BANK LEUMI OF ISRAEL LTD.
AND ITS INVESTEES

2018 Annual Report

The Bank received the Supervision of Banks Department's approval to publish its Annual Financial Statements on a consolidated basis only, with condensed (non-consolidated) financial statements in Note 35 to the financial statements. The Bank's standalone data is available on demand at the Bank's offices at 34 Yehuda Halevi Street, Tel Aviv or on its website: www.bankleumi.co.il.

This is a translation from the Hebrew. It has been made for convenience purposes alone. In case of any discrepancy, the Hebrew version shall prevail.

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Word from the Chairman of the Board of Directors

I am proud to present the Leumi Group's Annual Report for 2018, for my last time as Chairman of the Board of Directors, after nine fruitful and challenging years in office.

After the Board of Directors' considerable satisfaction with the implementation of its strategy by the Bank's management and employees, the Board has approved an extension of the dividend distribution policy, according to which a quarterly dividend will be distributed to the shareholders of up to 50 percent of the net income. The decision to distribute the dividend was made following the consistent improvement in the Bank's financial results and its excess capital.

The Leumi Group is ending 2018 with a net income of NIS 3,257 million, which reflects a return of 9.5 percent. Most of the income and profitability stem from our core business. This year, Leumi continued to distribute dividends to its shareholders. This year, 40 percent of the net income was distributed as dividends. In 2018, the cumulative dividend was NIS 1,303 million.

The Leumi Group and its various units is coping with numerous changes - both from within and without - excelling in leading measures and processes in an orderly and structured way, facing forward with the aim of continuing to lead the industry. During 2018, Leumi became the Bank with the highest market cap in Israel, reflecting more than anything the fruits of our efforts in recent years.

I would like to point out several outstanding events which took place this year:

According to the provisions of the Law on Minimizing Market Centralization and Promoting Economic Competition (the "Strum Reform"), the Bank is required to **sell its holdings in Leumi Card Ltd.** by February 2020. After examining the various sale alternatives, an agreement was signed in July 2018 for the sale of Leumi's entire holdings to US-based investment fund Warburg Pincus for NIS 2.5 billion. The sale transaction of Leumi Card was completed in the last few days, turning Leumi into the first bank in Israel to implement the Strum Reform.

During the year, the Bank entered into an agreement to bring in **two strategic partners into Bank Leumi USA (BLUSA)**. In May 2018, the sale of 15 percent of BLUSA's shares to the Endicott Group and MSD Capital was completed, for $141 million, reflecting a NIS 1 billion valuation for BLUSA.

An additional unique step taken this year was the **buyback of NIS 700 million** in shares, which was carried out in two stages. This move demonstrates the great faith and confidence of the Board of Directors and management in Leumi's share and in the strategy we set for the coming years. This measure, in addition to the dividend distribution, generated over NIS 2 billion for the shareholders.

In 2018, to enable customers to enjoy a higher-quality, more professional package of services, to assist the business lines in focusing on business development and to mitigate the operational risk, we introduced several significant organizational changes, with the most prominent one being the launch of a special-purpose **Operations Division**, which coordinates all of the Bank's operational issues under a single roof and works to unify, streamline and improve the current operational processes, while creating new ones and using advanced technological tools. Another significant organizational change was to unify all of the business units serving the high-tech sector under **LeumiTech**, which reports to the Corporate Division, following the significant growth in this sector.

At the beginning of 2019, Leumi launched **Leumi 1 for Customers** and announced a service revolution. Leumi 1 for Customers is a multi-channel program meant to adapt the Bank's service model to its customers, offering them to avoid waiting in line by setting up an appointment with a representative at any branch in Israel regardless of the one in which their account is being managed, as well as significantly upgrading the call center. The program has a single clear objective - to provide our customers with better service. We have studied our customers' consumption habits in order to adapt the new service model to the changes in today's evolving world of banking and make it more accessible.

During the year, we also launched **VIDEA**, a subsidiary of the Leumi Group specializing in managing investment portfolios over an advanced digital platform. VIDEA has numerous advantages, which allow customers to manage their investment portfolios in a smart, accessible, transparent and cost-effective manner. I welcome the launch of the company and wish it much success.

I am happy to say that for many years, Leumi's business activity is not only about providing banking services, but also about providing our customers with business value, as well as contributing to the community and environment in which we live and work. We take care to instill a policy of creating shared value for us and for our stakeholders, and continue to pursue our highly significant corporate and social responsibility endeavors, working to bridge divides in Israeli society and contributing to the advancement of future generations through a variety of projects across Israel.

I would like to thank, from the bottom of my heart, the Group's employees for their efforts, their uncompromising work and the loyalty they demonstrate along the way; our employees are our most precious asset.

I am grateful for having had the opportunity and privilege to have headed the Leumi Group's Board of Directors for nine years. I feel great satisfaction regarding the Bank's achievements over these years, the significant changes it has undergone and is still undergoing, and regarding the Bank's business results, which places it in a more profitable, efficient, stable and digital position, readier than ever to face tomorrow's challenges.

I bid you farewell with great satisfaction and pride.

David Brodet
Chairman of the Board

March 6 2019

Report of the Board of Directors and Management

Overview, Goals and Strategy

Description of the Leumi Group's Business

Bank Leumi and its subsidiaries - one of the largest banking groups in Israel - has been in the banking business for the last 117 years. The Bank's predecessor, the Anglo Palestine Company, was established in London in 1902 as a subsidiary of Otsar Hityashvuth HaYehudim Jewish Colonial Trust Limited, the predecessor of Otsar Hityashvuth HaYehudim Ltd.[1]

The Bank is defined as a banking corporation under the Banking (Licensing) Law, 1981, and holds a banking license pursuant to said law. As a "bank" and "banking corporation", Bank Leumi is regulated and governed by a system of laws, ordinances and regulations, including, inter alia, the Banking Ordinance, the Bank of Israel Law, the Banking (Licensing) Law and the Banking (Service to Customer) Law, as well as by the Supervisor of Banks' directives, rules, guidance and position papers.

As a leading banking group in Israel, and in order to achieve adequate profitability over time, Leumi constantly evaluates the trends and changes in the business environment in which it operates and develops strategies that address these changes. To implement its strategy, the Bank is organized into three main business lines, each focusing on a different market segment. Each business line specializes in the provision of banking and financial services to a specific customer segment, alongside the activities of the Bank's foreign and Israeli subsidiaries.

1. **Retail banking** - focuses on providing banking services, mainly to households (including mortgages), high-net-worth customers (Private Banking) and small businesses. The structure of the retail banking line of business enables tailoring services to the customers' needs, by providing an integrative multi-channel customer experience, via the Bank's branches and direct channels (such as mobile and e-banking, Leumi Call, information kiosks and ATMs).

2. **Corporate and Commercial Banking** - focuses on providing services to Israeli and international corporations of varying sizes from a wide range of sectors. The Corporate and Commercial Banking business line aims to provide comprehensive financial and banking services to its various customers, while promoting the involvement of Leumi Group's units in Israel and abroad as a means to expand its product and service offerings.

3. **Capital Market and Financial Management** is engaged in the management of the Bank's own portfolio and operates the Bank's trading rooms aiming to provide services to customers involved in capital and financial market activities, including institutional customers. Non-financial investments are primarily managed through Leumi Partners.

In addition to the activities of its lines of business, Leumi operates through its Israeli and foreign subsidiaries. **Activity of Israeli subsidiaries** – in 2018, these mainly included Leumi Card's credit card activity, as well as non-financial investments, underwriting and investment banking activities carried out by Leumi Partners. Under the Law on Minimizing Market Centralization and Promoting Economic Competition, Leumi sold its holdings in Leumi Card. For more information regarding the said sale agreement, please see the Section entitled "Major Investees" - "Leumi Card". **Activity of foreign subsidiaries** – is carried out by the subsidiaries Leumi USA and Leumi UK, which mainly engage in extending loans to corporate and commercial customers, and small businesses. During the reported period, activities were also carried out through Leumi Romania, the Bank's holdings in which are currently being sold. For more information regarding the status of the procedure, please see the section entitled "Major Investees". The Bank also has a field office in China.

The Leumi Group operates in an increasingly competitive market in all of its operating segments. Its main competitors are other Israeli banks. However, in certain operating segments, competition is on the rise and among the Bank's competitors are foreign banks, nonbanking entities, other institutional entities and technology-based solutions (Fintech companies).

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[1] Otsar Hityashvuth HaYehudim Ltd. was the Bank's controlling shareholder prior to the equalization of voting rights in 1991. It 1993, the State of Israel became the owner of most of the Bank's shares pursuant to the Bank Shares Arrangement (Temporary Order) Law, 1993. On September 3 2007 the Company ceased to be an interested party in the Bank.

Condensed Financial Information and Main Performance Indicators

Following are the main performance indicators (in %)

	As at December 31				
	2018	2017	2016	2015	2014
Main performance indicators:					
Return on capital	**9.5**	9.8	9.3	10.3	5.5
Return on average assets[(d)]	**0.7**	0.7	0.6	0.7	0.4
CET1 capital ratio	**11.07**	11.43	11.15	9.58	9.09
Leverage ratio[(e)]	**7.05**	6.94	6.77	6.27	-
Liquidity coverage ratio[(e)]	**121**	122	132	105	-
Ratio of income[(b)] to average assets[(d)]	**3.05**	3.05	2.97	3.29	3.33
Income-to-cost ratio	**60.58**	62.85	66.13	65.87	74.94
Ratio of net interest income to average assets	**1.97**	1.84	1.74	1.75	1.96
Ratio of fees and commissions to average assets	**0.91**	0.92	0.90	1.00	1.11
Additional performance indicators:					
Ratio of total capital to risk-weighted components[(a)]	**14.54**	14.99	15.21	13.74	13.90
Capital (excluding non-controlling interests) to balance sheet ratio	**7.7**	7.4	7.1	6.9	6.5
Percentage of tax provision from net income, before taxes	**33.0**	35.2	38.3	38.6	48.0
Loan loss expenses (income) for average outstanding loans to the public[(f)]	**0.19**	0.06	(0.05)	0.08	0.19
Of which: Expenses in respect of collective provision for average outstanding loans to the public[(f)]	**0.26**	0.20	0.19	0.18	0.23
Net interest income to average balance of interest-bearing assets (NIM)	**2.19**	2.05	1.95	2.00	2.22
Total income to total assets under management by the Group[(b)(c)]	**0.96**	0.94	1.02	1.10	1.08
Total operating and other expenses to total assets under the Group's management[(c)]	**0.58**	0.59	0.67	0.73	0.81
Main credit quality indicators:					
Balance of loan loss provision in respect of loans to the public out of outstanding credit to the public[(f)]	**1.41**	1.36	1.49	1.57	1.75
Percentage of non-performing loans to the public in arrears of 90 days or more of the outstanding credit to the public[(f)]	**1.36**	1.60	1.75	1.83	2.23
Percentage of accounting write-offs net of average loans to the public[(f)]	**(0.09)**	(0.15)	(0.03)	(0.20)	(0.12)

(a) Capital - including non-controlling interests and various adjustments.
(b) Total income - net interest income and noninterest income.
(c) Including off-balance-sheet operations.
(d) Average assets are the total income-generating and other balance sheet assets.
(e) Pursuant to the Bank of Israel's regulations, the leverage ratio and the liquidity coverage ratio were calculated as of Q2 2015. Therefore, 2014 data are not presented.
For more information regarding the leverage ratio, see the Section entitled "Capital and Capital Adequacy" in the Section "Structure of, and Changes in, Assets, Liabilities, Capital and Capital Adequacy". For more information regarding the liquidity coverage ratio, please see the "Risk Exposure and Management Thereof" Chapter.
(f) Including balances classified as held-for-sale assets and liabilities. For more information regarding the investee's held-for-sale operations, please see the Section entitled "Main Changes in the Reporting Year" and Note 36F.

Following are the main income statement data for the reporting year:

	2018	2017	2016	2015	2014
	In NIS millions				
Net income attributable to the banking corporation's shareholders	**3,257**	3,172	2,791	2,835	1,413
Interest income, net	**8,890**	8,046	7,526	7,118	7,363
Expenses (income) in respect of loan losses	**519**	172	(125)	199	472
Noninterest income	**4,871**	5,342	5,328	6,297	5,141
Of which: Fees and commissions	**4,121**	4,052	3,887	4,092	4,167
Total operating and other expenses	**8,337**	8,415	8,500	8,836	9,371
Of which: Salary and related expenses[(a)]	**4,544**	4,591	4,778	4,938	4,720
Earnings per share attributable to the banking corporation's shareholders (in NIS):					
Basic earnings	**2.15**	2.08	1.85	1.92	0.96
Diluted earnings	**2.15**	2.08	1.84	1.92	0.96

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

Following are the main balance sheet data as at the end of the reporting year:

	2018	2017	2016	2015	2014
	In NIS millions				
Total assets	**460,657**	450,838	438,603	416,499	396,984
Of which: Cash and deposits with banks	**81,419**	82,067	74,757	60,455	60,615
Securities	**74,571**	77,299	77,201	69,475	52,113
Loans to the public, net[(a)]	**279,215**	267,952	261,957	261,399	252,480
Total liabilities	**424,496**	417,285	406,889	387,392	370,846
Of which: Deposits by the public	**364,591**	362,478	346,854	328,693	303,397
Deposits by Banks	**5,210**	5,156	3,394	3,859	4,556
Bonds, promissory notes and subordinated bonds	**17,798**	15,577	22,640	21,308	23,678
The banking corporation's shareholders' equity	**35,305**	33,167	31,347	28,767	25,798
Additional data:					
Price per share (in NIS)	**22.6**	21.0	15.9	13.5	13.4
Dividend per share (in agorot)	**86.615**	63.594	-	-	-
Average number of jobs[(b)]	**11,208**	11,623	12,257	13,059	13,388

(a) Including the credit for Leumi Card, which has been classified as a held-for-sale asset since the balance sheet as at March 31 2018. For more information regarding the investee's held-for-sale operations, please see the Section entitled "Main Changes in the Reporting Year" and Note 36F.

(b) Including average number of jobs at Leumi Card.

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

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

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

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

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

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

Main Risks Inherent in the Operations of the Bank

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

This risk is embodied in the Group's core business and is reflected in its activities with corporate, commercial and retail customers, as well as in the Group's own portfolio activity. The Bank applies a comprehensive risk management policy in line with the requirements of Proper Conduct of Banking Business Directive No. 311.

For more information on the Bank's credit risk and its management, see the Section entitled "Credit Risks".

Market risks, including liquidity risk - Market risk is the risk of a loss arising from a change in the value of assets and liabilities due to changes in the price level in markets, interest rates, exchange rates, inflation rate and stock prices. Liquidity risk is the risk arising from uncertainty regarding the possibility of raising resources and/or disposing of assets, unexpectedly and within a very short time, without incurring a substantial loss. Ongoing market risk management plays a supporting role in the achievement of the Bank's business objectives and assesses the expected profit against the damages and losses that may result from exposure to these risks. Management of market risk exposures is carried out on a dynamic basis in compliance with a set of restrictions prescribed by the Board of Directors and Risk Committees, in order to contain the effects of market exposures on fair value, accounting profit, capital reserves and liquidity position.

For more information on market risk and market risk management, see the Section entitled "Market Risks". For more information on liquidity risk and liquidity risk management, please refer to the Section entitled "Liquidity Risk".

The Bank's function as a financial intermediary involves operational risks, including, inter alia, information security and cyber risks, IT risks, embezzlement and fraud risks, business continuity risks, legal and compliance risks.

Operational risk is the risk of loss as a result of inadequate, or failure of, internal processes, people and systems, or external events, including cyber events. This definition of operational risk does not include strategic risk and reputational risk.

Operational risk management is carried out throughout the Group according to the industry's best practices; the Bank modifies its risk management tools in line with changes in the risk environment. Information security and cyber risks, technological risks and embezzlement and fraud risks have been on the rise in recent years as a result of rapid technological changes that swept through every industry, including the banking industry. The continuously Bank works to enhance the management of these risks.

For more information regarding operational risk and the management thereof, see the Section "Operational Risks".

Objectives and Business Strategy

Leumi's Vision

"To introduce proactive, innovative banking for the benefit of customers"

The vision is based on our aim to create a dynamic business environment which incorporates the Bank's values into product and technological innovation - a system where our customers can find the best and most suitable solution to their financial needs, while striving for adequate profitability, maintaining the Bank's stability and striking a balance with the needs of our employees and the shareholders' expectations. As a financial group with major impact on Israel's business and public culture, Leumi regards its commitment to the community as a social and ethical anchor it will continue to cultivate.

Leumi's Strategy

In view of the new trends and significant changes introduced into its operating environment, Leumi adopted two main courses of action, the combination of which is at the core of the Group strategy. On the one hand, the Bank strives to adapt its traditional banking models without compromising the high-quality professional services it provides to all customer types according to their needs, preferences and willingness to adopt digital innovation; on the other hand, the Bank develops its "New Banking" model through digital and technological channels. These two courses of action depend on and are combined with the need to streamline the Bank's activity and maximize capital utilization while meeting capital adequacy targets.

Adjusting the "traditional banking" model

For the last several years, Leumi has been working to make changes to its operating model. As part of this process, Leumi has lately launched the Operations Division, which will coordinate the Bank's operational activities, with the aim of improving customer service and professionalism, while making the model more flexible, addressing redundancies and improving controls. The Group continues to implement the multiyear program of adapting the service model to a multi-channel environment.

As part of its strategy to reduce its international private banking activity, Leumi completed the closure of its foreign private banking offices, while in the process of selling its Romanian subsidiary, which focuses on commercial banking.

Leumi's foreign activity mainly focuses on commercial-corporate loans and loans to small businesses through its US and UK subsidiaries. In addition, the Bank has a representative office in China.

As for the US-based subsidiary - on January 22 2018, the Bank entered into two agreements to bring in strategic partners to Bank Leumi USA (BLUSA). Under the terms and conditions of the agreement, each of the partners acquired 7.5 percent 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 completed.

All of the above activities are aimed at creating a smaller, more flexible and agile platform that will be able to successfully face the challenges arising from changes in the Bank's operating environment.

