accounts with a balance exceeding the investment requirement under the Banking Ordinance (Inactive Accounts), 2000, and that it is insufficient that the Bank revalues the accounts according to the provisions of the Ordinance and that the Bank should revalue the accounts at higher amounts. According to the claimant, the total class damage amount is inestimable.
2. As of the financial statements' publication date, no material changes have occurred in respect of legal claims filed against the Bank's subsidiaries in relation to the information included in Note 26 to the Annual Financial Statements, except as outlined below:
- On April 8 2014, a petition to approve a class action lawsuit was filed against several credit card companies, including Leumi Card. For more information regarding this petition, please see Section 1.3 above. On March 18 2018, the petitioners appealed the March 1 2018 decision by the Tel Aviv District Court, which rejected the class action approval petition and ordered the petitioners to pay the respondents' legal expenses.
3. Also pending against one of the Bank's subsidiaries are petitions to approve class actions for a material amount, which – according to the Bank's management and based on the opinion of the relevant subsidiary's management, which is based on legal opinions as to the odds of these petitions being

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

accepted – it is impossible to estimate the odds at this stage. For this reason, no provisions were made in respect of these petitions.

- 3.1. On May 1 2018, a petition to approve a class action lawsuit against Leumi Card and another Credit card company was filed. The Bank was added as a respondent due to its stake in Leumi Card. According to the petitioner, the companies issuing credit cards do not issue their customers making credit transactions or delayed payment transactions, periodic or annual statements outlining their finance expenses (total interest and expenses paid for credit transactions). According to the petitioner, failure to disclose this information to private customers is misleading, and as for business customers – the failure to disclose the information also prevents them for receiving tax credit for these expenses. The total claimed damage amount for all respondents is NIS 180 million.
- 3.2. On July 22 2018, a petition was filed to approve a class action against Leumi Card and two other credit card companies. The action focused on remote credit card transactions made by the group (mostly by phone) with businesses engaged in “direct marketing”. According to the petitioner, these businesses took advantage of the weakness of the elderly population and unlawfully charged numerous unlawful transactions to their credit cards, as well as charges which were not approved by them. The petitioner claims that the credit card companies entered into clearing agreements with the “direct marketing” companies, thus enabling their actions. According to the petitioner, the damage amount to all members of the group he claims to represent is NIS 900 million.

C. Credit Cards

On March 7 2012, the Antitrust Tribunal gave its judicial approval to an agreement submitted by Leumi Card, Isracard Ltd., Israel Credit Card Company Ltd. and the banks controlling each of the credit card companies with the Antitrust Commissioner regarding the rate of interchange fee which will be in effect between the clearing entities and credit card issuers Visa and MasterCard. According to the approved agreement, the rate of the interchange fee will decrease gradually until it reaches 0.7% from July 2014, according to the outline plan for the reduction of interchange fee set forth in the ruling. The arrangement between the Commissioner and the credit card companies is in force until the end of 2018. Following the notice published by the Bank of Israel on January 16 2018 regarding the intention of the Bank of Israel's governor to exercise her legal authority to announce the service provided by a clearer to a business in respect of clearing debit card transactions a regulated service in respect of interchange fees and the intention to reduce the interchange fee gradually over time, the Bank of Israel announced on February 25 2018 it has revised the outline published in its previous announcement, so that the interchange fee in deferred debit transactions is reduced according to the following outline:

From January 1 2019 (the date on which the current arrangement comes to an end) – a reduction from 0.7% to 0.6%;

From January 1 2020 – a reduction from 0.6% to 0.575%;

From January 1 2021 – a reduction from 0.575% to 0.55%;

From January 1 2022 – a reduction from 0.55% to 0.525%;

From January 1 2023 – a reduction from 0.525% to 0.5%.

In addition, the Bank of Israel also announced that the interchange fee on immediate debit transactions (which is currently 0.3%) will be reduced as follows:

From January 1 2021 – a reduction from 0.3% to 0.275%;

From January 1 2023 – a reduction from 0.275% to 0.25%.

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

In addition, on July 24 2017, the Ministry of Finance announced a reduction in merchant's fees charged by Diners and American Express. The reduction will be applied gradually, so that until December 31 2017 the maximum fee shall be 2.95%; until December 31 2018 - the maximum fee shall be 2.45%; until December 31 2019, the maximum fee shall be 2.10%; and on June 30 2020, the maximum fee for a merchant will be 1.99%. In addition, credit card companies will be prohibited from imposing alternative fees on merchants.

Pursuant to the Law on Minimizing Market Centralization and Promoting Economic Competition (Legislative Amendments), 2017, as of February 2019, the Bank shall be required to operate the issuance of new credit cards to the Bank's customers through at least two issuance operators, with any issuance operator's share reaching a maximum of 52% of the new cards issued by the Bank. Under this provision, the Bank negotiated with credit card companies regarding entering agreements to operate the issuance of new cards.

In March 2018, the Bank signed debit card issuance operation and issuance agreements with Isracard Ltd. and Europay (Eurocard) Israel Ltd. (of the Isracard Group). Following the above engagement, the parties are working towards signing a detailed agreement.

On August 12 2018, the Bank signed a joint credit card issuance and operation agreement with Israel Credit Cards Ltd. and Diners Club Israel Ltd. (of the CAL group). According to said agreements, the parties will issue debit cards from February 2019 and the abovementioned companies will operate the card issuance. The abovementioned agreement establishes the revenue sharing mechanism among the parties, as well as their rights and obligations and other arrangements relating to said operation. The entry into force of this agreement is conditional upon meeting certain preconditions.

At the same time, the Bank is holding negotiations with Leumi Card towards signing a credit card issuance and operations agreement (in lieu of the existing one), under which the parties will issue debit cards ("Operating Agreement"). For more information on the agreement signed on July 28 2018 between the Bank and Azrieli (hereinafter: the "Sellers") and Warburg Pincus Financial Holdings (Israel LTD.), a corporation controlled by investment fund Warburg Pincus, for the sale of the Sellers' entire holdings in Leumi Card, including the operation agreement, please see the section entitled "Main Investee Companies", under "Leumi Card".

From April to August 2018, various directives regarding debit cards were published, including in respect of clearing dates of debit card transactions. For more information, please see the section entitled "Laws and Regulations Governing the Banking System".

D. Contingent Liabilities and Miscellaneous Commitments

1. Other Proceedings

On November 2 2017, a scoping meeting was held with the Enforcement Division of the Financial Conduct Authority (FCA) for a proceeding at Bank Leumi UK (hereinafter: "BLUK"), regarding controls and systems for the implementation of anti-money laundering regulations. The proceeding, which FCA is authorized to carry out, is at an initial stage, and therefore the length of the proceeding and which of the range of measures available to the FCA will be taken, if any, are unknown. However, during the reporting period, the FCA clarified that the proceeding would be merely regulatory in nature. According to the FCA publications regarding similar proceedings against banks similar to BLUK - in which violations were determined to have occurred - resulted in measures taken against those banks so that it may be assumed that BLUK's exposure to financial sanctions, if any, will be immaterial to Leumi Group.

2. Monetary Sanction Pursuant to Section 38A of the Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Law, 1995.

On June 11 2018, the Israel Securities Authority set the Bank a notice of a monetary sanction in the amount of NIS 300,000. The amount was set following a 25% reduction pursuant to actions already taken by the Bank to avoid the recurrence of the violation. The monetary sanction was imposed on the Bank following cases of faulty documentation of advice activities provided to the Bank's customers regarding mutual funds charging additional fees.

Note 11 - Derivative Instruments Activity - Scope, Credit Risks and Maturity Dates

A. Volume of Consolidated Activity

	June 30 2018 (unaudited)					
	Interest rate contracts				Commo- dity and other	
			Foreign exchange contracts	Stock contracts	contracts	Total
	NIS-CPI	Other				
In NIS millions						
(1) Notional amount of derivatives						
A) Hedging derivatives ^(a)						
Swaps	-	2,273	-	-	-	2,273
Total	-	2,273	-	-	-	2,273
Of which: Interest rate swaps for which the banking corporation has agreed to pay a fixed interest rate						
	-	2,273	-	-	-	2,273
B) ALM ^{(a)(b)}						
Future contracts	-	71,003	152	113,412	457	185,024
Forward contracts	17,947	4,100	223,500	480	33	246,060
Listed option contracts						
Written options	-	12,423	19,190	87,030	241	118,884
Call options	-	12,423	17,877	87,030	241	117,571
Other options						
Written options	-	3,791	19,786	3,064	415	27,056
Call options	-	816	21,709	2,770	414	25,709
Swaps	640	275,090	24,311	46,475	90	346,606
Total	18,587	379,646	326,525	340,261	1,891	
Of which: Interest rate swaps for which the banking corporation has agreed to pay a fixed interest rate						
	-	139,526	-	-	-	139,526
C) Other derivatives ^(a)						
	-	-	-	-	-	-
D) Credit derivatives and foreign exchange swaps						
Credit derivatives in which the banking	-	-	-	-	5	5
Foreign exchange swaps	-	-	19,714	-	-	19,714
Total	-	-	19,714	-	5	19,719
Grand total	18,587	381,919	346,239	340,261	1,896	1,088,902

(a) Excluding credit derivatives and foreign currency swaps.

(b) Derivatives which constitute part of the Bank's assets and liabilities management system that are not designated for hedging ratios.

Note 11 - Derivative Instruments Activity - Scope, Credit Risks and Maturity Dates (cont.)

Volume of Consolidated Activity (cont.)

	June 30 2018 (unaudited)					
	Interest rate contracts					
			Foreign exchange contracts	Stock contracts	Commodity and other contracts	Total
	NIS-CPI	Other				
In NIS millions						
(2) Gross fair value of derivatives						
A) Hedging derivatives ^(a)						
Gross positive fair value	-	77	-	-	-	77
Gross negative fair value	-	3	-	-	-	3
B) ALM ^{(a)(b)}						
Gross positive fair value	275	4,025	5,026	2,606	77	12,009
Gross negative fair value	425	3,909	4,351	2,598	74	11,357
c) Other derivatives ^(a)	-	-	-	-	-	-
d) Credit derivatives						
Credit derivatives in which the banking						
Gross positive fair value	-	-	-	-	-	-
Gross negative fair value	-	-	-	-	-(d)	-
e) Total						
Positive fair value, gross ^(c)	275	4,102	5,026	2,606	77	12,086
Fair value amounts netted on the balance	-	-	-	-	-	-
Balance sheet balance of assets for	275	4,102	5,026	2,606	77	12,086
Of which: Balance sheet balance of assets in respect of derivatives not under a netting or similar arrangement	37	53	211	229	4	534
Negative fair value, gross ^(c)	425	3,912	4,351	2,598	74	11,360
Fair value amounts netted on the balance	-	-	-	-	-	-
Balance sheet balance of liabilities in respect of derivatives	425	3,912	4,351	2,598	74	11,360
Of which: Balance sheet balance of liabilities in respect of derivatives not under a netting or similar arrangement	1	84	399	496	17	997

(a) Excluding credit derivatives and foreign currency swaps.

(b) Derivatives which constitute part of the Bank's assets and liabilities management system that are not designated for hedging ratios.

(c) Of which: Gross positive fair value of assets in respect of assets for embedded derivative instruments in the amount of NIS 10 million, gross negative fair value of liabilities for embedded derivative instruments in the amount of NIS 37 million.

(d) Less than NIS 1 million.

Note 11 - Derivative Instruments Activity - Scope, Credit Risks and Maturity Dates (cont.)

A. Volume of Consolidated Activity (cont.)

	June 30 2017 (unaudited)					
	Interest rate contracts					
			Foreign exchange contracts	Option contracts	Commodity and other contracts	Total
	NIS-CPI	Other				
In NIS millions						
(1) Notional amount of derivatives						
A) Hedging derivatives ^(a)						
Swaps	-	2,266	-	-	-	2,266
Total	-	2,266	-	-	-	2,266
Of which: Interest rate swaps for which the banking corporation has agreed to pay a fixed interest rate						
	-	2,266	-	-	-	2,266
B) ALM ^{(a)(b)}						
Future contracts	-	24,495	127	69,083	195	93,900
Forward contracts	14,745	1,052	165,886	588	5	182,276
Listed option contracts						
Written options	-	1,100	15,469	15,152	82	31,803
Call options	-	1,100	15,086	15,152	82	31,420
Other options						
Written options	-	10,810	19,517	3,168	147	33,642
Call options	-	5,469	20,854	2,943	144	29,410
Swaps	572	268,720	26,558	32,240	175	328,265
Total	15,317	312,746	263,497	138,326	830	730,716
Of which: Interest rate swaps for which the banking corporation has agreed to pay a fixed interest rate						
	-	141,915	-	-	-	141,915
C) Other derivatives ^(a)	-	-	-	-	-	-
D) Credit derivatives and foreign exchange swaps						
Credit derivatives in which the banking	-	-	-	-	10	10
Foreign exchange swaps	-	-	15,221	-	-	15,221
Total	-	-	15,221	-	10	15,231
Grand total	15,317	315,012	278,718	138,326	840	748,213

(a) Excluding credit derivatives and foreign currency swaps.

(b) Derivatives which constitute part of the Bank's assets and liabilities management system that are not designated for hedging ratios.

Note 11 - Derivative Instruments Activity - Scope, Credit Risks and Maturity Dates (cont.)

A. Volume of Consolidated Activity (cont.)

	June 30 2017 (unaudited)					
	Interest rate contracts					
			Foreign exchange contracts	Option contracts	Commodity and other contracts	Total
	NIS-CPI	Other				
	In NIS millions					
(2) Gross fair value of derivatives						
A) Hedging derivatives ^(a)						
Gross positive fair value	-	39	-	-	-	39
Gross negative fair value	-	16	-	-	-	16
B) ALM ^{(a)(b)}						
Gross positive fair value	339	5,225	4,442	1,301	20	11,327
Gross negative fair value	425	4,885	5,493	1,296	19	12,118
C) Other derivatives ^(a)	-	-	-	-	-	-
D) Credit derivatives						
Credit derivatives in which the banking						
Gross positive fair value	-	-	-	-	-	-
Gross negative fair value	-	-	-	-	_(d)	-
e) Total						
Positive fair value, gross ^(c)	339	5,264	4,442	1,301	20	11,366
Fair value amounts netted on the balance	-	-	-	-	-	-
Balance sheet balance of assets for derivative instruments	339	5,264	4,442	1,301	20	11,366
Of which: Balance sheet balance of assets in respect of derivatives not under a netting or similar arrangement	47	59	194	2	-	302
Negative fair value, gross ^(c)	425	4,901	5,493	1,296	19	12,134
Fair value amounts netted on the balance	-	-	-	-	-	-
Balance sheet balance of liabilities in respect of derivatives	425	4,901	5,493	1,296	19	12,134
Of which: Balance sheet balance of liabilities in respect of derivatives not under a netting or similar arrangement	-	47	352	2	15	416

(a) Excluding credit derivatives and foreign currency swaps.

(b) Derivatives which constitute part of the Bank's assets and liabilities management system that are not designated for hedging ratios.

(c) Of which: Gross positive fair value of assets in respect of assets for embedded derivative instruments in the amount of NIS 5 million, gross negative fair value of liabilities for embedded derivative instruments in the amount of NIS 56 million.

(d) Less than NIS 1 million.

Note 11 - Derivative Instruments Activity - Scope, Credit Risks and Maturity Dates (cont.)

A. Volume of Consolidated Activity (cont.)

	December 31 2017 (audited)					
	Interest rate contracts		Foreign exchange contracts	Option contracts	Commodity and other contracts	Total
	NIS-CPI	Other				
	In NIS millions					
(1) Notional amount of derivatives						
A) Hedging derivatives ^(a)						
Swaps	-	1,742	-	-	-	1,742
Total	-	1,742	-	-	-	1,742
Of which: Interest rate swaps for which the banking corporation has agreed to pay a fixed interest rate	-	1,742	-	-	-	1,742
B) ALM ^{(a)(b)}						
Future contracts	-	33,009	106	103,734	234	137,083
Forward contracts	16,209	800	170,863	863	21	188,756
Listed option contracts						
Written options	-	-	15,950	36,351	11	52,312
Call options	-	-	15,672	36,351	11	52,034
Other options						
Written options	-	5,529	18,673	2,742	209	27,153
Call options	-	2,367	19,090	2,586	209	24,252
Swaps	794	231,919	25,648	37,523	157	296,041
Total	17,003	273,624	266,002	220,150	852	777,631
Of which: Interest rate swaps for which the banking corporation has agreed to pay a fixed interest rate	-	121,703	-	-	-	121,703
C) Other derivatives ^(a)	-	-	-	-	-	-
D) Credit derivatives and foreign exchange swaps						
Credit derivatives in which the banking	-	-	-	-	5	5
Foreign exchange swaps	-	-	12,163	-	-	12,163
Total	-	-	12,163	-	5	12,168
Grand total	17,003	275,366	278,165	220,150	857	791,541

(a) Excluding credit derivatives and foreign currency swaps.

(b) Derivatives which constitute part of the Bank's assets and liabilities management system that are not designated for hedging ratios.

Note 11 - Derivative Instruments Activity - Scope, Credit Risks and Maturity Dates (cont.)

A. Volume of Consolidated Activity (cont.)

	December 31 2017 (audited)					
	Interest rate contracts			Commodity and other contracts		
	NIS-CPI	Other	Foreign exchange contracts	Option contracts		Total
	In NIS millions					
(2) Gross fair value of derivatives						
A) Hedging derivatives ^(a)						
Gross positive fair value	-	30	-	-	-	30
Gross negative fair value	-	8	-	-	-	8
B) ALM ^{(a)(b)}						
Gross positive fair value	315	4,125	3,018	2,060	32	9,550
Gross negative fair value	431	3,825	3,471	2,041	25	9,793
C) Other derivatives ^(a)	-	-	-	-	-	-
D) Credit derivatives						
Credit derivatives in which the banking						
Gross positive fair value	-	-	-	-	-	-
Gross negative fair value	-	-	-	-	-(d)	-
e) Total						
Positive fair value, gross ^(c)	315	4,155	3,018	2,060	32	9,580
Fair value amounts netted on the balance	-	-	-	-	-	-
Balance sheet balance of assets for derivative instruments	315	4,155	3,018	2,060	32	9,580
Of which: Balance sheet balance of assets in respect of derivatives not under a netting or similar arrangement	51	52	98	289	6	496
Negative fair value, gross ^(c)	431	3,833	3,471	2,041	25	9,801
Fair value amounts netted on the balance	-	-	-	-	-	-
Balance sheet balance of liabilities in respect of derivatives	431	3,833	3,471	2,041	25	9,801
Of which: Balance sheet balance of liabilities in respect of derivatives not under a netting or similar arrangement	-	26	394	60	13	493

(a) Excluding credit derivatives and foreign currency swaps.

(b) Derivatives which constitute part of the Bank's assets and liabilities management system that are not designated for hedging ratios.

(c) Of which: NIS 7 million in positive gross fair value of assets in respect of embedded derivatives, NIS 61 million in gross negative fair value of liabilities in respect of embedded derivatives.

(d) Less than NIS 1 million.

Note 11 - Derivative Instruments Activity - Scope, Credit Risks and Maturity Dates (cont.)

B. Credit Risk and for Derivatives by Contract Counterparty

	June 30 2018 (unaudited)					
	Stock exchan- ges	Banks	Dealers/ brokers	Gover- nments and central banks	Other	Total
	In NIS millions					
Balance sheet balance of assets for derivative instruments ^{(a)(b)}	140	5,348	1,877	45	4,676	12,086
Gross amounts not netted on the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	4,345	1,475	45	1,290	7,155
Credit risk mitigation in respect of cash collateral received	-	711	380	-	1,950	3,041
Net amount of assets in respect of derivatives	140	292	22	-	1,436	1,890
Off balance-sheet credit risk for derivative instruments ^{(d)(e)}	295	10,791	1,722	39	8,236	21,083
Mitigation of off balance-sheet credit risk	-	4,761	802	23	2,097	7,683
Net off balance-sheet credit risk for derivatives	295	6,030	920	16	6,139	13,400
Total credit risk and for derivatives	435	6,322	942	16	7,575	15,290
Balance sheet balance of liabilities for derivative	129	6,523	1,524	55	3,129	11,360
Gross amounts not netted on the balance sheet:						
Financial instruments	-	4,345	1,475	45	1,290	7,155
Pledged cash collateral	-	720	36	-	418	1,174
Net amount of liabilities in respect of derivatives	129	1,458	13	10	1,421	3,031

Note 11 - Derivative Instruments Activity - Scope, Credit Risks and Maturity Dates (cont.)

	June 30 2017 (unaudited)					
	Stock exchan- ges	Banks	Dealers/ brokers	Govern- ments and central banks	Other	Total
	In NIS millions					
Balance sheet balance of assets for derivative instruments ^{(a)(b)}	185	6,693	1,959	102	2,427	11,366
Gross amounts not netted on the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	4,738	1,770	-	796	7,304
Credit risk mitigation in respect of cash collateral received	-	1,669	189	102	66	2,026
Net amount of assets in respect of derivatives	185	286	-	-	1,565	2,036
Off balance-sheet credit risk for derivative instruments ^{(d)(e)}	-	5,941	1,567	68	4,713	12,289
Mitigation of off balance-sheet credit risk	-	1,569	841	-	1,295	3,705
Net off balance-sheet credit risk for derivatives	-	4,372	726	68	3,418	8,584
Total credit risk and for derivatives	185	4,658	726	68	4,983	10,620
Balance sheet balance of liabilities for derivative instruments ^{(a)(c)}	152	5,726	1,982	-	4,274	12,134
Gross amounts not netted on the balance sheet:						
Financial instruments	-	4,738	1,770	-	796	7,304
Pledged cash collateral	-	441	86	-	1,924	2,451
Net amount of liabilities in respect of derivatives	152	547	126	-	1,554	2,379

Please see notes on the next page.

Note 11 - Derivative Instruments Activity - Scope, Credit Risks and Maturity Dates (cont.)

B. Credit Risk and for Derivatives by Contract Counterparty (cont.)

	December 31 2017 (audited)					
	Stock exchang es	Banks	Dealers/ brokers	Govern ments and central banks	Other	Total
	In NIS millions					
Balance sheet balance of assets for derivative instruments ^{(a)(b)}	218	5,634	1,883	87	1,758	9,580
Gross amounts not netted on the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	3,621	1,448	42	738	5,849
Credit risk mitigation in respect of cash collateral received	-	1,537	423	41	121	2,122
Net amount of assets in respect of derivatives	218	476	12	4	899	1,609
Off balance-sheet credit risk for 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 derivatives	743	5,063	840	46	3,644	10,336
Total credit risk and for derivatives	961	5,539	852	50	4,543	11,945
Balance sheet balance of liabilities for derivative instruments ^{(a)(c)}	191	4,248	1,597	42	3,723	9,801
Gross amounts not netted on the balance sheet:						
Financial instruments	-	3,621	1,448	42	738	5,849
Pledged cash collateral	-	287	131	-	1,497	1,915
Net amount of liabilities in respect of derivatives	191	340	18	-	1,488	2,037

(a) The Bank did not apply netting agreements.

(b) Of which outstanding balance-sheet standalone assets in respect of derivatives totaling NIS 12,076 million (as at June 30 2017 - NIS 11,361 million; as at December 31 2017 - NIS 9,573 million).

(c) Of which outstanding balance-sheet standalone liabilities in respect of derivatives totaling NIS 11,323 million (as at June 30 2017 - NIS 12,078 million; as at December 31 2017 - NIS 9,740 million).

(d) Off-balance sheet credit risk for derivative instruments (including derivatives with negative fair value) before credit risk deduction, as calculated for the purpose of borrower credit limitations.

(e) The difference, if positive, between all total amounts for derivative instruments (including derivatives with negative fair value) included in the borrower's indebtedness, as calculated for the purpose of borrower credit limitations, before deducting credit risk, and the outstanding balance-sheet assets for the borrower's derivatives.

Comment:

No credit losses were recorded in respect of derivative instruments in the six-month period ended June 30 2018, in the corresponding period last year and in December 2017.

Note 11 - Derivative Instruments Activity - Scope, Credit Risks and Maturity Dates (cont.)

C. Breakdown of Maturity Dates - Par Value: Outstanding

	June 30 2018 (unaudited)				
	Up to three months	Over three months to a year	More than one year and up to five years	More than five years	Total
	In NIS millions				
Interest rate contracts:					
NIS-CPI	1,695	4,244	10,439	2,209	18,587
Other	77,817	66,998	162,127	74,977	381,919
Foreign exchange contracts	189,609	130,017	21,382	5,231	346,239
Option contracts	302,589	36,595	1,077	-	340,261
Commodity and other contracts	561	717	618	-	1,896
Total	572,271	238,571	195,643	82,417	1,088,902
Total as at June 30 2017 (unaudited)	309,764	176,986	162,023	99,440	748,213
Total as at December 31 2017 (audited)	373,851	164,836	168,173	84,681	791,541

Note 12A - Regulatory Operating Segments

Overview

Information regarding regulatory operating segments was included in Note 29A to the Financial Statements dated December 31 2017.