In addition, the Bank has been placing emphasis on customer service improvement, including for the elderly population, inter alia by giving customers an opportunity to receive service in any branch, according to their relevant business line, an option to schedule a meeting with a representative at a branch and receive service at the appointed time, without having to wait in line, reinforcing the call center, etc.

Expanding the "New Banking" model

In order to adapt the Bank's business model to the "New Banking" model, during the reported year Leumi continued to expand its digital banking activities and established its position as the leading digital bank in Israel; this was achieved, among other things, by continuously upgrading its online and mobile banking services.

Furthermore, in 2017, Leumi launched the PEPPER banking app and the PEPPER PAY payments app, thereby meeting the principal milestones on its course to set up a mobile digital banking service.

PEPPER is a first of its kind pure e-banking platform in the Israeli banking industry and one of the first ones introduced worldwide; its users can fully manage their bank account via smartphones: they can open an account, carry out common transactions, including ordering credit cards and checkbooks, making money transfers, taking out loans, depositing into saving accounts, depositing checks, etc.

PEPPER is a fee-free online current account, based on a unique technology that helps customers manage their money better, provides them with an in-depth understanding of how they spend their money, and teaches them how to save and conduct their finances more efficiently. Based on artificial intelligence, PEPPER's unique technology is able to become acquainted with each and every customer's unique characteristics and adapt the content accordingly, thereby providing him/her with an utterly personal banking experience.

PEPPER's user experience is similar to Facebook's "Personal Feed"; it provides a dashboard summary of the account and recent transactions, featuring personalized content, consumer insights, comparisons with people with similar banking needs, expense summaries, weekly and monthly expenses analyses, live updates, consumer tips, and more – all in a simple and engaging language.

Another significant innovative feature: PEPPER enables customers to speak with a bank representative via a messenger service (chat) 24/6 (excluding Saturdays), in addition to a 24/6 call center manned by the Bank's representatives.

The account-opening process takes just a few minutes (!) and can be completed anywhere and at any time that is convenient to the customer through a video chat with a bank representative. Once the account-opening process is complete, alerts on the customer's credit facilities are sent directly to his/her mobile phone. To complement the digital experience, credit cards and checkbooks are also provided free of charge and delivered to the customer's home by courier.

PEPPER's banking and technological innovation garnered interest among various entities in the global financial and Fintech industries. As a result, the Bank is examining the possibility of leveraging the PEPPER platform - with its banking and digital innovation and unique customer experience, in order to cooperate with banking and commercial entities overseas, which would offer their customers banking services through the PEPPER platform. At this point, the Bank is examining such opportunities in the United States.

PEPPER Pay, launched in February 2017, is a free payment app and the new addition to PEPPER's product offering.

It is a free, state-of-the-art payment platform that can be used by customers of all banks. Pepper Pay is fun to use and - unlike with other payment apps - its payment experience is quick and extremely user friendly. Customers simply choose the payee through their mobile phone's contact list. There is no longer any need to carry around cash: if you need to pay the babysitter, repay a friend for buying your lunch, or for a kindergarten party - with PEPPER Pay you can do all of that in seconds. Users can also set up payment groups and collect money from group members via the app for any purpose, in a fun, collaborative manner.

In addition, in 2018, the Leumi Group founded Videa - an online investment portfolio management company. This is a groundbreaking move in Israel. Videa manages customers' funds using an innovative algorithm. It offers online, transparent, straightforward investment portfolio management, similarly to leading companies - such as Wealthfront - and leading banks worldwide. This move further supports the Leumi Group's leadership in the e-banking domain.

PEPPER Invest will be gradually launched in 2019, allowing customers to carry out securities trading transactions.

The new apps allow users to enjoy a personalized, innovative and advanced customer experience that meets their needs in a friendly, fair and personalized manner "anytime, anywhere".

The Group's strategy is implemented in accordance with the risk appetite approved by the Board of Directors, through the use of advanced processes and tools for managing diverse types of risk and preparing for implementation of regulatory requirements.

It should be noted that strategic planning involves a considerable degree of uncertainty; the implementation of long-term strategic plans depends on several variables, including the performances of markets in Israel and abroad, the security situation, and the effects of ongoing regulatory changes whose scope and foci in the long-term cannot be predicted with a high degree of certainty.

The information in this section constitutes forward-looking information. For the meaning of the term, please see under "Forward-Looking Information."

Principal Trends in the Operating Environment

The Bank operates in a competitive and complex business environment which is influenced by diverse exogenous factors.

For more information regarding the macro-economic environment in Israel and globally, please see the Section "Main Developments in the Israeli Economy".

Increased Regulation

The effect of regulation on the banking sector continues to grow. The growing number of regulations and their complexity limit the sources of income, lead to increased compliance costs and require banks to constantly improve the levels of service and innovation. The regulatory changes are shifting the banking domain and are expected to continue to do so in the coming years.

The Bank is subject to both international and domestic regulatory requirements, including PSD2/OPEN API, creating a credit data sharing system, the requirement to separate credit card companies from major banks, and compliance requirements such as FATCA, CRS, tax offense as a predicate offense, etc.

Regulation has become an issue that has a direct effect on several business and strategic decisions of the Bank, including with regard to the Bank's various areas of activity.

For more information regarding the regulatory environment and the consequences of the main regulatory changes, please see the Section entitled "Legislation and Regulations Governing the Banking System".

The Consumer Environment

Economic, social and technological changes and especially the increased use of mobile technology, prolific data sharing on social media networks and the constant improvement in customer experience driven by high-tech companies and retailers which aim to increase the convenience, availability, simplicity, personalization, fairness and transparency of their services "anytime anywhere", continue to increase consumer awareness and materially change consumption habits.

Non-bank entities, mainly Fintech companies, continue to develop innovative solutions (products), mainly for the retail sector, but also for other areas of activity. These solutions set a new customer experience benchmark and compete with banks in various domains. More and more banks worldwide collaborate with Fintech companies in various areas of activity.

Furthermore, in recent years, we have witnessed an intensification of trends led by GAFA (Google, Amazon, Facebook, Apple), which are in the process of penetrating into the field of direct financial services, typically focused on payments but also looking into entering other domains. Various regulators are assessing how to react to this growing threat; it is therefore is too soon to determine how regulation in this area will evolve.

The Competitive Environment

Local banks

The competition between the local banks continues to focus on households and on the small business and mid-market sectors. The banks advertise and launch value propositions based on technological and digital innovation, customer loyalty programs and leading products (such as mortgages, investment consultation, etc.).

The competitive pressure and evolving technology lead the banks to invest tens, even hundreds of millions, of shekels in innovation, in order to make banking services more readily accessible and convenient for customers. For example, in 2017, the large banks (Leumi, Poalim and Discount Bank) launched payment apps which allow anyone to transfer money instantly, free of charge, through their mobile phones, to another person, without requiring their account number or other information except for the beneficiary's telephone number.

Non-bank competitors

Loans by institutional entities – in recent years, we have witnessed a clear trend of increase in loans extended to the business sector by institutional entities, including funding for infrastructure projects and rental properties and even funding the construction of residential projects.

Furthermore, the activity of non-bank entities has expanded consistently as a result of recent regulatory changes, which encourage such non-bank financial entities to extend consumer and commercial loans. Some of these entities enjoy investments by institutional investors while others benefit from investment by other entities as well. It should be noted that currently, less than half of credit extended to businesses in Israel is provided by domestic banks.

Fintech and BigTech solutions which compete with specific banking areas of activity - in recent years, with the growing use of advanced technologies by consumers (primarily through smartphones and tablet devices), the choice and quality of innovative initiatives and products offering financial services based on advanced technology have grown significantly. These initiatives speed up the adoption of innovation in the financial industry. While most do not compete head-to-head with the traditional banks, they certainly threaten to take a bite off the banks' market share in certain areas of activity.

BigTech companies such as Amazon, Google, Facebook, Alibaba, Microsoft, Apple, PayPal, Intuit and the likes may pose a significant risk to traditional banking models. For example, Amazon Lending has extended more than $3 billion in loans to small businesses since its inception. These companies offer banking services (such as payments), without being defined as banks or being subjected to regulation similar to banks. They are mainly engaged in such activity in order to collect more information about the customers - which they can, in turn, translate into income.

Main Changes in the Reporting Year

Leumi Card

On July 28 2018 - in accordance with the provisions of the said Law and after reviewing the various alternatives, and following a procedure for the disposal of the Bank's interests in the company - an agreement was signed between the Bank and Azrieli 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. On February 25 2019, after the reporting period, the sale transaction was completed, after the conditions precedent had been filled.

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, with no retroactive presentation of comparative results. There has been no change in the presentation format in the income statement.

Consolidated profit and loss less Leumi Card's results[a]

	For the year ended December 31		
	2018	2017	2016
	In NIS millions		
Interest income	**11,030**	9,842	9,362
Interest expense	**2,447**	2,021	2,024
Interest income, net	**8,583**	7,821	7,338
Expenses (income) in respect of loan losses	**403**	103	(162)
Interest income, net of loan loss expenses	**8,180**	7,718	7,500
Noninterest income			
Noninterest finance income	**684**	915	1,282
Fees and commissions	**3,304**	3,258	3,122
Other income	**68**	370	159
Total noninterest income	**4,056**	4,543	4,563
Operating and other expenses			
Salaries and related costs	**4,245**	4,256	4,521
Buildings and equipment - maintenance and depreciation	**1,495**	1,508	1,555
Other expenses	**1,904**	1,897	1,766
Total operating and other expenses	**7,644**	7,661	7,842
Profit before taxes	**4,592**	4,600	4,221
Provision for income tax	**1,504**	1,614	1,637
Profit after taxes	**3,088**	2,986	2,584
The banking corporation's share in associates' profits, after tax	**30**	85	60
Leumi Card's effect on the results	**158**	101	147
Before attribution to non-controlling interests	**3,276**	3,172	2,791
Attributable to non-controlling interests	**(19)**	-	-
Attributable to the Bank's shareholders	**3,257**	3,172	2,791

(a) Excluding offsetting of inter-company transaction between the Bank and Leumi Card.

For more information regarding the investee's held-for-sale operations, please see the section entitled "Major Investees" - "Leumi Card" and Note 36F.

Consolidated balance sheet less Leumi Card's results[(a)]

	December 31		
	2018	2017	2016
	In NIS millions		
Assets			
Cash and deposits with banks	**81,419**	82,038	74,730
Securities	**74,571**	77,299	77,201
Loans to the public	**277,258**	267,626	262,128
Loan loss provision	**(3,352)**	(3,092)	(3,380)
Loans to the public, net	**273,906**	264,534	258,748
Loans to governments	**782**	715	642
Investments in investees	**623**	801	898
Buildings and Equipment	**2,853**	2,813	2,973
Intangible assets and goodwill	**17**	16	17
Assets in respect of derivatives	**12,750**	9,573	10,654
Other assets	**7,565**	9,153	9,045
Securities borrowed or purchased under reverse repurchase agreements	**1,257**	1,161	1,284
Assets held for sale	**1,470**	1,498	1,436
Total assets	**457,213**	449,601	437,628
Liabilities and capital			
Deposits by the public	**370,346**	368,037	352,170
Deposits from banks	**5,210**	5,156	3,394
Deposits from governments	**709**	452	900
Securities loaned or sold under agreements to repurchase	**541**	558	539
Bonds, promissory notes and subordinated bonds	**17,798**	15,577	22,640
Liabilities in respect of derivative instruments	**12,089**	9,740	10,677
Other liabilities	**14,737**	16,908	15,953
Total liabilities	**421,430**	416,428	406,273
Non-controlling interests	**478**	6	8
Capital attributable to the banking corporations' shareholders	**35,305**	33,167	31,347
Total capital	**35,783**	33,173	31,355
Total liabilities and capital	**457,213**	449,601	437,628

(a) Excluding offsetting of inter-company transaction between the Bank and Leumi Card.

For more information regarding the investee's held-for-sale operations, please see the Section entitled "Major Investees" - "Leumi Card" and Note 36F.

Trends, Phenomena, Developments and Material Changes

Main Developments in the Israeli Economy[1]

According to early estimates by the Central Bureau of Statistics (CBS) from December 31 2018, in 2018 the Israeli economy grew 3.2 percent in real terms, compared to 3.5 percent in 2017, with unemployment continuing to decline, reaching an annual average of 4.0 percent, compared with 4.2 percent in 2017. All key components of the GDP grew last year. In real GDP terms, the economy grew by 1.2 percent per capita, below the OECD average (1.9 percent).

The Global Economy

In January 2019, the International Monetary Fund (IMF) revised its global growth estimates for 2018 and its forecast for 2019. According to the revised forecasts, the global economy - which has grown by 3.7 percent in real terms in 2018 - is expected to grow by 3.5 percent in 2019. The expected growth rate for the US in 2019 is 2.5 percent compared to 2.9 percent in the reporting year. The Eurozone is expected to grow by 1.6 percent in 2019 vs. 1.8 percent in 2018. If they materialize, these forecasts signify a certain slowdown in Israel's primary trade markets.

The State Budget and its Funding

In 2018, the state budget deficit reached NIS 38.9 billion - 2.9 percent of the GDP - similar to the original budget plan, compared with a deficit of NIS 24.6 billion in 2017 (about 1.9 percent of the GDP). Both the government's revenues and expenditure were slightly higher than planned.

In January 2019, the Minister of Finance submitted to the government a revised forecast of the revenues and expenditures for 2019, which show a deficit forecast of 3.6 percent of GDP for the year. This signifies a deviation of 0.7 percent of the GDP from the maximum deficit permitted by law; if reached during the year, the deviation will require various adjustments to maintain fiscal stability.

Foreign Trade and Capital Flows

In 2018, Israel's trade deficit reached $25.3 billion versus $14.9 billion in 2017. The sharp increase in the trade deficit stems from a significant increase in imports (all major components: raw materials, investment products and consumption products) versus a more moderate growth in goods exports. This significant increase in the trade deficit led to a substantial decrease in the surplus of the current account balances, which reached - according to the CBS's estimates as of December 31 2018 - 1.4 percent of GDP versus 2.9 percent in 2017.

In 2018, nonresidents' direct investments in Israel - through the banking system - totaled $12.8 billion, while nonresidents' financial investments through tradable securities in Israel totaled $0.8 billion. On the other hand, total foreign investments by Israeli residents (direct investments through banks in Israel and financial investments in tradable securities) totaled $13.6 billion, so that the scope of inbound investments is similar to outbound investments in foreign currency.

Exchange Rate and Foreign Exchange Reserves

In 2018, the shekel depreciated against the dollar by 8.1 percent, and 3.3 percent against the euro. A possible explanation is the decline in the current account surplus of the balance of payments, on the back of the growing difference between the interest rates of the US Federal Reserve and the Bank of Israel's interest rate, which affect Israel's outbound and inbound financial investments. In 2018, the amount of outbound investments was much higher than of the inbound investments.

At the end of December 2018, the Bank of Israel's foreign exchange reserves stood at $115.3 billion versus $113 billion as at the end of December 2017.

During 2018, the Bank of Israel purchased $1.5 billion in foreign currency as part of its program to offset the effect of natural gas production on the shekel exchange rate. In total, the Bank of Israel purchased $3.32 billion in foreign currency during 2018, mostly during the first half of the year.

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

On November 13 2018, the Bank of Israel's Monetary Committee decided to terminate the foreign exchange purchase plan as of 2019. The plan was aimed at offsetting the effect of natural gas production on the shekel's exchange rate. As a result, the Bank of Israel will no longer purchase foreign currency at a predetermined amount, as it had done in previous years. The decision was made under the assumption that the "wealth fund" - which is expected to be established in 2019 - will begin making foreign investments in 2020.

Inflation and Monetary Policy

The "in lieu" consumer price index (CPI) was up 0.8 percent in 2018, a rate that is under the lower band of the government's price stability target (1-3 percent). It was the fifth consecutive year in which the annual price increase rate was lower than the government target. In 2018, the "known" CPI was up 1.2 percent.

On November 26 2018, the Bank of Israel announced that the interest rate would be raised by 0.15 percentage points to 0.25 percent; the interest was 0.1 percent since March 2015. The main explanation is the stabilizing of the inflation, as measured based on figures as of October 2018 (the information available when the decision about the interest rate was made), slightly above the lower band of the Bank of Israel's target range and its assessment that wage increases and its expansionary fiscal policy will support the continued stabilization of inflation within the target range. In its January 6 2019 interest rate announcement, the Bank of Israel did not change the interest rate, but the committee estimated that "the future trajectory of raising the interest rate will be gradual and cautious, so as to support the inflation stabilizing around the center of the target range and economic activity."

Israel's Capital Market

The Shares and Convertible Securities Index fell by 3.9 percent during 2018, mainly due to stock price decreases of 10.8 percent in the fourth quarter (mostly in December 2018). This was mostly on the back of sharp stock price decreases worldwide, especially in the US, inter alia against the background of interest rate hikes.

The average daily trade volume of shares and convertibles was down 13.5 percent in 2018 compared with the 2017 average, totaling NIS 1.594 billion.

The government bond market was characterized by price increases in 2018. The CPI-Linked Government Bond Index was down 1.4 percent, while the Unlinked Government Bond Index was down 1.2 percent. he Non-Government (corporate) CPI-Linked Bond Index was down 0.8 percent in 2018, following a 6.2 percent increase in 2017.

Financial Assets Held by the Public

The value of the public's financial assets portfolio as at the end of December 2018 was NIS 3,692 billion, a 2.0 percent increase compared to December 2017. The weight of the shares (Israeli and foreign) out of the Israeli public's financial asset portfolio was 22.6 percent as at the end of December 2018, similar to its level as at the end of December 2017.

Major and Emerging Risks in the Operating Environment

In recent years, major risks arise from the Bank's operating environment, which has been highly affected by risks related to regulation and legislation, a volatile macro-economic environment, and changes in the business model - including the transition to digital "new banking" and new social and consumer trends. Emerging risks are ones whose characteristics and severity vary according to the changes that have occurred in recent years in the competitive, consumer, regulatory and technological environments.

Following are the most material leading and emerging risks:

- Macro-economic risk.
- Strategic risk.
- Information security and cyber risk.
- Technological risk.
- Regulatory risk.
- Conduct risk.

For more information regarding these risks, please see the Section entitled "Risk Exposure and Management Thereof".