Customer Classification

According to the circular, classification of customers to operating segments will be made according to their turnovers or characteristics (individuals and other private customers). When a banking corporation has no information regarding the total income of a business customer which has no indebtedness towards the banking corporation (including credit lines, etc.), the banking corporation may classify them into the relevant regulatory segment according to their total financial assets multiplied by a factor of 10. In addition, when the Bank believes that the total income does not represent the customer's activity volume, the customer should be classified as follows: A customer whose indebtedness is less than NIS 100 million - according to the business's total balance-sheet assets, as stated in the FAQ file, and a customer whose indebtedness exceeds NIS 100 - into the large business segment.

During the period, measures were taken to complete missing information, mainly regarding business customers' turnovers. In cases where the information has not yet been completed, customers were classified using estimates and other information in the Bank's possession. The Bank continues to collect additional information.

Note 12A - Regulatory Operating Segments (cont.)

Information on Regulatory Operating Segments - Consolidated

	For the three months ended June 30 2018 (unaudited)			
	Activity in Israel			
	Households			
		Of which:	Of which:	Private
	Total	Housing loans	Credit cards	banking
	In NIS millions			
Interest income from external	1,199	757	90	3
Interest expense for external	143	-	-	57
Interest income (expense), net:				
From external	1,056	757	90	(54)
Inter-segmental	(370)	(559)	(1)	88
Total interest income, net	686	198	89	34
Total noninterest income	382	12	180	40
Total income	1,068	210	269	74
Expenses (income) in respect of loan losses	48	11	21	-
Operating and other expenses (income):				
For external	851	73	130	33
Inter-segmental	(8)	1	(10)	-
Total operating and other expenses	843	74	120	33
Profit (loss) before taxes	177	125	128	41
Provision for income taxes (benefit)	49	42	31	14
Profit (loss) after taxes	128	83	97	27
The Bank's share in associates' profits	-	-	-	-
Net income (loss) before amount attributable to non-controlling	128	83	97	27
Net income (loss) attributable to non-controlling interests	14	-	14	-
Net income (loss) attributable to the Bank's shareholders	114	83	83	27
Average balance of assets ^(a)	102,475	66,214	12,252	442
Of which: Investments in investee companies ^(a)	-	-	-	-
Average outstanding balance of loans to the public ^{(a)(e)}	103,367	66,678	12,269	439
Outstanding balance of loans to the public as at the end of the	105,104	69,219	11,826	461
Outstanding balance of impaired debts	301	-	40	-
Outstanding balance of debts in arrears for over 90 days	839	764	-	-
Average balance of liabilities ^(a)	106,696	22	87	25,467
Of which: Average outstanding balance of deposits by the	106,196	-	80	25,464
Balance of deposits from the public as at the end of the	107,521	-	72	25,596
Average balance of risk-weighted assets ^{(a)(b)}	78,661	45,308	11,357	861
Balance of risk-weighted assets as at the end of the reporting	76,635	44,405	11,047	844
Average balance of assets under management ^{(a)(c)}	72,347	-	-	46,652
Breakdown of interest income, net:				
Margin from credit granting activities	596	198	89	1
Margin from deposit taking activities	90	-	-	33
Other	-	-	-	-
Total interest income, net	686	198	89	34

(a) Average balance calculations are based on daily balances, as at the beginning of the quarter or the beginning of each month.

(b) Risk-weighted assets - as calculated for capital adequacy purpose.

(c) Assets under management - including customers' provident assets, provident funds, study funds, mutual funds and securities.

(d) Including housing loans to business customers with a credit balance of NIS 10,622 million as at the end of the period.

(e) Including average outstanding balance of assets classified as held for sale in the amount of NIS 8,154 million.

(f) Including average outstanding balance of liabilities classified as held for sale in the amount of NIS 80 million.

Note 12A - Regulatory Operating Segments (cont.)

Small- and micro businesses ^(d)	Mid-sized businesses ^(d)	Corporation s ^(d)	Institutional entities	Financial managemen t	Other segment	Foreign operations		Total
						Total activity in Israel	Total activity abroad	
635	210	519	7	275	-	2,848	340	3,188
61	38	81	178	161	-	719	55	774
574	172	438	(171)	114	-	2,129	285	2,414
(39)	22	(117)	203	225	-	12	(12)	-
535	194	321	32	339	-	2,141	273	2,414
205	85	153	47	134	33	1,079	90	1,169
740	279	474	79	473	33	3,220	363	3,583
62	(127)	14	2	4	(4)	(1)	(13)	(14)
416	151	128	74	108	169	1,930	223	2,153
-	-	-	1	3	3	(1)	1	-
416	151	128	75	111	172	1,929	224	2,153
262	255	332	2	358	(135)	1,292	152	1,444
88	87	110	1	139	1	489	32	521
174	168	222	1	219	(136)	803	120	923
-	-	-	-	2	-	2	-	2
174	168	222	1	221	(136)	805	120	925
1	2	1	(1)	-	1	18	4	22
173	166	221	2	221	(137)	787	116	903
57,878	25,885	57,766	1,500	162,731	9,461	418,138	32,831	450,969
-	-	-	-	831	-	831	-	831
58,494	26,207	57,524	1,511	-	-	247,542	24,550	272,092
59,212	26,300	58,421	848	-	-	250,346	25,015	275,361
666	182	997	-	-	-	2,146	594	2,740
82	-	1	-	-	-	922	44	966
54,965	36,994	53,557	69,836	31,502	11,847	390,864	26,285	417,149
51,734	35,274	49,208	67,701	-	-	335,577	25,470	361,047
51,703	35,706	47,927	67,838	-	-	336,291	25,000	361,291
49,410	28,730	75,125	1,185	21,417	16,825	272,214	31,078	303,292
53,486	29,193	78,782	869	22,060	18,414	280,283	33,202	313,485
46,546	21,926	70,961	693,709	40,035	-	992,176	17,702	1,009,878
486	155	291	4	1,036	-	2,569	301	2,870
49	39	30	27	(779)	-	(511)	(58)	(569)
-	-	-	1	82	-	83	30	113
535	194	321	32	339	-	2,141	273	2,414

Note 12A - Regulatory Operating Segments (cont.)

Information on Regulatory Operating Segments - Consolidated (cont.)

	For the three months ended June 30 2017 ^(e) (unaudited)			
	Activity in Israel			
	Households			
		Of which:	Of which:	Private
	Total	Housing loans	Credit cards	banking
	In NIS millions			
Interest income from external	1,143	701	67	3
Interest expense for external	143	-	-	53
Interest income (expense), net:				
From external	1,000	701	67	(50)
Inter-segmental	(335)	(510)	(1)	76
Total interest income, net	665	191	66	26
Total noninterest income	383	13	175	40
Total income	1,048	204	241	66
Expenses (income) in respect of loan losses	41	(10)	12	-
Operating and other expenses (income):				
For external	860	64	166	30
Inter-segmental	(4)	-	(4)	-
Total operating and other expenses (income)	856	64	162	30
Profit (loss) before taxes	151	150	67	36
Provision for income taxes (benefit)	46	51	17	13
Profit (loss) after taxes	105	99	50	23
The Bank's share in associates' profits	-	-	-	-
Net income (loss) before amount attributable to non-controlling	105	99	50	23
Net income (loss) attributable to non-controlling interests	6	-	6	-
Net income (loss) attributable to the Bank's shareholders	99	99	44	23
Average balance of assets ^(a)	107,120	69,032	11,960	487
Of which: Investments in investee companies ^(a)	-	-	-	-
Average outstanding balance of loans to the public ^(a)	108,062	69,498	11,977	482
Outstanding balance of loans to the public as at the end of the	110,049	71,635	12,030	490
Outstanding balance of impaired debts	289 ^(f)	-	22	-
Outstanding balance of debts in arrears for over 90 days	788 ^(f)	700	-	-
Average balance of liabilities ^(a)	111,249	24	112	29,551
Of which: Average balance of deposits from the public ^(a)	111,149	-	93	29,304
Balance of deposits from the public as at the end of the	111,450	-	70	29,014
Average balance of risk-weighted assets ^{(a)(b)}	86,126	49,585	11,932	809
Balance of risk-weighted assets as at the end of the reporting	79,890	45,995	11,068	755
Average balance of assets under management ^{(a)(c)}	77,113	-	-	51,151
Breakdown of interest income, net:				
Margin from credit granting activities	586	191	65	2
Margin from deposit taking activities	79	-	1	24
Other	-	-	-	-
Total interest income, net	665	191	66	26

(a) Average balance calculations are based on daily balances, as at the beginning of the quarter or the beginning of each month.

(b) Risk-weighted assets - as calculated for capital adequacy purpose.

(c) Assets under management - including customers' provident assets, provident funds, study funds, mutual funds and securities.

(d) Including housing loans to business customers with a credit balance of NIS 7,173 million as at the end of the period.

(e) Reclassified.

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

Note 12A - Regulatory Operating Segments (cont.)

							Foreign operations		
Small- and micro businesses ^(d)	Mid-sized Businesses ^(d)	Corpora-tions ^(d)	Institutional entities	Financial manage-ment	Other segment	Total activity in Israel	Total activity abroad	Total	
560	194	498	8	204	-	2,610	277	2,887	
24	22	58	151	238	-	689	33	722	
536	172	440	(143)	(34)	-	1,921	244	2,165	
(56)	(6)	(148)	159	315	(1)	4	(4)	-	
480	166	292	16	281	(1)	1,925	240	2,165	
183	79	160	43	241	18	1,147	73	1,220	
663	245	452	59	522	17	3,072	313	3,385	
56	(20)	(53)	3	2	-	29	13	42	
347	122	133	57	106	163	1,818	202	2,020	
-	-	-	1	(1)	3	(1)	1	-	
347	122	133	58	105	166	1,817	203	2,020	
260	143	372	(2)	415	(149)	1,226	97	1,323	
92	51	129	-	139	(43)	427	29	456	
168	92	243	(2)	276	(106)	799	68	867	
-	-	-	-	15	-	15	-	15	
168	92	243	(2)	291	(106)	814	68	882	
-	-	-	-	-	-	6	-	6	
168	92	243	(2)	291	(106)	808	68	876	
51,263	24,024	53,079	3,644	150,973	9,319	399,909	34,822	434,731	
-	-	-	-	140	-	140	-	140	
51,893	24,294	54,795	3,661	-	-	243,187	23,335	266,522	
52,524	25,255	54,755	2,090	-	-	245,163	22,576	267,739	
772	254	1,904	-	-	-	3,219	610	3,829	
48	-	2	-	-	-	838	8	846	
43,220	31,820	48,347	58,540	44,021	8,876	375,624	26,686	402,310	
40,618	30,805	47,860	55,649	-	-	315,385	25,400	340,785	
40,261	31,449	47,115	59,142	-	-	318,431	24,335	342,766	
53,039	34,484	54,962	1,807	19,814	17,201	268,242	30,871	299,113	
48,488	28,120	72,637	785	20,427	18,002	269,104	30,004	299,108	
30,014	16,754	81,254	574,975	34,489	-	865,750	18,991	884,741	
454	145	268	3	949	(1)	2,406	234	2,640	
26	21	24	12	(582)	-	(396)	(33)	(429)	
-	-	-	1	(86)	-	(85)	39	(46)	
480	166	292	16	281	(1)	1,925	240	2,165	

Note 12A - Regulatory Operating Segments (cont.)

Information on Regulatory Operating Segments - Consolidated (cont.)

For the six months ended June 30 2018 (unaudited)				
Activity in Israel				
Households				
		Of which:	Of which:	Private
	Total	Housing loans	Credit cards	banking
In NIS millions				
Interest income from external	1,981	1,105	172	4
Interest expense for external	207	-	-	87
Interest income (expense), net:				
From external	1,774	1,105	172	(83)
Inter-segmental	(426)	(719)	(1)	142
Total interest income, net	1,348	386	171	59
Total noninterest income	820	24	410	81
Total income	2,168	410	581	140
Expenses (income) in respect of loan losses	143	17	46	-
Operating and other expenses:				
For external	1,715	132	333	61
Inter-segmental	2	1	-	-
Total operating and other expenses	1,717	133	333	61
Profit (loss) before taxes	308	260	202	79
Provision for income taxes (benefit)	86	88	49	27
Profit (loss) after taxes	222	172	153	52
The Bank's share in associates' profits	-	-	-	-
Net income (loss) before amount attributable to non-controlling	222	172	153	52
Net income (loss) attributable to non-controlling interests	26	-	26	-
Net income (loss) attributable to the Bank's shareholders	196	172	127	52
Average balance of assets ^(a)	103,799	67,232	12,326	500
Of which: Investments in investee companies ^(a)	-	-	-	-
Average outstanding balance of loans to the public ^{(a)(e)}	104,680	67,695	12,351	496
Outstanding balance of loans to the public as at the end of the	105,104	69,219	11,826	461
Outstanding balance of impaired debts	301	-	40	-
Outstanding balance of debts in arrears for over 90 days	839	764	-	-
Average balance of liabilities ^(a)	106,780	23	108	26,254
Of which: Average balance of deposits from the public ^{(a)(f)}	106,453	-	74	26,251
Balance of deposits from the public as at the end of the	107,521	-	72	25,596
Average balance of risk-weighted assets ^{(a)(b)}	77,536	44,690	11,492	839
Balance of risk-weighted assets as at the end of the reporting	76,635	44,405	11,047	844
Average balance of assets under management ^{(a)(c)}	74,720	-	-	49,371
Breakdown of interest income, net:				
Margin from credit granting activities	1,179	386	171	2
Margin from deposit taking activities	169	-	-	57
Other	-	-	-	-
Total interest income, net	1,348	386	171	59

(a) Average balance calculations are based on daily balances, as at the beginning of the quarter or the beginning of each month.

(b) Risk-weighted assets - as calculated for capital adequacy purpose.

(c) Assets under management - including customers' provident assets, provident funds, study funds, mutual funds and securities.

(d) Including housing loans to business customers with a credit balance of NIS 10,622 million as at the end of the period.

(e) Including average outstanding balance of assets classified as held for sale in the amount of NIS 8,145 million.

(f) Including average outstanding balance of liabilities classified as held for sale in the amount of NIS 74 million.

Note 12A - Regulatory Operating Segments (cont.)

Small- and micro businesses ^(d)	Mid-sized Businesses ^(d)	Corpora- tions ^(d)	Institutional entities	Financial manage- ment	Other segment	Foreign operations		Total
						Total activity in Israel	Total activity abroad	
1,184	398	915	15	459	-	4,956	653	5,609
83	67	133	264	242	-	1,083	106	1,189
1,101	331	782	(249)	217	-	3,873	547	4,420
(58)	42	(149)	305	162	-	18	(18)	-
1,043	373	633	56	379	-	3,891	529	4,420
412	167	309	99	187	53	2,128	155	2,283
1,455	540	942	155	566	53	6,019	684	6,703
135	(137)	(29)	-	10	(4)	118	(2)	116
784	274	244	137	157	348	3,720	431	4,151
-	-	-	1	(12)	7	(2)	2	-
784	274	244	138	145	355	3,718	433	4,151
536	403	727	17	411	(298)	2,183	253	2,436
181	138	243	6	128	(84)	725	58	783
355	265	484	11	283	(214)	1,458	195	1,653
-	-	-	-	12	-	12	-	12
355	265	484	11	295	(214)	1,470	195	1,665
1	2	1	(1)	(1)	-	28	4	32
354	263	483	12	296	(214)	1,442	191	1,633
56,509	25,812	56,973	1,613	161,972	9,563	416,741	32,800	449,541
-	-	-	-	774	-	774	-	774
57,121	26,109	57,576	1,623	-	-	247,605	24,028	271,633
59,212	26,300	58,421	848	-	-	250,346	25,015	275,361
666	182	997	-	-	-	2,146	594	2,740
82	-	1	-	-	-	922	44	966
52,243	36,138	50,950	70,912	34,607	11,693	389,577	26,291	415,868
49,566	34,915	48,231	68,954	-	-	334,370	25,385	359,755
51,703	35,706	47,927	67,838	-	-	336,291	25,000	361,291
50,966	29,040	76,234	1,043	20,920	17,593	274,171	31,885	306,056
53,486	29,193	78,782	869	22,060	18,414	280,283	33,202	313,485
42,962	21,578	72,207	681,177	39,801	-	981,816	18,492	1,000,308
959	305	577	9	1,465	-	4,496	571	5,067
84	68	56	46	(1,257)	-	(777)	(107)	(884)
-	-	-	1	171	-	172	65	237
1,043	373	633	56	379	-	3,891	529	4,420

Note 12A - Regulatory Operating Segments (cont.)

Information on Regulatory Operating Segments - Consolidated (cont.)

	For the six months ended June 30 2017 ^(e) (unaudited)			
	Activity in Israel			
	Households			
	Of which:			
	Housing loans			
	Of which:			
	Credit cards			
	Private banking			
	Total			
	In NIS millions			
Interest income from external	1,953	1,076	133	5
Interest expense for external	224	-	-	87
Interest income, net:				
From external	1,729	1,076	133	(82)
Inter-segmental	(424)	(700)	(1)	128
Total interest income, net	1,305	376	132	46
Total noninterest income	812	23	395	84
Total income	2,117	399	527	130
Expenses (income) in respect of loan losses	60	(11)	24	1
Operating and other expenses:				
For external	1,781	135	351	63
Inter-segmental	4	-	4	-
Total operating and other expenses	1,785	135	355	63
Profit (loss) before taxes	272	275	148	66
Provision for income taxes (benefit)	84	95	41	23
Profit (loss) after taxes	188	180	107	43
The Bank's share in associates' profits	-	-	-	-
Net income (loss) before amount attributable to non-controlling	188	180	107	43
Net income (loss) attributable to non-controlling interests	15	-	15	-
Net income (loss) attributable to the Bank's shareholders	173	180	92	43
Average balance of assets ^(a)	106,637	69,185	11,490	474
Of which: Investments in investee companies ^(a)	-	-	-	-
Average outstanding balance of loans to the public ^(a)	107,623	69,652	11,521	469
Outstanding balance of loans to the public as at the end of the	110,049	71,635	12,030	490
Outstanding balance of impaired debts	289 ^(f)	-	22	-
Outstanding balance of debts in arrears for over 90 days	788 ^(f)	700	-	-
Average balance of liabilities ^(a)	111,149	22	114	29,712
Of which: Average balance of deposits from the public ^(a)	110,996	-	74	29,709
Balance of deposits from the public as at the end of the	111,450	-	70	29,014
Average balance of risk-weighted assets ^{(a)(b)}	83,092	47,838	11,512	781
Balance of risk-weighted assets as at the end of the reporting	79,890	45,995	11,068	755
Average balance of assets under management ^{(a)(c)}	76,562	-	-	50,630
Breakdown of interest income, net:				
Margin from credit granting activities	1,167	376	132	4
Margin from deposit taking activities	138	-	-	42
Other	-	-	-	-
Total interest income, net	1,305	376	132	46

(a) Average balance calculations will be based on daily balances, as at the beginning of the quarter or the beginning of each month.

(b) Risk-weighted assets - as calculated for capital adequacy purpose.

(c) Assets under management - including customers' provident assets, provident funds, study funds, mutual funds and securities.

(d) Including housing loans to business customers with a credit balance of NIS 7,173 million as at the end of the period.

(e) Reclassified.

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

Note 12A - Regulatory Operating Segments (cont.)

Small- and micro businesses ^(d)	Mid-sized businesses ^(d)	Corpo- rations ^(d)	Institutional entities	Financial manag- ement	Other segment	Foreign operations		Total
						Total activity in Israel	Total activity abroad	
1,058	369	881	15	371	-	4,652	554	5,206
41	39	94	241	377	-	1,103	65	1,168
1,017	330	787	(226)	(6)	-	3,549	489	4,038
(87)	(5)	(218)	259	359	-	12	(12)	-
930	325	569	33	353	-	3,561	477	4,038
367	158	332	88	499	34	2,374	133	2,507
1,297	483	901	121	852	34	5,935	610	6,545
132	(25)	(36)	3	(9)	-	126	17	143
691	247	264	124	159	339	3,668	402	4,070
-	-	-	1	(13)	7	(1)	1	-
691	247	264	125	146	346	3,667	403	4,070
474	261	673	(7)	715	(312)	2,142	190	2,332
166	92	235	(2)	255	(66)	787	57	844
308	169	438	(5)	460	(246)	1,355	133	1,488
-	-	-	-	25	-	25	-	25
308	169	438	(5)	485	(246)	1,380	133	1,513
-	-	-	-	-	-	15	-	15
308	169	438	(5)	485	(246)	1,365	133	1,498
50,641	24,059	52,874	3,950	150,009	9,394	398,038	36,359	434,397
-	-	-	-	889	-	889	-	889
51,235	24,322	54,701	3,971	-	-	242,321	23,642	265,963
52,524	25,255	54,755	2,090	-	-	245,163	22,576	267,739
772	254	1,904	-	-	-	3,219	610	3,829
48	-	2	-	-	-	838	8	846
42,434	31,620	48,425	58,415	42,791	10,327	374,873	27,455	402,328
39,681	30,457	48,294	55,822	-	-	314,959	26,067	341,026
40,261	31,449	47,115	59,142	-	-	318,431	24,335	342,766
49,406	30,889	63,229	1,452	19,060	16,555	264,464	31,174	295,638
48,488	28,120	72,637	785	20,427	18,002	269,104	30,004	299,108
29,539	16,599	79,707	550,915	34,476	-	838,428	19,118	857,546
885	288	529	7	1,401	-	4,281	463	4,744
45	37	39	24	(966)	-	(641)	(66)	(707)
-	-	1	2	(82)	-	(79)	80	1
930	325	569	33	353	-	3,561	477	4,038

Note 12A - Regulatory Operating Segments (cont.)

Information on Regulatory Operating Segments - Consolidated (cont.)

	For the year ended December 31 2017 (audited)			
	Activity in Israel			
	Households			
	Total	Of which: Housing loans	Of which: Credit cards	Private banking
	In NIS millions			
Interest income from external	3,578	1,825	281	9
Interest expense for external	378	-	-	140
Interest income, net:				
From external	3,200	1,825	281	(131)
Inter-segmental	(593)	(1,083)	(4)	227
Total interest income, net	2,607	742	277	96
Total noninterest income	1,768	50	929	171
Total income	4,375	792	1,206	267
Expenses (income) in respect of loan losses	178	(10)	62	1
Operating and other expenses:				
For external	3,850	280	816	130
Inter-segmental	40	1	39	-
Total operating and other expenses	3,890	281	855	130
Profit (loss) before taxes	307	521	289	136
Provision for income taxes (benefit)	84	180	80	48
Profit (loss) after taxes	223	341	209	88
The Bank's share in associates' profits, after tax	-	-	-	-
Net income (loss) before amount attributable to non-controlling	223	341	209	88
Net income (loss) attributable to non-controlling interests	31	-	31	-
Net income (loss) attributable to the Bank's shareholders	192	341	178	88
Average balance of assets ^(a)	107,017	68,988	12,078	493
Of which: Investments in investee companies ^(a)	-	-	-	-
Average outstanding balance of loans to the public ^(a)	107,978	69,452	12,107	489
Outstanding balance of loans to the public as at the end of the reporting period ^(e)	108,523	70,520	12,513	540
Outstanding balance of impaired debts ^(e)	327	-	29	-
Outstanding balance of debts in arrears for over 90 days ^(e)	782	722	-	-
Average balance of liabilities ^(a)	110,711	22	197	29,136
Of which: Average balance of deposits from the public ^(a)	110,558	-	75	29,128
Balance of deposits from the public as at the end of the	109,672	-	65	29,013
Average balance of risk-weighted assets ^{(a)(b)}	79,451	45,951	10,976	790
Balance of risk-weighted assets as at the end of the reporting period ^(b)	78,661	45,308	11,357	861
Average balance of assets under management ^{(a)(c)}	77,586	-	-	51,187
Breakdown of interest income, net:				
Margin from credit granting activities	2,323	742	277	5
Margin from deposit taking activities	284	-	-	91
Other	-	-	-	-
Total interest income, net	2,607	742	277	96

(a) Average balance calculations are based on daily balances, as at the beginning of the quarter or the beginning of each month.

(b) Risk-weighted assets - as calculated for capital adequacy purpose.

(c) Assets under management - including customers' provident assets, provident funds, study funds, mutual funds and securities.

(d) Including housing loans to business customers with a credit balance of NIS 7,848 million as at the end of the period.

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

Note 12A - Regulatory Operating Segments (cont.)