Disclosure Regarding Emphasis of Matter by the Independent Auditors

At times, the independent auditors alter their uniform wording by including emphasis of matter paragraphs in a note to the financial statements, in order to underscore a certain matter that significantly affects the financial statements. The independent auditors included an emphasis of matter for Note 26.D.3 regarding claims filed against a consolidated company, including class action certification motions.

Material Changes in Financial Statement Line Items

Net income attributable to the banking corporation's shareholders was NIS 3,257 million in 2018, compared with NIS 3,172 million in the same period last year, a 2.7 percent increase.

Return on equity in 2018 was 9.5 percent. Return on equity in 2017 was 9.8 percent. It should be noted that the profit in 2017 was materially affected by the sale of a building in the fourth quarter and from one-time salary expenses. The return on capital last year, less these one-time line items, was 9.3 percent.

The **CET1 capital** to risk components ratio as at December 31 2018 was 11.07 percent compared to 11.43 percent as at December 31 2017. For more information, please see Note 25B.

On March 6 2019, the Bank's Board of Directors approved a dividend distribution policy whereby a dividend of up to 50 percent of the net income in each quarter, subject to meeting the provisions of the Companies Law and the Bank of Israel's directives, due to the consistent improvement in the business results and the Bank's excess working capital. In addition, the Bank's Board of Directors approved a dividend distribution of 40 percent of the net income of Q4 2018. The dividend amount approved for the quarter totals approximately NIS 275 million. The accumulated dividend for 2018 totals NIS 1,303 million.

It should be noted that the Bank's buyback plan - which was approved in March 2018 - ended on November 22 2018 after the Bank purchased shares totaling NIS 700 million. For more information, please see the Section entitled "Capital and Capital Adequacy" below.

Net interest income was up NIS 844 million in 2018, a 10.5 percent increase. The increase in net interest income arises from an increase in interest rate spreads and an increase in the average outstanding balance of loans to the public and deposits with banks and from the repayment of bonds and capital notes. The increase was also due to a 1.2 percent increase in the CPI in 2018 compared to a rate of 0.3 percent over the same period last year.

Loan loss expenses in 2018 reflect a 0.19 percent expense rate (for the Bank - 0.12 percent) from the loans to the public, net vs. a 0.06 percent expense rate (for the Bank - 0.02 percent) in 2017. The increase in the loan loss provision stems, inter alia, from a decrease in collections from large borrowers by the Corporate Division and from an increase in loan loss expenses in US-based subsidiary BLUSA and Leumi Card.

Noninterest financing income totaled NIS 682 million compared to NIS 919 million in the corresponding period last year. Leumi Partners recorded a NIS 121 million pretax gain from the sale of Avgol Industries and a NIS 96 million pretax gain from the sale of Direct Finance, which were partly offset due to loan loss provision. An additional NIS 47 million pretax gain was recorded this year from the sale of the Bank's Tel Aviv Stock Exchange shares. On the other hand, the effect of the devaluation in the shekel vs. dollar exchange rate, compared to a revaluation last year and the effect of changes on derivatives compared with last year, offset the positive effects as detailed above, so that the total finance income was down compared to last year.

Fees and commissions were up by NIS 69 million in 2018 compared with the same period last year, mainly on the back of increase in credit card turnovers.

Other income totaled NIS 68 million compared to NIS 371 million last year. The decrease is largely due to a pretax NIS 265 million gain on the sale of a building recorded in the fourth quarter of 2017.

Operating expenses were down by NIS 78 million from the corresponding period last year. The decrease stems from a decline in salary costs, which was partially offset by the grant for participation in the restructuring program and the benefit recorded in respect of the purchase of shares by employees from the State as well as the decrease in depreciation costs.

Tax expenses totaled NIS 1,619 million, compared with a total of NIS 1,692 million in the corresponding period last year. The provision for income tax for the reporting period is 33.0 percent of the pretax net income, versus 35.2 percent in the same period last year. The decrease in tax rates from one period to another stems mainly from a statutory tax cut between the periods as well as from recording tax expenses in BLUSA in respect of changes in the tax rates in the US.

Basic net income per share attributable to shareholders in the 2018 totaled NIS 2.15 compared to NIS 2.08 per share in 2017.

It should be noted that as of the first quarter of 2018, the investment in Leumi Card is classified as held-for-sale. 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. On February 25 2019, the sale of Leumi Card was completed. For more information, please see the Section entitled "Main Changes in the Reporting Year" and Note 36I.

For more information regarding quarterly results, please see the appendix entitled "Consolidated Income Statement - Multi-Quarter Information".

Material Developments in Income, Expenses and Other Comprehensive Income[1]

The net income attributable to the banking corporation's shareholders (hereinafter - the "net income") of the Leumi Group reached NIS 3,257 million in 2018 compared to NIS 3,172 million in 2017, a 2.7 percent increase.

Set forth below are the changes in profit and loss items in 2018 compared with 2017

	For the year ended December 31			
	2018	2017	Change	
	In NIS millions		In NIS millions	In %
Interest income, net	**8,890**	8,046	844	10.5
Loan loss expenses	**519**	172	347	+
Noninterest income	**4,871**	5,342	(471)	(8.8)
Operating and other expenses	**8,337**	8,415	(78)	(0.9)
Profit before taxes	**4,905**	4,801	104	2.2
Provision for taxes	**1,619**	1,692	(73)	(4.3)
Profit after taxes	**3,286**	3,109	177	5.7
Bank's share in associates' profits	**36**	92	(56)	(60.9)
Net income attributable to non-controlling interests	**(65)**	(29)	(36)	-
Net income attributable to the banking corporation's shareholders	**3,257**	3,172	85	2.7
Return on capital (%)	**9.5**	9.8		
Basic earnings per share (NIS)	**2.15**	2.08		

Interest Income, Net

Net interest income of the Leumi Group in 2018 was NIS 8,890 million, compared with NIS 8,046 million in 2017, a 10.5 percent increase. The increase in interest income arises from an increase in interest rate spreads and an increase in the average outstanding balance of loans to the public and deposits with banks and from a decrease in the average outstanding balance of bonds and capital notes. In addition, the results during the year were positively affected by the CPI by a total of NIS 258 million vs. a positive effect of NIS 58 million in 2017.

The ratio of net interest income to the average balance of interest-bearing assets (net yield on interest-bearing assets) is 2.19 percent, compared with 2.05 percent in the corresponding period last year.

Total **interest spread** in 2018 is 1.93 percent, compared with 1.85 percent in 2017. The following is interest spread information by segment:

In the unlinked NIS segment, the total interest spread in 2018 was 2.20 percent, compared with 2.11 percent in the corresponding period last year. In the foreign exchange segment, the total interest spread in the reported period was 0.79 percent, compared with 0.92 percent in the corresponding period last year. In the CPI segment, the total interest spread in the reported period was 1.05 percent, compared with 0.80 percent last year.

For more information regarding income and interest expenses, please see "Appendix 1 - Income and Expenditure Rates and Analysis of Changes in Interest Income and Expenses".

[1] The financial statements were drawn up in reported values. In 2018, the "known" CPI was up 1.2 percent. The shekel was nominally devalued against the US dollar by 8.1 percent and against the euro - by 3.3 percent. As of December 31 2018, the representative exchange rate of the US dollar was NIS 3.748.
For more information, please see Note 1.D.

Loan Loss Expenses

	For the year ended December 31		Change	
	2018	2017		
	In NIS millions		In NIS millions	In %
Income in respect of loan losses - specific	**(191)**	(364)	173	47.5
Expenses in respect of loan losses - collective	**710**	536	174	32.5
Total expense for loan losses	**519**	172	347	+
Of which:				
Loan loss expenses (income) for credit risk in respect of commercial credit risk	**247**	(4)	251	+
Loan loss expenses (income) for risk in respect of housing loans	**32**	(13)	45	+
Loan loss expenses for other credit risk	**240**	187	53	28.3
Loan loss expenses for credit risk in respect of banks and governments	**-**	2	(2)	(100.0)
Total expense for loan losses	**519**	172	347	+
Ratios (in %):				
Percentage of specific income for loan losses out of total loans to the public[(a)]	**(0.06)**	(0.14)		
Percentage of expenses in respect of loan losses out of the average outstanding balance of loans to the public[(a)]	**0.19**	0.06		
Percentage of net write-offs in respect of loans to the public out of average balance of loans to the public[(a)]	**(0.09)**	(0.15)		
Percentage of net write-offs in respect of loans to the public out of the outstanding loan loss provision in respect of loans to the public[(a)]	**(6.40)**	(11.14)		

(a) Including balances classified as held-for-sale assets. For more information regarding the investee's held-for-sale operations, please see the Section entitled "Main Changes in the Reporting Year" and Note 36I.

Loan loss expenses of the Leumi Group in 2018 totaled NIS 519 million, compared with a NIS 172 million income in 2017.

For more information regarding loan losses expenses, see the Section “Disclosure, Measurement, Classification and Provision Rules” under “Credit Risks”, Note 13 and Note 30.

Noninterest Income

	For the year ended December 31			
	2018	2017	Change	
	In NIS millions		In NIS millions	In %
Noninterest finance income	**682**	919	(237)	(25.8)
Fees and commissions	**4,121**	4,052	69	1.7
Other income	**68**	371	(303)	(81.7)
Total	**4,871**	5,342	(471)	(8.8)

Following is a breakdown of noninterest finance income:

	For the year ended December 31			
	2018	2017	Change	
	In NIS millions		In NIS millions	In %
Income in respect of derivative instruments and exchange rate differentials, net	**238**	779	(541)	(69.4)
Gains (losses) on sale of available-for-sale bonds, net	**(10)**	115	(125)	-
Gains on investment in shares, including dividends[b]	**394**	61	333	+
Gains on sold loans, net	**-**	9	(9)	-
Realized and unrealized gains (losses) from adjustments to fair value of held-for-trading bonds and shares, net[a]	**60**	(45)	105	+
Total	**682**	919	(237)	(25.8)

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

(b) In 2018, including a NIS 121 million gain on the sale of Avgol Industries, a NIS 96 million gain on the sale of Direct Finance, and a NIS 47 million gain on the sale of the Bank's Tel Aviv Stock Exchange shares.

Below is a breakdown of fees and commissions:

	For the year ended December 31			
	2018	2017	Change	
	In NIS millions		In NIS millions	In %
Account management	**716**	701	15	2.1
Activity in securities and certain derivatives	**638**	675	(37)	(5.5)
Credit cards	**1,129**	1,075	54	5.0
Credit handling	**186**	183	3	1.6
Financial product distribution fees and commissions	**316**	307	9	2.9
Exchange differences	**361**	338	23	6.8
Loan fees and commissions	**454**	455	(1)	(0.2)
Other fees and commissions	**321**	318	3	0.9
Total fees and commissions	**4,121**	4,052	69	1.7

The 1.7 percent increase in fees and commission in 2018 over 2017 stems mainly from an increase in credit card turnovers. Income from fees and commissions constitutes 49.4 percent of operational and other expenses compared with 48.2 percent in the same period last year.

Following is a breakdown of other income:

	For the year ended December 31			
	2018	2017	Change	
	In NIS millions		In NIS millions	In %
Gains on reserve for severance pay	**8**	41	(33)	(80.5)
Other income, including on sale of buildings and equipment	**60**	330	(270)	(81.8)
Total	**68**	371	(303)	(81.7)

The decrease in other income is mainly on the back of the sale of a building in the last quarter of 2017, which resulted in a pre-tax gain of NIS 265 million last year.

Operating and Other Expenses

	For the year ended December 31			
	2018	2017	Change	
	In NIS millions		In NIS millions	In %
Salaries and related expenses[(a)]	**4,544**	4,591	(47)	(1.0)
Depreciation and amortization	**571**	646	(75)	(11.6)
Maintenance expenses for buildings and equipment	**998**	1,015	(17)	(1.7)
Other expenses[(a)]	**2,224**	2,163	61	2.8
Total operating and other expenses	**8,337**	8,415	(78)	(0.9)

(a) Reclassified. Please see Notes 5.C.1. and 1.U.3. in respect of retroactive application of the Banking Supervision Department's directive regarding improved presentation of expenses for pension and other post-employment benefits.

Net operating and other income of the Leumi Group in 2018 was NIS 8,337 million, a 0.9 percent increase.

The operating expenses constitute 60.6 percent of the total income compared with 62.9 percent last year.
Total operating and other expenses constitute 1.81 percent of the balance sheet, compared with 1.87 percent in the same period last year.

Salary expenses

	For the year ended December 31			
	2018	2017	Change	
	In NIS millions		In NIS millions	In %
Salaries and related expenses	**4,196**	4,225	(29)	(0.7)
Pension, severance and retirement expenses[a]	**348**	333	15	4.5
Expenses outside the ordinary course of	**-**	33	(33)	-
Total salary expenses	**4,544**	4,591	(47)	(1.0)

(a) Reclassified due to retroactive application of the Banking Supervision Department's directive regarding improved presentation of expenses for pension and other post-employment benefits. Please see Note 1.W.3. Total effect in 2017 was NIS 681 million.
(b) In 2017, NIS 76 million was presented in a different line item, as "grants and expenses outside the ordinary course of business". Of which, NIS 43 million in grants outside the ordinary course of business. In 2018, a grant in respect of participation in the Bank's restructuring program in excess of the above amount was charged to restructuring. As a result, both the NIS 43 million bonus in 2017 and the restructuring grant paid in 2018 were included in the salaries line item rather than in the line item entitled "bonuses outside the regular course of business".

Salary and related expenses constitute 54.5 percent of total operating expenses, similarly to 2017.

Operating and other expenses (excl. salaries)

In addition to salary expenses as detailed above, the depreciation expenses, buildings maintenance and other expenses totaled NIS 3,793 million in the reporting period, compared with NIS 3,824 million in the corresponding period last year, a 0.8 percent decrease.

Tax Expenses

The Leumi Group's provision for income tax in 2018 totaled NIS 1,619 million, compared with NIS 1,692 million in the same period last year. The rate of provision for pre-tax profits in 2018 was 33.0 percent compared with 35.2 percent in 2017, a 2.2 percentage point decrease.

The decrease in tax rates from one period to another stems mainly from a statutory cut tax in Israel between the periods as well as from recording tax expenses in BLUSA in respect of changes in the tax rates in the US.

Expenses and Investments Relating to the IT Function

Set forth below is a breakdown of expenses and investments relating to the IT function

	For the year ended December 31 2018			
	In NIS millions			
	Software	Hardware[(a)]	Other	Total
Expenses in respect of the IT function, as included in the income statement:				
Expenses for salaries and related expenses	**298**	**214**	**-**	**512**
Costs of acquisition or usage licenses not capitalized to assets	**154**	**62**	**31**	**247**
Outsourcing expenses	**76**	**-**	**4**	**80**
Depreciation expenses	**363**	**91**	**6**	**460**
Other expenses	**49**	**28**	**7**	**84**
Total expenses	**940**	**395**	**48**	**1,383**
Additions to assets in respect of the IT function, not recorded as an expense:				
Costs of salaries and related expenses	**256**	**-**	**-**	**256**
Outsourcing costs	**167**	**-**	**-**	**167**
Costs of acquisition or usage licenses[(b)(c)]	**106**	**165**	**-**	**271**
Costs of equipment, buildings and land	**-**	**-**	**11**	**11**
Less costs of held-for-sale assets	**(73)**	**(25)**	**-**	**(98)**
Total costs[(d)]	**456**	**140**	**11**	**607**
Balances of assets in respect of the IT function				
Total amortized cost	**944**	**270**	**293**	**1,507**
Less amortized cost of held-for-sale assets	**(205)**	**(48)**	**(2)**	**(255)**
Total amortized cost	**739**	**222**	**291**	**1,252**

	For the year ended December 31 2017			
	In NIS millions			
	Software	Hardware[(a)]	Other	Total
Expenses in respect of the IT function, as included in the income statement:				
Expenses for salaries and related expenses	335	201	-	536
Costs of acquisition or usage licenses not capitalized to assets	162	56	31	249
Outsourcing expenses	73	-	4	77
Depreciation expenses	430	106	10	546
Other expenses	42	19	5	66
Total expenses	1,042	382	50	1,474
Additions to assets in respect of the IT function, not recorded as an expense:				
Costs of salaries and related expenses	243	-	-	243
Outsourcing costs	164	-	-	164
Costs of acquisition or usage licenses[(b)(c)]	61	155	-	216
Costs of equipment, buildings and land	-	-	12	12
Total costs	468	155	12	635
Balances of assets in respect of the IT function				
Total amortized cost	776	229	338	1,343

(a) Including communications infrastructures.
(b) Costs of acquisition or usage licenses in respect of the IT function, which were not classified as property, plant and equipment (costs of equipment, buildings and land) in the financial statements, but rather as a prepaid expense.
(c) Including purchases of software and hardware and licenses to use them for all banking corporation’s divisions.
(d) For more information, please see Note 36I.

Following is a Summary of the Comprehensive Income Statement:

	Other comprehensive income (loss) before attribution to non-controlling interests						
	Adjustments in respect of presentation of available-for-sale securities at fair value	Translation adjustments,[a] net of hedging effect[b]	The Bank's ownership interests in other comprehensive income of investees accounted for under the equity method	Adjustments in respect of employee benefits	Total	Other comprehensive income attributable to non-controlling interests	Other comprehensive income (loss) attributable to the Bank's shareholders
	In NIS millions						
Balance as at January 1 2016	67	(67)	38	(1,490)	(1,452)	(4)	(1,448)
Net change during the year	(153)	(12)	(20)	(679)	(864)	-	(864)
Balance as at December 31 2016	(86)	(79)	18	(2,169)	(2,316)	(4)	(2,312)
Net change during the year[c]	161	(116)	(3)	(781)	(739)	-	(739)
Balance as at December 31 2017	75	(195)	15	(2,950)	(3,055)	(4)	(3,051)
Net change during the year[d]	**(408)**	**110**	**17**	**1,187**	**906**	**18**	**888**
Sale of equity in subsidiaries to non-controlling interests	**-**	**(13)**	**-**	**-**	**(13)**	**(44)**	**31**
Balance as at December 31 2018	**(333)**	**(98)**	**32**	**(1,763)**	**(2,162)**	**(30)**	**(2,132)**

(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 "Statement of Changes in Equity".
(d) Including balances classified as held-for-sale assets. For more information, please see Note 36F.