							Foreign operations		
Small- and micro businesses ^(d)	Mid-sized businesses ^(d)	Corpora-tions ^(d)	Institutional entities	Financial manage-ment	Other segment	Total activity in Israel	Total activity abroad	Total	
2,153	758	1,697	27	713	-	8,935	1,134	10,069	
83	89	199	426	566	-	1,881	142	2,023	
2,070	669	1,498	(399)	147	-	7,054	992	8,046	
(155)	8	(326)	471	392	-	24	(24)	-	
1,915	677	1,172	72	539	-	7,078	968	8,046	
747	322	672	179	926	370	5,155	273	5,428	
2,662	999	1,844	251	1,465	370	12,233	1,241	13,474	
255	(20)	(298)	2	-	-	118	54	172	
1,444	518	540	262	240	685	7,669	832	8,501	
-	-	1	2	(60)	14	(3)	3	-	
1,444	518	541	264	180	699	7,666	835	8,501	
963	501	1,601	(15)	1,285	(329)	4,449	352	4,801	
336	177	558	(4)	432	(90)	1,541	151	1,692	
627	324	1,043	(11)	853	(239)	2,908	201	3,109	
-	-	-	-	92	-	92	-	92	
627	324	1,043	(11)	945	(239)	3,000	201	3,201	
1	-	1	-	-	(3)	30	(1)	29	
626	324	1,042	(11)	945	(236)	2,970	202	3,172	
51,850	24,635	54,257	3,310	153,359	9,290	404,211	34,254	438,465	
-	-	-	-	138	-	138	-	138	
52,426	24,876	54,649	3,322	-	-	243,740	23,283	267,023	
54,323	25,728	56,449	2,087	-	-	247,650	23,507	271,157	
692	284	1,334	-	-	-	2,637	674	3,311	
42	-	27	-	-	-	851	12	863	
43,382	32,169	52,180	62,245	37,988	11,598	379,409	26,597	406,006	
40,628	30,893	48,877	60,213	-	-	320,297	25,269	345,566	
40,761	32,371	54,866	70,496	-	-	337,179	25,299	362,478	
47,838	28,032	72,992	1,021	20,660	16,261	267,045	30,786	297,831	
49,410	28,730	75,125	1,185	21,417	16,825	272,214	31,078	303,292	
31,602	16,957	78,344	585,606	36,183	-	877,465	18,930	896,395	
1,810	585	1,093	14	2,402	-	8,232	967	9,199	
105	90	79	56	(1,892)	-	(1,187)	(142)	(1,329)	
-	2	-	2	29	-	33	143	176	
1,915	677	1,172	72	539	-	7,078	968	8,046	

Note 12B - Operating Segments – Management's Approach

Overview

Operating segments reporting according to management's approach presents the Bank's results by business line, in accordance with the Bank's organizational structure. The Bank's business lines specialize in providing services to customer segments with similar characteristics and needs. For information about operating segments according to management's approach, please see Note 29A to the Financial Statements as at December 31 2017.

Following is a Summary of Financial Performance according to Management's Approach:

For the three months ended June 30 2018 (unaudited)												
In NIS millions												
	The Bank									Subsidiaries in Israel	Foreign subsidiaries ^(a)	Total
	Retail, premium & Private Banking	Small Business	Mortgages	Banking - Total	Commercial	Business	Real Estate	Capital Markets	Other and adjustments			
Interest income, net	517	334	229	1,080	286	144	128	393	-	101	282	2,414
Noninterest income (expenses)	335	122	1	458	105	53	79	120	22	286	46	1,169
Total income	852	456	230	1,538	391	197	207	513	22	387	328	3,583
Loan loss expenses (income)	23	65	3	91	(46)	(48)	(6)	(10)	(2)	19	(12)	(14)
Total operating and other expenses	725	285	72	1,082	189	85	34	94	227	219	223	2,153
Profit (loss) before tax	104	106	155	365	248	160	179	429	(203)	149	117	1,444
Tax expenses (benefit)	35	36	53	124	85	54	61	142	(4)	28	31	521
Net income (loss) attributable to the Bank's shareholders	69	70	102	241	163	106	118	287	(199)	105	82	903

(a) Excluding inter-company balances in the amount of NIS 34 million.

For the three months ended June 30 2017 ^(b) (unaudited)												
In NIS millions												
	The Bank									Subsidiaries in Israel	Foreign subsidiaries ^(a)	Total
	Retail, premium & Private Banking	Small Business	Mortgages	Banking - Total	Commercial	Business	Real Estate	Capital Markets	Other and adjustments			
Interest income, net	491	326	211	1,028	248	143	112	320	2	68	244	2,165
Noninterest income	325	119	3	447	104	50	81	120	24	309	85	1,220
Total income	816	445	214	1,475	352	193	193	440	26	377	329	3,385
Loan loss expenses (income)	59	66	(9)	116	5	(58)	(50)	(1)	-	14	16	42
Total operating and other expenses	706	242	69	1,017	169	68	30	79	198	257	202	2,020
Profit (loss) before tax	51	137	154	342	178	183	213	362	(172)	106	111	1,323
Tax expenses (benefit)	18	48	54	120	62	64	74	125	(42)	25	28	456
Net income (loss) attributable to the Bank's shareholders	33	89	100	222	116	119	139	236	(130)	91	83	876

(a) Including inter-company balances in the amount of NIS 15 million.

(b) Reclassified.

Note 12B - Operating Segments – Management's Approach (cont.)

Summary of Financial Performance according to Management's Approach (cont.)

For the six months ended June 30 2018 (unaudited)												
In NIS millions												
	The Bank									Subsidiaries in Israel	Foreign subsidiaries ^(a)	Total
	Retail, premium & Private Banking	Small Businesses	Mortgages	Banking - Total	Commercial	Business	Real Estate	Capital Markets	Other & adjustments			
Interest income, net	1,002	667	448	2,117	558	285	251	469	-	193	547	4,420
Noninterest income	674	249	2	925	206	107	155	82	61	564	183	2,283
Total income (expenses)	1,676	916	450	3,042	764	392	406	551	61	757	730	6,703
Loan loss expenses (income)	107	113	9	229	(11)	(66)	(78)	3	(7)	48	(2)	116
Total operating & other expenses	1,396	542	136	2,074	363	147	63	165	452	456	431	4,151
Profit (loss) before tax	173	261	305	739	412	311	421	383	(384)	253	301	2,436
Tax expenses (benefit)	59	89	104	252	141	106	144	132	(104)	54	58	783
Net income (loss) attributable to the Bank's shareholders	114	172	201	487	271	205	277	253	(280)	181	239	1,633
Balances as at June 30 2018												
Loans to the public, net	29,889	26,852	80,066	136,807	37,244	33,654	22,323	3,200	5,624	615 ^(b)	24,705	264,172
Deposits by the public	154,617	35,823	-	190,440	46,127	19,978	5,415	74,073	186	-(c)	25,001	361,220
Assets under management	175,814	19,328	-	195,142	23,153	19,476	1,199	453,460	23,777	278,575	17,866	1,012,648

(a) Including inter-company balances in the amount of NIS 48 million.

(b) Excluding balances classified as held for sale assets in the amount of NIS 7,893 million.

(c) Excluding balances classified as held for sale liabilities in the amount of NIS 71 million.

For the six months ended June 30 2017 (unaudited)												
In NIS millions												
	The Bank									Subsidiaries in Israel	Foreign subsidiaries ^(a)	Total
	Retail, premium & Private Banking	Small Businesses	Mortgages	Banking - Total	Commercial	Business	Real Estate	Capital Markets	Other and adjustments			
Interest income, net	945	640	412	1,997	483	284	220	437	-	129	488	4,038
Noninterest income	655	242	1	898	206	109	165	374	60	602	93	2,507
Total income	1,600	882	413	2,895	689	393	385	811	60	731	581	6,545
Loan loss expenses (income)	83	133	(7)	209	9	(65)	(35)	(16)	(9)	31	19	143
Total operating & other expenses	1,449	492	143	2,084	340	135	64	152	405	489	401	4,070
Profit (loss) before tax	68	257	277	602	340	323	356	675	(336)	211	161	2,332
Tax expenses (benefit)	24	90	97	211	119	113	124	238	(71)	54	56	844
Net income (loss) attributable to the Bank's shareholders	44	167	180	391	221	210	232	437	(265)	167	105	1,498
Balance as at June 30 2017												
Loans to the public, net	31,236	27,161	78,872	137,269	34,978	32,431	19,550	4,294	5,564	8,220	22,228	264,534
Deposits by the public	154,834	34,786	-	189,620	41,234	19,704	5,393	62,337	70	70	24,338	342,766
Assets under management	167,600	17,460	-	185,060	24,682	20,414	1,400	387,811	26,206	235,885	18,639	900,097

(a) Excluding inter-company balances in the amount of NIS 28 million.

(b) Reclassified.

Note 12B - Operating Segments – Management's Approach (cont.)

Summary of Financial Performance according to Management's Approach (cont.)

For the year ended December 31 2017 (audited)												
In NIS millions												
	The Bank									Subsidiaries in Israel	Foreign subsidiaries ^(a)	Total
	Retail, premium & Private Banking	Small Business	Mortgages	Banking - Total	Commercial	Business	Real Estate	Capital Markets	Other and adjustments			
Interest income (expense), net	1,923	1,308	843	4,074	1,014	581	461	632	-	292	992	8,046
Noninterest income	1,320	492	5	1,817	407	227	325	812	390	1,175	275	5,428
Total income	3,243	1,800	848	5,891	1,421	808	786	1,444	390	1,467	1,267	13,474
Loan loss expenses (income)	157	273	13	443	26	(72)	(316)	(13)	(25)	75	54	172
Total operating and other expenses	2,984	1,060	296	4,340	725	280	132	306	864	1,022	832	8,501
Profit (loss) before tax	102	467	539	1,108	670	600	970	1,151	(449)	370	381	4,801
Tax expenses	36	163	189	388	235	210	340	404	(123)	89	149	1,692
Net income (loss) attributable to the Bank's shareholders	66	304	350	720	435	390	630	750	(326)	341	232	3,172
Balances as at December 31 2017												
Loans to the public, net	30,214	27,438	78,626	136,278	35,712	33,152	20,684	4,437	5,712	8,773	23,204	267,952
Deposits by 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

(a) Including inter-company balances in the amount of NIS 30 million.

Note 13 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision

A. Debt^(a) and Off Balance-Sheet Credit Instruments

1. Change in Loan Loss Provision

	For the three months ended June 30 2018 (unaudited)					
	Loan loss provision					
	Loans to the public					
	Commer- cial	Housing	Private - Other	Total - Public	Banks and govern- ments	Total
	In NIS millions					
Balance of loan loss provision as at the beginning of the reporting period ^(b)	2,542	456	677	3,675	1	3,676
Expenses (income) in respect of loan losses	(62)	11	37	(14)	-	(14)
Write-offs	(188)	(1)	(126)	(315)	-	(315)
Collection of debts written off in previous years	166	1	81	248	-	248
Write-offs, net	(22)	-	(45)	(67)	-	(67)
Adjustments from translation of financial statements	5	-	-	5	-	5
Less movements classified as held for sale assets ^(b)	(3)	-	(2)	(5)	-	(5)
Balance of loan loss provision as at the end of the reporting period ¹	2,460	467	667	3,594	1	3,595
¹ Of which: In respect of off balance-sheet credit instruments	422	-	20	442	-	442

	For the three months ended June 30 2017 (unaudited)					
	Loan loss provision					
	Loans to the public					
	Commercial (c)	Housing	Private - Other ^(c)	Total - Public	Banks and governmen- ts	Total
	In NIS millions					
Balance of loan loss provision as at the beginning of the reporting period	2,662	470	766	3,898	1	3,899
Expenses (income) in respect of loan losses	2	(11)	51	42	-	42
Write-offs	(255)	(2)	(155)	(412)	-	(412)
Collection of debts written off in previous years	122	-	85	207	-	207
Write-offs, net	(133)	(2)	(70)	(205)	-	(205)
Adjustments from translation of financial statements	(7)	-	-	(7)	-	(7)
Balance of loan loss provision as at the end of the reporting period ¹	2,524	457	747	3,728	1	3,729
¹ Of which: In respect of off balance-sheet credit instruments	484	-	39	523	-	523

- (a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
- (b) The outstanding loan loss provision for the beginning of the period is stated excluding balances classified as held for sale in the commercial portfolio in the amount of NIS 6 million and in the individual portfolio in the amount of NIS 147 million, for a total of NIS 153 million. For more information about balances and movements classified as held-for-sale, please see Note 16g.
- (c) Reclassified, including the reclassification outlined in Note 6.

Note 13 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

A. Debt^(a) and Off Balance-Sheet Credit Instruments (cont.)

1. Change in Balance of Provision for Loan Losses (cont.)

	For the six months ended June 30 2018 (unaudited)					
	Loan loss provision					
	Loans to the public					Banks and governmen ts
	Commercial	Housing	Private - Other	Total - Public		Total
	In NIS millions					
Balance of loan loss provision as at the beginning of the reporting period	2,472	450	767	3,689	3	3,692
Changes stated in equity ^(b)	22	-	-	22	-	22
Balance as at January 1 2018	2,494	450	767	3,711	3	3,714
Expenses (income) in respect of loan losses	(25)	17	126	118	(2)	116
Write-offs	(351)	(2)	(243)	(596)	-	(596)
Collection of debts written off in previous years	342	1	166	509	-	509
Write-offs, net	(9)	(1)	(77)	(87)	-	(87)
Adjustments from translation of financial statements	9	1	-	10	-	10
Less balances classified as held for sale assets ^(c)	(9)	-	(149)	(158)	-	(158)
Balance of loan loss provision as at the end of the reporting period ¹	2,460	467	667	3,594	1	3,595
¹ Of which: In respect of off balance-sheet credit instruments	422	-	20	442	-	442

	For the six months ended June 30 2017 (unaudited)					
	Loan loss provision					
	Loans to the public					Banks and governmen ts
	Commercial ^(d)	Housing	Private - Other ^(d)	Total - Public		Total
	In NIS millions					
Balance of loan loss provision as at the beginning of the reporting period	2,670	473	807	3,950	1	3,951
Expenses (income) in respect of loan losses	84	(13)	72	143	-	143
Write-offs	(441)	(4)	(326)	(771)	-	(771)
Collection of debts written off in previous years	228	-	194	422	-	422
Write-offs, net	(213)	(4)	(132)	(349)	-	(349)
Adjustments from translation of financial statements	(17)	1	-	(16)	-	(16)
Balance of loan loss provision as at the end of the reporting period ¹	2,524	457	747	3,728	1	3,729
¹ Of which: In respect of off balance-sheet credit instruments	484	-	39	523	-	523

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

(b) Effect of first-time application of IFRS 9 on foreign subsidiaries.

(c) For more information, please see Note 16g.

(d) Reclassified, including the reclassification outlined in Note 6.

Note 13 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

A. Debt^(a) and Off Balance-Sheet Credit Instruments (cont.)

2. Additional Information on Calculating the Loan Loss Provision for Debts^(a) and for the Debts^(a) for which it was Calculated

June 30 2018 (unaudited)						
Loans to the public						
	Commercial	Housing	Private - Other	Total - Public	Banks and government	Total
In NIS millions						
Recorded outstanding debt balance^(a):						
Examined on specific basis	115,230	31	797	116,058	11,299	127,357
Examined on general basis ¹	43,907	79,329	36,067	159,303	489	159,792
¹ Of which: The provision for which was calculated according to extent of arrears	1,087 ^(c)	78,868	-	79,955	-	79,955
Less movements classified as held for sale assets ^(d)	(614)	-	(7,423)	(8,037)	(34)	(8,071)
Total debt^(a)	158,523	79,360	29,441	267,324	11,754	279,078
Balance of loan loss provision as at year end^(a):						
Examined on specific basis	1,550	8	146	1,704	1	1,705
Examined on general basis ²	497	459	636	1,592	-	1,592
² Of which: The provision for which was calculated according to extent of arrears	-	458 ^(b)	-	458	-	458
Less balances classified as held for sale assets ^(d)	(9)	-	(135)	(144)	-	(144)
Total loan loss provision³	2,038	467	647	3,152	1	3,153
³ Of which: For impaired debts	421	-	105	526	-	526
June 30 2017 (unaudited)						
Loans to the public						
	Commercial ^(e)	Housing	Private - Other ^(e)	Total - Public	Banks and government	Total
In NIS millions						
Recorded outstanding debt balance^(a):						
Examined on specific basis	110,242	39	879	111,160	8,657	119,817
Examined on general basis ¹	39,783	78,457	38,339	156,579	1,298	157,877
¹ Of which: The provision for which was calculated according to extent of arrears	945 ^(c)	78,007	-	78,952	-	78,952
Total debt^(a)	150,025	78,496	39,218	267,739	9,955	277,694
Balance of loan loss provision as at year end^(a):						
Examined on specific basis	1,629	5	105	1,739	1	1,740
Examined on general basis ²	411	452	603	1,466	-	1,466
² Of which: The provision for which was calculated according to extent of arrears	-	448 ^(b)	-	448	-	448
Total loan loss provision³	2,040	457	708	3,205	1	3,206
³ Of which: In respect of impaired debt	510	-	55	565	-	565

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

(b) Including an outstanding general provision that exceeds the amount required under the extent of arrears method, in the amount of NIS 290 million as at June 30 2018 (June 30 2017 - NIS 289 million).

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

(d) For more information, please see Note 16g.

(e) Reclassified, including the reclassification outlined in Note 6.

Note 13 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

A. Debts^(a) and Off-Balance Sheet Credit Instruments (cont.)

2. Additional Information on Calculating the Loan Loss Provision for Debts^(a) and for the Debts for which it was Calculated^(a) (cont.)

	December 31 2017 (audited)					
	Loans to the public				Banks and govern- ments	
	Commer- cial	Housing	Private - Other ^(d)	Total - Public		
	In NIS millions					
Recorded outstanding debt balance^(a):						
Examined on specific basis	113,037	29	961	114,027	11,457	125,484
Examined on general basis ¹	41,273	77,928	37,929	157,130	1,122	158,252
¹ Of which: The provision for which was calculated according to extent of arrears	1,066 ^(c)	77,465	-	78,531	-	78,531
Total debt ^(a)	154,310	77,957	38,890	271,157	12,579	283,736
Balance of loan loss provision as at year end^(a):						
Examined on specific basis	1,552	5	81	1,638	3	1,641
Examined on general basis ²	472	445	650	1,567	-	1,567
² Of which: The provision for which was calculated according to extent of arrears	-	443 ^(b)	-	443	-	443
Total loan loss provision ³	2,024	450	731	3,205	3	3,208
³ Of which: For impaired debts	444	-	50	494	-	494

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

(b) Including an outstanding general provision that exceeds the amount required under the extent of arrears method, in the amount of NIS 283 million.

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

(d) Reclassified, including the reclassification outlined in Note 6.

Note 13 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

A. Debt^(a)

1. Credit Quality and Delinquency

	June 30 2018 (unaudited)				Unimpaired debts - additional information	
	Problem ^(b)				In arrears of 90 days or more ^{(d)(h)}	In arrears of 30 to 89 days ^(e)
	Non-problem	Unimpaired	Impaired ^(c)	Total		
	In NIS millions					
<u>Borrower activity in Israel</u>						
<u>Public - commercial</u>						
Real estate and construction - Construction ^(g)	19,476	139	255	19,870	10	33
Real estate and construction - Real estate activities ^(g)	24,750	192	279	25,221	18	27
Financial services	10,723	6	10	10,739	2	1
Commercial - Other	70,143	1,320	1,290	72,753	53	175
Commercial - Total	125,092	1,657	1,834	128,583	83	236
Individuals - Housing loans	78,091	764 ^(f)	-	78,855	764	551
Individuals - Other	35,315	597	301	36,213	75	199
Less balances classified as held for sale assets ⁽ⁱ⁾	(7,650)	(347)	(40)	(8,037)	-	(5)
Total loans to the public - Activity in Israel	230,848	2,671	2,095	235,614	922	981
Banks in Israel	967	-	-	967	-	-
Government of Israel	76	-	-	76	-	-
Less balances classified as held for sale assets ⁽ⁱ⁾	(32)	-	-	(32)	-	-
Total activity in Israel	231,859	2,671	2,095	236,625	922	981
<u>Borrower activity outside Israel</u>						
<u>Public - commercial</u>						
Construction & real estate	10,899	4	123	11,026	-	34
Commercial - Other	18,361	721	446	19,528	44	305
Commercial - Total	29,260	725	569	30,554	44	339
Individuals	1,120	-	36	1,156	-	3
Total loans to the public - Activity overseas	30,380	725	605	31,710	44	342
Foreign banks	10,064	-	-	10,064	-	-
Foreign governments	681	-	-	681	-	-
Less balances classified as held for sale assets ⁽ⁱ⁾	(2)	-	-	(2)	-	-
Total activity outside Israel	41,123	725	605	42,453	44	342
Total - Public	261,228	3,396	2,700	267,324	966	1,323
Total - Banks^(j)	10,997	-	-	10,997	-	-
Total - Governments	757	-	-	757	-	-
Total	272,982	3,396	2,700	279,078	966	1,323

B.

Note 13 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

C. Debt^(a) (cont.)

1. Credit Quality and Delinquency (cont.)

	June 30 2017 (unaudited)				Unimpaired debts - additional information	
	Problem ^(b)			Total	In arrears of 90 days or more ^(d)	In arrears of 30 to 89 days ^(e)
	Non-problem	Unimpaired	Impaired ^(c)			
	In NIS millions					
<u>Borrower activity in Israel</u>						
<u>Public-commercial^(k)</u>						
Construction & real estate - Construction	16,266	206	272	16,744	11	34
Construction & real estate - Real estate activities	23,275	193	669	24,137	-	30
Financial services	10,443	4	320	10,767	2	10
Commercial - Other	67,404	1,443	1,644	70,491	37	158
Commercial - Total	117,388	1,846	2,905	122,139	50	232
Individuals - Housing loans	77,296	700 ^(f)	-	77,996	700	495
Individuals - Other ^(k)	37,943	524	289	38,756	88	225
Total loans to the public - Activity in Israel	232,627	3,070	3,194	238,891	838	952
Banks in Israel	1,156	-	-	1,156	-	-
Government of Israel	154	-	-	154	-	-
Total activity in Israel	233,937	3,070	3,194	240,201	838	952
<u>Borrower activity outside Israel</u>						
<u>Public - commercial</u>						
Construction & real estate	9,460	88	265	9,813	1	3
Commercial - Other	17,083	664	326	18,073	7	56
Commercial - Total	26,543	752	591	27,886	8	59
Individuals	918	-	44	962	-	3
Total loans to the public - Activity overseas	27,461	752	635	28,848	8	62
Foreign banks	8,180	-	-	8,180	-	-
Foreign governments	465	-	-	465	-	-
Total activity outside Israel	36,106	752	635	37,493	8	62
Total - Public	260,088	3,822	3,829	267,739	846	1,014
Total - Banks	9,336	-	-	9,336	-	-
Total - Governments	619	-	-	619	-	-
Total	270,043	3,822	3,829	277,694	846	1,014

Note 13 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debt^(a) (cont.)

1. Credit Quality and Delinquency (cont.)

	December 31 2017 (audited)				Unimpaired debts - additional information	
	Problem ^(b)			Total	In arrears of 90 days or more ^(d)	In arrears of 30 to 89 days ^(e)
	Non-problem	Unimpaired	Impaired ^(c)			
	In NIS millions					
<u>Borrower activity in Israel</u>						
<u>Public-commercial^(k)</u>						
Construction & real estate - Construction	18,455	209	268	18,932	11	63
Construction & real estate - Real estate activities	23,798	118	523	24,439	7	46
Financial services	11,182	5	2	11,189	2	7
Commercial - Other	67,601	1,464	1,492	70,557	49	174
Commercial - Total	121,036	1,796	2,285	125,117	69	290
Individuals - Housing loans	76,726	722 ^(f)	-	77,448	722	516
Individuals - Other ^(k)	37,492	549	327	38,368	60	253
Total loans to the public - Activity in Israel	235,254	3,067	2,612	240,933	851	1,059
Banks in Israel	1,650	-	-	1,650	-	-
Government of Israel	129	-	-	129	-	-
Total activity in Israel	237,033	3,067	2,612	242,712	851	1,059
<u>Borrower activity outside Israel</u>						
<u>Public - commercial</u>						
Construction & real estate	9,564	14	170	9,748	-	-
Commercial - Other	18,198	752	495	19,445	12	7
Commercial - Total	27,762	766	665	29,193	12	7
Individuals	996	1	34	1,031	-	1
Total loans to the public - Activity overseas	28,758	767	699	30,224	12	8
Foreign banks	10,214	-	-	10,214	-	-
Foreign governments	586	-	-	586	-	-
Total activity outside Israel	39,558	767	699	41,024	12	8
Total - Public	264,012	3,834	3,311	271,157	863	1,067
Total - Banks	11,864	-	-	11,864	-	-
Total - Governments	715	-	-	715	-	-
Total	276,591	3,834	3,311	283,736	863	1,067

Note 13 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

1. Credit Quality and Delinquency (cont.)

Notes:

- (a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
- (b) Credit risk that is impaired, substandard or under special supervision, including housing loans for which there is allowance according to the extent of arrears and housing loans for which there is no allowance based on the delinquency period which are in arrears of 90 days or more.
- (c) Impaired debts do not accrue interest income. For information regarding certain impaired debts restructured as part of problem debt restructuring, please see Note 13.B.2.C. below.
- (d) Classified as unimpaired problem accrual loans.
- (e) Accrual loans. Debt in arrears of 30 to 89 days totaling NIS 747 million (as at June 30 2017 - NIS 646 million; as at December 31 2017 - NIS 663 million) was classified as unimpaired problem debt.
- (f) Including outstanding housing loans in the amount of NIS 88 million (June 30 2017 - NIS 99 million, December 31 2017 - NIS 94 million) with a provision according to the extent of arrears, for which an agreement was signed for the borrower to repay the overdue balance, which involves changes in the repayment schedule of outstanding future payments.
- (g) 3.1% of the credit granted to rental properties through the Bank's Construction and Real Estate Department involves LTV rates in excess of 85%.
- (h) Outstanding non-impaired debts in arrears of at least 90 days as at June 30 2018, in the amount of NIS 918 million constitutes credit granted by the Bank, of which NIS 154 million is for non-housing loans and NIS 764 million - for housing loans, of which a total of NIS 167 million is in arrears of up to 149 days, NIS 142 million is in arrears of 150-249 days and the remaining debt is in arrears of 250 days or more.
- (i) For more information, please see Note 16g.
- (j) Less balances in respect of banks classified as held-for-sale assets.
- (k) Reclassified. For more information, please see Note 6.

Credit Quality - Debt Delinquency Status

The arrears status is monitored on a regular basis and constitutes one of the main indicators of credit quality. The extent of arrears is determined according to the actual days of arrears when a debt is handled as non-performing (not accruing interest income) after 90 days of arrears; or in case of any debt restructured as problem debt and which is once again accruing interest but is in arrears of one day under the new repayment terms. For general debts, the extent of arrears affects the debt classification (the greater the extent of arrears - the more severe the debt classification); usually, after 150 days of arrears, the Bank writes off the debt. For housing loans, except loans without quarterly or monthly payments, the Bank sets a provision using the extent of arrears method.

Note 13 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debt^(a) (cont.)

2. Additional Information on Impaired Debt

A. Impaired debts and specific provision

June 30 2018 (unaudited)					
	Outstan- ding balance ^(b) of impaired debts in respect of which there is a specific provision ^(c)	Balance of specific provision ^(c)	Outstanding balance ^(b) of impaired debts in respect of which there is no specific provision ^(c)	Total outstanding balance ^(b) of impaired debts	Outstanding balance of contractual principal in respect of impaired debt
In NIS millions					
<u>Borrower activity in Israel</u>					
<u>Public - commercial</u>					
Construction & real estate - Construction	71	17	184	255	749
Construction & real estate - Real estate activities	68	26	211	279	1,196
Financial services	2	1	8	10	472
Commercial - Other	886	285	404	1,290	4,298
Commercial - Total	1,027	329	807	1,834	6,715
Individuals - Housing loans	-	-	-	-	-
Individuals - Other	258	100	43	301	2,509
Less balances classified as held for sale assets ^(d)	(13)	(3)	(27)	(40)	(40)
Total loans to the public - Activity in Israel	1,272	426	823	2,095	9,184
<u>Borrower activity outside Israel</u>					
<u>Public - commercial</u>					
Construction & real estate	115	53	8	123	290
Commercial - Other	148	39	298	446	870
Commercial - Total	263	92	306	569	1,160
Individuals	16	8	20	36	87
Total loans to the public - Activity overseas	279	100	326	605	1,247
Total - Public	1,551	526	1,149	2,700	10,431
Of which:					
Measured according to the present value of cash flows	1,382	478	758	2,140	
Debt restructuring of problem debt	767	152	794	1,561	

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

(b) Recorded outstanding debt.

(c) Specific loan loss provision.

(d) For more information, please see Note 16g.

Note 13 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debt^(a) (cont.)

2. Additional Information on Impaired Debt (cont.)

A. Impaired Debts and Specific Provision (cont.)

	June 30 2017 (unaudited)				
	Outstanding balance ^(b) of impaired debts in respect of which there is a specific provision ^(c)	Balance of specific provision ^(c)	Outstanding balance ^(b) of impaired debts in respect of which there is no specific provision ^(c)	Total outstanding balance ^(b) of impaired debts	Outstanding balance of contractual principal in respect of impaired debt
In NIS millions					
<u>Borrower activity in Israel</u>					
<u>Public-commercial^(d)</u>					
Construction & real estate - Construction	71	21	201	272	808
Construction & real estate - Real estate activities	156	70	513	669	1,785
Financial services	1	1	319	320	780
Commercial - Other	796	263	848	1,644	4,815
Commercial - Total	1,024	355	1,881	2,905	8,188
Individuals - Housing loans	-	-	-	-	-
Individuals - Other ^(d)	223	46	66	289	2,509
Total loans to the public - Activity in Israel	1,247	401	1,947	3,194	10,697
<u>Borrower activity outside Israel</u>					
<u>Public - commercial</u>					
Construction & real estate	189	93	76	265	425
Commercial - Other	233	62	93	326	666
Commercial - Total	422	155	169	591	1,091
Individuals	27	9	17	44	106
Total loans to the public - Activity overseas	449	164	186	635	1,197
Total - Public	1,696	565	2,133	3,829	11,894
<u>Of which:</u>					
Measured according to current value of cash flow^(d)	1,331	371	1,320	2,651	
Problem loans under restructuring^(d)	730	202	1,584	2,314	

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

(b) Recorded outstanding debt.

(c) Specific loan loss provision.

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

Note 13 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debt^(a) (cont.)

2. Additional Information on Impaired Debt (cont.)

A. Impaired Debts and Specific Provision (cont.)

	December 31 2017 (audited)				
	Outstanding balance ^(b) of impaired debts in respect of which there is a specific provision ^(c)	Balance of specific provision ^(c)	Outstanding balance ^(b) of impaired debts in respect of which there is no specific provision ^(c)	Total outstanding balance ^(b) of impaired debts	Outstanding balance of contractual principal in respect of impaired debt
In NIS millions					
<u>Borrower activity in Israel</u>					
<u>Public-commercial^(d)</u>					
Construction & real estate - Construction	66	14	202	268	771
Construction & real estate - Real estate activities	104	48	419	523	1,449
Financial services	1	1	1	2	460
Commercial - Other	885	266	607	1,492	4,513
Commercial - Total	1,056	329	1,229	2,285	7,193
Individuals - Housing loans	-	-	-	-	-
Individuals - Other ^(d)	274	42	53	327	2,593
Total loans to the public - Activity in Israel	1,330	371	1,282	2,612	9,786
<u>Borrower activity outside Israel</u>					
<u>Public - commercial</u>					
Construction & real estate	144	71	26	170	316
Commercial - Other	76	44	419	495	910
Commercial - Total	220	115	445	665	1,226
Individuals	14	8	20	34	86
Total loans to the public - Activity overseas	234	123	465	699	1,312
Total - Public	1,564	494	1,747	3,311	11,098
<u>Of which:</u>					
Measured according to the present value of cash flows^(d)	1,465	424	1,065	2,530	
Debt restructuring of problem debt^(d)	758	161	1,146	1,904	

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

(b) Recorded outstanding debt.

(c) Specific loan loss provision.

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

Note 13 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debt^(a) (cont.)

2. Additional Information on Impaired Debt (cont.)

B. Average Balance and Interest Income

	For the three months ended June 30					
	2018			2017 ^(f)		
	Average balance ^(b) of impaired debts	Recorded interest income ^(c)	Of which: Recorded on a cash basis	Average balance ^(b) of impaired debts	Recorded interest income ^(c)	Of which: Recorded on a cash basis
Unaudited						
In NIS millions						
<u>Borrower activity in Israel</u>						
<u>Public - commercial</u>						
Construction & real estate - Construction	248	1	1	274	1	1
Construction & real estate - Real estate activities	402	1	1	633	5	4
Financial services	5	-	-	362	-	-
Commercial - Other	1,326	-	-	1,588	5	2
Commercial - Total	1,981	2	2	2,857	11	7
Individuals - Housing loans	-	-	-	-	-	-
Individuals - Other	371	-	-	302	1	-
Less balances classified as held-for-sale assets ^(e)	(35)	-	-	-	-	-
Total loans to the public - Activity in Israel	2,317	2	2	3,159	12	7
<u>Borrower activity outside Israel</u>						
<u>Public - commercial</u>						
Construction & real estate	161	2	2	291	3	3
Commercial - Other	515	1	1	345	2	2
Commercial - Total	676	3	3	636	5	5
Individuals	21	-	-	33	-	-
Total loans to the public - Activity overseas	697	-	-	669	5	5
Less balances classified as held-for-sale assets ^(e)	-	-	-	-	-	-
Total - Public	3,014	5^(d)	5	3,828	17^(d)	12

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

(b) Recorded average outstanding balance of impaired debts in the reported period.

(c) Interest income recorded for the reported period in respect of the average balance of outstanding impaired debts during the period in which the debts were classified as impaired.

(d) Were the impaired debts to accrue interest according to the original terms, interest income in the amount of NIS 70 million would be recorded for the three months ended June 30 2018 (June 30 2017 - NIS 80 million).

(e) For more information, please see Note 16g.

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

Note 13 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debt^(a) (cont.)

2. Additional Information on Impaired Debt (cont.)

B. Average Balance and Interest Income(cont.)

For the six months ended June 30						
2018			2017 ^(f)			
Average balance ^(b) of impaired debts	Recorded interest income ^(c)	Of which: Recorded on a cash basis	Average balance ^(b) of impaired debts	Recorded interest income ^(c)	Of which: Recorded on a cash basis	
Unaudited						
In NIS millions						
<u>Borrower activity in Israel</u>						
<u>Public - commercial</u>						
Construction & real estate - Construction	261	1	1	265	1	1
Construction & real estate - Real estate activities	404	1	1	636	7	5
Financial services	6	-	-	327	-	-
Commercial - Other	1,391	4	1	1,567	11	4
Commercial - Total	2,062	6	3	2,795	19	10
Individuals - Housing loans	-	-	-	-	-	-
Individuals - Other	315	1	-	214	3	1
Less balances classified as held for sale assets ^(e)	(36)	-	-	-	-	-
Total loans to the public - Activity in Israel	2,341	7	3	3,009	22	11
<u>Borrower activity outside Israel</u>						
<u>Public - commercial</u>						
Construction & real estate	151	3	3	278	4	4
Commercial - Other	499	2	2	371	3	3
Commercial - Total	650	5	5	649	7	7
Individuals	20	-	-	32	-	-
Total loans to the public - Activity overseas	670	5	5	681	7	7
Total - Public	3,011	12^(d)	8	3,690	29^(d)	18

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

(b) Recorded average outstanding balance of impaired debts in the reported period.

(c) Interest income recorded for the reported period in respect of the average balance of outstanding impaired debts during the period in which the debts were classified as impaired.

(d) Were the impaired debts to accrue interest according to the original terms, interest income in the amount of NIS 138 million would be recorded for the three months ended June 30 2018 (June 30 2017 - NIS 165 million).

(e) For more information, please see Note 16g.

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

Note 13 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debt^(a) (cont.)

2. Additional Information on Impaired Debt (cont.)

C. Problem debt under restructuring^(d)

	As at June 30 2018				As at June 30 2017 ^(f)			
	Non-accrual loans	Accrual in arrears of 30 to 89 days ^(b)	Accrual, ^(b) non-delinquent	Total ^(c)	Non-accrual loans	Accrual in arrears of 30 to 89 days ^(b)	Accrual, ^(b) non-delinquent	Total ^(c)
Unaudited								
In NIS millions								
<u>Borrower activity in Israel</u>								
<u>Public - commercial</u>								
Real estate and construction - Construction	188	2	6	196	198	1	11	210
Construction & real estate - Real estate activities	186	-	14	200	380	-	42	422
Financial services	1	-	-	1	318	-	-	318
Commercial - Other	537	-	87	624	550	1	266	817
Commercial - Total	912	2	107	1,021	1,446	2	319	1,767
Individuals - Housing loans	-	-	-	-	-	-	-	-
Individuals - Other	216	2	40	258	207	3	53	263
Less balances classified as held-for-sale assets ^(e)	(13)	-	-	(13)	-	-	-	-
Total loans to the public - Activity in Israel	1,115	4	147	1,266	1,653	5	372	2,030
<u>Borrower activity outside Israel</u>								
<u>Public - commercial</u>								
Construction & real estate	44	-	42	86	121	-	63	184
Commercial - Other	24	-	175	199	28	-	63	91
Commercial - Total	68	-	217	285	149	-	126	275
Individuals	6	-	4	10	4	-	5	9
Total loans to the public - Activity overseas	74	-	221	295	153	-	131	284
Total - Public	1,189	4	368	1,561	1,806	5	503	2,314

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

(b) Accrual loan.

(c) Included in impaired debt.

(d) For more information regarding first-time application of the Banking Supervision Department's revised directives regarding problem debt restructuring, please see Note 1.H to the 2017 Annual Financial Statements.

(e) For more information, please see Note 16g.

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

Commitments for granting additional loans to borrowers for whom problem debts were restructured and in which the credit terms were amended amounted to NIS 9 million as at June 30 2018 (as at June 30 2017 - NIS 17 million).

Note 13 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debt^(a) (cont.)

2. Additional Information on Impaired Debt (cont.)

C. Problem Debt Under Restructuring^(d) (cont.)

	December 31 2017			
	Non-accrual loans	Accrual in arrears of 30 to 89 days ^(b)	Accrual, ^(b) non-delinquent	Total ^(c)
Audited				
In NIS millions				
<u>Borrower activity in Israel</u>				
<u>Public-commercial^(e)</u>				
Real estate and construction - Construction	193	1	13	207
Real estate and construction - Real estate activities	175	-	174	349
Financial services	-	-	-	-
Commercial - Other	519	-	234	753
Commercial - Total	887	1	421	1,309
Individuals - Housing loans	-	-	-	-
Individuals - Other ^(e)	202	2	49	253
Total loans to the public - Activity in Israel	1,089	3	470	1,562
<u>Borrower activity outside Israel</u>				
<u>Public - commercial</u>				
Construction & real estate	61	-	56	117
Commercial - Other	26	-	190	216
Commercial - Total	87	-	246	333
Individuals	4	-	5	9
Total loans to the public - Activity overseas	91	-	251	342
Total - Public	1,180	3	721	1,904

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

(b) Accrues interest income.

(c) Included in impaired debt.

(d) For more information regarding first-time application of the Banking Supervision Department's revised directives regarding problem debt restructuring, please see Note 1.H. to the 2017 Annual Financial Statements.

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

Commitments for granting additional loans to borrowers for whom problem debts were restructured and in which the credit terms were amended amounted to NIS 15 million as at December 31 2017.

Note 13 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debt^(a) (cont.)

2. Additional Information on Impaired Debt (cont.)

C. Problem Debt Under Restructuring^(b) (cont.)

1. Debt restructurings

	For the three months ended June 30					
	2018			2017 ^(c)		
	No. of contracts	Recorded outstanding debt balance before	Recorded outstanding debt balance after	No. of contracts	Recorded outstanding debt balance before	Recorded outstanding debt balance after
		restructur-	restructu-		restructu-	restructu-
		ing	ring		ring	ring
Unaudited						
	In NIS millions			In NIS millions		
<u>Borrower activity in Israel</u>						
<u>Public - commercial</u>						
Real estate and construction - Construction	158	15	13	170	18	16
Real estate and construction - Real estate activities	75	9	9	132	18	17
Financial services	11	1	1	1	-	-
Commercial - Other	654	86	77	621	153	145
Commercial - Total	898	111	100	924	189	178
Individuals - Housing loans	-	-	-	-	-	-
Individuals - other	2,683	74	67	2,611	60	54
Less balances classified as held-for-sale assets ^(c)	(721)	(9)	(9)	-	-	-
Total loans to the public - Activity in Israel	2,860	176	158	3,535	249	232
<u>Borrower activity outside Israel</u>						
<u>Public - commercial</u>						
Construction & real estate	1	3	2	-	-	-
Commercial - Other	1	5	5	6	22	22
Commercial - Total	2	8	7	6	22	22
Total loans to the public - Activity overseas	2	8	7	6	22	22
Total - Public	2,862	184	165	3,541	271	254

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

(b) For more information regarding first-time application of the Banking Supervision Department's revised directives regarding problem debt restructuring, please see Note 1.H. to the 2017 Annual Financial Statements.

(c) Reclassified. For more information, please see Note 16g.

Note 13 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debt^(a) (cont.)

2. Additional Information on Impaired Debt (cont.)

C. Problem Debt Under Restructuring^(b) (cont.)

1. Debt restructurings (cont.)

For the six months ended June 30						
	2018			2017 ^(d)		
	No. of contracts	Recorded outstanding debt balance before restructuring	Recorded outstanding debt balance after restructuring	No. of contracts	Recorded outstanding debt balance before restructuring	Recorded outstanding debt balance after restructuring
Unaudited						
	In NIS millions			In NIS millions		
<u>Borrower activity in Israel</u>						
<u>Public - commercial</u>						
Real estate and construction - Construction	223	20	18	252	23	21
Real estate and construction - Real estate activities	94	18	17	141	20	19
Financial services	18	2	1	8	-	-
Commercial - Other	908	114	103	852	172	163
Commercial - Total	1,243	154	139	1,253	215	203
Individuals - Housing loans	-	-	-	-	-	-
Individuals - other	4,528	101	92	4,566	79	72
Less balances classified as held for sale assets ^(c)	(1,411)	(16)	(16)	-	-	-
Total loans to the public - Activity in Israel	4,360	239	215	5,819	294	275
<u>Borrower activity outside Israel</u>						
<u>Public - commercial</u>						
Construction & real estate	2	3	2	1	9	9
Commercial - Other	2	7	7	11	23	23
Commercial - Total	4	10	9	12	32	32
Individuals	-	-	-	1	-	-
Total loans to the public - Activity overseas	4	10	9	13	32	32
Total - Public	4,364	249	224	5,832	326	307

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

(b) For more information regarding first-time application of the Banking Supervision Department's revised directives regarding problem debt restructuring, please see Note 1.H. to the 2017 Annual Financial Statements.

(c) For more information, please see Note 16g.

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

Note 13 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debt^(a) (cont.)

2. Additional Information on Impaired Debt (cont.)

C. Problem Debt Under Restructuring^(b) (cont.)

2. Restructurings executed and failed^(c)

For the three months ended June 30				
2018		2017 ^(f)		
No. of contracts	Recorded outstanding debt balance ^(d)	No. of contracts	Recorded outstanding debt balance ^(d)	
Unaudited				
	In NIS millions		In NIS millions	
<u>Borrower activity in Israel</u>				
<u>Public - commercial</u>				
Real estate and construction - Construction	51	-	38	1
Real estate and construction - Real estate activities	5	6	16	2
Financial services	2	-	3	-
Commercial - Other	152	7	161	8
Commercial - Total	210	13	218	11
Individuals - Housing loans	-	-	-	-
Individuals - other	779	4	1,101	5
Less balances classified as held for sale assets ^(e)	(202)	(1)	-	-
Total loans to the public - Activity in Israel	787	16	1,319	16
<u>Borrower activity outside Israel</u>				
<u>Public - commercial</u>				
Construction & real estate	-	-	-	-
Commercial - Other	-	-	2	4
Commercial - Total	-	-	2	4
Individuals	1	-	-	-
Total loans to the public - Foreign operations	1	-	2	4
Total - Public	788	16	1,321	20

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

(b) For more information regarding first-time application of the Banking Supervision Department's revised directives regarding problem debt restructuring, please see Note 1.H. to the 2017 Annual Financial Statements.

(c) Debts which were in arrears of at least 30 days during the reporting year, which were restructured as part of the restructuring of problem debt during the 12 months preceding the date on which they became delinquent.

(d) The outstanding debt recorded as at the end of the quarter in which the failure occurred.

(e) For more information, please see Note 16g.

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

Note 13 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debt^(a) (cont.)

2. Additional Information on Impaired Debt (cont.)

C. Problem Debt Under Restructuring^(b) (cont.)

2. Failed debt restructurings^(c) (cont.)

	For the six months ended June 30 (unaudited)			
	2018		2017 ^(f)	
	No. of contracts	Recorded outstanding debt balance ^(d)	No. of contracts	Recorded outstanding debt balance ^(d)
	In NIS millions		In NIS millions	
<u>Borrower activity in Israel</u>				
<u>Public - commercial</u>				
Real estate and construction - Construction	151	6	121	5
Real estate and construction - Real estate activities	39	9	35	5
Financial services	7	-	7	-
Commercial - Other	567	30	416	21
Commercial - Total	764	45	579	31
Individuals - Housing loans	-	-	-	-
Individuals - other	2,628	19	2,562	21
Less balances classified as held for sale assets ^(e)	(491)	(3)	-	-
Total loans to the public - Activity in Israel	2,901	61	3,141	52
<u>Borrower activity outside Israel</u>				
<u>Public - commercial</u>				
Construction & real estate	-	-	1	2
Commercial - Other	1	1	3	4
Commercial - Total	1	1	4	6
Individuals	1	-	-	-
Total loans to the public - Foreign operations	2	1	4	6
Total - Public	2,903	62	3,145	58

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

(b) For more information regarding first-time application of the Banking Supervision Department's revised directives regarding problem debt restructuring, please see Note 1.H. to the 2017 Annual Financial Statements.

(c) Debts which were in arrears of at least 30 days during the reporting year, which were restructured as part of the restructuring of problem debt during the 12 months preceding the date on which they became delinquent.

(d) The outstanding debt recorded as at the end of the quarter in which the failure occurred.

(e) For more information, please see Note 16g.

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

Note 13 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debt^(a) (cont.)

3. Additional Information on Housing Loans

Outstanding end of period balances by loan-to-value (LTV)^(b), type of repayment and interest

		June 30 2018 (unaudited)			
		Outstanding balance of housing loans			
		Total ¹	¹ Of which: Bullet and balloon loans	¹ Of which: Variable interest	Total off balance-sheet credit risk
		In NIS millions			
First lien: Loan to value	Up to 60%	51,060	2,188	33,507	1,506
	More than 60%	28,263	785	19,571	174
Unpledged secondary lien		37	1	34	-
Total		79,360	2,974	53,112	1,680

		June 30 2017 (unaudited)			
		Outstanding balance of housing loans			
		Total ¹	¹ Of which: Bullet and balloon loans	¹ Of which: Variable interest	Total off balance-sheet credit risk
		In NIS millions			
First lien: Loan to value	Up to 60%	50,224	2,541	33,179	1,561
	More than 60%	28,233	848	19,885	158
Unpledged secondary lien		39	1	33	-
Total		78,496	3,390	53,097	1,719

		December 31 2017 (audited) ^(c)			
		Outstanding balance of housing loans			
		Total ¹	¹ Of which: Bullet and balloon loans	¹ Of which: Variable interest	Total off balance-sheet credit risk
		In NIS millions			
First lien: LTV	Up to 60%	50,126	2,214	32,946	1,416
	More than 60%	27,794	788	19,308	170
Unpledged secondary lien		37	2	33	-
Total		77,957	3,004	52,287	1,586

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

(b) The ratio between the approved credit line on the date granted and the value of the asset, as approved by the Bank when granting the credit line.

The LTV ratio provides an additional indicator of the Bank's risk assessment of a customer on granting a credit line. Each quarter, as required under the Bank of Israel directives, the minimum 0.35% general provision is examined against the 0.75% provision required for loans with an LTV ratio of more than 60%. Note that the general provision is higher than the one required for the LTV ratio.

(c) Reclassified.

Note 13 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

C. Off Balance Sheet Financial Instruments

	June 30			December 31		
	2018		2017		2017	
	Contract balance ^(a)	Balance of loan loss provision	Contract balance ^(a)	Balance of loan loss provision	Contract balance ^(a)	Balance of loan loss provision
	Unaudited			Audited		
	In NIS millions					
A. Off-balance sheet financial instruments						
Balance of the loan contracts or their notional value as at the end of the period - transactions in which the outstanding balance embodies credit risk:						
Documentary credit	1,352	4	1,070	4	1,205	3
Loan guarantees	5,483	76	5,326	109	5,480	80
Guarantees for apartment buyers	19,133	13	19,477	16	19,313	16
Guarantees and other commitments, net ^(b)	15,991	237	15,461	247	15,959	257
Unutilized credit card credit facilities:	25,725 ^(c)	28 ^(c)	26,304	27	26,731	28
Unutilized overdraft facilities and other credit facilities in demand accounts	12,055	23	12,415	26	12,234	25
Irrevocable loan commitments approved but not yet granted ¹	23,740	56	24,466	75	23,159	58
Commitments to issue guarantees	15,688	19	16,134	19	16,065	17
Unutilized credit facilities for derivatives activity	2,783	-	2,849	-	1,955	-
Approval in principle to maintain interest rate	3,783	-	3,452	-	3,246	-
1. Of which: Credit exposures in respect of an unutilized obligation to provide liquidity to securitization entities under the auspices of others in the amount of NIS 219 million (June 30 2017 - NIS 210 million, December 31 2017 - NIS 208 million); the obligations constitute a relatively small portion of the securitization entities' obligations						

(a) The balance of the contracts or their par value as at the end of the period, before the effect of the loan loss provision.