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

As at December 31 2018, the Leumi Group's **balance sheet** amounted to NIS 460.7 billion, compared to NIS 450.8 billion at the end of 2017, a 2.2 percent increase; as at December 31 2018, the Bank's balance sheet totaled NIS 433.3 billion compared with NIS 426.7 billion at the end of 2017, a 1.6 percent increase.

The value of assets denominated in, and linked to, foreign currency out of the Group's total balance sheet is approximately NIS 98.5 billion, 21.4 percent of total assets. In 2018, the shekel devalued against the US dollar by 8.1 percent, 3.3 percent against the euro and 2.4 percent against the pound sterling. The change in the shekel's exchange rate against all foreign currencies contributed to a 0.7 percent 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 1,434 billion, compared with a total of NIS 1,425 billion as at the end of 2017, a 0.6 percent increase.

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

	Consolidated			
	December 31			
	2018	2017	Change	
	In NIS millions			In %
Balance sheet total	**460,657**	450,838	9,819	2.2
Cash and deposits with banks	**81,419**	82,067	(648)	(0.8)
Securities	**74,571**	77,299	(2,728)	(3.5)
Loans to the public, net[(a)]	**279,215**	267,952	11,263	4.2
Buildings and Equipment	**2,853**	2,986	(133)	(4.5)
Deposits by the public	**364,591**	362,478	2,113	0.6
Deposits from banks	**5,210**	5,156	54	1.0
Bonds, promissory notes and subordinated bonds	**17,798**	15,577	2,221	14.3
The Bank's shareholders' equity	**35,305**	33,167	2,138	6.4

(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 investee's held-for-sale operations, please see the Section entitled "Main Changes in the Reporting Year" and Note 36F.

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

	Consolidated			
	December 31			
	2018	2017	Change	
	In NIS millions			In %
Documentary credit, net	**1,359**	1,202	157	13.1
Loan guarantees, net	**5,143**	5,400	(257)	(4.8)
Guarantees for apartment buyers, net	**18,655**	19,297	(642)	(3.3)
Guarantees and other commitments, net	**16,231**	15,702	529	3.4
Derivative instruments[(a)]	**737,779**	635,790	101,989	16.0
Options - all types	**208,519**	155,751	52,768	33.9
Customers' off-balance-sheet monetary assets	**972,855**	974,430	(1,575)	(0.2)

(a) Including forward transactions, financial swap contracts, futures and credit derivatives.

For more information, please see Notes 28A and 28B to the Financial Statements.

Net Loans to the Public

Net loans to the public for the Leumi Group, including outstanding credit for Leumi Card - which is classified as of March 31 2018 as a held-for-sale asset - totaled as at the end of 2018 NIS 279.2 billion compared with NIS 268 billion as at the end of 2017, a 4.2 percent increase. The change in the shekel's exchange rate against all foreign currencies contributed to a 0.6 percent increase of the loans to the public.

Total loans to the public constitute 60.6 percent of the balance sheet, compared with 59.4 percent at the end of 2017.

In addition to loans to the public, the Group invests in corporate securities, which total - as at the end of 2018 - NIS 17,426 million compared to NIS 13,241 million as at the end of 2017, and which also embody credit risk.

The Group's loans to public in its domestic operations totaled NIS 253.8 billion as at the end of 2018, compared with NIS 244.7 billion as at the end of 2017.

Unlinked shekel loans to the public, net totaled 69.9 percent of the total loans as at December 31 2018, similarly to the rate as at December 31 2017. Linked loans constitute, as at December 31 2018, 15.1 percent of the total loans, compared with 15.6 percent as at December 31 2017.

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

	December 31			
	2018	2017	Change	
	In NIS millions			In %
Private individuals - housing loans	**80,411**	77,506	2,905	3.7
Private individuals - other	**36,133**	36,044	89	0.2
Construction & real estate	**58,657**	52,690	5,967	11.3
Commercial	**28,891**	27,213	1,678	6.2
Industry	**19,188**	19,096	92	0.5
Other	**55,935**	55,403	532	1.0
Total	**279,215**	267,952	11,263	4.2
Less balances classified as held-for-sale assets[(a)]	**8,042**	-		
Total	**271,173**	267,952	3,221	1.2

(a) For information regarding the investee's held-for-sale operations, please see the Section entitled "Main Changes in the Reporting Year" and Note 36F.

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

Troubled Credit Risk

Following is the troubled credit risk after specific and collective provisions:

	December 31					
	2018			2017		
	Balance-sheet	Off balance-sheet	Total	Balance-sheet[b]	Off balance-sheet	Total
	In NIS millions					
Non-performing credit risk, net	**2,181**	**86**	**2,267**	2,949	100	3,049
Substandard credit risk, net	**297**	**45**	**342**	720	49	769
Credit risk under special supervision, net	**3,137**	**743**	**3,880**	2,585	876	3,461
Less troubled credit risk classified as held-for-sale assets[a]	**(293)**	**(4)**	**(297)**	-	-	-
Total	**5,322**	**870**	**6,192**	6,254	1,025	7,279

	December 31	
	2018	2017[b]
	In NIS millions	
Troubled credit risk - commercial	**6,168**	6,932
Troubled credit risk - retail	**1,889**	1,697
Less troubled credit risk classified as held-for-sale assets[a]	**(372)**	-
Total	**7,685**	8,629
Balance of loan loss provision	**1,568**	1,350
Less outstanding loan loss provision of balances classified as held-for-sale assets[a]	**(75)**	-
Troubled debt risk after loan loss provision	**6,192**	7,279

(a) For more information regarding the investee's held-for-sale operations, please see the Section entitled "Main Changes in the Reporting Year" and Note 36F.

(b) Reclassified. For more information, please see Note 13.

For more information regarding troubled debt, please see the Section entitled "Credit Risks" and Note 30.

Reclassification of credit risk in respect of loans to individuals (excluding housing loans) and loans granted to small businesses

It should be noted that following the assimilation of a designated system for handling troubled debt, a new module was developed during 2018 to improve automated identification of restructured debt in lieu of adequate or troubled 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 December 31 2017, the outstanding balances of loans to individuals (excluding housing loans) and loans to small businesses were reclassified from non-troubled debt to troubled debt. A total of NIS 282 million was reclassified in respect of loans to private individuals, gross (excluding housing loans) and for gross loans to small businesses - NIS 273 million.

The total reclassified amount in respect of gross non-performing loans for loans to private individuals was NIS 265 million as at December 31 2017 (NIS 205 million was reclassified from non-troubled debt and NIS 60 million was reclassified from unimpaired troubled debts). The total reclassified amount in respect of gross non-performing loans for loans to small businesses was NIS 317 million as at December 31 2017 (NIS 209 million was reclassified from non-troubled debt and NIS 108 million was reclassified from unimpaired troubled debts). Please see also Note 13.

It should also 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 year is immaterial.

Securities

Policy for management of investments in securities (own portfolio)

The Group's policy for management of investment in securities (own portfolio) is set out in the Group's annual and multi-year work plan. The policy defines the approved risk appetite for achieving the Group's business targets. The risk appetite includes principles and quantitative limits for the losses which the Group is willing to absorb under scenarios representing different risk levels. The main limits pertain to investment amounts, risk levels (credit rating, average duration, interest, etc.), exposure to the issuing entity, exposure to investment manager/fund manager, geographical exposure, etc. All investments are made using a list of approved investment instruments.

Management of the Group's own portfolios is carried at the Bank and Group level, since the Bank's own portfolio play a crucial role in the management of liquidity and market risks.

Therefore, the Group prefers investments with a partial/low correlation with other activities of the Bank and the Group. Accordingly, the Group takes into account the inherent advantage of its own investments in foreign securities, which contribute to diversifying the risk arising from investment in Israel.

Risk diversification in the Group's own portfolios is multilevel: by diversification of geographic regions, sectors of the economy, issuing entities, investment managers, investment instruments, etc.

Investments are carried out with a view to obtain on risk-adjusted profitability taking into account the adequate capital requirements.

Avoiding tail risks (leading to significant losses) plays a significant role in the Group's investment management decisions.

The Bank's own activity focuses mainly on key markets, which operate in a developed and effective regulatory environment.

The decision to approve the Bank's use of an investment instrument takes into account various aspects, such as transparency and accessibility to an independent and reliable source for revaluation/pricing of instruments and minimizing the complexity and the operating and legal risks.

As at December 31 2018, the Group's investments in securities amounted to NIS 74.6 billion, compared to NIS 77.3 billion as at the end of 2017, a 3.5 percent decrease.

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

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

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

Fair value calculation method

The fair value of Israeli securities is based mainly on quoted prices on the Tel Aviv Stock Exchange; the fair value of foreign securities is based on prices received from external sources. Non-tradable Israeli bonds denominated in NIS are revalued using a fair value model, since these bonds do not have an active market.

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

	December 31							
	2018				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	**2,334**	**30,573**	**5,677**	**38,584**	35	36,633	3,204	39,872
Of foreign governments[(c)]	**-**	**5,904**	**52**	**5,956**	-	10,755	82	10,837
Of Israeli financial institutions	**-**	**-**	**119**	**119**	-	11	90	101
Of foreign financial institutions[(d)]	**-**	**9,707**	**132**	**9,839**	-	9,653	142	9,795
Asset-backed (ABS) or mortgage-backed (MBS)	**1,596**	**9,433**	**271**	**11,300**	353	8,529	268	9,150
Of other Israeli entities	**-**	**242**	**290**	**532**	-	70	111	181
Of other foreign entities	**946**	**3,517**	**220**	**4,683**	478	2,352	299	3,129
Shares and mutual funds	**-**	**3,556**	**2**	**3,558**	-	2,927	1,307	4,234
Total securities[(e)]	**4,876**	**62,932**	**6,763**	**74,571**	866	70,930	5,503	77,299

(a) Including unrealized losses from fair value adjustments in the amount of NIS (494) million recorded in other comprehensive income (December 31 2017 - NIS 146 million).

(b) Including unrealized losses from fair value adjustments in the amount of NIS (24) million recorded in profit and loss (December 31 2017 - gains of NIS 9 million).

(c) Of which: The US government - NIS 2,362 million (December 31 2017 – NIS 7,623 million).

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

(e) For more information regarding the investee's held-for-sale operations, please see the Section entitled "Main Changes in the Reporting Year" and Note 36F.

As at December 31 2018, approximately 84.4 percent of the Group's own portfolio was classified as available-for-sale and 9.1 percent - as held-for-trading and 6.5 percent as held-to-maturity. Approximately 4.8 percent of the securities' value are investments in corporate shares that are not equity-accounted, but rather stated at cost or according to the share price.

For more information regarding the value of securities by type of measurement, please see Note 33A.

Available-for-sale portfolio

1. In 2018, other comprehensive income in respect of available-for-sale securities decreased by NIS 620 million (before tax), compared with a NIS 259 million increase (before tax) in 2017.

2. Net losses on the sale of available-for-sale bonds - amounting to NIS 10 million, compared with net gains of NIS 115 million in 2017, and net gains of NIS 155 million on sale of available-for-sale shares compared with NIS 61 million in 2017.

The net accumulated balance of fair value adjustments of available-for-sale securities as at December 31 2018 totaled a negative NIS 333 million (after tax) compared with a positive 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 recognized in equity, please see Note 12.

Held-for-trading portfolio

As at December 31 2018, the held-for-trading portfolio has NIS 6.8 billion in bonds, compared with NIS 4.2 billion as at December 31 2017. As at December 31 2018, the held-for-trading portfolio constitutes 9.1 percent of the Group's total own portfolio, compared with 7.1 percent as at December 31 2017.

Realized and unrealized losses totaling NIS 25 million were recorded in the income statement in respect of tradable bonds, compared to losses of NIS 74 million in 2017; realized and unrealized gains totaling NIS 85 million were recorded in respect of shares and funds, compared with gains of NIS 29 million in 2017.

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

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 11.3 billion (about $3.0 billion) as at December 31 2018, compared to NIS 9.2 billion as at the end of 2017. Out of the above portfolio, as at December 31 2018, NIS 9.4 billion (about $2.5 billion) was classified to the available-for-sale portfolio and the remainder - to the held-for-trading and held-to-maturity portfolios.

As of December 31 2018, the available-for-sale foreign asset-backed securities, including investment in mortgage-backed bonds, totaled NIS 7.2 billion. 97 percent of all mortgage-backed bonds 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 December 31 2018, the aggregate net impairment carried to equity from the mortgage-backed bonds portfolio totaled app. NIS 140 million.

Total mortgage-backed bonds that are neither government-backed (USA) nor backed by US federal institutions total NIS 473 million.

The weighted average maturity for the entire mortgage-backed bond portfolio is 3.8 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 2.2 billion, of which CLO bonds account for NIS 1.5 billion. The weighted average maturity for the entire non-mortgage asset-backed bond portfolio is 5.1 years.

For more information on investment in asset-backed bonds, please see Note 12.

b. Investment in foreign non-asset-backed securities

As of December 31 2018, the Group's securities portfolio includes NIS 26.3 billion ($7.0 billion) in foreign non-asset-backed securities. Out of the above portfolio, NIS 24.2 billion (about $6.5 billion) is classified to the available-for-sale portfolio and the remainder - to the available-for-trade and held-to-maturity portfolios. 98.7 percent 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 Risks".

As of December 31 2018, the aggregate decrease in the value of Common Equity in respect of securities which are not backed by assets issued abroad within the available-for sale portfolio amounted to NIS 94 million (NIS 62 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. 87.4 percent of the securities in the held-for-trading portfolio are investment-grade.

As at December 31 2018, the value of the non-asset-backed held-for-trading portfolio was NIS 0.4 billion ($0.1 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 December 31 2018, investments in bonds issued in Israel amounted to NIS 36.3 billion, of which NIS 35.6 billion was in shekel-denominated bonds issued by the Israeli government and the remainder - corporate bonds. 37.2 percent 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 3 million.

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

Investments in shares and funds

As at December 31 2018, investments in shares and funds totaled NIS 3,558 million, of which NIS 2,479 million was tradable and NIS 1,079 million - non-tradable. Of the total investment, NIS 3,556 million is classified to the available-for-sale portfolio and NIS 2 million - to the held-for-trading portfolio.

As at December 31 2018, the capital required in respect of these investments is NIS 489 million.

For more information, please see Note 12.

Investment in shares – objectives and risk management policy

The investment policy

The Bank has defined the Group’s investment policy, including restrictions both on the overall investment amount and the amount per company, the investment mix and the different risk levels for various types of non-financial investments.

Investment objectives:

- Excess return compared with financial investment of the own portfolio.
- Maximizing investments’ value and achieving better investment terms by leveraging Leumi Group’s reputation.
- Increasing the risk diversification and diversifying the Group's revenue sources.
- Moderating the volatility of the Group’s own portfolio (time differences).

The portfolio is divided into 3 sub-groups:

- Long-term strategic investments.
- Medium-term investments.
- Investment in growing companies (start-up companies).

For more information regarding pledging of securities, please see Note 27.

Deposits by the public

As at the end of 2018, the public’s deposits with the Group amounted to NIS 364.6 billion, compared to NIS 362.5 billion at the end of 2017, a 0.6 percent increase.

The change in the shekel exchange rates against all foreign currencies increased the public’s total deposits by 1.2 percent, so that net of the exchange rate differentials, the public's deposits would have decreased by 0.6 percent.

Set forth below is the mix of public’s deposits by type and linkage basis:

	December 31			
	2018	2017	Change	
	In NIS millions			In %
NIS:				
Unlinked	**229,114**	234,431	(5,317)	(2.3)
CPI-linked	**16,696**	18,955	(2,259)	(11.9)
Foreign currency:				
Including foreign currency-linked	**118,449**	108,589	9,860	9.1
Non-monetary	**403**	503	(100)	(19.9)
Less balances classified as held-for-sale liabilities	**(71)**	-	(71)	-
Total	**364,591**	362,478	2,113	0.6

Set forth below are the developments in the different classes of deposits

- Deposits by the public in unlinked shekels declined by NIS 5.3 billion, compared with December 31 2017, mainly in fixed deposits.

- Deposits by the public denominated in, and linked to, foreign currency grew by NIS 9.9 billion, a 9.1 percent increase compared to December 31 2017.

- CPI-linked deposits by the public declined by NIS 2.3 billion, compared with December 31 2017, mainly in fixed deposits.

Customers' Off-Balance-Sheet Monetary Assets

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

	December 31		Change	
	2018	2017		
	In NIS millions			In %
Securities portfolios[a]	**665,268**	692,085	(26,817)	(3.9)
Assets for which operating services are provided:[a][b][c]				
Mutual funds	**47,536**	51,425	(3,889)	(7.6)
Provident and pension funds	**146,187**	118,564	27,623	23.3
Study funds	**113,864**	112,356	1,508	1.3

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

Deposits from Governments

Deposits by governments amounted to app. NIS 709 million as at the end of 2018, a NIS 257 increase compared with 2017.

This item includes deposits by foreign governments with foreign offices, amounting to app. NIS 502 million at the end of 2018 compared with NIS 305 million at the end of 2017.

Deposits with Banks and by Banks

A. Deposits with banks (central and commercial)

	December 31			
	2018		2017	
	With central banks	With commercial banks	With central banks	With commercial banks
	In NIS millions			
NIS:				
Unlinked	**63,647**	**2,008**	66,406	2,179
CPI-linked	-	-	-	-
Foreign currency including foreign currency-linked	**2,047**	**11,240**	3,219	6,806
Less balances classified as held-for-sale assets	-	**(35)**	-	-
Total deposits with banks	**65,694**	**13,213**	69,625	8,985

Total deposits with banks increased by 0.4%.

B. Deposits by banks (central and commercial)

	December 31			
	2018		2017	
	By central banks	By commercial banks	By central banks	By commercial banks
	In NIS millions			
NIS:				
Unlinked	**-**	**2,970**	-	1,398
CPI-linked	**-**	**-**	-	10
Foreign currency including foreign currency-linked	**-**	**3,390**	41	3,707
Less balances classified as held-for-sale liabilities	**-**	**(1,150)**	-	-
Total deposits by banks	**-**	**5,210**	41	5,115

According to the law, the Bank of Israel may extend loans to the banking corporations against collaterals. The Bank uses its deposits with the Bank of Israel and its pledged securities portfolio as collaterals for the abovementioned loans.