(b) Including the Bank's liabilities for its share in the risk reserve of the MAOF Clearing House in the amount of NIS 115 million (as at June 30 2017 and December 31 2017, NIS 116 million and NIS 86 million, respectively).

(c) Including a contract balance of NIS 11,221 million and a NIS 14 million loan loss provision balance in respect of held-for-sale assets.

D. Information about Resold Loans

NIS 14 million in commercial loans was sold during the six months ended June 30 2018. No loans were sold during the six months ended June 30 2017.

Note 14 - Assets and Liabilities by Linkage Basis

	June 30 2018 (unaudited)						
	NIS		Foreign currency ^(a)				
	Unlinked	CPI-linked	In US dollars	In Euro	In other currencies	Non-monetary items ^(b)	Total
	In NIS millions						
Assets							
Cash and deposits with banks	60,216	-	7,102	1,549	2,289	159	71,315
Securities	38,565	3,624	29,682	3,987	3,025	3,230	82,113
Securities borrowed or purchased under agreements to resell	818	-	48	46	19	-	931
Loans to the public, net ^(c)	181,960	42,185	29,783	4,264	5,753	227	264,172
Loans to governments	25	51	643	38	-	-	757
Investments in investee companies	-	-	-	-	-	869	869
Buildings and equipment	-	-	-	-	-	2,737	2,737
Assets in respect of derivatives	3,248	131	5,714	254	157	2,572	12,076
Intangible assets and goodwill	-	-	-	-	-	17	17
Other assets	5,441	4	770	2	27	888	7,132
Held-for-sale assets ^(e)	7,996	(14)	64	3	1	279	8,329
Total assets	298,269	45,981	73,806	10,143	11,271	10,978	450,448
Liabilities							
Deposits from the public	228,532	18,390	95,166	12,365	6,332	435	361,220
Deposits from banks	775	-	2,140	468	90	-	3,473
Deposits from governments	113	-	429	10	-	-	552
Securities lent or sold under agreements to repurchase	482	-	41	4	23	9	559
Bonds, promissory notes and subordinated bonds	4,047	12,907	-	-	-	-	16,954
Liabilities in respect of derivative instruments	3,763	280	4,435	176	156	2,513	11,323
Other liabilities	2,967	10,396	439	17	125	772	14,716
Held-for-sale liabilities ^(e)	5,984	13	126	-	-	14	6,137
Total liabilities	246,663	41,986	102,776	13,040	6,726	3,743	414,934
Difference ^(d)	51,606	3,995	(28,970)	(2,897)	4,545	7,235	35,514
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding options)	(19,697)	(3,919)	26,807	1,369	(5,106)	546	-
In the money options, net (according to underlying asset)	(1,325)	-	277	1,067	(19)	-	-
Out of the money options, net (according to underlying asset)	(118)	-	(218)	128	15	193	-
Grand total	30,466	76	(2,104)	(333)	(565)	7,974	35,514
In the money options, net (discounted nominal value)	(2,075)	-	854	1,239	(18)	-	-
Out of the money options, net (discounted nominal value)	(426)	1	(904)	950	117	262	-

(a) Including those linked to foreign currency.

(b) Including derivatives whose underlying asset relates to a non-monetary item.

(c) After deduction of loan loss provisions attributed to the linkage basis according to the linkage of the credit for which it was created in the amount of NIS 3,152 million

(d) Shareholders' equity includes non-controlling interests.

(e) For more information, please see Note 16g.

Note 14 - Assets and Liabilities by Linkage Basis (cont.)

	June 30 2017 (unaudited)						
	NIS		Foreign currency ^(a)				
		CPI-linked	In US dollars	In Euro	In other currencies	Non-monetary items ^(b)	Total
	Unlinked						
	In NIS millions						
Assets							
Cash and deposits with banks	60,420	-	5,085	972	2,713	162	69,352
Securities	38,347	4,273	24,526	5,543	2,587	3,194	78,470
Securities borrowed or purchased under agreements to resell	1,001	-	2	28	-	-	1,031
Loans to the public, net ^(c)	184,411 ^(e)	43,326	28,374	3,968	4,231	224	264,534
Loans to governments	54	100	419	46	-	-	619
Investments in investee companies	-	-	-	-	-	883	883
Buildings and equipment	-	-	-	-	-	2,954	2,954
Assets in respect of derivatives	7,934	170	1,144	562	297	1,254	11,361
Intangible assets and goodwill	-	-	-	-	-	16	16
Other assets	5,903 ^(e)	4	700	4	26	1,110	7,747
Total assets	298,070	47,873	60,250	11,123	9,854	9,797	436,967
Liabilities							
Deposits from the public	222,371	19,654	82,172	11,823	6,297	449	342,766
Deposits from banks	1,155	10	2,467	619	79	-	4,330
Deposits from governments	39	-	581	5	-	-	625
Securities lent or sold under agreements to repurchase	239	-	-	-	-	5	244
Bonds, promissory notes and subordinated bonds	6,343	15,994	-	-	-	-	22,337
Liabilities in respect of derivative instruments	8,729	261	898	636	382	1,172	12,078
Other liabilities	8,589	11,146	721	22	142	1,074	21,694
Total liabilities	247,465	47,065	86,839	13,105	6,900	2,700	404,074
Difference ^(d)	50,605	808	(26,589)	(1,982)	2,954	7,097	32,893
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding options)	(20,349)	(3,804)	26,456	1,486	(3,591)	(198)	-
In the money options, net (according to underlying asset)	2,020	-	(2,101)	(63)	-	144	-
Out of the money options, net (according to underlying asset)	(625)	-	328	192	29	76	-
Grand total	31,651	(2,996)	(1,906)	(367)	(608)	7,119	32,893
In the money options, net (discounted nominal value)	2,133	-	(2,260)	(76)	15	188	-
Out of the money options, net (discounted nominal value)	1,014	-	(432)	(686)	112	(8)	-

(a) Including those linked to foreign currency.

(b) Including derivatives whose underlying asset relates to a non-monetary item.

(c) After deduction of loan loss provisions attributed to the linkage basis according to the linkage of the credit for which it was created in the amount of NIS 3,205 million

(d) Shareholders' equity includes non-controlling interests.

(e) Reclassified.

Note 14 - Assets and Liabilities by Linkage Basis (cont.)

	December 31 2017 (audited)						
	NIS		Foreign currency ^(a)				
	Unlinked	CPI-linked	In US dollars	In Euro	In other currencies	Non-monetary items ^(b)	Total
	In NIS millions						
Assets							
Cash and deposits with banks	71,674	-	6,449	1,503	2,335	106	82,067
Securities	34,508	3,132	29,732	4,490	1,203	4,234	77,299
Securities borrowed or purchased under agreements to resell	1,080	-	27	42	12	-	1,161
Loans to the public, net ^(c)	187,327	41,928	29,444	4,132	4,831	290	267,952
Loans to governments	27	102	543	43	-	-	715
Investments in investee companies	-	-	-	-	-	807	807
Buildings and equipment	-	-	-	-	-	2,986	2,986
Assets in respect of derivatives	5,795	113	924	574	202	1,965	9,573
Intangible assets and goodwill	-	-	-	-	-	16	16
Other assets	6,193	4	648	2	26	1,389	8,262
Total assets	306,604	45,279	67,767	10,786	8,609	11,793	450,838
Liabilities							
Deposits from the public	234,431	18,955	90,620	11,799	6,170	503	362,478
Deposits from banks	1,398	10	2,636	999	113	-	5,156
Deposits from governments	61	-	383	8	-	-	452
Securities lent or sold under agreements to repurchase	509	-	2	3	-	44	558
Bonds, capital notes and subordinated bonds	4,039	11,538	-	-	-	-	15,577
Liabilities in respect of derivative instruments	6,024	211	822	521	276	1,886	9,740
Other liabilities	9,141	12,003	572	20	130	1,458	23,324
Total liabilities	255,603	42,717	95,035	13,350	6,689	3,891	417,285
Difference ^(d)	51,001	2,562	(27,268)	(2,564)	1,920	7,902	33,553
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding options)	(19,443)	(5,014)	26,775	1,094	(2,558)	(854)	-
In the money options, net (according to underlying asset)	1,426	-	(2,174)	598	(31)	181	-
Out of the money options, net (according to underlying asset)	(1,264)	-	721	520	11	12	-
Grand total	31,720	(2,452)	(1,946)	(352)	(658)	7,241	33,553
In the money options, net (discounted nominal value)	1,587	-	(2,676)	845	(64)	308	-
Out of the money options, net (discounted nominal value)	(41)	-	(468)	392	62	55	-

(a) Including those linked to foreign currency.

(b) Including derivatives whose underlying asset relates to a non-monetary item.

(c) After deduction of loan loss provisions attributed to the linkage basis according to the linkage of the credit for which it was created in the amount of NIS 3,205 million

(d) Shareholders' equity includes non-controlling interests.

Note 15A – Balances and Fair Value Estimates of Financial Instruments

	June 30 2018 (unaudited)				
	Balance sheet	Fair value			
	balance	Level 1 ^(a)	Level 2 ^(a)	Level 3 ^(a)	Total
	In NIS millions				
Financial assets					
Cash and deposits with banks	71,315	61,645	7,099	2,481	71,225
Securities ^(b)	82,113	47,510	31,898	2,670	82,078
Securities borrowed or purchased under agreements to resell	931	931	-	-	931
Loans to the public, net	264,172	3,071	78,517	181,615	263,203
Loans to governments	757	-	13	777	790
Assets in respect of derivatives	12,076	2,106	8,456	1,514	12,076
Financial assets, including balances classified as held for sale assets ^(e)	9,315	485	34	8,790	9,309
Total financial assets	440,679 ^(c)	115,748	126,017	197,847	439,612
Financial liabilities					
Deposits from the public	361,220	2,820	246,467	112,569	361,856
Deposits from banks	3,473	-	3,261	172	3,433
Deposits from governments	552	-	493	70	563
Securities lent or sold under agreements to	559	559	-	-	559
Bonds, capital notes and subordinated bonds	16,954	13,011	12	4,952	17,975
Liabilities in respect of derivative instruments	11,323	2,081	8,888	354	11,323
Other financial liabilities, including balances classified as held for sale liabilities ^(e)	7,412	996	5,425	991	7,412
Total financial liabilities	401,493 ^(c)	19,467	264,546	119,108	403,121
Off balance-sheet financial instruments					
Transactions in which the outstanding balance embodies credit risk	362	-	-	362	362
In addition, liabilities in respect of employee benefits, gross - Pension and severance pay ^(d)	16,499	-	186	16,313	16,499

(a) Level 1 - Fair value measurements using quoted prices 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 more information regarding balance of outstanding balance sheet securities and fair value of securities, please see Note 5 - Securities.

(c) Of which: Assets and liabilities in the amount of NIS 119,848 million and NIS 180,913 million, respectively, the outstanding balance-sheet amount of which is equal to their fair value (instruments presented in the balance sheet at fair value) or approximates their fair value (instruments for an original period of up to 3 months for which the outstanding balance sheet amount is used as an approximation of the fair value). For more information on instruments measured at fair value on recurring and non-recurring bases, please see Notes 15B and 15D.

(d) The liability is presented on a gross basis and does not take into account plan assets managed against it.

(e) For more information, please see Note 16g.

Note 15A – Balances and Fair Value Estimates of Financial Instruments (cont.)

	June 30 2017 (unaudited)				
	Balance sheet	Fair value			
	balance	Level 1 ^(a)	Level 2 ^(a)	Level 3 ^(a)	Total
	In NIS millions				
Financial assets					
Cash and deposits with banks	69,352	62,415	5,545	1,407	69,367
Securities ^(b)	78,470	48,553	27,545	2,360	78,458
Securities borrowed or purchased under agreements	1,031	1,031	-	-	1,031
Loans to the public, net	264,534 ^(e)	2,390	73,406	187,753 ^(e)	263,549
Loans to governments	619	-	31	616	647
Assets in respect of derivatives	11,361	863	9,002	1,496	11,361
Other financial assets	1,528	733	-	797	1,530
Total financial assets	426,895 ^(c)	115,985	115,529	194,429	425,943
Financial liabilities					
Deposits from the public	342,766	3,043	235,330	105,456	343,829
Deposits from banks	4,330	1	4,192	132	4,325
Deposits from governments	625	67	566	10	643
Securities lent or sold under agreements to	244	244	-	-	244
Bonds, promissory notes and subordinated bonds	22,337	18,240	-	5,322	23,562
Liabilities in respect of derivative instruments	12,078	820	10,786	472	12,078
Other financial liabilities	8,355	1,473	5,335	1,547	8,355
Total financial liabilities	390,735 ^(c)	23,888	256,209	112,939	393,036
Off balance-sheet financial instruments					
Transactions in which the outstanding balance embodies credit risk	367	-	-	367	367
In addition, liabilities in respect of employee benefits, gross - Pension and severance pay ^(d)	16,662	-	176	16,486	16,662

(a) Level 1 - Fair value measurements using quoted prices 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 more information regarding balance of outstanding balance sheet securities and fair value of securities, please see Note 5 - Securities.

(c) Of which: Assets and liabilities in the amount of NIS 126,414 million and NIS 165,356 million, respectively, the outstanding balance-sheet amount of which is equal to their fair value (instruments presented in the balance sheet at fair value) or approximates their fair value (instruments for an original period of up to 3 months for which the outstanding balance sheet amount is used as an approximation of the fair value). For more information on instruments measured at fair value on recurring and non-recurring bases, please see Notes 15B and 15D.

(d) The liability is presented on a gross basis and does not take into account plan assets managed against it.

(e) Reclassified.

Note 15A – Balances and Fair Value Estimates of Financial Instruments (cont.)

	December 31 2017 (audited)				
	Balance sheet	Fair value			
	balance	Level 1 ^(a)	Level 2 ^(a)	Level 3 ^(a)	Total
In NIS millions					
Financial assets					
Cash and deposits with banks	82,067	72,384	8,456	1,294	82,134
Securities ^(b)	77,299	48,697	26,244	2,360	77,301
Securities borrowed or purchased under agreements	1,161	1,161	-	-	1,161
Loans to the public, net	267,952	2,324	77,657	186,463	266,444
Loans to governments	715	-	8	741	749
Assets in respect of derivatives	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 lent or sold under agreements to	558	555	-	3	558
Bonds, promissory notes and subordinated bonds	15,577	11,802	-	4,982	16,784
Liabilities in respect of derivative instruments	9,740	1,090	8,211	439	9,740
Other financial liabilities	8,761	1,721	5,523	1,517	8,761
Total financial liabilities	402,722 ^(c)	17,307	273,190	114,566	405,063
Off balance-sheet financial instruments					
Transactions in which the outstanding balance embodies credit risk	364	-	-	364	364
In addition, liabilities in respect of employee benefits, gross - Pension and severance pay ^(d)	17,995	-	181	17,814	17,995

(a) Level 1 - Fair value measurements using quoted prices 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 more information regarding balance of outstanding balance sheet securities and fair value of securities, please see Note 5 - Securities.

(c) Of which: Assets and liabilities in the amount of NIS 118,402 million and NIS 180,345 million, respectively, the outstanding balance-sheet amount of which is equal to their fair value (instruments presented in the balance sheet at fair value) or approximates their fair value (instruments for an original period of up to 3 months for which the outstanding balance sheet amount is used as an approximation of the fair value). For more information on instruments measured at fair value on recurring and non-recurring bases, please see Notes 15B and 15D.

(d) The liability is presented on a gross basis and does not take into account plan assets managed against it.

Note 15B - Items Measured at Fair Value

A. Items Measured at Fair Value on a Recurring Basis

	June 30 2018 (unaudited)			
	Fair value measurements using			
	Quoted prices in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	In NIS millions			
Assets				
Available-for-sale securities:				
Government of Israel bonds	36,241	2,577	-	38,818
Foreign governments' bonds	2,971	5,810	-	8,781
Bonds of Israeli financial institutions	-	11	-	11
Bonds of foreign financial institutions	43	10,094	-	10,137
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	7,333	1,683	9,016
Other Israeli bonds	65	100	-	165
Other foreign bonds	-	3,129	-	3,129
Available-for-sale shares and mutual funds	2,240	-	-	2,240
Total available-for-sale securities	41,560	29,054	1,683	72,297
Held for trading securities^(b):				
Government of Israel bonds	5,121	-	-	5,121
Foreign governments' bonds	70	-	-	70
Bonds of Israeli financial institutions	178	-	-	178
Bonds of foreign financial institutions	-	252	-	252
Asset-backed (ABS) or mortgage- backed (MBS) bonds	-	285	-	285
Other Israeli bonds	243	-	-	243
Other foreign bonds	-	277	-	277
Held-for-trading shares and mutual funds	3	-	-	3
Total held-for-trading securities	5,615	814	-	6,429
Assets in respect of derivative instruments:				
NIS-CPI contracts	-	85	190	275
Interest rate contracts	193	3,728	171	4,092
Foreign exchange contracts	1	3,906	983	4,890
Stock contracts	1,623	685	162	2,470
Commodity and other contracts	17	52	8	77
MAOF (Israeli financial instruments and futures) market activity	272	-	-	272
Total assets in respect of derivatives	2,106	8,456	1,514	12,076
Other:				
Credit and deposits for loaned securities	3,233	10	-	3,243
Securities borrowed or purchased under agreements to resell	931	-	-	931
Other	485	-	-	485
Total - Other	4,649	10	-	4,659
Total assets	53,930	38,334	3,197	95,461

Note 15B - Items Measured at Fair Value (cont.)

A. Items Measured at Fair Value on a Recurring Basis (cont.)

	June 30 2018 (unaudited)			
	Fair value measurements using			
	Quoted prices in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	In NIS millions			
Liabilities				
Liabilities in respect of derivative instruments:				
NIS-CPI contacts	-	263	162	425
Interest rate contracts	193	3,711	8	3,912
Foreign exchange rate contracts	1	4,002	184	4,187
Stock contracts	1,604	855	-	2,459
Commodity and other contracts	17	57	-	74
MAOF (Israeli financial instruments and futures) market activity	266	-	-	266
Total liabilities in respect of derivative instruments	2,081	8,888	354	11,323
Other:				
Deposits in respect of loaned securities	2,819	33	5	2,857
Securities lent or sold under agreements to repurchase	559	-	-	559
Other	766	-	-	766
Total - Other	4,144	33	5	4,182
Total liabilities	6,225	8,921	359	15,505

Note 15B - Items Measured at Fair Value (cont.)

A. Items Measured at Fair Value on a Recurring Basis (cont.)

	June 30 2017 (unaudited)			
	Fair value measurements using			
	Quoted prices in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	In NIS millions			
Assets				
Available-for-sale securities:				
Government of Israel bonds	34,869	2,024	-	36,893
Foreign governments' bonds	3,454	5,094 ^(a)	-	8,548
Bonds of Israeli financial institutions	-	24	-	24
Bonds of foreign financial institutions	43	8,614	-	8,657
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	6,651	1,454	8,105
Other Israeli bonds	54	228	-	282
Other foreign bonds	-	2,529 ^(a)	-	2,529
Available-for-sale shares and mutual funds	1,765	-	-	1,765
Total available-for-sale securities	40,185	25,164	1,454	66,803
Held for trading securities^(b):				
Government of Israel bonds	7,050	43	-	7,093
Foreign governments' bonds	347	412	-	759
Bonds of Israeli financial institutions	254	-	-	254
Bonds of foreign financial institutions	-	435	-	435
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	275	-	275
Other Israeli bonds	194	-	-	194
Other foreign bonds	-	429	-	429
Held-for-trading shares and mutual funds	523	-	-	523
Total held-for-trading securities	8,368	1,594	-	9,962
Assets in respect of derivative instruments:				
NIS-CPI contacts	-	134	205	339
Interest rate contracts	28	5,026	205	5,259
Foreign exchange rate contracts	2	3,314	975	4,291
Stock contracts	456	522	103	1,081
Commodity and other contracts	6	6	8	20
MAOF (Israeli financial instruments and futures) market activity	371	-	-	371
Total assets in respect of derivatives	863	9,002	1,496	11,361
Other:				
Credit and deposits for loaned securities	2,390	5	-	2,395
Securities borrowed or purchased under agreements to resell	1,031	-	-	1,031
Other	733	-	-	733
Total - Other	4,154	5	-	4,159
Total assets	53,570	35,765	2,950	92,285

(a) Reclassified.

Note 15B - Items Measured at Fair Value (cont.)

A. Items Measured at Fair Value on a Recurring Basis (cont.)

	June 30 2017 (unaudited)			
	Fair value measurements using			
	Quoted prices in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	In NIS millions			
Liabilities				
Liabilities in respect of derivative instruments:				
NIS-CPI contacts	-	207	218	425
Interest rate contracts	29	4,872	-	4,901
Foreign exchange rate contracts	2	5,021	254	5,277
Stock contracts	456	672	-	1,128
Commodity and other contracts	5	14	-	19
MAOF (Israeli financial instruments and futures) market activity	328	-	-	328
Total liabilities in respect of derivative instruments	820	10,786	472	12,078
Other:				
Deposits in respect of loaned securities	3,043	6	50	3,099
Securities lent or sold under agreements to repurchase	244	-	-	244
Other	1,473	-	-	1,473
Total - Other	4,760	6	50	4,816
Total liabilities	5,580	10,792	522	16,894

Note 15B - Items Measured at Fair Value (cont.)

A. Items Measured at Fair Value on a Recurring Basis (cont.)

	December 31 2017 (audited)			
	Fair value measurements using			
	Quoted prices in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	In NIS millions			
Assets				
Available-for-sale securities:				
Government of Israel bonds	34,246	2,387	-	36,633
Foreign governments' bonds	7,700	3,055	-	10,755
Bonds of Israeli financial institutions	-	11	-	11
Bonds of foreign financial institutions	44	9,609	-	9,653
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	7,160	1,369	8,529
Other Israeli bonds	3	67	-	70
Other foreign bonds	-	2,352	-	2,352
Available-for-sale shares and mutual funds	1,936	-	-	1,936
Total available-for-sale securities	43,929	24,641	1,369	69,939
Held for trading securities^(b)				
Government of Israel bonds	3,178	26	-	3,204
Foreign governments' bonds	82	-	-	82
Bonds of Israeli financial institutions	90	-	-	90
Bonds of foreign financial institutions	-	142	-	142
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	268	-	268
Other Israeli bonds	111	-	-	111
Other foreign bonds	-	299	-	299
Held-for-trading shares and mutual funds	1,307	-	-	1,307
Total held-for-trading securities	4,768	735	-	5,503
Assets in respect of derivative instruments:				
NIS-CPI contacts	-	149	166	315
Interest rate contracts	30	3,852	266	4,148
Foreign exchange rate contracts	-	2,206	616	2,822
Stock contracts	669	1,113	63	1,845
Commodity and other contracts	3	26	3	32
MAOF (Israeli financial instruments and futures) market activity	411	-	-	411
Total assets in respect of derivatives	1,113	7,346	1,114	9,573
Other:				
Credit and deposits for loaned securities	2,473	7	-	2,480
Securities borrowed or purchased under agreements to resell	1,161	-	-	1,161
Other	1,155	-	-	1,155
Total - Other	4,789	7	-	4,796
Total assets	54,599	32,729	2,483	89,811

Note 15B - Items Measured at Fair Value (cont.)

A. Items Measured at Fair Value on a Recurring Basis (cont.)

	December 31 2017 (audited)			
	Fair value measurements using			
	Quoted prices in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	In NIS millions			
Liabilities				
Liabilities in respect of derivative instruments:				
NIS-CPI contacts	-	176	255	431
Interest rate contracts	29	3,804	-	3,833
Foreign exchange rate contracts	-	3,030	184	3,214
Stock contracts	663	1,179	-	1,842
Commodity and other contracts	3	22	-	25
MAOF (Israeli financial instruments and futures) market activity	395	-	-	395
Total liabilities in respect of derivative instruments	1,090	8,211	439	9,740
Other:				
Deposits in respect of loaned securities	2,219	14	44	2,277
Securities lent or sold under agreements to repurchase	555	-	3	558
Other	1,721	-	-	1,721
Total - Other	4,495	14	47	4,556
Total liabilities	5,585	8,225	486	14,296

Note 15B - Items Measured at Fair Value (cont.)