On December 31 2018 the Group's deposits with the Bank of Israel totaled NIS 64 billion; the Bank of Israel did not extend any loans to the Bank against those deposits.

As evident from these tables, the Group's level of liquidity is very high, and the Group has net deposits with banks amounting to NIS 73.7 billion.

Bonds, Capital Notes and Subordinated Bonds

	December 31			
	2018	2017	Change	
	In NIS millions		In NIS millions	In %
Bonds and capital notes	**8,949**	6,497	2,452	37.7
Subordinated bonds	**10,118**	9,080	1,038	11.4
Less balances classified as held-for-sale liabilities	**(1,269)**	-	(1,269)	-
Total	**17,798**	15,577	2,221	14.3

Shelf prospectus and bond issue

On May 25 2018, the Bank published a shelf prospectus in accordance with a permit granted by the Israel Securities Authority.

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

According to a shelf prospectus dated January 30 2019, the Bank issued, on January 31 2019, a total of NIS 1.69 billion in Bonds Series 180. The bonds are repayable in two equal installments on February 28 2023 and February 28 2025 and carry an annual interest rate of 2.02 percent, payable annually on February 28 of each year from 2020 to 2025 (inclusive).

The Series 179 and Series 180 bonds are not recognized for regulatory capital purposes.

According to a shelf prospectus dated July 5 2018, the Bank issued, on July 8 2018, a total of NIS 613.8 million in subordinated bonds Series 401 and a total of NIS 209.1 million in subordinated bonds Series 402.

The Subordinated Bonds Series 401 are repayable by a lump sum on July 31 2028 with an early repayment option for the issuer, not before July 31 2023 and no later than August 31 2023. The subordinated bonds are linked to the Consumer Price Index and carry a fixed annual interest rate of 1.64 percent until the July 31 2023. At that date, if the Bank does not exercise its early repayment option, the bond's nominal interest rate shall be revised according to the difference between the benchmark interest rate (as defined by the shelf offering report) at the issue date and the interest rate at the interest revision date.

The Subordinated Bonds Series 402 are repayable by a lump sum on July 31 2033, with an early repayment option for the issuer, not before July 31 2024 and no later than August 31 2028. The subordinated bonds are linked to the Consumer Price Index and carry a fixed annual interest rate of 2.78 percent until the July 31 2028. At that date, if the Bank does not exercise its early repayment option, the bond's nominal interest rate shall be revised according to the difference between the benchmark interest rate (as defined by the shelf offering report) at the issue date and the interest rate at 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 minimum rate (NIS 10.9025 per share, subject to adjustments), the highest of the two.

According to a shelf prospectus dated January 30 2019, the Bank issued, on January 31 2019, a total of NIS 664.2 million in Subordinated Bonds Series 403. The Subordinated Bonds Series 403 are repayable by a lump sum on February 28 2030, with an early repayment option for the issuer, not before January 31 2025 and no later than February 28 2025. The subordinated bonds are linked to the Consumer Price Index and carry a fixed annual interest rate of 2.42 percent until the February 28 2025. At that date, if the Bank does not exercise its early repayment option, the bond's nominal interest rate shall be revised according to the difference between the benchmark interest rate (as defined by the shelf offering report) at the issue date and the interest rate at 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 minimum rate (NIS 11.53 per share, subject to adjustments), the highest of the two.

These subordinated bonds (Series 401, 402 and 403) are eligible for inclusion in Tier 2 as of the issue date.

Early redemption of subordinated capital notes

On February 10 2019, the Bank's Board of Directors decided to redeem in April-May 2019, by full early redemption, NIS 1 billion par value in (non-tradable) subordinated capital notes linked to the Consumer Price Index issued in 2009. The estimated redemption amount of the subordinated bonds is NIS 1.2 billion. The full early redemption shall be made in accordance with the Bank's right to exercise full early redemption under the capital notes' terms.

Capital and Capital Adequacy

Equity attributable to the Bank's shareholders totaled NIS 35,305 million on December 31 2018 compared with NIS 33,167 million as at the end of 2017, a 6.4 percent increase. The increase stems mainly from the net income for the period and from other comprehensive income on the back of a decrease in the negative adjustments in respect of an increase the capitalization interest rate, which was partially offset by a decrease in capital reserve om respect of available-for-sale securities. The increase was partially offset by a dividend distribution made during the period and the Bank's share 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 Banking Supervision Department's Proper Conduct of Banking Business Directive No. 202.

The capital to balance sheet ratio reached 7.7 percent as at December 31 2018, compared with 7.4 percent as at December 31 2017.

Capital Adequacy Structure[a]

	December 31	
	2018	2017
	In NIS millions	
Capital base for capital ratio purposes		
CET1 capital, after regulatory capital deductions and adjustments	**35,190**	34,653
Tier 2 capital, after deductions	**11,033**	10,811
Total capital	**46,223**	45,464
Balance of risk-weighted assets[b]		
Credit risk	**288,837**	277,344
Market risks	**6,295**	4,464
Operational risk	**22,713**	21,484
Total balance of risk-weighted assets	**317,845**	303,292
Capital-to-risk weighted assets ratio (CRAR)		
Ratio of CET1 capital to risk-weighted components	**11.07%**	11.43%
Ratio of total capital to risk-weighted components	**14.54%**	14.99%
Minimum CET 1 capital set by the Banking Supervision Department	**10.25%**	10.25%
Minimum total capital ratio set by the Banking Supervision Department	**13.75%**	13.75%

(a) For more information regarding the capital adequacy structure, please see Note 25B to the financial statements.
(b) For more information regarding the investee's held-for-sale operations, please see the Section entitled "Main Changes in the Reporting Year" and Note 36F.

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 (hereinafter in this section - the "Directives"). 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' 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 used to calculate 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.

As at December 31 2013, capital instruments included in Tier 2 capital are subject to transitional provisions and a recognition ceiling, as prescribed by the Directives, 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 percent until January 1 2022. The recognition ceiling for 2018 was 40 percent.

From the beginning of 2014, capital instruments must comply with the criteria set forth in Proper Conduct of Banking Business Directive No. 202 in order 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 percent; (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 more information regarding subordinated bonds issued by the Bank in 2018 which are eligible for inclusion in Tier 2 capital, please see the Section entitled "Bonds, Capital Notes and Subordinated Bonds".

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.

Capital Adequacy

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 percent 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 percent and a total capital ratio of at least 13.5 percent, 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, a banking corporation is required to increase its Common Equity Tier 1 capital target and total capital target by a rate which reflects 1 percent of the outstanding balance of its housing loans. The effect of this requirement on the capital ratio in the reporting period is 0.25 percent.

As a result, the minimum capital requirements applicable to the Bank as of December 31 2018 are 10.25 percent for the Common Equity Tier 1 capital ratio and 13.75 percent 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. The capital plan 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 subject 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 has set capital targets 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 percent, 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 "Accounting Policies and Estimates on Critical Issues".

Relief for operational efficiency plans

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

In June 2016, the Bank’s Board of Directors approved an efficiency plan, for a total cost of NIS 438 million (after tax). As of December 31 2018, 50 percent of the plan’s costs are attributable to regulatory capital.

In June 2017, the Banking Supervision Department published an additional circular entitled "Increasing Operational Efficiency of the Banking System in Israel - Increasing Efficiency in Real Estate." The circular extended the relief in respect of increasing manpower efficiency to the end of June 2018.

In July 2017, the Bank’s Board of Directors approved an additional efficiency plan, for a total cost of NIS 204 million (after tax). As of December 31 2018, 30 percent of the plan’s costs are attributable to regulatory capital.

In September 2018, the Banking Supervision Department published a letter regarding the extension of the validity of the two letters by 18 additional months, until December 31 2019, in an effort to allow for additional efficiency plans.

Regulatory and other changes in measuring the capital 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 market risk measurement. 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.

Revision of Proper Conduct of Banking Business Directive No. 203, "Measurement and Capital Adequacy - The Standardized Approach - Credit Risk"

On March 15 2018, the Bank of Israel published an amendment to Proper Banking Management Directive No. 203, pursuant to which mortgages with a financing ratio of 60 percent to 75 percent will be risk-weighted by 60 percent only, instead of 75 percent.

Revision of Proper Conduct of Banking Business Directive No. 203, "Measurement and Capital Adequacy - Credit Risk - The Standardized Approach" and Proper Conduct of Banking Business No. 313, "Limitations on Indebtedness of a Borrower and a Group of Borrowers"

On November 13 2018, the Bank of Israel published a circular revising Proper Conduct of Banking Business Directives Nos. 203 and 313. According to the circular, the conversion coefficient for loans on collateral for guaranteeing investments of apartment buyers granted pursuant to the Sale Law (Apartments), 1974, shall be 30 percent in lieu of 50 percent if the apartment has yet to be delivered to the buyer. The application of the circular resulted in a 0.1 percent improvement in the CET1 capital ratio.

Circulars on amendment of Proper Conduct of Banking Business Directives following the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (the "Strum Law")

In July 2018, the Bank of Israel published circulars on amendment of Proper Conduct of Banking Business Directives, with the objective of granting the credit companies relief immediately 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, even after their split from the banking corporation under the Strum Law. I.e., the credit card company's risk weight will be inferior by one rank from the weight of the risk derived from the State of Israel's rating. In addition, a debt whose original maturity is up to three months will be weighted at a risk weight of 20 percent.

Circular of Revision of Proper Conduct of Banking Business Directive No. 332, Buybacks by Banking Corporations

On February 28 2019, the Bank of Israel published a circular of Banking Business Directive No. 332, Buybacks by Banking Corporations. The revision revokes the prohibition on performing buybacks and allows banking corporations to purchase their own stock subject to certain terms and conditions. The circular also revises the restrictions imposed on granting loans guaranteed by securities issued by the banking corporation.

Sale of 15 percent of BLC

On May 22 2018, the deal for incorporating strategic partners into BLUSA was completed. Under the terms and conditions of the agreement, each of the partners acquired 7.5 percent of the share capital of Bank Leumi Corporation, an American corporation through which the Bank holds a controlling interest in 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's share in the capital was stated directly in capital.

For more information, please see the Section entitled "Major Investees" - "Bank Leumi USA" and Note 36.

Sale of Leumi Card Ltd.

According to the provisions of the Law on Minimizing Market Centralization and Promoting Economic Competition (Legislative Amendments), 2017, the Bank has sold its holdings in Leumi Card Ltd.

For more information regarding the said sale agreement, please see the Section entitled "Major Investees" - "Leumi Card".

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 318 billion at the end of December 2018. Every 1% increase in risk-weighted assets (about NIS 3.2 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 35.2 billion at December 31 2018. Total capital amounts to NIS 46.2 billion. Accrual of net income and/or positive change in the capital reserve of each NIS 1 billion will improve the Common Equity Tier 1 capital ratio and the total capital ratio by 0.31 percent.
- 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 percent across the discount rate curve, under the assumption that the curve rises and falls uniformly, signifies a cumulative effect of 0.06 percent on the Common Equity Tier 1 capital ratio and total capital ratio. Of which, according to a moving average calculation for eight quarters, an effect of 0.01 percent in the Common Equity Tier 1 Capital ratio and the total capital ratio for the current quarter.

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

Dividend distribution policy

On November 20 2017, the Bank's Board of Directors approved a dividend distribution policy, under which the Bank will distribute, each quarter, a dividend of up to 40 percent of the Bank's net income in accordance with the Bank's financial statements for the previous quarter, subject to, inter alia, the Bank's meeting its capital adequacy targets, even after the dividend distribution.

On March 6 2019, 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 50 percent 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.

On March 6 2019, the Board of Directors approved, in respect of Q4 2018, a dividend consisting of 40 percent of the quarter’s net income. The dividend approved amounted to NIS 275 million, which is 18.401 agorot per share of NIS 1 par value. The final per-share dividend amount is subject to changes following the Bank’s share issue after the vesting of the PSUs, and subject to meeting the conditions of the PSUs. If the said PSUs vest, the dividend per NIS 1 share will be 18.395 agorot. The Board of Directors has set March 26 2019 as the record date for dividend payment and April 3 2019 as the payment date.

For more information about the vesting of the PSUs, please see Note 25A.

Details about 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	342
May 24 2018	June 19 2018	19.18	292
August 14 2018	September 6 2018	23.96	361
November 12 2018	December 10 2018	25.08[1]	375

The Bank's share buyback plan

During 2018, the Bank implemented a share buyback program in the amount of NIS 700 million, by way of the safe harbor protection mechanism published by the Israel Securities Authority (Legal Position No. 199-8). The buyback was carried out in two stages. In the first phase, according to the said program - which began on May 27 2018 and ended on August 2 2018 - 13,667,294 shares totaling approximately NIS 303 million were bought through an external member of the Tel Aviv Stock Exchange. In the second phase, which began on August 15 2018, an additional NIS 397 million were remitted to the external member of the Stock Exchange to continue the share buyback program's execution. On November 22 2018, the share buyback program ended, after a total of 30,412,578 shares for approximately NIS 700 million were purchased through the external Stock Exchange member.

Leverage ratio

Leverage ratio is expressed as a percentage and defined as measured regulatory capital divided by the measured exposure. The regulatory capital for the purpose of leverage ratio measurement is Tier 1 capital, as defined in Proper Conduct of Banking Business Directive No. 202, taking into account the transitional arrangements. A banking corporation's exposure is the sum of the balance sheet exposures, exposure to derivatives, exposure to securities financing transactions and off-balance sheet items. The leverage ratio complements the capital ratio and constitutes yet another constraint on the banking sector's leverage level.

The leverage ratio may be affected by changes in the Bank's regulatory capital. When calculating the leverage ratio, the following were taken into account, inter alia: the effect of the implementation of the efficiency plan and adjustments in respect of the application 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.

	December 31	
	2018	2017
	In NIS millions	
Consolidated data		
Tier 1 capital	**35,190**	34,653
Total exposures	**499,289**	499,026
Leverage ratio		
Leverage ratio	**7.05%**	6.94%
Minimum total capital ratio set by the Banking Supervision Department	**6.00%**	6.00%

For more information on capital adequacy and leverage, please see Note 25B to the financial statements.

[1] Further to the supplementary report dated November 25 2018.

Operating Segments - Management Approach

An operating Segment is a component of the banking corporation engaged in activities from which it may generate income and bear expenses. The operating results of the operating segment are reviewed on an ongoing basis by Bank's management and Board of Directors in order to make decisions regarding the allocation of resources and the assessment of its performances. Furthermore, separate financial data is available in respect of operating segments.

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.

The Bank's activities in Israel are organized into six business lines:

1. Banking – provision of banking services to private customers and small businesses. This business line includes the mortgage activities and the Private Banking activities. This line of business comprises four business lines: Small Businesses, Private Banking, Premium Banking and Retail Banking. The services and products are adapted to all the customer segments according to the nature of their banking activity, their characteristics and their needs.
2. Commercial - providing banking and financial services to middle-market companies and interested parties in these companies.
3. Corporate banking - providing banking and financial services to large Israeli corporations and international corporations, supporting their domestic and foreign activities.
4. Real estate – providing banking and financial services to the construction and real estate sector.
5. Capital markets – management of the Bank's own portfolio, management of assets and liabilities and management of investments in financial assets.
6. Other – activities not attributed to the other business lines.

Results of operations are attributed to the line of business in charge of the customer's account.

- Net interest income – interest on loans extended by the business line is credited to the business line, net of the cost of raising the loans (transfer price). Furthermore, the business line is credited with a transfer price in respect of deposits raised net of interest paid to customers.
- Noninterest income (financing income that do not arise from interest, fees and commissions and other income) – are attributed to the business lines according to the customer's activity.
- Business line expenses – include the direct expenses of business lines; expenses of corporate units providing services to those business lines are also charged to the business lines.

The results of business lines' activities, both in terms of their balance sheets and in terms of their income statements, are regularly reviewed by the Board of Directors and management. The results are compared to objectives set in an annual work plan and to the corresponding period in the previous year. Furthermore, the Bank measures a range of other metrics relating to the business lines' activities.

Set forth below are the condensed results of operations according to management's approach.

	For the year ended December 31 2018											
	In NIS millions											
	Bank									Subsidiaries in Israel	Foreign subsidiaries	
	Retail, premium and private banking	Small businesses	Mortgages	Banking - total	Commercial	Business	Real estate	Capital markets	Other and adjustments			Total
Interest income, net:												
Interest income (expenses) from external	1,012	1,335	2,441	4,788	1,039	827	748	(37)	6	390	1,115	8,876
Interest income (expenses) intersegmental	1,043	9	(1,529)	(477)	122	(243)	(207)	862	(3)	(4)	(36)	14
Interest income, net	2,055	1,344	912	4,311	1,161	584	541	825	3	386	1,079	8,890
Noninterest income	1,322	487	3	1,812	408	217	315	492	147	1,180	300	4,871
Total income	3,377	1,831	915	6,123	1,569	801	856	1,317	150	1,566	1,379	13,761
Expenses (income) in respect of loan losses	213	270	30	513	28	(70)	(170)	23	(10)	113	92	519
Total operating and other expenses	2,733	1,099	274	4,106	713	276	132	363	958	896	893	8,337
Profit (loss) before tax	431	462	611	1,504	828	595	894	931	(798)	557	394	4,905
Tax expenses (income)	161	172	227	560	308	221	332	300	(351)	158	91	1,619
Net income (loss) attributable to the Bank's shareholders	270	290	384	944	520	374	562	637	(447)	383	284	3,257
Balance as at December 31 2018												
Loans to the public, net	29,594	26,478	81,524	137,596	38,490	33,533	24,462	5,251	5,860	560[a]	25,421	271,173
Deposits by the public	158,593	38,046	-	196,639	49,671	19,592	6,597	65,910	274	-[b]	25,908	364,591
Assets under management	167,486	18,354	-	185,840	22,137	19,122	1,008	421,022	21,085	285,016	17,625	972,855

(a) Excluding balances classified as held for sale assets in the amount of NIS 8,210 million.
(b) Excluding balances classified as held for sale liabilities in the amount of NIS 71 million.

	For the year ended December 31 2017											
	In NIS millions											
	Bank									Subsi-diaries in Israel	Forei-gn subsi-diaries	
	Retail, premium and private banking	Small busi-nesses	Mort-gages	Banking - total	Com-mercial	Busi-ness	Real estate	Capital markets	Other and adjust-ments			Total
Interest income, net:												
Interest income (expenses) from external	1,040	1,337	2,060	4,437	1,043	854	610	(191)	5	281	992	8,031
Interest income (expenses) intersegmental	883	(29)	(1,217)	(363)	(29)	(273)	(149)	859	(5)	(2)	(23)	15
Interest income, net	1,923	1,308	843	4,074	1,014	581	461	668	-	279	969	8,046
Noninterest income	1,278	477	11	1,766	398	224	324	869	357	1,113	291	5,342
Total income	3,201	1,785	854	5,840	1,412	805	785	1,537	357	1,392	1,260	13,388
Expenses (income) in respect of loan losses	179	273	13	465	26	(72)	(316)	(35)	(27)	77	54	172
Total operating and other expenses	2,915	1,037	290	4,242	711	275	130	348	921	953	835	8,415
Profit (loss) before tax	107	475	551	1,133	675	602	971	1,224	(537)	362	371	4,801
Tax expenses (income)	41	186	212	439	265	236	381	353	(224)	89	153	1,692
Net income (loss) attributable to the Bank's shareholders	66	289	339	694	410	366	590	874	(313)	333	218	3,172

Balance 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

Regulatory operating segments

Regulatory operating segment – a component of the banking corporation engaged in certain activities or which pools certain customer classes defined by the Banking Supervision Department.

Set forth below is a description of the main operating segments set pursuant to the directives of the Bank of Israel

1. Households segment – private persons excluding Private Banking customers.
2. Private Banking segment – private persons with a financial portfolio with the Bank whose balance (including monetary deposits, securities portfolios and other financial assets) exceeds NIS 3 million.
3. Small and micro businesses segment – businesses with a turnover (annual sales turnover or amount of annual revenues) of less than NIS 50 million.
4. Mid-sized businesses segment – businesses whose turnover is equal to or higher than NIS 50 million and lower than NIS 250 million.
5. Corporate segment – businesses whose turnover is equal to or higher than NIS 250 million.
6. Institutional entities segment – including provident funds, mutual funds, pension funds, study funds, insurance companies, according to the definitions of the Banking Supervision Department.
7. Financial management segment – includes the following activities:
    a. Trading activities - investment in tradable securities, market-making activity involving securities and derivative instruments, activity in derivative instruments not designated as hedges and not used by the Bank in its Asset and Liability Management (ALM) activities, repurchase and lending transactions involving securities, short selling of securities, securities' underwriting services.
    b. Asset and Liability Management (ALM) activities - including investment in available-for-sale bonds and bonds held to maturity not allocated to other operating segments (when the borrower has no indebtedness to the Bank, other than securities), hedging derivatives and derivatives used in asset and liability management, deposits with and by domestic and foreign banks, foreign currency hedges in respect of investments in foreign offices, deposits with and by governments.
    c. Non-financial investment activity – investment in available-for-sale shares and investments in associate companies of businesses.
    d. Other – management, operating, trust and custodial services to banks, advisory services, sale and management of loan portfolios and development of financial products.
8. Other segment – including discontinued operations, profit from amounts funded for employee rights and other results related to employee rights which were not allocated to other operating segments, activities that were not allocated to the other segments and adjustments between the total amount of items allocated to segments and the total amount of items in the consolidated financial statements.

For more information, please see Note 29A.

Set forth below is a summary of activities by regulatory operating segments

	For the year ended December 31 2018									
	In NIS millions									
	Activity in Israel								Foreign operations	
	Households	Private banking	Small- and micro-businesses	Mid-sized businesses	Corporations	Institutionals	Financial management	Other		Total
Interest income, net	**2,744**	**117**	**2,160**	**785**	**1,330**	**166**	**507**	**1**	**1,080**	**8,890**
Noninterest income	**1,626**	**155**	**832**	**332**	**621**	**199**	**728**	**78**	**300**	**4,871**
Total income	**4,370**	**272**	**2,992**	**1,117**	**1,951**	**365**	**1,235**	**79**	**1,380**	**13,761**
Expenses (income) in respect of loan losses	**273**	**-**	**279**	**(150)**	**7**	**4**	**20**	**(6)**	**92**	**519**
Total operating and other expenses	**3,543**	**113**	**1,560**	**538**	**472**	**269**	**271**	**678**	**893**	**8,337**
Profit (loss) before tax	**554**	**159**	**1,153**	**729**	**1,472**	**92**	**944**	**(593)**	**395**	**4,905**
Tax expenses (income)	**161**	**59**	**422**	**271**	**537**	**34**	**264**	**(221)**	**92**	**1,619**
Net income (loss) attributable to the Bank's shareholders	**347**	**100**	**728**	**456**	**932**	**59**	**719**	**(368)**	**284**	**3,257**

Balance as at December 31 2018										
Loans to the public, gross[a]	**106,132**	**396**	**60,578**	**27,290**	**61,899**	**687**	**-**	**-**	**25,753**	**282,735**
Deposits from the public[b]	**108,874**	**26,128**	**54,329**	**38,867**	**49,553**	**61,003**	**-**	**-**	**25,908**	**364,662**
Assets under management	**68,044**	**43,916**	**42,951**	**23,801**	**68,113**	**666,146**	**42,260**	**-**	**17,624**	**972,855**

(a) Including outstanding balances classified as held-for-sale assets in the amount of NIS 8,210 million.
(b) Including balances classified as held for sale liabilities in the amount of NIS 71 million.

	For the year ended December 31 2017									
	In NIS millions									
	Activity in Israel								Foreign opera-tions	
	House-holds	Private banking	Small- and micro-busi-nesses	Mid-sized busi-nesses	Corpo-rations	Institu-tionals	Financial manage-ment	Other		Total
Interest income, net	2,490	84	2,029	679	1,183	91	521	-	969	8,046
Noninterest income	1,553	145	803	327	660	179	1,010	374	291	5,342
Total income	4,043	229	2,832	1,006	1,843	270	1,531	374	1,260	13,388
Expenses (income) in respect of loan losses	178	-	260	(14)	(295)	2	(13)	-	54	172
Total operating and other expenses	3,617	109	1,559	530	503	259	294	709	835	8,415
Profit (loss) before tax	248	120	1,013	490	1,635	9	1,250	(335)	371	4,801
Tax expenses (income)	65	47	392	193	633	4	330	(125)	153	1,692
Net income (loss) attributable to the Bank's shareholders	156	73	619	296	1,000	5	1,013	(208)	218	3,172
Balance as at December 31 2017										
Loans to the public, gross	103,733	387	60,276	25,042	56,133	2,087	-	-	23,507	271,165
Deposits by the public	105,202	24,908	47,319	35,077	54,177	70,496	-	-	25,299	362,478
Assets under management	73,044	44,493	41,167	25,561	76,054	655,592	39,236	1	19,282	974,430

Information by Geographic Region[(a)]

Main figures by geographic region

	Total balance sheet			Loans to the public, net			Deposits by the public		
	December 31			December 31			December 31		
	2018	2017	Change	**2018**[(b)]	2017	Change	**2018**[(b)]	2017	Change
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Israel	**425,877**	418,070	1.9	**253,792**	244,748	3.7	**338,754**	337,179	0.5
USA	**26,410**	24,378	8.3	**18,939**	17,267	9.7	**20,950**	19,895	5.3
UK	**7,263**	7,292	(0.4)	**5,793**	5,216	11.1	**4,322**	4,777	(9.5)
Switzerland	**23**	44	(47.7)	**-**	-	-	**-**	-	-
Luxembourg	**11**	12	(8.3)	**-**	-	-	**-**	-	-
Romania	**1,071**	1,038	3.2	**690**	721	(4.3)	**636**	627	1.4
Other foreign operations	**2**	4	(50.0)	**1**	-	-	**-**	-	-
Total	**460,657**	450,838	2.2	**279,215**	267,952	4.2	**364,662**	362,478	0.6

Following is a breakdown of the net income by geographic region

	Net income (loss)			
	For the year ended December 31			
	2018	2017	Change	
	In NIS millions		Total	In %
Israel	**2,874**	2,949	(75)	(2.5)
USA	**226**	147	79	53.7
UK	**131**	44	87	197.7
Switzerland	**-**	13	(13)	+
Luxembourg	**(5)**	-	(5)	+
Romania	**31**	17	14	82
Other foreign operations	**-**	2	(2)	(100.0)
Total	**3,257**	3,172	85	2.7

(a) Classified by office's location.
(b) Including outstanding balances classified as held-for-sale assets in the amount of NIS 8,042 million.
(c) Including balances classified as held for sale liabilities in the amount of NIS 71 million.
For more information, see the Sections "Major Investees", "Credit Risks" and Note 29A.D.

Major Investees[1]

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 corporations which do not engage in banking.

As of December 31 2018, the Bank's total investments in investee companies (including in capital notes) was NIS 11.8 million, compared with NIS 11.5 billion as of December 31 2017, with the investee companies contributing NIS 710 billion to the Group's net income for 2018, compared with NIS 528 million in 2017.

For information regarding the investment and contribution of each major Group company to the Group's profit – see Note 15.

Consolidated Companies in Israel

The Bank's total investments (including in capital notes) in its Israeli consolidated subsidiaries was NIS 7,535 million as of December 31 2018, compared with NIS 7,166 million as of December 31 2017. Their contribution to the Group's net income in 2018 was NIS 383 million, compared with NIS 333 million in 2017, a 15.0 percent increase. In 2018, the Group's return on investment in the Israeli consolidated subsidiaries was 6.1 percent compared with 5.6 percent in 2017.

Leumi Card

Leumi Card Ltd. (hereinafter - "Leumi Card" or the "Company") is a credit card company which issues credit cards, clears credit card transactions, operates credit cards and provides payment solutions and financial products.

In 2018, Leumi Card's income totaled NIS 1,335 million, compared with NIS 1,217 million in 2017.

During the reporting period, the Bank held, through wholly-owned corporations, 80 percent of Leumi Card, with the Azrieli Group holding 20 percent of the Company's shares.

According to the provisions of the Law on Minimizing Market Centralization and Promoting Economic Competition (Legislative Amendments), 2017, the Bank is required to sell its interest in the company by February 1 2020.

On February 25 2019, after the reporting period, the sale of Leumi Card was completed, as detailed below.

Sale of Leumi Card

On July 28 2018 - in accordance with the provisions of the said Law and after reviewing the various alternatives, and following a procedure for the disposal of the Bank's interests 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 "Buyer"), for the sale of the Bank's entire interests in Leumi Card. On February 25 2019, after the reporting period, the sale transaction was completed, after the conditions precedent had been filled (hereinafter - the "Completion Date" or "Transaction Completion Date").

Following are the main points of the agreement:

1. The consideration paid and payable to the Sellers for all of Leumi Card's shares is NIS 2.5 billion (with the Bank's share being NIS 2 billion).

2. The consideration was adjusted, inter alia, in respect of a dividend Leumi Card distributed to its shareholders by the transaction completion date, totaling an adjusted NIS 558 million in dividends.

3. The consideration amount has been paid and shall be paid to sellers in three installments (and will be divided between the Bank and the Azrieli Group pro rata). Two deferred payments, which shall be completed after the completion date, guaranteed by an autonomous guarantee by international insurance companies, which was delivered to the sellers at the completion date to guarantee the abovementioned payments.

   Following are the details of the payments to the sellers after the adjustments outlined in Section 2 above:

   - A total of NIS 517 million was paid on the transaction completion date.
   - A total of NIS 342 million shall be paid 12 months after the transaction completion date.
   - A total of NIS 1,111 million shall be paid 24 months after the transaction completion date.

[1]For a definition of investees, please see Note 1.B.

4. The agreement includes representations typical of company sale transactions, as well as an indemnification mechanism in respect of breach of representations. The reimbursement mechanism determines a 1.5 percent minimum for activating the mechanism and is restricted to a maximum total reimbursement rate of 10 percent of the transaction amount (excluding in respect of breach of material representations or in case of fraud).

5. According to the agreement, Leumi Card entered into a finance agreement with the Bank for some of its liquidity needs.

As part of the negotiations with the Acquirer, the Bank has agreed to include several terms and conditions added to the agreement signed between the Bank and Leumi Card on October 11 2018 (hereinafter: the "Operational Agreement"). In exchange to the Bank's agreement to include these terms and conditions, and subject to meeting the terms and conditions of the agreement, 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 debit card issuance and operation issuance agreement came into effect (hereinafter - the "Operation Agreement") - a additional 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.

For more information regarding the Operation Agreement, please see Note 26H.

For more information regarding the preparations for applying the Law for Minimizing Market Concentration and Promoting Economic Competition (Legislative Amendments), 2017, please see the 2017 Annual Report section entitled "Major Investees", "Leumi Card" and Note 26.

Regulation

During 2018, various provisions on debit cards were published, including regarding clearing dates of debit card transactions. In addition, on January 9 2019, the Payment Services Law, 2019 was published and will come into effect within one year of its publication.

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

Leumi Partners Ltd.

Leumi Partners serves as the Leumi Group's investment banking arm.

Leumi Partners ended 2018 with a NIS 174 million gain, mainly on the back of investments and income from fees and commissions, compared to a gain of NIS 180 million in 2017.

Shareholders' equity totaled NIS 1,832 million as at December 31 2018, compared with NIS 1,641 million as at the end of 2017.

As at December 31 2018, Mr. Yaron Bloch ended his tenure as Leumi Partners' CEO. He was replaced by Dr. Avi Ortal on February 1 2019.

Leumi Partners focuses on four main areas of activity:

1. Managing the Leumi Group's non-banking investment portfolio
   Leumi Partners (hereinafter - the "Company") initiates, identifies and executes direct and indirect investments in companies, projects and private equity funds.

   The Leumi Group's non-banking investment policy is in line with the Group's risk appetite and the restrictions of the Banking (Licensing) Law and therefore only includes minority interests (up to 20 percent for each means of control, with no controlling interest). The Company focuses on mid-term and long-term investments, according to its policy. The non-banking investment strategy dictates a preference for private companies and high probability of disposal.
   On March 31 2017, the Bank of Israel approved the request to gradually increase the Leumi Group's non-banking investments up to a total of NIS 3.5 billion.

   During 2018, the Company invested NIS 360 million in companies and extended mezzanine loans totaling NIS 78 million. It further committed to additional investments and loans for a total of NIS 143 million. The

Company's outstanding commitments for investment in private equity funds totaled NIS 475 million as of December 31 2018. The Company's balance of non-banking investments as of December 31 2018 is NIS 2.4 billion.

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 percent of the equity and voting rights. For the abovementioned transaction, the Bank recorded a pretax gain of NIS 121 million in its financial statements for the third quarter of 2018.

On December 17 2018, Leumi Partners Ltd. completed its agreement with Direct Insurance - Financial Investments Ltd. (hereinafter - "Financial Investments"), whereby Leumi Partners received - by way of a private placement - ordinary shares of Financial Investments of NIS 1 par value each, which constitute 7.31 percent of its issued and paid up share capital in exchange for Leumi Partners' entire stake in Financial Investments Ltd. of the Direct Insurance of the Direct Insurance Group (2006) Ltd., constituting 19.23 percent of the issued and paid up share capital of Direct Financing. The Bank recorded a pretax gain of NIS 96 million in respect of the sale of Direct Insurance's shares. For more information, please see the immediate report dated December 17 2018.

2. Underwriting, consulting and management of private and public offerings
The Company provides a wide range of underwriting and consulting services to companies and shareholder through Leumi Partners Underwriters Ltd.

In 2018, Leumi Partners Underwriters participated in several public offerings for a total of NIS 20.5 billion and led 13 public offerings for a total of NIS 5.4 billion.

3. Consulting for and management of M&As and capital raising
The services are provided to Israeli and foreign companies wishing to expand strategically through mergers and acquisitions or to investors or controlling shareholders wishing to sell or reduce their holdings.
The services offered in this field include: assistance in characterizing the client's strategic needs and objectives; characterizing the optimal investment or investor to meet them; identifying investment objectives or target investors globally; assisting in contacting the target company; assisting throughout the negotiation process; deal structuring so as to meet the client's objectives; and support in accessing financing resources for the transaction.

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

4. Conducting economic analyses and preparing valuations
Through its subsidiary Leumi Partners Research, the Company performs economic analyses and valuations mainly for the Leumi Group and for external economic entities.

Bank Leumi of Israel Trust Company Ltd.

On April 17 2018, the deal between the Bank and Hermetic for the sale of 75 percent of Hermetic Trust's shares was completed. The completed transaction did not 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 from the Israel Securities Authority to engage in investment portfolio management.

On October 8 2018, the Company commenced operations. The Company is a digital portfolio management company offering services to customers of all banks. In this framework, and pursuant to Proper Conduct of Banking Business Directives Nos. 367 and 462, the Company's customers will be given the option of signing an online power of appointment for portfolio management in favor of the Company, subject to the availability of the option in the banking corporation in which the customer's current account is being managed.

Foreign Consolidated Companies (offices)

The Bank's total investments (including in capital notes) in its foreign offices as at the end of 2018 was NIS 4,190 million, compared with NIS 4,143 million as of December 31 2017. In 2018, the foreign offices' contribution to the Group's shekel net income was NIS 322 million, compared with NIS 191 million in 2017.

The Bank has affiliates in the US, UK and Romania. The Bank also has a field office in China.

For more information regarding the affiliates' contribution to the Group's profit, please see Note 15.

Bank Leumi USA

Incorporated in 1968, Bank Leumi USA (BLUSA) has a commercial banking license from the State of New York and is a member of the Federal Deposit Insurance Corporation (FDIC).
BLUSA wholly owns LISI, a securities trading company which primarily serves BLUSA's customers.

BLUSA focuses on commercial banking, primarily extending loans to local middle-market companies, as well as private banking services to US- and foreign residents. Most of the commercial activity is in the following areas: real estate, high-tech, elderly care homes, nursing homes and commerce. BLUSA has five branches located in the states of New York, California, Florida and Illinois.

On January 22 2018, the Bank entered into two agreements to bring in strategic partners to Bank Leumi USA (BLUSA). Under the terms and conditions of the agreement, each of the partners acquired 7.5 percent 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 completed, 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's share in the capital was stated directly in capital. For more information, please see the immediate report dated May 22 2018.