B. Items Measured at Fair Value on a Non-Recurring Basis

June 30 2018 (unaudited)					
Fair value measurements using					
	Quoted prices in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value	Total profit (loss) from changes in value during the period
In NIS millions					
Impaired credit whose collection is subject to collateral	-	-	511	511	90
Held-to-maturity bonds	335	2,027	-	2,362	(35)
Total	335	2,027	511	2,873	55

June 30 2017 (unaudited)					
Fair value measurements using					
	Quoted prices in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value	Total profit (loss) from changes in value during the period
In NIS millions					
Impaired credit whose collection is subject to collateral	-	-	950	950	34
Held-to-maturity bonds	-	787	-	787	(12)
Total	-	787	950	1,737	22

December 31 2017 (audited)					
Fair value measurements using					
	Quoted prices in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value	Total profit (loss) from changes in value during the period
In NIS millions					
Impaired credit whose collection is subject to collateral	-	-	728	728	344
Held-to-maturity bonds	-	868	-	868	2
Total	-	868	728	1,596	346

Note 15C – Changes in Items Measured at Fair Value on a Recurring Basis Included in Level 3

For the three months ended June 30 2018 (unaudited)											
	Fair value as at the beginning of the period	Realized/unrealized gains (losses), net, which were included:	In the income statement ^(a)	In OCI ^(b)	Purchases and issues	Sales	Discharges	Adjustments from translation of financial statements	Transfers from Level 3 ^(c)	Fair value as at June 30 2018	Unrealized gain (losses) in respect of instruments held as at June 30 2018
In NIS millions											
Assets											
Available-for-sale securities:											
MBS/ABS	1,631	(78)	(6)	-	-	(50)	-	186	-	1,683	(4)
Assets in respect of derivative instruments:											
NIS-CPI contacts	152	24	-	-	-	-	-	14	-	190	(29)
Interest rate contracts	268	(89)	-	-	-	(8)	-	-	-	171	(89)
Foreign exchange rate contracts	820	109	-	54	-	-	-	-	-	983	201
Stock contracts	166	(4)	-	-	-	-	-	-	-	162	8
Commodity and other contracts	9	(1)	-	-	-	-	-	-	-	8	-
Total assets in respect of derivatives	1,415	39	-	54	-	(8)	-	14	-	1,514	91
Total assets	3,046	(39)	(6)	54	-	(58)	-	200	-	3,197	87
Liabilities											
Liabilities in respect of derivative instruments:											
NIS-CPI contacts	253	(136)	-	-	-	-	-	68	(23)	162	(36)
Interest rate contracts	-	8	-	-	-	-	-	-	-	8	-
Foreign exchange rate contracts	166	18	-	-	-	-	-	-	-	184	28
Option contracts	-	-	-	-	-	-	-	-	-	-	-
Total liabilities in respect of derivative instruments	419	(110)	-	-	-	-	-	68	(23)	354	(8)
Total - Other	2	3	-	-	-	-	-	-	-	5	-
Total liabilities	421	(107)	-	-	-	-	-	68	(23)	359	(8)

(a) Realized gains (losses) reported included in the income statement under the noninterest finance income line item.

(b) Unrealized losses included in the statement of changes in equity under accumulated other comprehensive income (loss).

(c) Transfers from Level 2 to Level 3 – forward contracts for a period of more than one year and less than 5 years were transferred when the term to maturity was less than one year.

Transfers from Level 3 to Level 2 – index forwards for a period of over 5 years were transferred when the term to maturity was more than one year and less than 5 years.

Note 15C – Changes in Items Measured at Fair Value on a Recurring Basis Included in Level 3 (cont.)

For the three months ended June 30 2017 (unaudited)											
Fair value as at the beginning of the period	Realized/unrealized gains (losses), net, which were included:		Purchases and issues	Sales	Discharges	Adjustments from translation of financial statements	Transfers to Level 3 ^(c)	Transfers from Level 3 ^(c)	Fair value as at June 30 2017	Unrealized gain (losses) in respect of instruments held as at June 30 2017	
	In the income statement ^(a)	In other OCI ^(b)									
In NIS millions											
Assets											
Available-for-sale securities:											
MBS/ABS	1,409	(19)	(2)	222	(11)	(145)	-	-	-	1,454	-
Assets in respect of derivative instruments:											
NIS-CPI contacts	217	(13)	-	-	-	-	-	1	-	205	(31)
Interest rate contracts	129	83 ^(d)	-	-	-	(7) ^(d)	-	-	-	205	80
Foreign exchange rate contracts	1,125	(307)	-	157	-	-	-	-	-	975	437
Stock contracts	101	2	-	-	-	-	-	-	-	103	17
Commodity and other contracts	3	5	-	-	-	-	-	-	-	8	6
Total assets in respect of derivatives	1,575	(230)	-	157	-	(7)	-	1	-	1,496	509
Total assets	2,984	(249)	(2)	379	(11)	(152)	-	1	-	2,950	509
Liabilities											
Liabilities in respect of derivative instruments:											
NIS-CPI contacts	162	13	-	-	-	-	-	52	(9)	218	48
Foreign exchange rate contracts	263	(9)	-	-	-	-	-	-	-	254	(24)
Option contracts	-	-	-	-	-	-	-	-	-	-	-
Total liabilities in respect of derivative instruments	425	4	-	-	-	-	-	52	(9)	472	24
Total - Other	50	-	-	-	-	-	-	-	-	50	6
Total liabilities	475	4	-	-	-	-	-	52	(9)	522	30

(a) Realized gains (losses) reported included in the income statement under the noninterest finance income line item.

(b) Unrealized gains included in the statement of changes in equity under accumulated other comprehensive income (loss).

(c) Transfers from Level 2 to Level 3 – forward contracts for a period of more than one year and less than 5 years were transferred when the term to maturity was less than one year.

Transfers from Level 3 to Level 2 – index forwards for a period of over 5 years were transferred when the term to maturity was more than one year and less than 5 years.

(d) Reclassified.

Note 15C – Changes in Items Measured at Fair Value on a Recurring Basis Included in Level 3 (cont.)

For the six months ended June 30 2018 (unaudited)											
	Fair value as at the beginning of the year	Realized/unrealized gains (losses), net, which were included:	Purchases and issues	Sales	Discharges	Adjustments from translation of financial statements	Transfers from Level 3(c)	Fair value as at June 30 2018	Unrealized gain (losses) in respect of instruments held as at June 30 2018		
		In the income statement ^(a)									
		In OCI ^(b)									
In NIS millions											
Assets											
Available-for-sale securities:											
MBS/ABS	1,369	(56)	(7)	-	-	(135)	-	512	-	1,683	(4)
Assets in respect of derivative instruments:											
NIS-CPI contacts	166	(1)	-	-	-	-	-	25	-	190	(21)
Interest rate contracts	266	(48)	-	-	-	(47)	-	-	-	171	(77)
Foreign exchange rate contracts	616	230	-	137	-	-	-	-	-	983	317
Stock contracts	63	99	-	-	-	-	-	-	-	162	157
Commodity and other contracts	3	5	-	-	-	-	-	-	-	8	7
Total assets in respect of derivatives	1,114	285	-	137	-	(47)	-	25	-	1,514	383
Total assets	2,483	229	(7)	137	-	(182)	-	537	-	3,197	379
Liabilities											
Liabilities in respect of derivative instruments:											
NIS-CPI contacts	255	(134)	-	-	-	-	-	93	(52)	162	38
Interest rate contracts	-	8	-	-	-	-	-	-	-	8	-
Foreign exchange rate contracts	184	-	-	-	-	-	-	-	-	184	(15)
Total liabilities in respect of derivative instruments	439	(126)	-	-	-	-	-	93	(52)	354	23
Total - Other	47	(42)	-	-	-	-	-	-	-	5	3
Total liabilities	486	(168)	-	-	-	-	-	93	(52)	359	26

(a) Realized gains (losses) reported included in the income statement under the noninterest finance income line item.

(b) Unrealized losses included in the statement of changes in equity under accumulated other comprehensive income (loss).

(c) Transfers from Level 2 to Level 3 – forward contracts for a period of more than one year and less than 5 years were transferred when the term to maturity was less than one year. In addition, SBA-type transactions were transferred following reallocation of the unpaid reserve balance.

Transfers from Level 3 to Level 2 – index forwards for a period of over 5 years were transferred when the term to maturity was more than one year and less than 5 years.

Note 15C – Changes in Items Measured at Fair Value on a Recurring Basis Included in Level 3 (cont.)

For the six months ended June 30 2017 (unaudited)											
Fair value as at the beginning of the year	Realized/unrealized gains (losses), net, which were included:			Adjustments from translation of financial statements to Level 3(c)					Transfers from Level 3(c)	Fair value as at June 30 2017	Unrealized gain (losses) in respect of instruments held as at June 30 2017
	In the income statement ^(a)	In OCI ^(b)	Purchases and issues	Sales	Discharges						
In NIS millions											
Assets											
Available-for-sale securities:											
MBS/ABS	1,426	(90)	(8)	637	(11)	(500)	-	-	-	1,454	(1)
Assets in respect of derivative instruments:											
NIS-CPI contacts	202	(18)	-	-	-	-	-	21	-	205	6
Interest rate	130	135 ^(d)	-	-	-	(60) ^(d)	-	-	-	205	91
Foreign exchange	575	48 ^(d)	-	352 ^(d)	-	-	-	-	-	975	764
Stock contracts	57	46	-	-	-	-	-	-	-	103	71
Commodity and	3	5	-	-	-	-	-	-	-	8	6
Total assets in respect of derivatives	967	216	-	352	-	(60)	-	21	-	1,496	938
Total assets	2,393	126	(8)	989	(11)	(560)	-	21	-	2,950	937
Liabilities											
Liabilities in respect of derivative instruments:											
NIS-CPI contacts	162	34	-	-	-	-	-	52	(30)	218	54
Foreign exchange	245	9	-	-	-	-	-	-	-	254	31
Total liabilities in respect of derivative instruments	407	43	-	-	-	-	-	52	(30)	472	85
Total - Other	34	16	-	-	-	-	-	-	-	50	24
Total liabilities	441	59	-	-	-	-	-	52	(30)	522	109

(a) Realized gains (losses) reported included in the income statement under the noninterest finance income line item.

(b) Unrealized gains included in the statement of changes in equity under accumulated other comprehensive income (loss).

(c) Transfers from Level 2 to Level 3 – forward contracts for a period of more than one year and less than 5 years were transferred when the term to maturity was less than one year.

Transfers from Level 3 to Level 2 – index forwards for a period of over 5 years were transferred when the term to maturity was more than one year and less than 5 years.

(d) Reclassified.

Note 15C – Changes in Items Measured at Fair Value on a Recurring Basis Included in Level 3 (cont.)

	For the year ended December 31 2017 (audited)										
	Fair value as at the beginning of the year	Realized/unrealized gains (losses), net, which were included: In the income statement ent ^(a)	In OC ^(b)	Purch-ases and issues	Sales	Dis-cha-rges	Adjus-tments from trans-lation of fin-ancial state-ment ents	Transfer s to Level 3 ^(c)	Tran-sfers from Level 3 ^(c)	Fair value as at Dec-ember 31 2017	Unrealized gain (losses) in respect of instruments held as at December 31 2017
	In NIS millions										
Assets											
Available-for-sale securities:											
MBS/ABS	1,426	(61)	(10)	887	-	(873)	-	-	-	1,369	(1)
Assets in respect of derivative instruments:											
NIS-CPI contacts	202	(25)	-	-	-	-	-	20	(31)	166	10
Interest rate contracts	130	329	-	-	-	(193)	-	-	-	266	154
Foreign exchange rate contracts	575	(532)	-	573	-	-	-	-	-	616	505
Stock contracts	57	6	-	-	-	-	-	-	-	63	43
Commodity and other contracts	3	-	-	-	-	-	-	-	-	3	3
Total assets in respect of derivatives	967	(222)	-	573	-	(193)	-	20	(31)	1,114	715
Total assets	2,393	(283)	(10)	1,460	-	(1,066)	-	20	(31)	2,483	714
Liabilities											
Liabilities in respect of derivative instruments:											
NIS-CPI contacts	162	73	-	-	-	-	-	52	(32)	255	114
Foreign exchange rate contracts	245	(61)	-	-	-	-	-	-	-	184	(26)
Total liabilities in respect of derivative instruments	407	12	-	-	-	-	-	52	(32)	439	88
Total - Other	34	13	-	-	-	-	-	-	-	47	27
Total liabilities	441	25	-	-	-	-	-	52	(32)	486	115

(a) Realized gains (losses) reported included in the income statement under the noninterest finance income line item.

(b) Unrealized gains included in the statement of changes in equity under accumulated other comprehensive income (loss).

(c) Transfers from Level 2 to Level 3 – forward contracts for a period of more than one year and less than 5 years were transferred when the term to maturity was less than one year.

Transfers from Level 3 to Level 2 – index forwards for a period of over 5 years were transferred when the term to maturity was more than one year and less than 5 years.

Note 15D - Quantitative Information on Items Measured at Fair Value Included in Level 3

Quantitative Information on Fair Value Measurement in Level 3

June 30 2018 (unaudited)					
	Fair value	Evaluation technique	Unobservable inputs	Range	average ⁽³⁾
In NIS millions					
A. Items measured at fair value on a recurring basis					
Assets					
Available-for-sale securities⁽¹⁾					
Asset-backed (ABS) bonds or mortgage-backed (MBS)	1,683	Discounted cash flows	Spread	110-215 bp	163 bp
			Probability of failure	2%-3.8%	2.90%
			Early repayment rate	20%	20%
			% of loss	30%	30%
Assets for derivative instruments⁽²⁾					
NIS-CPI interest contracts	169	Discounted cash flows	Expected inflation	0-1.38%	0.69%
	21	Discounted cash flows	Counterparty risk	1.19%-100% ^(*)	1.85%
Interest rate contracts	171	Discounted cash flows	Counterparty risk	1.19%-100% ^(*)	1.85%
Foreign exchange rate contracts	62	Discounted cash flows	Expected inflation	0-1.38%	0.69%
	921	Discounted cash flows	Counterparty risk	1.19%-100% ^(*)	1.85%
Option contracts	162	Discounted cash flows	Counterparty risk	1.19%-100% ^(*)	1.85%
Commodity contracts	8	Discounted cash flows	Counterparty risk	1.19%-100% ^(*)	1.85%
Liabilities					
Liabilities for derivative instruments⁽²⁾					
NIS-CPI interest rate contracts	162	Discounted cash flows	Expected inflation	0-1.38%	0.69%
Foreign exchange rate contracts	184	Discounted cash flows	Expected inflation	0-1.38%	0.69%
B. Items measured at fair value on a non-recurring basis					
Impaired credit whose collection is subject to collateral	511	Collateral's fair value			

* In respect of a defaulted counterparty.

Qualitative Information on Fair Value Measurement in Level 3

- The following unobservable inputs were used to measure the fair value of asset-backed or mortgage-backed securities: Spread, probability of default, early repayment rate, and severity of loss in the event of a default. A significant increase/decrease in the unobservable inputs will be reflected in a significantly lower/higher fair value, respectively.
- The following unobservable inputs were used to measure the derivatives' fair value: Counterparty credit risk and expected inflation rate. The higher/lower a counterparty's credit risk, the lower/higher the contract's fair value, respectively.
A change in the expected inflation rate will affect contracts' fair value in accordance with the Bank's CPI-linked position on these contracts. The higher (lower) the expected inflation rate with the Bank committed to paying the index-linked amount, the lower (higher) the contracts' fair value, respectively. The higher (lower) the expected inflation rate with the counterparty committed to paying the Bank the CPI-linked amount, the higher (lower) the contracts' fair value, respectively.
- The average figure for unobserved input "Contract's counter-party risk" reflects a weighted average.

Note 15D - Quantitative Information on Items Measured at Fair Value which were Included in Level 3 (cont.)

Quantitative Information on Fair Value Measurement in Level 3 (cont.)

June 30 2017 (unaudited)					
	Fair value	Evaluation technique	Unobservable inputs	Range	average ⁽³⁾
In NIS millions					
A. Items measured at fair value on a recurring basis					
Assets					
Available-for-sale securities⁽¹⁾					
Asset-backed (ABS) bonds or mortgage-backed (MBS)	1,454	Discounted cash flows	Spread	125-190 bp	157 bp
			Probability of failure	2.5%-3.8%	3.15%
			Early repayment rate	20%	20%
			% of loss	30%	30%
Assets for derivative instruments⁽²⁾					
NIS-CPI interest contracts	166	Discounted cash flows	Expected inflation	0.43%-(0.15)%	0.14%
	39	Discounted cash flows	Counterparty risk	0.15%-100% ^(*)	1.92%
Interest rate contracts	205	Discounted cash flows	Counterparty risk	0.15%-100% ^(*)	1.92%
Foreign exchange rate contracts	148	Discounted cash flows	Expected inflation	0.43%-(0.15)%	0.14%
	827	Discounted cash flows	Counterparty risk	0.15%-100% ^(*)	1.92%
Option contracts	103	Discounted cash flows	Counterparty risk	0.15%-100% ^(*)	1.92%
Commodity contracts	8	Discounted cash flows	Counterparty risk	0.15%-100% ^(*)	1.92%
Liabilities					
Liabilities for derivative instruments⁽²⁾					
NIS-CPI interest contracts	218	Discounted cash flows	Expected inflation	0.43%-(0.15)%	0.14%
Foreign exchange rate contracts	254	Discounted cash flows	Expected inflation	0.43%-(0.15)%	0.14%
B. Items measured at fair value on a non-recurring basis					
Impaired credit whose collection is subject to collateral	950	Collateral's fair value			

* In respect of a defaulted counterparty.

Qualitative Information on Fair Value Measurement in Level 3

- The following unobservable inputs were used to measure the fair value of asset-backed or mortgage-backed securities: Spread, probability of default, early repayment rate, and severity of loss in the event of a default. A significant increase/decrease in the unobservable inputs will be reflected in a significantly lower/higher fair value, respectively.
- The following unobservable inputs were used to measure the derivatives' fair value: Counterparty credit risk and expected inflation rate. The higher/lower a counterparty's credit risk, the lower/higher the contract's fair value, respectively.
A change in the expected inflation rate will affect contracts' fair value in accordance with the Bank's CPI-linked position on these contracts. The higher (lower) the expected inflation rate with the Bank committed to paying the index-linked amount, the lower (higher) the contracts' fair value, respectively. The higher (lower) the expected inflation rate with the counterparty committed to paying the Bank the CPI-linked amount, the higher (lower) the contracts' fair value, respectively.
- The average figure for unobserved input "Contract's counter-party risk" reflects a weighted average.

Note 15D - Quantitative Information on Items Measured at Fair Value which were Included in Level 3 (cont.)

December 31 2017 (audited)					
	Fair value	Evaluation technique	Unobservable inputs	Range	average ⁽³⁾
In NIS millions					
A. Items measured at fair value on a recurring basis					
Assets					
Available-for-sale securities⁽¹⁾					
Asset-backed (ABS) bonds or mortgage-backed (MBS)	1,369	Discounted cash flows	Spread	110-215 bp	163 bp
			Probability of failure	2%-3.8%	2.90%
			Early repayment rate	20%	20%
			% of loss	30%	30%
Assets for derivative instruments⁽²⁾					
NIS-CPI interest contracts	110	Discounted cash flows	Expected inflation	0.07%-0.51%	0.29%
	56	Discounted cash flows	Counterparty risk	0.50%-100% ^(*)	1.44%
Interest rate contracts	266	Discounted cash flows	Counterparty risk	0.50%-100% ^(*)	1.44%
Foreign exchange rate contracts	93	Discounted cash flows	Expected inflation	0.07%-0.51%	0.29%
	523	Discounted cash flows	Counterparty risk	0.50%-100% ^(*)	1.44%
Option contracts	63	Discounted cash flows	Counterparty risk	0.50%-100% ^(*)	1.44%
Commodity contracts	3	Discounted cash flows	Counterparty risk	0.50%-100% ^(*)	1.44%
Liabilities					
Liabilities for derivative instruments⁽²⁾					
NIS-CPI interest contracts	255	Discounted cash flows	Expected inflation	0.07%-0.51%	0.29%
Foreign exchange rate contracts	184	Discounted cash flows	Expected inflation	0.07%-0.51%	0.29%
B. Items measured at fair value on a non-recurring basis					
Impaired credit whose collection is subject to collateral	728	Collateral's fair value			

* In respect of a defaulted counterparty.

Qualitative Information on Fair Value Measurement in Level 3

- The following unobservable inputs were used to measure the fair value of asset-backed or mortgage-backed securities: Spread, probability of default, early repayment rate, and severity of loss in the event of a default. A significant increase/decrease in the unobservable inputs will be reflected in a significantly lower/higher fair value, respectively.
- The following unobservable inputs were used to measure the derivatives' fair value: Counterparty credit risk and expected inflation rate. The higher/lower a counterparty's credit risk, the lower/higher the contract's fair value, respectively. A change in the expected inflation rate will affect contracts' fair value in accordance with the Bank's CPI-linked position on these contracts. The higher (lower) the expected inflation rate with the Bank committed to paying the index-linked amount, the lower (higher) the contracts' fair value, respectively. The higher (lower) the expected inflation rate with the counterparty committed to paying the Bank the CPI-linked amount, the higher (lower) the contracts' fair value, respectively.
- The average figure for unobserved input "Contract's counter-party risk" reflects a weighted average.

Note 16 - Other Topics

A. [Securities Law \(Amendment No. 63\), 2017 – Restructuring of the Tel Aviv Stock Exchange](#)

On April 6 2017, the above amendment was published, with the primary objective of turning the Stock Exchange into a for-profit corporation, with an ownership structure that is separate from access to trading, and which will be a significant competitor for global stock exchanges and alternative trading platforms in Israel and abroad. For this purpose, the Stock Exchange is to undergo a court-sanctioned restructuring process, at the end of which it will turn from a limited liability company to a company with a share capital, which will be divided among the members of the Stock Exchange.

The court approved the restructuring arrangement on September 7 2017.

Pursuant to the provisions of the law, the Bank will be required to sell its stake in the Stock Exchange in excess of 5%, according to the outline and schedule prescribed by the law

On January 18 2018, the Bank filed with the Stock Exchange an offer to sell and transfer its entire stake in the Stock Exchange (the "Offered Shares"), following the Exchange's offer to its shareholders, made on December 28 2017, to purchase their stock.

On April 16 2018, the Exchange informed the Bank it had accepted the Bank's offer (the "Acceptance Notice"). Pursuant to the Acceptance Notice, all the Offered Shares will be sold and transferred to a transferee or several transferees. The Acceptance Notice clarified that the remuneration for the Offered Shares will exceed the price in the Bank's offer, but the difference between the actual remuneration and the total price quoted by the Bank for the Offered Shares will be transferred to the Exchange as required under the above legal provisions. According to the Acceptance Notice, the transaction is subject to regulatory approval and closing.

On June 12 2018, the Stock Exchange asked the Bank to postpone the Determining Date to August 31 2018, for the purpose of giving the Israel Security Authority additional time to examine the outline of the deal and whether to grant a holding permit to certain investors wishing to purchase the shares.

On June 13 2018, the Bank notified the Stock Exchange it has agreed to postpone the Determining Date to August 31 2018.

If the required approvals are not obtained until the Determining Date or the deal has not been closed, the transaction will be rescinded.

B. [Bank Leumi USA](#)

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

C. [Bank Leumi of Israel Trust Company Ltd.](#)

On April 17 2018, the deal between the Bank and Hermetic for the sale of 75% of the Trust Company's shares was finalized. The transaction is not expected to have a material effect on the financial results.

D. [Leumi Partners](#)

On July 25 2018, Leumi Partners Ltd. completed the sale of its entire stake in Avgol Industries 1953 Ltd. (hereinafter: the "Company") to Indorama Ventures Spain S.L. – a privately held company incorporated in Spain. The sold shares represent 14.96% of the equity and voting rights.

The Bank is expected to record a pre-tax profit of NIS 124 million from the sale in the financial statements of the third quarter of 2018. Maalot Insurance Agency Ltd.

Note 16 - Other Topics (cont.)

On May 15 2018, Maalot Insurance Agency Ltd. – which is wholly-owned by the Bank (hereinafter: the "Agency") – signed an agreement with Harel Insurance Company Ltd. (hereinafter: "Harel") and with Standard Insurance Ltd. of the Harel Group (hereinafter: "Standard"), according to which as of September 2 2018, the Agency shall receive outsourcing services from Standard and will continue to engage in insurance brokering with Harel as a sole insurer of new policies marketed during the agreement period, all in accordance with the manner and terms and conditions prescribed by the signed agreement.

E. Bank Leumi Romania (BLROM)

On June 14 2018, Leumi signed a binding agreement with British investment fund Argo Capital Management Limited for the sale of the Bank's entire holdings in Bank Leumi Romania. The finalization of the transaction is subject to several preconditions, including regulatory approvals. The transaction is not expected to have a material effect on the Bank's financial results.

F. Held-for-sale assets and liabilities

On July 28 2018, pursuant to the provisions of the Law for Increasing Competition and Reducing Concentration in Israel's Banking Market (Legislative Amendments), 2017, and after weighing the various alternatives, and following a process for the sale of the Bank's holdings in the company, an agreement was signed between the Bank and Warburg Pincus Financial Holdings (Israel LTD.), a corporation under the control of investment fund Warburg Pincus, for the sale of the Bank's entire interests in Leumi Card.

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

Following are the main points of the agreement:

1. The consideration to be paid to the Sellers for their entire holdings in Leumi Card is NIS 2.5 billion (with the Bank's share being NIS 2 billion).
2. Except for adjustment in respect of dividend distribution, if Leumi Card shall distribute dividends to its shareholders before the transaction has been finalized, the consideration amount shall not be adjusted.
3. The consideration shall be paid in three installments. The two deferred payments, which shall be made following the completion date, shall be secured by way of an autonomous bank guarantee (or similar autonomous guarantee issued by an insurer), which shall be provided to the Sellers to secure the payments, as aforesaid.

The installments shall be as follows:

- A total of NIS 1,047 million shall be paid on completion of the transaction.
 - A total of NIS 342 million shall be paid 12 months after the transaction has been completed.
 - A total of NIS 1,111 million shall be paid within 24 months of finalizing the transaction.
4. The agreement includes several preconditions, including obtaining the regulatory approvals required by law. A period of three months was set for meeting the preconditions, with an extension option by 3 additional months at any of the parties' request, following which the Bank alone shall be entitled to extend the period by up to three additional months. In addition, a mechanism was set to shorten the period and cancel the agreement in the event that it becomes apparent that the regulatory approvals are not likely to be obtained. If the transaction is not completed by December 31 2018, any consideration amount shall bear an annual interest rate of 8% from January 1 2019 until the transaction has been completed.
 5. The agreement includes representations as is customary in company sale transactions as well as a reimbursement mechanism in respect of breach of representations. The reimbursement mechanism determines a 1.5% minimum for activating the mechanism and is restricted to a maximum total

Note 16 - Other Topics (cont.)

reimbursement rate of 10% of the transaction amount (excluding in respect of breach of material representations or in case of fraud).

6. The agreement includes an appendix describing the main financing terms and conditions the Bank has agreed to grant Leumi Card for its ongoing activity, after the completion of the transaction. The actual granting of financing is subject to entering a separate agreement between Leumi Card and the Bank, after obtaining the approval of the authorized company organs at Bank Leumi and the Company.

As part of the negotiations with the Acquirer, the Bank has agreed to include several terms and conditions in the operating agreement to be signed between the Bank and Leumi Card (hereinafter: the "Operational Agreement"). In exchange to the Bank's agreement to include these conditions, the Bank shall be paid - six years from the effective date of the operating agreement - a total of NIS 50 million to NIS 128 million.

Subject to overachieving the results of Leumi Card outlined in the business model presented to the acquirer as part of the sale procedure, the Bank shall be paid - five years after the operation agreement came into effect - a total of NIS 145 million. Under certain circumstances, provided the Bank shall be eligible for the additional payment, the said payment may be postponed for a period of up to two years, and shall bear interest.

Subject to the completion of the transaction and under the assumption that the sale shall meet the necessary terms and condition for accounting recognition at the completion date, following the receipt of autonomous bank guarantee for the postponed payments, and taking into account the transaction costs, the Bank is expected to record a post-tax profit of NIS 234 million.

Assets classified as held-for-sale – for the purpose of Leumi Group's consolidated financial statements

	June 30 2018 (unaudited)
	In NIS millions
Cash and deposits with banks	34
Loans to the public, gross	8,037
Loan loss provision	(144)
Loans to the public, net	7,893
Buildings and equipment	218
Investment in associates	11
Other assets	173
Total assets held for sale	8,329

Liabilities Classified as Held-For-Sale – Leumi Card's Balances for the purpose of Leumi Group's Consolidated Financial Statements

	June 30 2018 (unaudited)
	In NIS millions
Deposits from the public	71
Deposits from banks	230
Other liabilities	5,836
Total liabilities held for sale	6,137

Recognized Income and Expenses

The Group has no income and expenses directly recognized in other comprehensive income which relate to held for sale assets and disposal groups.

BANK LEUMI OF ISRAEL LTD. AND ITS INVESTEE COMPANIES
Corporate Governance, Additional Information and Appendices

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Changes in the Board of Directors

As of the date of this report and its publication date, the Board of Directors has 13 directors. During the first and second quarters of 2018, there were no changes in the composition of the Board of Directors.

On July 23 2018, in response to the Bank's inquiry, the Supervisor of Banks - pursuant to her authority under Section 11E(a)(6) to the Banking Ordinance, 1941 - approved the Bank's request, inter alia due to the expected decrease in the number of directors at the Bank following the end of term of incumbent directors - to extend the term of Dr. Shmuel Ben Zvi, an external director with the Bank, in accordance with Proper Conduct of Banking Business Directive No. 301 of the Banking Supervision Department (hereinafter: "External Director", "Directive 301") until the earlier of the following: A period of six months from the end of Dr. Ben Zvi's current term, July 28 2018, or until the number of directors has reached the mandatory quota set by the Supervisor of Banks¹. It should be noted that Dr. Ben Zvi was included in the list of candidates proposed by the Committee for Appointment of Directors in Banking Corporations, which was appointed in accordance with Section 36A to the Banking (Licensing) Law, 1981 (hereinafter: the "Committee for Appointment of Directors"), for election in the Bank's 2018 annual general meeting, for an additional term as External Director. If Dr. Ben Zvi is elected for an additional term at the 2018 annual general meeting and his appointment is approved, his term will begin on the date in which the term was extended as aforesaid.

For more information, please see the section entitled "General Annual Meeting" below.

For more information regarding revisions of Directive 301 regarding the Board of Directors, please see the section entitled "Changes in the Board of Directors" in the 2017 Annual Financial Statements.

For more information about the publication of the Bank's immediate report on the intention to convene an annual general shareholders' meeting and an immediate report regarding receipt of notices regarding candidates to serve as members of the Bank's Board of Directors for election at the Bank's annual general meeting for 2018, please see under "Annual General Meeting" below.

Internal Auditor

More information regarding the Group's internal auditing, including the professional standards pursuant to which the Internal Audit Division operates, the annual and multi-year work plans and considerations in formulating the work plans, as well as the Auditor's Annual Report can be found in the 2017 Annual Financial Statements.

Leumi Group's Internal Auditor's Report for 2017 was submitted to the Audit Committee on March 19 2018, discussed by the Committee on March 22 2018, submitted to the Board of Directors on March 21 2018 and discussed by the Board on March 25 2018.

Control of the Bank

As of March 24 2012, Leumi is defined by law as a banking corporation without a controlling core, and no shareholder meets the definition of a controlling shareholder of the Bank.

[Sale of Bank Leumi's Shares Held by the State of Israel](#)

According to an announcement issued by the Knesset's Finance Committee on July 16 2018, the Knesset's Finance Committee approved on July 16 2018 the sale of Bank Leumi's shares still held by the State. The move will include the sale of Bank Leumi's shares which constitute 5.83% of the Bank's share capital. According to the announcement, the Accountant General at the Finance Department announced that, as part of the sale, the State will meet its obligations towards the Bank's employees to offer 10% of the sold shares to Bank Leumi's employees at a 25% discount. The procedure will take 10 months.

For up-to-date information regarding interested parties' holdings in the Bank as at June 30 2018, please see the immediate report on the status of holdings of interested parties and senior officers dated July 5 2018 (Ref.: 2018-01-060942). See also the report on the list of holders of significant means of control as at March 31 2018, dated April 10 2018 (reference no.: 2018-01-036136).

¹ In this context, it should be noted, as detailed in the Bank's 2017 Annual Financial Statements, that the Bank was instructed by the Supervisor of Banks that in the 2017 annual meeting, the number of directors at the Bank should decrease to 13 directors, and in the 2018 annual meeting - to 12 directors. As of this date, the Bank has 13 directors.

General Annual Meeting

Following the decision of the Bank's Board of Directors on March 25 2018, an immediate report was issued on March 26 2018 regarding the intention to convene an annual general shareholders' meeting, the agenda of which is expected to include the following: (1) Discussion of annual financial statements; (2) Appointment of independent auditors and authorization to set their fees; (3) Appointment of two external directors in accordance with the Banking Supervision Department's Proper Conduct of Banking Business Directive No. 301 (hereinafter: "External Directors", "Directive 301"); and (4) Appointment of two external directors in accordance with the Companies Law, 1999 (hereinafter: "EDs", the "Companies Law").

For more information, please see the amended immediate report dated March 26 2018 regarding the early notice about the intention to convene an annual general shareholders' meeting and its agenda, which includes several topics, such as the appointment of directors (ref. 2018-01-029917).

Pursuant to the aforesaid early notice published by the Bank and to Subsections 11D(a)(1), (2) and (3) to the Banking Ordinance, 1941, the Bank received the following:

1. A notice from the Committee for Appointment of Directors in Banking Corporations in accordance with Section 36A of the Banking (Licensing) Law, 1981 (hereinafter: the "Committee for Appointment of Directors"), dated April 30, which includes a list of candidates to serve as the Bank's directors for election in the Bank's 2018 annual general meeting, as follows:
 - a. Three candidates for an external director position in accordance with the Companies Law: Mr. Yoram Gabbai; Ms. Tamar Gottlieb and Mr. Yair Kaplan.
 - b. Three candidates for the position of external director pursuant to Directive 301: Dr. Shmuel Nir Ben Zvi; Dr. Yoram Turbowicz and Mr. Ohad Marani.
2. Notice from the Committee for Appointment of Directors dated June 21 2018 regarding the selection of Mr. Rafi Danieli as its alternative candidate to serve as an External Director. The Committee's announcement comes after a previous candidate, Mr. Yair Kaplan, was disqualified following failure to meet threshold conditions set by the Board of Directors' Audit Committee.
3. A notice from the Altshuler Shaham Group, a shareholder which holds - to the best of the Bank's knowledge, as at the date of filing the notice with the Bank - 76,797,152 of the Bank's shares, which constitute 5.04% of the Bank's issued share capital and voting rights (hereinafter: "Altshuler Shaham"), whereby it is proposing Mr. Avi Zigelman as a candidate to serve as External Director on the Bank's Board of Directors. Later on, on June 10 2018, an additional notice was filed by Altshuler Shaham, whereby it wishes to withdraw its request to propose a candidate on its behalf, Mr. Avi Zigelman, for the position of External Director. According to the notice, the decision was made following the understanding that if Altshuler Shaham's candidate were to be appointed, the Group would be subjected to all the provisions of Proper Conduct of Banking Business No. 312, including a possible increase of the regulatory burden and it fears potential harm to its clients and planholders as a result.

More information about the candidates will be provided in the summons to the annual meeting to be published by the Bank according to law.

For more information, please see the immediate reports regarding notices of candidates to serve as the Bank's directors published on April 30 2018, June 10 2018 and June 21 2018 (reference nos.: 2018-01-042874, 2018-01-049575, and 2018-01-054690).

Corporate Governance Risk Assessment Report

At the Bank's request, Entropy Corporate Governance Consulting Ltd. (hereinafter: "Entropy") conducted a risk assessment survey for the period of January to May 2018, for the Bank (hereinafter: the "Survey"). The purpose of the survey is to examine and assess the Bank's corporate governance components, including checking for any gaps, while taking into account the organization's nature, activity, unique needs, accepted practices and best practices and drawing practical conclusions to narrow the gaps and reduce exposures arising therefrom.

The results of the survey were presented to the Bank's Board of Directors after the reporting period. According to the survey, the Bank's corporate governance level is Advanced. The Advanced rating is among the highest on Entropy's rating scale. As of the survey date, the Bank's corporate governance score under the model is the highest both compared to all public companies listed on the Tel Aviv Stock Exchange and the banking industry. Under Entropy's methodology, the Advanced score places the Bank at a low risk for corporate governance failures to occur.

Appointments and Retirements

Appointments

Mr. **Shmulik Arbel**, Head of the Commercial Banking Division and a member of the Bank's management, has been appointed Head of the Business Commercial Division as of June 1 2018.

Retirements

Mr. **Kobi Haber**, Head of the Commercial Banking Division and LeumiTech's Chairman of the Board, will be retiring on May 31 2018, after 10 years of working at Leumi.

Corporate Structure

Operational Division

As part of the strategic assessment made by the Bank towards centralizing its various operational units, a single operational division will be established during 2019, and later on - an operational department in the Banking Division. As a result, operational units from the Bank's various divisions will report to Mr. Danny Cohen, Head of the Banking Division, who will also be responsible for building the Operational Division. The purpose is to centralize all operational activities, in order to provide better service to customers by improving effectiveness, mitigating risk and streamlining.

Investment Advice Department

The department reports to the Strategy and Regulation Division.

Special Credit Department

The department reports to the Risk Management Division.

LeumiTech

Following the substantial growth in activity involving the high-tech industry in the Bank, all units engaged in this activity will work under LeumiTech, reporting to the Business Commercial Division.

Material Agreements

1. Following negotiations with Union Bank regarding the termination of the agreement between the Bank and Union Bank of Israel Ltd. for the provision of computing services to Union Bank, following the acquisition of Union Bank by Mizrahi Tefahot Ltd., on March 29 2018 Union Bank's Board of Directors approved Bank Leumi's offer to extend the separation period by up to 18 additional months, i.e., to no later than June 30 2021, provided that, if Union Bank wishes to terminate the agreement earlier than that date, Bank Leumi shall be given an early notice of at least 24 months. To the extent that there shall be a regulatory restriction on extending the agreement, Union Bank will not be exempt from its obligation to pay Bank Leumi for the services rendered for a period of 24 months from the date of the notice. The extension of the engagement is subject to the approval of the Antitrust Commissioner and the Supervisor of Banks.
2. On May 15 2018, Maalot Insurance Agency Ltd. – which is wholly-owned by the Bank (hereinafter: the "Agency") – signed an agreement with Harel Insurance Company Ltd. (hereinafter: "Harel") and with Standard Insurance Ltd. of the Harel Group (hereinafter: "Standard"), according to which as of September 2 2018, the Agency shall receive outsourcing services from Standard and will continue to engage in insurance brokering with Harel as a sole insurer of new policies marketed during the agreement period, all in accordance with the manner and terms and conditions prescribed by the signed agreement.

Laws and Regulations Governing the Banking System

Some of the information in this section constitutes forward-looking information. For the meaning of this term and its implications - please see the section entitled "Forward Looking Information".

For more information, please see the 2017 Annual Report.

During the reporting period, several proposals for regulatory amendments and changes in various legal provisions were published, which could have an impact on the characteristics, scope and profitability of some of the Group's activities and on the credit, operating and legal risks to which it is exposed. Most of the proposals are at various stages of discussion and, consequently, it is impossible to assess whether they will be issued as binding directives and, if issued, what the ultimate provisions will be. As a result, at this stage, it is impossible to assess the impact of these provisions on the Group's overall activity, if any. The following section provides detailed information on newly enacted legislation, which came into effect during the reporting period and provisions expected to come into force, which are expected to have a significant effect on the Bank.

Legislation

[Insolvency and Economic Rehabilitation Law, 2018](#)

The law was published in the Official Gazette on March 15 2018. The law introduces a reform in insolvency proceedings of individuals and corporations. The law includes provisions for all types of debtors, as well as provisions addressing unique aspects of various types of debtors - individuals and corporations. According to the law, inter alia, a creditor secured by a floating charge will be entitled to repay his secured debt out of the floating charge only up to an amount equal to 75% of the value of the pledged assets. The remaining pledged assets will be used to pay the general debts. This provision will impair the Bank's floating charges.

The Law shall come into effect 18 months after its publication date and shall apply to relevant proceedings commencing on the effective date and thereafter.

[Law for Reducing the Use of Cash, 2018](#)

The law was published in the Official Gazette on March 18 2018. The law prescribes restrictions on the use of cash and marketable checks in order to reduce black money and help fight criminal activity, including serious crimes, tax evasion, money laundering and financing of terrorism. The law reflects the recommendations of the inter-ministerial Committee to Examine Reducing the Use of Cash (the Locker Committee).

The law also limits the use of cash to specific amounts, distinguishing between payers and payees who are "dealers" and payers and payees who are "non-dealers", and various types of transactions (such as salaries, donations, gifts and loans).

In addition, the law restricts the use and reassignment of checks, including restrictions that apply to banks cashing the checks.

The law will come into force on January 1 2019; the provisions applicable to the banks will become effective on July 1 2019.

The Bank needs to prepare for all aspects of the law's implementation.

[Securities Law \(Amendment No. 63\), 2017 – Restructuring of the Tel Aviv Stock Exchange](#)

On April 6 2017, the above amendment was published, with the primary objective of turning the Stock Exchange into a for-profit corporation, with an ownership structure that is separate from access to trading, and which will be a significant competitor for global stock exchanges and alternative trading platforms in Israel and abroad. For this purpose, the Stock Exchange is to undergo a court-sanctioned restructuring process, at the end of which it will turn from a limited liability company to a company with a share capital, which will be divided among the members of the Stock Exchange.

The court approved the restructuring arrangement on September 7 2017.

Following are the main points of the law:

- Access to trading will not be conditioned on having ownership interests in the Stock Exchange, but will rather be based on a contractual engagement between the Stock Exchange and members therein.

- On approval of the restructuring by the court, the current ownership interests of Stock Exchange members holding over 5% will be rendered dormant, and shall not confer on the members any right whatsoever; the members shall be required to sell any stake in excess of 5% within five years of the approval of the above arrangement, or by the date of the Stock Exchange's IPO and its listing, the earlier of the two.
- The current Stock Exchange members shall be entitled to compensation for selling their said interests out of the Stock Exchange's share capital only. Current Stock Exchange members who sell their interests will transfer to the Stock Exchange the full difference between the proceeds of the sale and the value of the interests sold by them, in accordance with the Stock Exchange's share capital, pursuant to its 2015 annual financial statements.
- No person shall hold a means of control in the Stock Exchange of 5% or more unless he/it has received an ownership permit by the Israel Securities Authority. In addition, no person shall control the Stock Exchange unless under a permit granted by the Authority. In any case, a banking corporation and member of the Stock Exchange shall not be entitled to obtain a holding permit or control the Stock Exchange.
- The Stock Exchange may distribute dividends to its shareholders.
- Corporate governance – most directors will be independent. As long as the members of the Stock Exchange (the banks) hold more than 50%, the majority of the independent directors will be appointed by an external committee (the Candidate Search Committee).
- The Finance Minister will be authorized to grant and suspend Stock Exchange's license. Offering securities trading services through a securities trading system is prohibited unless managed by the Stock Exchange.
- The Stock Exchange will publish the fees and commissions Stock Exchange members charge their customers using a comparative format, and Stock Exchange members shall be required to report these fees and commissions and any change therein to the Stock Exchange

Pursuant to the provisions of the law, the Bank will be required to sell its stake in the Stock Exchange in excess of 5%, according to the outline and schedule prescribed by the law

On January 18 2018, the Bank filed with the Stock Exchange an offer to sell and transfer its entire stake in the Stock Exchange (the "Offered Shares"), following the Exchange's offer to its shareholders, made on December 28 2017, to purchase their stock.

On April 16 2018, the Exchange informed the Bank it had accepted the Bank's offer (the "Acceptance Notice"). Pursuant to the Acceptance Notice, all the Offered Shares will be sold and transferred to a transferee or several transferees. The Acceptance Notice clarified that the remuneration for the Offered Shares will exceed the price in the Bank's offer, but the difference between the actual remuneration and the total price quoted by the Bank for the Offered Shares will be transferred to the Exchange as required under the above legal provisions. According to the Acceptance Notice, the transaction is subject to regulatory approval and closing.

According to the Acceptance Notice, the Determining Date for closing the transaction was set for June 19 2018, subject to an option to postpone the date with the parties' consent (the "Determining Date").

On June 12 2018, the Stock Exchange asked the Bank to postpone the Determining Date to August 31 2018, for the purpose of giving the Israel Security Authority additional time to examine the outline of the deal and whether to grant a holding permit to certain investors wishing to purchase the shares.

On June 13, the Bank notified the Stock Exchange it has agreed to postpone the Determining Date to August 31 2018.

If the required approvals are not obtained until the Determining Date or the deal has not been closed, the transaction will be rescinded.

[Amendment to the Banking \(Service to Customer\) Law, 1981 - Professional Human Response](#)

The law was published in the Official Gazette on July 25 2018.

The amendment requires a banking corporation providing telephone service which includes an automated call routing system to offer customers professional human response for several types of services, following the option to select the language or geographic area in which the telephone service shall be provided.

The waiting time for a human representative to respond shall not exceed six minutes from the beginning of the call.

Following are the types of services to which the requirement applies: Handling malfunctions; obtaining account information; termination of engagement.

A customer shall not be routed to a voice message box unless he/she has selected the option.

The law's effective date shall begin one year following its publication date.

The Bank is examining the preparations required and is working to implement them.

[Payment Services Bill, 2018](#)

The bill was published on July 11 2018 following a memorandum of law on the matter published on July 2017.

The bill proposes to replace the Debit Card Law, 1986 by an up-to-date law which reflects the technological advancements in the field and is based on the EU's Payment Service Directive (PSD).

The bill discusses the contractual relations and consumer protections applicable to the provision of payment services and seeks to regulate two main contractual systems: (1) The first system - between the payment service provider (the issuer of the means of payment or payment account manager) and the payer; (2) The second system - between the payment service provider (clearer or payment account manager) and the beneficiary (the payee).

The bill also seeks to establish general provisions regarding payment orders and making payment transactions as well as liability arrangement in respect thereof.

If enacted, the law will require the Bank to prepare accordingly.

[Directives issued by the Banking Supervision Department](#)

[Amendment to Proper Conduct of Banking Business Directives Nos. 367 and 420 on E-Banking](#)

On March 22 2018, amendments to the aforesaid provisions - which include various easements - were published. Under the amendments, an additional alternative to identifying a customer opening an e-banking account was provided - using remote visual identification and verification technology. Using this technology will enable the Bank, among other things, to open online accounts for minors aged 16 and customers without a preexisting account. In addition, subject to conducting an adequate risk assessment, the Bank may now use unencrypted e-mail.

The various easements provided in the directive will enable the Bank to advance and expand the use of digital banking to further boost customer experience, maximize the management of operational risks, streamline its activity, and reduce costs.

[Draft Proper Conduct of Banking Business Directive regarding Outsourcing and Proper Conduct of Banking Business No. 363 regarding Managing Cyber Security Risks in the Supply Chain](#)

On June 27, a draft directive on outsourcing was published. The purpose of the draft is to enable banking corporations to use outsourcing, with the aim of increasing accessibility and availability for customers, continue streamlining processes and increase competition in the banking and payments domains, while prescribing the principles banking corporations are to follow in order to reduce their exposure to potential risks embodied in outsourcing.

The directive determines, inter alia, what constitutes outsourcing, lists activities that may not be outsourced, requires due diligence to be performed on service providers and prescribes the manner in which it should be performed, and also requires banks to report to the Banking Supervision Department regarding outsourcing certain activities. In addition, the draft directive allows banking corporations to have outsourcers refer households to them for the purpose of securing loans, allowing outsourcers (for example, car agencies) to offer customers to contact a bank when buying a product, subject to the terms prescribed by the draft directive.

In addition, on April 24 2018, the Banking Supervision Department published a directive on managing cybersecurity risks in the supply chain. The aim of the directive is to establish a banking corporation's responsibility to ensure a secure work environment when working with material suppliers and its duty to manage cybersecurity risks adequately when such outsourcers work on its premises – both on the banking corporation's premises and when using the outsourcers' interfaces with the corporation, inter alia: A requirement to set principles for obligations of material suppliers in respect of cybersecurity risks; duty to set individual requirements in respect of cybersecurity risks in contracts with material suppliers in accordance with the risk assessment and a duty to ensure that the supplier meets these principles; as well as conducting various regular reviews to ensure the suppliers' compliance with the banking corporation's requirements.

The Directive's effective date shall be no later than 6 months after its publication date. It will be incorporated into a directive on outsourcing at a later stage.

The Bank is preparing for the application of the directives.

[Draft amendment to Proper Conduct of Banking Business Directive No. 332, Buybacks by Banking Corporations.](#)

For more information, please see the section entitled "Capital and Capital Adequacy".

Directives regarding Credit Cards

[Amendment to Proper Conduct of Banking Business following the Law for Minimizing Market Centralization and Promoting Economic Competition in the Israeli Banking Market \(the "Strum Law"\):](#)

On July 4 2018, the Bank of Israel published draft amendments to Proper Conduct of Banking Business, with the objective of granting the credit companies relief following their split from the banks.