BLUSA's net income in 2018 was $63 million, compared with $37 million in the same period last year, a 70.3 percent decrease.

The increase in net income stems mainly from an increase in net interest income on the back of the increase in the LIBOR spread and a decrease in tax expenses. Last year, the tax expenses included an increase in the tax provision following the tax reform in the US, which reduced the corporate tax rate in the United States from 35 percent to 21 percent beginning in the 2018 tax year.

Return on equity in 2018 was 8.11 percent compared with 7.38 percent in 2017.

BLUSA's total balance sheet in 2018 was $7,079 million, compared to a total of $7,026 million in 2017, a 0.8 percent increase.

Bank Leumi UK (BLUK)

Bank Leumi (UK) PLC Bank Leumi (UK) plc was founded in 1959 and continues the Group's activity in England which commenced in 1902. Leumi UK has full control over Leumi ABL Ltd., which is mainly engaged in accounts receivable factoring.

Bank Leumi UK is engaged in commercial banking. Its activity includes financing of real estate, global commerce and goods as well as extending credit to Israeli companies active in Europe and particularly in the UK. The real estate financing activities include funding of a range of activities in the UK and Western Europe, including investments and development of residential real estate projects and funding of commercial real estate projects (mainly hotels, elderly care homes and student dormitories). Funding is extended both to domestic customers and to foreign residents (mainly Israeli).

Bank Leumi UK is regulated by the Prudent Regulation Authority (PRA) and the Financial Conduct Authority (FCA), which are regulatory arms of the Bank of England.

BLUK's net income in 2018 was GBP 11 million, compared with GBP 12 million in the same period last year, a 8.3 percent decrease.

Return on equity in 2018 was 5.1 percent, compared with 6.3 during 2017.

BLUK's total balance sheet in 2018 was GBP 1,537 million, compared to a total of GBP 1,559 million in 2017, a 1.4 percent decrease.

Bank Leumi Romania (BLROM)

Bank Leumi Romania (BLROM) is a banking corporation in Romania, which was acquired in 2006. The bank has 14 branches and its financial activities include, inter alia, accepting deposits, granting loans, international trade and foreign currency. The commercial banking activity includes financing of real estate projects, extending loans to Israeli clients operating in Romania and to small and mid-sized local businesses.

On June 14 2018, Leumi signed an agreement with British investment fund Argo Capital Management Limited to sell its entire holdings in Bank Leumi Romania. One of the conditions precedent for the completion of the deal, pursuant to the agreement, is the acquirer obtaining a control permit from the National Bank of Romania. After the final date for obtaining the said control permit had passed, and since there was no forecast regarding the chances of obtaining such a permit by the acquirer and regarding the date on which it would be granted, the Bank notified the acquirer on February 19 2019 that the agreement has expired. At the same time, the Bank contemplated additional alternatives for the sale of Leumi Romania. On February 19 2019, the Bank gave an 8-week exclusivity period to an entity which submitted a non-binding offer for the acquisition of Leumi Romania. The exclusivity period was intended to allow that entity to conduct due diligence and enter into a binding agreement with the Bank. The revocation of the agreement in June 2018 is not expected to have a material effect on the Bank's financial results; neither is entering a new sale agreement, if signed and completed, expected to have a material effect on the Bank's financial results. For more information, please see the immediate reports dated June 14 2018 and February 20 2019.

BLROM's net income in 2018 was RON 15 million,[1] compared with RON 17 million in the same period last year, a 11.8 percent decrease.

Return on equity in 2018 was 8.02 percent compared with 9.60 percent in 2017.

BLROM's total balance sheet in 2018 was RON 1,185 million, compared with RON 1,183 million in 2017, a 0.2 percent decrease.

[1] 1 RON = $0.245 (as at the end of 2017 - $0.257).

Risk Exposure and Management Thereof

Risk Management at Leumi

The Bank’s business activity involves management of financial and non-financial risks. The key financial risks managed by the Bank are as follows: credit risks - which are integral to the Bank’s core business, as well as market and liquidity risks. In addition to financial risk, the Bank’s activity poses non-financial risks, the management of which is a necessary precondition to meeting the Group’s ongoing and long-term goals. These risks include operational risks, such as technological and cyber risks, legal risks, regulatory risks, compliance risks, reputation risks, conduct risks and strategic risk.

Leumi’s risk strategy management is 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. The risk management framework includes mechanisms for identifying and estimating risk, defining the corporate structure and areas of responsibility for managing risk as well as putting in place adequate control and reporting mechanisms.

The Bank continually upgrades its risk management infrastructure and analyzes the risk outlook, to enable informed decision-making.

Organizational Structure of Leumi Group’s risk Management Function

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

1. First line of defense – the managements of the business lines, including supportive functions such as IT, bear full responsibility for managing the risks embodied in the products, operations, processes and systems under their purview, and for implementing an adequate control environment over their activities, through processes of identification, measurement, monitoring, control, mitigation and reporting.

2. Second line of defense – The Risk Management Division is an independent function responsible for planning and developing a comprehensive risk management framework for the Bank. The Risk Management Division's main areas of responsibility conform to the requirements of the Proper Conduct of Banking Business Directive No. 310, including: responsibility for risk management at the Group and Bank levels; creating an up-to-date overall picture of each risk for decision-making purposes; leading the drafting of Leumi's risk policy for all major risks; assisting the Board of Directors in determining the Bank's risk appetite; and leading the process of evaluating the Internal Capital Adequacy Assessment Process (ICAAP), including its various components.

   The second line of defense involves additional functions, such as: The Bank's Chief Legal Counsel - who is responsible for the management of legal risk and compliance risk, and the Chief Accountant - who is responsible for financial reporting and SOX.

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

The Bank's Board of Directors is responsible, inter alia, for developing the overall risk strategy, including: the risk appetite; supervision of the Group’s risk management framework; approval of the corporate structure; approval of the risk management policy for each material risk; overseeing and challenging the risk levels to which the Group and the Bank are exposed, while ensuring compliance with the risk appetite and the provisions of the law and regulations.

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

Reporting to the Chief Risk Officer are the department managers of the following risk management units – Credit Risk Unit, Market Risk Unit, Operational Risk Unit, and Model Risk Unit, as well as the head of the special credit function. A chief risk officer is appointed for each Israeli and foreign subsidiary, reporting to the subsidiary's CEO and professionally (dotted line) to the Group's Chief Risk Officer.

Changes in the Risk Environment and their Effect on the Group

There were no significant changes in the various risk environments, risk or threat map, but the relative intensity of the various risks changed. The banking system in Israel and worldwide, including the Leumi Group, is highly affected by risks related to regulation and legislation, the volatile macroeconomic environment, and changes in the business model - including the transition to e-banking and new social and consumer trends.

The Internal Capital Adequacy Assessment Process (ICAAP)

The Capital Adequacy Assessment Process (ICAAP) is aimed at calculating the capital required to support the various risks to which the Group is exposed - both in the ordinary course of business and under stress scenarios. According to the process, the Bank is in possession of adequate capital and liquidity to handle all of the risks identified - both in the ordinary course of business and under extreme stress scenarios.
The products of the process are summarized in the ICAAP paper submitted to the Banking Supervision Department in January 2019.

For more information regarding risk exposure and assessment, please see the Annual Risk Management Report.

The Group's Risk Appetite

The Group's risk appetite outlines the boundaries for its business activity, both on an ongoing basis and under stress scenarios. The risk appetite is adjusted to Leumi's strategy and to the boundaries of its current and future business focal points. The risk appetite addresses Leumi's risk identification, measurement, control, management and mitigation practices, which have direct impact on the Group's residual risk profile. The risk appetite boundaries are re-examined each year and approved at the Board level as part of the ICAAP process. In January 2019, the Group's risk appetite was re-approved as part of the ICAAP paper.

The risk appetite paper constitutes a reference point for all risk-specific policy papers, which outline additional risk boundaries and risk management guidelines.

The Group's risk appetite statement covers the scope and types of aggregate risk the Bank is willing to take in order to achieve its business goals. Quantitative and qualitative measures were set, based on forward-looking assumptions which reflect the Group's aggregate risk appetite statements.

Using Stress Testing as Part of Risk Management

Using a uniform stress test is an accepted global practice. It is required under the Basel Committee rules and contributes to understanding the risks to which the banking system and a single bank is exposed to. The process strengthens the banking system's transparency, allows to examine the robustness of banking corporations under adverse market conditions and draw comparisons. The process supports methodology improvements and the understanding of the risk factors by banking corporations as well as by the Banking Supervision Department.

During the fourth quarter of 2018, Bank Leumi conducted a stress test based on the Bank of Israel's uniform stress test for 2018 (local stress test), which applied to 2019 through 2021.

The Leumi Group also implements a set of internal stress tests, updated on a regular basis, with the aim of assessing key risk focal points, taking into account various developments in the Bank's environment.

The impact of the most severe stress tests is also examined with respect to the Group's capital planning, in order to ensure the Group's compliance with all of the regulatory and internal restrictions set in respect of the realization of the various scenarios.

For more information regarding risk exposure and assessment, please see the Annual Risk Management Report.

Credit Risks

Credit provision is a core activity of the Bank and the Group, which is conducted in a decentralized manner by various business lines.

Credit risk is the Bank's risk of loss as a result of the possibility that a 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.

The Bank applies a comprehensive risk management policy in line with the requirements of Proper Conduct of Banking Business Directive No. 311, Credit Risk Management, and Proper Conduct of Banking Business Directive No. 314, Sound Credit Assessment and Valuation for Loans, 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 Bank's credit policy paper reflects the risk appetite in this area and is in line with the strategy.

A review of the exposure to credit risks and a snapshot of meeting restrictions is presented to Management and the Board of Directors at least once a quarter.

The Bank's credit policy is a key component of the Bank's credit management and is based on the Leumi Group's risk appetite in the credit domain. The Bank's credit policy is derived from the Group's credit policy, which serves as a master document outlining the governing principles for the Bank's policy framework both in Israel and for its foreign operations. The paper also includes a set of credit restrictions, which are defined and managed at the group level, alongside the existing procedures for identifying, measuring, monitoring, supervision and control over the credit risk. Credit policy and existing procedures which relate to the credit risk inherent in all of the Bank's activities and applies to each loan as well as to the entire loan portfolio.

Management and Control Processes

When it comes to managing credit, there are procedures for controlling and monitoring the risks. The procedures are adapted to the customers' characteristics as well as to the organizational units in which they are handled. In 2018, following measures taken in recent years, emphasis was placed, inter alia, on adapting the management and control processes to the transition to e-banking.

In addition to handling and control at the individual loan level, significant resources are devoted to managing the loan portfolio as a whole, as well as segments thereof, including following and monitoring the relevant concentration focal points and complying with regulatory and internal restrictions.

Credit Risk Management Tools - Risk Measurement Systems

To manage credit risk, quantitative models are used to internally rate borrowers' risk and evaluate and monitor risk at the portfolio level. The internal rating of borrowers is a key layer in the credit granting decision-making process and in monitoring its quality over time.

The Bank uses two main tools to assign internal ratings to customers:

- A rating system for retail customers (including housing loans), based on the characteristics of the customer's activity in the account over time.
- A rating system designed for business-commercial borrowers, based on structured expert questionnaires.

The models used to perform the ratings in said systems are validated and monitored on a regular basis.

Troubled credit risk and non-performing assets

	December 31 2018		
	Balance-sheet	Off balance-sheet	Total
	In NIS millions		
1. Troubled credit risk:[(a)]			
Non-performing credit risk	**2,804**	**226**	**3,030**
Substandard credit risk	**426**	**48**	**474**
Credit risk under special supervision[(b)]	**3,732**	**821**	**4,553**
Less troubled credit risk classified as held-for-sale assets[(c)]	**(368)**	**(4)**	**(372)**
Total troubled credit risk	**6,594**	**1,091**	**7,685**
Of which: unimpaired debts, in arrears of 90 days or more[(b)]	**1,054**	**-**	**1,054**
2. Non-performing assets:			
Non-performing loans (NPL)	**2,521**	**-**	**2,521**
Assets received in respect of settled loan	**9**	**-**	**9**
Less non-performing debts of balances classified as held-for-sale assets[(c)]	**(45)**	**-**	**(45)**
Total non-performing assets	**2,485**	**-**	**2,485**
Percentage of non-performing loans to the public (NPL) out of total credit to the public			**0.89**

	December 31 2017		
	Balance-sheet[(d)]	Off balance-sheet	Total
	In NIS millions		
1. Troubled credit risk:[(a)]			
Non-performing credit risk	3,462	253	3,715
Substandard credit risk	916	52	968
Credit risk under special supervision[(b)]	2,996	950	3,946
Total troubled credit risk	7,374	1,255	8,629
Of which: unimpaired debts, in arrears of 90 days or more[(b)]	886	-	886
2. Non-performing assets:			
Non-performing loans (NPL)	2,713	-	2,713
Assets received in respect of settled loan	13	-	13
Total non-performing assets	2,726	-	2,726
Percentage of non-performing loans to the public (NPL) out of total credit to the public			1.01

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) Credit risk that is either non-performing, substandard or under special supervision.

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

(c) For more information regarding the investee's held-for-sale operations, please see the Section entitled "Main Changes in the Reporting Year" and Note 36F.

(d) Reclassified. For more information, please see Note 13.

Change in Balance of Non-Performing Loans

Change in balance of non-performing loans in respect of loans to the public

	December 31							
	2018				2017[b]			
	In NIS millions							
	Com-mercial	For housing	Private indivi-duals - other	Total	Com-mercial	For housing	Private indivi-duals - other	Total
Outstanding balance of non-performing loans	**3,049**	**29**	**377**	**3,455**	3,834	46	399	4,279
Loans classified as non-performing loans during the year	**826**	**2**	**271**	**1,099**	1,059	-	208	1,267
Loans reclassified into performing loans	**(340)**	**-**	**-**	**(340)**	(32)	-	-	(32)
Written off non-performing loans	**(388)**	**-**	**(126)**	**(514)**	(468)	(1)	(98)	(567)
Repaid non-performing loans	**(685)**	**-**	**(138)**	**(823)**	(1,313)	(16)	(132)	(1,461)
Other	**(81)**	**-**	**-**	**(81)**	(31)	-	-	(31)
Less balances classified as held-for-sale assets[a]	**(1)**	**-**	**(44)**	**(45)**	-	-	-	-
Outstanding balance of non-performing loans as at the end of the year	**2,380**	**31**	**340**	**2,751**	3,049	29	377	3,455

Of which: change in troubled debt under restructuring

	December 31							
	2018				2017			
	In NIS millions							
	Com-mercial	For housing	Private indivi-duals - other	Total	Com-mercial	For housing	Private indivi-duals - other	Total
Balance of troubled debt under restructuring as of the beginning of the year	**1,753**	**8**	**331**	**2,092**	2,327	9	343	2,679
Restructurings carried out during the year	**321**	**-**	**195**	**516**	548	-	152	700
Loans reclassified into performing loans following subsequent restructuring	**(162)**	**-**	**-**	**(162)**	-	-	-	-
Written off restructured debt	**(102)**	**-**	**(43)**	**(145)**	(95)	(1)	(28)	(124)
Repaid restructured debt	**(509)**	**-**	**(146)**	**(655)**	(1,013)	-	(136)	(1,149)
Adjustments from translation of financial statements	**17**	**-**	**-**	**17**	(14)	-	-	(14)
Less balances classified as held-for-sale assets[a]	**-**	**-**	**(18)**	**(18)**	-	-	-	-
Balance of troubled debt under restructuring as of the end of the year	**1,318**	**8**	**319**	**1,645**	1,753	8	331	2,092

(a) Including balances classified as held-for-sale assets. For more information regarding the investee's held-for-sale operations, please see the Section entitled "Main Changes in the Reporting Year" and Note 36F.
(b) Reclassified. For more information, please see Note 13.

Disclosure, Measurement, Classification and Rules for Loan Loss Provision

For loan loss expenses and classification of troubled debt, the Bank is following the directives of the Banking Supervision Department, which became effective on January 1 2011 and the revised directives published subsequent to that date. The Bank estimates, assesses and revises the loan loss provision on a regular basis, based on past experience, analysis of individual borrowers, as well as according to economic forecasts and assessments of the various markets and business sectors.

Change in the balance of loan loss provision in respect of non-performing loans:

	December 31							
	2018				2017			
	In NIS millions							
	Commercial	For housing	Private individuals - other	Total	Commercial	For housing	Private individuals - other	Total
Balance of loan loss provision in respect of non-performing loans as at the beginning of the year	**447**	**5**	**61**	**513**	637	6	88	731
Loan loss income	**(202)**	**(1)**	**78**	**(125)**	(283)	-	(45)	(328)
Write-offs	**(390)**	**-**	**(124)**	**(514)**	(468)	(1)	(98)	(567)
Collection of debts written off in previous years	**605**	**-**	**144**	**749**	561	-	116	677
Less balances classified as held-for-sale assets[(a)]	**(1)**	**-**	**(8)**	**(9)**	-	-	-	-
Balance of loan loss provision in respect of non-performing loans as at the end of the year	**459**	**4**	**151**	**614**	447	5	61	513

(a) For more information regarding the investee's held-for-sale operations, please see the Section entitled "Main Changes in the Reporting Year" and Note 36F.

For more information regarding the methodology for calculating the collective provision, please see "Accounting Policies and Estimates on Critical Issues".
For more information regarding provisions, please see Note 13.

Following is a breakdown of credit risk indicators

	December 31	
	2018[(a)]	2017[(b)]
	In %	
Percentage of non-performing loans to the public out of outstanding loans to the public	**1.0**	1.3
Percentage of performing loans to the public in arrears of 90 days or more out of outstanding loans to the public	**0.4**	0.3
Percentage of troubled loans to the public out of credit risk including for the public	**1.9**	2.2
Percentage of expenses in respect of loan losses out of the average outstanding balance of loans to the public	**0.2**	0.1
Percentage of net write-offs in respect of loans to the public out of average balance of loans to the public	**(0.1)**	(0.2)
Percentage of balance of the loan loss provision in respect of loans to the public out of outstanding loans to the public	**1.4**	1.4
Percentage of balance of the loan loss provision in respect of loans to the public out of outstanding non-performing loans to the public	**143.0**	107.0
Percentage of balance of the loan loss provision in respect of loans to the public out of outstanding non-performing loans to the public and the outstanding balance of loans to the public in arrears of 90 days or more	**103.8**	85.2
Percentage of net write-offs in respect of loans to the public out of the outstanding loan loss provision in respect of loans to the public	**(6.4)**	(11.1)

(a) Including balances classified as held-for-sale assets. For more information regarding the investee's held-for-sale operations, please see the Section entitled "Main Changes in the Reporting Year" and Note 36F.
(b) Reclassified. For more information, please see Note 13.