Following are the main points of the amendments

1. Proper Conduct of Banking Business Directive No. 203 (Measurement and Capital Adequacy - Credit Risk - The Standard Approach):

For measurement and capital adequacy purposes, the banks are to weight the credit they extend to the credit card companies similarly to credit extended to banks.
2. Proper Conduct of Banking Business Directive No. 221 (Liquidity Coverage Ratio):

A regulatory requirement provides relief in respect of liquidity risk management, so that credit companies will be required to manage their liquidity risk according to an internal model, but will not be required to comply with the regulatory liquidity ratio.
3. Proper Conduct of Banking Business Directive No. 470 (Debit Cards):
 - The proceeds of all debit card transactions of a bank-issuer shall be transferred from the bank-issuer to the issuing operator on the date on which the issuing operator is required to transfer the funds to the clearing house, regardless of the customer's charge date and the clearing house. The arrangement will become effective on February 1 2019.
 - New operating agreements between a bank-issuer (a large bank) and an issuing operator signed until January 31 2022 require the Supervisor of Banks' approval.

In addition, on August 1 2018, the Bank of Israel published a revision of Proper Conduct of Banking Business Directive No. 313 (Restrictions on the Indebtedness of a Borrower or Group of Borrowers). Pursuant to the revision, the exposure of a bank to a "credit card company type group of borrowers" shall not exceed 15% of the banking corporation's share capital, similarly to the restriction applicable to the exposure to a "banking borrower group." The directive will become effective gradually, over 3 years of a credit company's split from the banking corporation.

[Decisions of the Antitrust Authority regarding the Cross-Clearing Arrangement](#)

On April 25 2018, the Antitrust Authority published its decision regarding exemption from cartel clearance approval in respect of the cross-clearing arrangement. According to the decision, among other things, the funds are to be transferred from an issuer to a clearing house for lump-sum transactions no later than one day after the transaction's transmission by the merchant, beginning on July 1 2021.

In addition, on May 16 2018, the Antitrust Authority published its decision regarding the extension of the exemption from cartel clearance in respect of the cross-clearing arrangement for the Isracard brand. Under the decision, the exemption will be extended until December 31 2023, subject to meeting the terms and conditions outlined in the decision, including those outlined in the abovementioned decision dated April 25 2018.

The above directives on debit cards will affect the Bank's preparations for applying the Law for Minimizing Market Centralization and Promoting Economic Competition in the Israeli Banking Market; they are expected to impact the debit card market in the coming years.

Additional Topics

Legislative Initiatives for Increasing Competition in the Retail Credit Market

Recently, special emphasis has been placed on legislation to encourage competition, mainly in the retail credit market. This trend is reflected in various legislative provisions and initiatives which are intended to ease the entry of new players into the market, inter alia, by increasing the resources available to them, providing regulatory easements, and granting reliefs for connecting to the payment and clearing systems.

Following are several examples of provisions aimed at encouraging such competition:

- The Law for Minimizing Market Centralization and Promoting Economic Competition (Legislative Amendments), 5767-2017 prescribes the following: It requires large banks (Leumi and Poalim) to sell their credit card companies within a certain period of time; prohibits these banks from operating, issuing or clearing credit card transactions and holding means of control in corporations engaged in such activities; requires the Bank, during a defined transition period, to conduct credit card issuance through external operators; establishes various restrictions which apply to large banks regarding contacting a customer for the purpose of "credit card renewal"; and also requires the banks, during a defined period, to reduce their customers' credit facilities. As a result of the aforementioned law, the Bank is required to sell subsidiary Leumi Card Ltd. within a certain period of time, as determined by the law.
- The Supervision of Financial Services (Regulated Financial Services) Law, 5766-2016, which came into force on June 1 2017, provides a comprehensive framework for the regulation of the non-banking and non-institutional credit market in Israel;
- Regulating the policy of banking corporations' conduct vis-à-vis customers providing regulated financial services and offering platforms;
- The Antitrust Authority's decision to make the communications protocol used for executing debit card transactions available to all market players;
- The Bank of Israel's policy regarding the terms and conditions for hosting new clearers on platforms of existing clearers;
- Setting general criteria for an applicant for a permit to control and hold means of control in a clearer or credit card company;
- Amendment to the Securities Regulation regarding offering of securities through an offering platform, in order to enable corporations to conduct crowdfunding without having to issue a prospectus (Peer to Business Lending - P2B);
- Proposal to revise investment rules applicable to financial institutions;
- Revised, mitigating policy by the Bank of Israel for the establishment of a new bank (restricted to managing deposits and granting credit) and guidelines for permit applicants;
- Draft of rules for public comment published by the Ministry of Finance to provide a government grant for setting up a bureau for IT banking services;
- Draft Banking Order (Licensing) (Increasing the Maximum Amount in accordance with Section 21(B)(8)(A) to the Law), 2018 according to the maximum par value of the bonds that a non-bank credit provider may issue to the public (at the same time as granting credit and subject to the other conditions stipulated by the Law) will increase from NIS 2.5 billion to NIS 5 billion;

- Amendment No. 27 to the Banking (Customer Service) Law, published on March 22 2018 as part of the Economic Plan (Legislative Amendments on Implementing the Economic Policy for the Budget Year 2019) Law. The amendment states that a bank will allow a customer who wishes to transfer his account from one bank to another to do so online, in a convenient, reliable, and secure manner - and without being charged for the procedure, within seven business days from the date on which the original bank received the approval of the bank to which the customer wishes to transfer his/her account, or within another period as determined by the Governor of the Bank of Israel, with the approval of the Minister of Finance.

The Governor may, with the consent of the Minister of Finance, determine that the aforesaid shall not apply to small banks (the value of whose assets is less than 5% of the value of the assets of all banks in Israel) or a digital bank, or only after a certain period at the Governor's discretion. The Banking Supervision Department will issue guidelines for implementing the account transfer requirement.

This amendment shall come into force three years from the date of its publication. The Minister of Finance, with the consent of the Governor and approval of the Knesset's Economic Affairs Committee, may postpone the said date by two additional periods of no longer than six months each.

These amendments, along with initiatives led by the Bank of Israel - such as building a central credit register, encouraging the banking system to improve efficiency and promoting regulation that supports the transition to direct e-banking - are expected to affect the Israeli banking market in the coming years.

[The Parliamentary Committee of Inquiry into the Financial System's Conduct in Credit Agreements with Large Business Borrowers](#)

On July 5 2017, the Knesset approved the Knesset Committee's proposal regarding the establishment of a parliamentary committee headed by the Chairman of the Economic Affairs Committee, MK Eitan Cabel, to discuss the conduct of the institutional entities and regulators regarding granting credit to large business borrowers since 2003. The Parliamentary Committee will submit to the Knesset, upon concluding its deliberations, a report outlining its actions and conclusions. The Committee is currently engaged in deliberations.

[Automated Banking Services Ltd. \(ABS\) – Exemption from Cartel Clearance Approval – Decision of the Antitrust Authority dated September 24 2017](#)

On September 24 2017, the Antitrust Authority granted an exemption, under certain conditions, from a cartel clearance approval between ABS and its shareholders, including Bank Leumi. The exemption stipulated, inter alia, the following:

- At the beginning of 2018 and at no consideration, ABS shall transfer all of its rights to the EMV Credit Protocol to an association, to be established by ABS and other users, who will join the association as members. As of the date of transferring its rights to the Protocol, ABS will cease to provide services associated with the Protocol (except for operating services for a limited period of time).
- The requirements for joining the ABS systems will be equitable. ABS will not refuse a request by any entity to connect to its systems, provided it meets the connection requirements.
- A restriction on the distribution of dividends to ABS's shareholders was revoked. As of the end of 2019 or the date on which ABS ceases to provide any services to the association, whichever is earlier, ABS is entitled to distribute a dividend to its shareholders, if the following conditions are met: ABS's rights to the Protocol have been transferred to the association and no shareholder is in possession of more than 10% of the means of control in ABS. The decision stipulates a special arrangement with regard to the distribution of retained earnings accrued in ABS as of the resolution date, which shall be transferred to the existing shareholders.
- Pursuant to the aforesaid, and subject to the special arrangement stipulated in the Antitrust Authority's decision regarding the distribution of the retained earnings, on March 28 2018, ABS distributed dividends to its shareholders. The Bank received a NIS 71.5 million in dividend, of which NIS 64.5 million is held in trust in accordance with the terms of the Antitrust Authority's approval.

International Regulation

General Data Protection Regulation – the European Privacy Protection Regulation

The General Data Protection Regulation (GDPR) is a privacy protection regulation replacing data protection Directive 95/46/EC, which was used until now by European Union member states as a basis for enacting information protection laws.

The GDPR is a comprehensive regulation on privacy, which covers, inter alia, obligations and conditions for processing personal information, rights of information carriers, etc. The regulation became effective on May 25 2018.

The Bank is formulating its policy on the issue.

Credit Ratings

Following are the Credit Ratings of the State of Israel and the Bank as at August 5 2018:

	Rating agency	Long term	Outlook	Short term
State of Israel	Moody's	A1	Positive	P-1
	S&P	AA-	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	AAA	Stable	-
	Midroog	Aaa	Stable	P-1

On January 3 2018, credit rating agency S&P reiterated the Bank's rating and rating outlook.

On February 7 2018, credit rating agency Fitch reiterated the Bank's rating and rating outlook.

On April 17 2018, credit rating agency Fitch reiterated the State of Israel's rating and rating outlook.

On April 26 2018, credit rating agency Fitch reiterated the Bank's rating and rating outlook.

On June 20 2018, credit rating agency Moody's added a new additional rating for banks worldwide - CRR. Leumi's CRR rating was set at A1/P-1.

On July 4 2018, credit rating agency Moody's reiterated the Bank's rating and rating outlook.

On July 13 2018, credit rating agency Moody's upgraded Israel's outlook to Positive.

On August 3 2018, credit rating agency S&P upgraded Israel's long-term credit outlook to AA- and its short-term credit rating to A-1+.

Appendix 1 - Income and Expense Rates^(a) and Analysis of Changes in Interest Income and Expenses

Part A - Average Balances and Interest Rates – Assets

	For the three months ended June 30					
	2018			2017		
	Average balance ^(b)	Interest income	% of income	Average balance ^(b)	Interest income	% of income
	In NIS millions		In %	In NIS millions		In %
Interest bearing assets						
Loans to the public ^(c)						
In Israel	240,120	2,571	4.35	235,858	2,405	4.14
Outside Israel	24,514	299	4.97	23,286	235	4.10
Total ⁽ⁱ⁾	264,634	2,870	4.41	259,144	2,640	4.14
Loans to governments						
In Israel	735	9	4.99	617	7	4.62
Outside Israel	-	-	-	-	-	-
Total	735	9	4.99	617	7	4.62
Deposits with banks						
In Israel	9,433	31	1.32	3,341	20	2.42
Outside Israel	356	3	3.41	508	5	4.00
Total	9,789	34	1.40	3,849	25	2.62
Deposits with central banks						
In Israel	46,862	12	0.10	45,611	11	0.10
Outside Israel	2,220	4	0.72	4,769	1	0.08
Total	49,082	16	0.13	50,380	12	0.10
Securities borrowed or purchased under agreements to resell						
In Israel	706	1	0.57	1,010	1	0.40
Outside Israel	-	-	-	-	-	-
Total	706	1	0.57	1,010	1	0.40
Bonds - held-to-redemption and available-for-sale ^(d)						
In Israel	68,231	207	1.22	61,164	148	0.97
Outside Israel	4,836	32	2.67	5,095	33	2.62
Total	73,067	239	1.31	66,259	181	1.10
Bonds - held-for-trading ^(d)						
In Israel	5,925	19	1.29	8,992	20	0.89
Outside Israel	59	-	-	186	1	2.17
Total	5,984	19	1.28	9,178	21	0.92
Total interest-bearing assets	403,997	3,188	3.19	390,437	2,887	2.99
Noninterest bearing receivables in respect of credit cards						
	6,747			6,623		
Other noninterest bearing assets ^(e)						
	40,225			37,671		
Total assets	450,969	3,188		434,731	2,887	
Total interest-bearing assets attributed to foreign offices						
Outside Israel	31,985	338	4.29	33,844	275	3.29

Part B - Average Balances and Interest Rates - Liabilities and Capital

	For the three months ended June 30					
	2018			2017		
	Average balance ^(b)	Interest expenses	% of expense	Average balance ^(b)	Interest expenses	% of expense
	In NIS millions		In %	In NIS millions		In %
Interest bearing liabilities						
Deposits from the public						
In Israel	246,994	(513)	(0.83)	238,685	(396)	(0.67)
Demand deposits	113,199	(13)	(0.05)	101,069	(8)	(0.03)
Fixed deposits	133,795	(500)	(1.50)	137,616	(388)	(1.13)
Outside Israel	16,126	(56)	(1.40)	15,459	(33)	(0.86)
Demand deposits	5,752	(15)	(1.05)	4,369	(5)	(0.46)
Fixed deposits	10,374	(41)	(1.59)	11,090	(28)	(1.01)
Total	263,120	(569)	(0.87)	254,144	(429)	(0.68)
Deposits from governments						
In Israel	762	(1)	(0.53)	159	(1)	(2.54)
Outside Israel	145	-	-	592	-	-
Total	907	(1)	(0.44)	751	(1)	(0.53)
Deposits from central banks						
In Israel	58	-	-	63	-	-
Outside Israel	-	-	-	-	-	-
Total	58	-	-	63	-	-
Deposits from banks						
In Israel	4,035	(5)	(0.50)	4,165	(5)	(0.48)
Outside Israel	68	(1)	(6.01)	26	-	-
Total	4,103	(6)	(0.59)	4,191	(5)	(0.48)
Securities borrowed or sold under agreements to resell						
In Israel	377	(1)	(1.07)	371	(1)	(1.08)
Outside Israel	-	-	-	-	-	-
Total	377	(1)	(1.07)	371	(1)	(1.08)
Bonds						
In Israel	15,579	(197)	(5.15)	22,713	(286)	(5.13)
Outside Israel	-	-	-	-	-	-
Total	15,579	(197)	(5.15)	22,713	(286)	(5.13)
Total interest bearing liabilities	284,144	(774)	(1.09)	282,233	(722)	(1.03)
Noninterest bearing deposits from the public	97,927			86,641		
Noninterest bearing payables in respect of credit cards	6,274			6,282		
Other noninterest bearing liabilities ^(f)	28,804			27,154		
Total liabilities	417,149	(774)		402,310	(722)	
Total capital resources	33,820			32,421		
Total commitments and capital resources	450,969	(774)		434,731	(722)	
Interest rate spread		2,414	2.10		2,165	1.96
Net return^(a) on interest-bearing assets						
In Israel	372,012	2,133	2.31	356,593	1,923	2.17
Outside Israel	31,985	281	3.56	33,844	242	2.89
Total	403,997	2,414	2.41	390,437	2,165	2.24
Total interest-bearing liabilities attributed to operations outside Israel	16,339	(57)	(1.40)	16,077	(33)	(0.82)

Part A - Average Balances and Interest Rates – Assets

	For the six months ended June 30					
	2018			2017		
	Average balance ^(b)	Interest income	% of Income	Average balance ^(b)	Interest income	% of Income
	In NIS millions		In %	In NIS millions		In %
Interest bearing assets						
Loans to the public ^(c)						
In Israel	240,649	4,496	3.77	235,371	4,281	3.67
Outside Israel	23,977	571	4.82	23,579	463	3.97
Total ⁽ⁱ⁾	264,626	5,067	3.87	258,950	4,744	3.70
Loans to governments						
In Israel	729	16	4.44	621	12	3.90
Outside Israel	-	-	-	-	-	-
Total	729	16	4.44	621	12	3.90
Deposits with banks						
In Israel	8,299	57	1.38	4,063	48	2.38
Outside Israel	326	4	2.47	586	6	2.06
Total	8,625	61	1.42	4,649	54	2.34
Deposits with central banks						
In Israel	49,580	25	0.10	45,443	23	0.10
Outside Israel	2,547	10	0.79	5,483	2	0.07
Total	52,127	35	0.13	50,926	25	0.10
Securities borrowed or purchased under agreements to resell						
In Israel	963	1	0.21	1,055	1	0.19
Outside Israel	-	-	-	-	-	-
Total	963	1	0.21	1,055	1	0.19
Bonds - held-to-redemption and available-for-sale ^(d)						
In Israel	66,115	338	1.03	61,122	270	0.89
Outside Israel	5,000	68	2.74	5,615	68	2.44
Total	71,115	406	1.15	66,737	338	1.02
Bonds - held-for-trading ^(d)						
In Israel	5,454	22	0.81	9,144	31	0.68
Outside Israel	70	1	2.88	163	1	1.23
Total	5,524	23	0.83	9,307	32	0.69
Total interest-bearing assets	403,709	5,609	2.80	392,245	5,206	2.67
Noninterest bearing receivables in respect of credit cards						
	6,655			6,269		
Other noninterest bearing assets ^(e)						
	39,177			35,883		
Total assets⁽ⁱ⁾	449,541	5,609		434,397	5,206	
Total interest-bearing assets attributed to foreign offices						
Outside Israel	31,920	654	4.14	35,426	540	3.07

Part B - Average Balances and Interest Rates - Liabilities and Capital

	For the six months ended June 30					
	2018			2017		
	Average balance ^(b)	Interest expenses	% of expense	Average balance ^(b)	Interest expenses	% of expense
	In NIS millions		In %	In NIS millions		In %
Interest bearing liabilities						
Deposits from the public						
In Israel	247,998	(778)	(0.63)	238,506	(642)	(0.54)
Demand deposits	112,921	(24)	(0.04)	99,060	(15)	(0.03)
Fixed deposits	135,077	(754)	(1.12)	139,446	(627)	(0.90)
Outside Israel	15,948	(106)	(1.33)	16,260	(65)	(0.80)
Demand deposits	5,164	(25)	(0.97)	4,677	(10)	(0.43)
Fixed deposits	10,784	(81)	(1.51)	11,583	(55)	(0.95)
Total	263,946	(884)	(0.67)	254,766	(707)	(0.56)
Deposits from governments						
In Israel	464	(2)	(0.86)	169	(2)	(2.38)
Outside Israel	225	-	-	657	-	-
Total	689	(2)	(0.58)	826	(2)	(0.48)
Deposits from central banks						
In Israel	60	-	-	39	-	-
Outside Israel	-	-	-	-	-	-
Total	60	-	-	39	-	-
Deposits from banks						
In Israel	4,669	(11)	(0.47)	4,270	(9)	(0.42)
Outside Israel	53	(1)	(3.81)	14	-	-
Total	4,722	(12)	(0.51)	4,284	(9)	(0.42)
Securities borrowed or sold under agreements to resell						
In Israel	458	(1)	(0.44)	376	(1)	(0.53)
Outside Israel	-	-	-	-	-	-
Total	458	(1)	(0.44)	376	(1)	(0.53)
Bonds						
In Israel	15,581	(290)	(3.76)	22,680	(449)	(4.00)
Outside Israel	-	-	-	-	-	-
Total	15,581	(290)	(3.76)	22,680	(449)	(4.00)
Total interest bearing liabilities	285,456	(1,189)	(0.83)	282,971	(1,168)	(0.83)
Noninterest bearing deposits from the public	95,809			86,260		
Noninterest bearing payables in respect of credit cards	6,270			6,149		
Other noninterest bearing liabilities	28,333			26,948		
Total liabilities^(k)	415,868	(1,189)		402,328	(1,168)	
Total capital resources	33,673			32,069		
Total commitments and capital resources	449,541	(1,189)		434,397	(1,168)	
Interest rate spread		4,420	1.96		4,038	1.84
Net return^(d) on interest-bearing assets						
In Israel	371,789	3,873	2.09	356,819	3,563	2.01
Outside Israel	31,920	547	3.46	35,426	475	2.70
Total	403,709	4,420	2.20	392,245	4,038	2.07
Total interest-bearing liabilities attributed to operations outside Israel	16,226	(107)	(1.32)	16,931	(65)	(0.77)

Part C - Average Balances and Interest Rates - Additional Information on Interest-Bearing Assets and Liabilities Attributed to Israeli Operations

	For the three months ended June 30					
	2018			2017		
	Average balance ^(b)	Interest (income) expenses	% of income (expense)	Average balance ^(b)	Interest (income) expenses	Income and expense rates
	In NIS millions		In %	In NIS millions		In %
CPI-linked NIS						
Total interest bearing assets	45,273	881	8.01	47,540	795	6.86
Total interest bearing liabilities	30,293	(431)	(5.81)	35,928	(448)	(5.08)
Interest rate spread			2.20			1.78
Unlinked NIS						
Total interest bearing assets	270,848	1,633	2.43	263,601	1,581	2.42
Total interest bearing liabilities	194,181	(107)	(0.22)	192,600	(150)	(0.31)
Interest rate spread			2.21			2.11
Foreign currency						
Total interest bearing assets	55,891	336	2.43	45,452	236	2.09
Total interest bearing liabilities	43,331	(179)	(1.66)	37,628	(91)	(0.97)
Interest rate spread			0.77			1.12
Total activity in Israel						
Total interest bearing assets	372,012	2,850	3.10	356,593	2,612	2.96
Total interest bearing liabilities	267,805	(717)	(1.08)	266,156	(689)	(1.04)
Interest rate spread			2.02			1.92

Part C - Average Balances and Interest Rates - Additional Information on Interest-Bearing Assets and Liabilities Attributed to Israeli Operations (cont.)

	For the six months ended June 30					
	2018			2017		
	Average	Interest	% of	Average	Interest	% of
	balance ^(b)	(income) expenses	income (expense)	balance ^(b)	(income) expenses	income (expense)
	In NIS millions		In %	In NIS millions		In %
CPI-linked NIS						
Total interest bearing assets	45,367	1,107	4.94	48,025	1,082	4.56
Total interest bearing liabilities	30,556	(555)	(3.67)	36,302	(635)	(3.53)
Interest rate spread			1.27			1.03
Unlinked NIS						
Total interest bearing assets	272,261	3,233	2.39	261,606	3,114	2.39
Total interest bearing liabilities	196,658	(213)	(0.22)	191,088	(298)	(0.31)
Interest rate spread			2.17			2.08
Foreign currency						
Total interest bearing assets	54,161	615	2.28	47,188	470	2.00
Total interest bearing liabilities	42,016	(314)	(1.50)	38,650	(170)	(0.88)
Interest rate spread			0.78			1.12
Total activity in Israel						
Total interest bearing assets	371,789	4,955	2.68	356,819	4,666	2.63
Total interest bearing liabilities	269,230	(1,082)	(0.81)	266,040	(1,103)	(0.83)
Interest rate spread			1.87			1.80

Part D- Analysis of the Changes in Interest Income and Expenses

	2018 vs. 2017			2018 vs. 2017		
	For the three months ended June 30			For the six months ended June 30		
	Increase (decrease) in respect of change ^(h)		Net change	Increase (decrease) in respect of change ^(h)		Net change
	Amount	Price		Amount	Price	
	In NIS millions					
Interest bearing assets						
Loans to the public						
In Israel	46	120	166	99	116	215
Outside Israel	15	49	64	9	99	108
Total	61	169	230	108	215	323
Other interest-bearing assets						
In Israel	24	48	72	34	40	74
Outside Israel	(16)	15	(1)	(41)	47	6
Total	8	63	71	(7)	87	80
Total interest income	69	232	301	101	302	403
Interest bearing liabilities						
Deposits from the public						
In Israel	17	100	117	30	106	136
Outside Israel	2	21	23	(2)	43	41
Total	19	121	140	28	149	177
Other interest bearing liabilities						
In Israel	(65)	(24)	(89)	(90)	(67)	(157)
Outside Israel	(2)	3	1	(1)	2	1
Total	(67)	(21)	(88)	(91)	(65)	(156)
Total interest expenses	(48)	100	52	(63)	84	21
Total - Net	117	132	249	164	218	382

Notes:

- The data in the above tables are stated after the effect of hedging derivatives.
- Based on monthly opening balances, except for the unlinked Israeli currency segment where the average balance is calculated according to daily inputs, and before deducting the average book balance of loan loss provisions; foreign subsidiaries - based on quarterly opening balances.
- Before deducting the average balance of loan loss provisions. Including impaired debts not accruing interest income.
- The average balance of unrealized gains/losses from fair value adjustments of held-for-trading bonds were deducted/added from the average balance of held-for-trading bonds and available -for-sale bonds, as were gains/losses in respect of available-for-trading bonds included in shareholder's equity under other comprehensive income, in the "Adjustments in respect of presentation of available-for-sale securities at fair value" item in respect of bonds transferred from the available-for-sale portfolio, in the amount of NIS (55) million (June 30 2017 – NIS (110) million).
- Including book balances of derivative instruments, other noninterest accruing assets, non-monetary assets, less loan loss provision.
- Including book balances of derivative instruments and non-monetary liabilities.
- Net yield – net interest income divided by total interest-bearing assets.
- The change attributed to the quantity change was calculated by multiplying the new price by the change in quantity. The change attributed to the change in price was calculated by multiplying the old quantity by the price change.
- Fees and commissions for the six-month period in an amount of NIS 185 million were included in interest income from credit to the public (June 30 2017 - NIS 218 million).
- Of which: Held-for-sale assets - NIS 8,608 million.
- Of which: Held-for-sale liabilities - NIS 6,289 million.