For more information regarding measurement and disclosure provisions for non-performing loans, credit risk and loan loss provision, please see the Section entitled “Significant Accounting Policies” - “Loan Loss Provision and Classification of Non-Performing Loans”.

Credit Concentration

Concentration risk is defined as a single exposure or group of exposures having a common attribute and the potential to cause significant losses. Concentration risk is mainly managed by setting boundaries and monitoring and monitoring compliance therewith.

The sources of concentration relevant to the Bank’s loan portfolio are as follows: economic sectors, single borrowers and groups of borrowers.

The concentration risk is managed by ensuring compliance with all regulatory restrictions, as well as by defining and regularly monitoring compliance with all internal restrictions (which are more stringent than regulatory ones).

Credit portfolio diversification among various economic sectors

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

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

The Bank's Total Credit Risk to the Public by Industry

	December 31 2018						
					Loan losses[c]		
	Total credit risk[a]	Of which: credit performance rating[e]	Of which: troubled credit risk[d]	Of which: troubled credit risk	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							
Industry	**24,314**	**23,457**	**857**	**470**	**9**	**(76)**	**(513)**
Construction & real estate - construction[f]	**47,469**	**46,704**	**765**	**282**	**7**	**10**	**(348)**
Construction & real estate - real estate activity	**28,665**	**28,061**	**604**	**433**	**(107)**	**(80)**	**(372)**
Trade	**29,556**	**28,465**	**1,091**	**277**	**129**	**131**	**(323)**
Financial services	**28,076**	**28,054**	**22**	**8**	**(13)**	**(6)**	**(185)**
Other industries	**44,686**	**43,377**	**1,309**	**553**	**151**	**56**	**(544)**
Commercial - total[g]	**202,766**	**198,118**	**4,648**	**2,023**	**176**	**35**	**(2,285)**
Private individuals - housing loans	**82,339**	**81,477**	**862**	**-**	**32**	**4**	**(473)**
Private individuals - other	**64,930**	**63,951**	**979**	**383**	**241**	**165**	**(808)**
Less balances classified as held-for-sale assets[h]	**(19,869)**	**(19,497)**	**(372)**	**(45)**	**-**	**-**	**184**
Total loans to the public - activity in Israel	**330,166**	**324,049**	**6,117**	**2,361**	**449**	**204**	**(3,382)**
Banks and governments in Israel	**44,203**	**44,203**	**-**	**-**	**-**	**-**	**(3)**
Less balances classified as held-for-sale assets[h]	**(33)**	**(33)**	**-**	**-**	**-**	**-**	**-**
Total banks and governments in Israel	**44,170**	**44,170**	**-**	**-**	**-**	**-**	**(3)**
Total activity in Israel	**374,336**	**368,219**	**6,117**	**2,361**	**449**	**204**	**(3,385)**
For borrower activity outside Israel							
Total loans to the public - foreign operations	**64,845**	**63,277**	**1,568**	**616**	**70**	**52**	**(431)**
Foreign banks and governments	**38,689**	**38,689**	**-**	**-**	**-**	**-**	**-**
Less balances classified as held-for-sale	**(2)**	**(2)**	**-**	**-**	**-**	**-**	**-**
Total foreign operations	**103,532**	**101,964**	**1,568**	**616**	**70**	**52**	**(431)**
Total activity in Israel and abroad	**477,868**	**470,183**	**7,685**	**2,977**	**519**	**256**	**(3,816)**

(a) Balance-sheet credit risk and off-balance-sheet credit risk, including for derivatives. Including debt,[b] 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 290,254, 71,013, 1,257, 12,756 and 102,588 million, respectively.
(b) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(c) Including for off-balance-sheet credit instruments (presented in the balance sheet under "Other liabilities").
(d) Balance-sheet and off-balance sheet credit risk that is impaired, substandard or under special supervision, including housing loans for which there is a provision according to the extent of arrears and housing loans for which there is no provision based on the extent of arrears which are in arrears of 90 days or more.
(e) Credit risk whose credit rating at the reporting date matches the credit rating for granting new credit in accordance with the Bank's policy.
(f) Including housing loans extended to certain purchasing groups currently in the process of construction.
(g) The balance of outstanding commercial debts includes outstanding housing loans in the amount of NIS 913 million extended to purchasing groups currently in the process of construction.
(h) For more information regarding the investee's held-for-sale operations, please see the Section entitled "Main Changes in the Reporting Year" and Note 36F.

The Bank’s Total Credit Risk to the Public by Industry (Consolidated Basis) (cont.)

	December 31 2017						
					Loan losses[c]		
	Total credit risk[a]	Of which: credit performance rating[e]	Of which: troubled credit risk[d]	Of which: troubled credit risk	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							
Industry	23,011	21,998	1,013	577	104	148	(472)
Construction & real estate - construction[f]	49,881	48,679	1,202	309	72	47	(354)
Construction & real estate - real estate activity	27,695	26,941	754	672	(302)	(252)	(399)
Trade	27,937	26,973	964	335	57	87	(309)
Financial services	21,720	21,706	14	3	(76)	(56)	(145)
Other industries	44,328	42,943	1,385	741	76	87	(464)
Commercial - total[g]	194,572	189,240	5,332	2,637	(69)	61	(2,143)
Private individuals - housing loans	79,034	78,313	721	-	(10)	8	(443)
Private individuals - other	66,476	65,535	941	372	188	229	(733)
Total - public - activity in Israel[h]	340,082	333,088	6,994	3,009	109	298	(3,319)
Banks and governments in Israel	45,082	45,082	-	-	2	-	(3)
Total activity in Israel	385,164	378,170	6,994	3,009	111	298	(3,322)
For borrower activity outside Israel							
Total loans to the public - foreign operations	56,962	55,327	1,635	699	61	114	(378)
Foreign banks and governments	43,294	43,294	-	-	-	-	-
Total foreign operations	100,256	98,621	1,635	699	61	114	(378)
Total activity in Israel and abroad	485,420	476,791	8,629	3,708	172	412	(3,700)

(a) Balance-sheet credit risk and off-balance-sheet credit risk, including for derivatives. Including debt,[b] 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 283,744, 73,065, 1,161, 9,580 and 117,870 million, respectively.

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

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

(d) Balance-sheet and off-balance sheet credit risk that is non-performing, substandard or under special supervision, including housing loans for which there is a provision according to the extent of arrears and housing loans for which there is no provision based on the extent of arrears which are in arrears of 90 days or more.

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

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

(g) 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.

(h) The figures were reclassified following an improvement process performed in 2018.

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 internal methodologies and criteria for financing transactions in each of the real estate industry's sub-industries.

Leumi's focus on real estate financing is reflected, inter alia, in the fact that a significant part of the Bank's activity is concentrated in a dedicated department specializing in serving customers in this area. The Construction and Real Estate Department finances some of the most extensive and/or complex transactions in this field, leveraging its credit officers' expertise and practical experience.

A significant portion of construction and infrastructure loans are extended under the construction loan model, which is characterized by periodic assessment and close monitoring of relevant criteria (such as: sales, construction progress, staying within budget, etc.). This is done by relying in part on certified outsourced construction supervisors.

The Bank closely monitors the real estate credit portfolio, while following macroeconomic trends and the development of the industry's risk characteristics.
The Bank also assesses the real estate industry risk under a central stress scenario, with credit losses broken down by sub-sectors and examined against the risk assessment and risk appetite.

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-sectors.

Development of indebtedness for the construction and real estate industry (in Israel and abroad)

	December 31		Change	
	2018	2017		
	In NIS millions		In NIS millions	In %
Balance-sheet credit risk	**59,954**	54,048	5,906	10.9
Guarantees for apartment buyers[a]	**4,655**	8,082	(3,427)	(42.4)
Other off balance sheet credit risk	**27,192**	29,669	(2,477)	(8.3)
Total	**91,801**	91,799	2	-

(א) Weighted to balance sheet equivalent.

Following similar policies purchased in the past, in 2018, an insurance policy for the portfolio of guarantees was purchased pursuant to the Sales (Apartments) Law and the commitment to issue such guarantees, from international reinsurers with high global credit rating. The policy insures the Bank against payment for the forfeiture of the guarantees, according to the terms and conditions of the policy. The purchase of the insurance policy enables the Bank to reduce the capital held in respect of the credit risk arising from the issuance of the guarantees, while using the policy as a "credit risk mitigator" (the reduction is in line with the rating of the reinsurers). The insurance is for projects commencing by December 31 2019.

As of December 31 2018, the Bank complies with the regulatory and internal restrictions, which are in line with the Bank's assessment of the risk embodied in the various sub-sectors.

Following is the rate of each major subsector from the Bank's total indebtedness for real estate, as of the end of 2018:

- Residential real estate development: 46%
- Real estate activities (mainly rental properties) - 37%
- Other: 17%

Following are additional data regarding the overall credit

Following is a breakdown of total loans to the public and off-balance sheet credit risk by individual borrowers' loan amount

Maximum credit in NIS thousands		December 31 2018			December 31 2017		
		% of all borrowers[(c)]	% of total balance-sheet credit[(c)]	% of total off-balance-sheet credit[(c)]	% of total no. of borrowers	% of total balance-sheet credit	% of total off-balance-sheet credit
From	To	In %			In %		
-	80	**80.8**	**5.9**	**20.2**	80.9	6.2	20.5
80	600	**15.7**	**20.4**	**11.9**	15.7	21.8	11.6
600	1,200	**2.4**	**14.0**	**3.7**	2.3	14.3	3.5
1,200	2,000	**0.6**	**6.4**	**2.2**	0.6	6.5	2.2
2,000	8,000	**0.4**	**8.6**	**5.1**	0.4	9.0	4.9
8,000	20,000	**0.1**	**6.5**	**5.0**	0.1	6.6	4.5
20,000	40,000	**0.04**	**7.0**	**5.6**	0.04	6.5	5.3
40,000	200,000	**0.04**	**17.8**	**18.1**	0.04	16.8	17.9
200,000	800,000	**0.01[(a)]**	**9.6**	**16.1**	0.01[(a)]	9.4	20.1
Over 800,000		**0.001[(b)]**	**3.8**	**12.1**	0.001[(b)]	2.9	9.5
Total		**100.0**	**100.0**	**100.0**	100.0	100.0	100.0

(a) In 2018 - 121 borrowers and in 2017 - 134 borrowers.
(b) In 2018 - 19 borrowers and in 2017 - 16 borrowers.
(c) The percentage of balance-sheet credit held for sale out of total balance-sheet credit is 3 percent.
The percentage of off balance-sheet credit held for sale out of total off balance-sheet credit is 11 percent.
The percentage of borrowers in respect of held-for-sale asset is 38 percent.

For more information regarding credit granting by size - please see Note 30.C.

Following is credit risk by size of credit totaling more than NIS 800 million extended to a borrower

Maximum credit in NIS millions		December 31 2018			December 31 2017		
		No. of borrowers	Balance-sheet credit	Off balance-sheet credit risk	No. of borrowers	Balance-sheet credit	Off balance-sheet credit risk
From	To		In NIS millions			In NIS	
800	1,200	**11**	**5,426**	**5,090**	11	4,266	6,264
1,200	1,600	**4**	**2,079**	**3,670**	4	2,633	2,974
1,600	2,000	**3**	**2,548**	**2,787**	-	-	-
2,000	2,392	**1**	**1,067**	**1,325**	1	1,126	1,122
Total		**19**	**11,120**	**12,872**	16	8,025	10,360

There are no related parties with credit and off-balance credit risk exceeding NIS 800 million.

Groups of Borrowers[1]

Restrictions on indebtedness of a borrower and a group of borrowers

On August 1 2018, the Bank of Israel issued an amendment to Proper Conduct of Banking Business Directive No. 313 Restrictions on the Indebtedness of a Borrower or Group of Borrowers.

For more information, please see Laws and Regulations Governing the Banking System

The Group conducts orderly monitoring processes in order to ensure in complies with the restrictions imposed by Proper Conduct of Banking Business Directive No. 313.
As at December 31 2018, the Bank complies with these restrictions.
As at December 31 2018, the Group has no credit exposure to a group of borrowers the indebtedness of which exceeds 15 percent of the Bank's capital (as defined in Proper Conduct of Banking Business Directive No. 313).

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 percent of total assets or more than 20 percent of total capital for the purpose of calculating the capital ratio, the lower of which:

	December 31 2018			December 31 2017		
	Exposure[(a)] [(b)]			Exposure[(a)] [(b)]		
	Balance sheet	Off balance-sheet[(c)]	Total	Balance sheet	Off balance-sheet[(c)]	Total
	In NIS millions					
United States	**34,204**	**6,704**	**40,908**	30,827	5,838	36,665
UK	**10,895**	**6,983**	**17,878**	12,017	7,513	19,530
France	**2,794**	**1,654**	**4,448**	2,846	1,968	4,814
Switzerland	**1,227**	**1,064**	**2,291**	1,359	1,898	3,257
Germany	**4,451**	**1,086**	**5,537**	3,958	2,208	6,166
Other	**15,656**	**2,646**	**18,302**	14,913	2,850	17,763
Total exposure to foreign countries[(g)]	**69,227**	**20,137**	**89,364**	65,920	22,275	88,195
Of which: total exposure to GIPS countries[(d)]	**455**	**221**	**676**	775	234	1,009
Of which: total exposure to LDC countries[(e)]	**3,892**	**1,418**	**5,310**	3,132	1,935	5,067
Of which: total exposure to countries with liquidity issues[(f)]	**675**	**56**	**731**	404	206	610

(a) Exposure to foreign countries is presented based on the final risk.
(b) Balance-sheet and off-balance-sheet credit risk, troubled commercial credit risk and non-performing 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.
(c) 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.
(d) Exposure to the GIPS countries includes: Greece, Italy, Portugal and Spain.
(e) The "Exposure to LDCs" line item includes less developed countries (LDCs), which are classified by the World Bank as low or mid-income countries.
(f) Exposure to foreign countries with liquidity issues as defined by the Bank of Israel (a country receiving financial support from the IMF or whose obligations are rated CCC or lower). The amount relates to 12 countries (in 2017 - to 9 countries).
(g) In 2018, including balances classified as held for sale assets in the amount of NIS 1.3 million.

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

Part B - As at December 31 2018 and December 31 2017, there is no aggregate balance sheet exposure to foreign countries, the total exposure to each of which ranges between 0.75 percent and 1 percent of total consolidated assets or between 15 percent and 20 percent of equity, whichever the lower.

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 December 31 2018		
	Balance-sheet credit risk[b]	Current balance-sheet credit risk[c]	Current credit exposure
	In NIS millions		
Total current credit exposure to foreign financial institutions[d]			
AA- to AAA	**19,229**	**967**	**20,196**
A- to A+	**3,253**	**476**	**3,729**
BBB- to BBB+	**397**	**188**	**585**
B- to BB+	**26**	**8**	**34**
Lower than: B-	**1**	**-**	**1**
No credit rating	**225**	**-**	**225**
Total current credit exposure to foreign financial institutions[e]	**23,131**	**1,639**	**24,770**
Troubled Credit Risk	-	-	-
	As at December 31 2017		
	Balance-sheet credit risk[b]	Current balance-sheet credit risk[c]	Current credit exposure
	In NIS millions		
Total current credit exposure to foreign financial institutions[d]			
AA- to AAA	14,983	913	15,896
A- to A+	3,747	613	4,360
BBB- to BBB+	281	298	579
B- to BB+	10	11	21
Less than: B-	14	18	32
No credit rating	396	1	397
Total current credit exposure to foreign financial institutions	19,431	1,854	21,285
Troubled Credit Risk	-	-	-

(a) Foreign financial institutions include the following: banks, investment banks, brokers/dealers, insurers and institutional entities.
(b) As at December 31 2018, deposits with banks, credit to the public, securities borrowed or bought under reverse repurchase agreements, other assets in respect of derivatives (fair value of derivatives), and investments in bonds, including bonds of banks rated "subordinated" totaled NIS 345 million (as at 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 1.3 million.

Comments:

1. The credit exposures do not include investment in asset-backed securities (for more information, please see Note 12).
2. Some of the banks received various forms of government support, including by way of direct investment in the bank's capital, government guarantees for certain asset portfolios, guarantees for raising funding for the banks, etc.
3. For more information regarding the composition of credit exposures for derivatives with banks and brokers/dealers (local and foreign), please see Note 28B.B. to the Financial Statements.

Housing Loan Portfolio Risks

Credit risk developments

During 2018, the granting of new loans ("performance") increased in relation to demand for housing loans in Israel both by homeowners and investors.

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, linkage base and interest, loan-to-value ratio, etc., while complying with all of the provisions of the Banking Supervision Department.

The Bank also extends individual housing loans to members of housing purchase groups. Extending loans to members of housing purchase groups answers market demand by private organizations, historical landowners, etc. From a risk standpoint, the loans are extended to various, geographically diversified populations, following close scrutiny of each borrower’s capacity to repay the loan.

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

	2018	2017	
	Total for the year	Total for the year	Rate of change
	In NIS millions		In %
By the Bank	**11,762**	7,976	47.5
By the government of Israel	**114**	82	39.0
New loans	**11,876**	8,058	47.4
Recycled loans	**1,822**	1,198	52.1
Total performance	**13,698**	9,256	48.0

Disclosure on housing loans

Following are data regarding the development of the housing loans portfolio:

Development of total outstanding housing loans in Israel, net

	Outstanding loans portfolio	Rate of change
	In NIS millions	In %
December 2016	78,184	(2.4)
December 2017	77,005	(1.5)
December 2018	**79,944**	**3.8**

2018 saw an increase in the volume of housing loans, due to an increase in the number of loans granted and the end of the joint venture for extending loans with an institutional entity.

Development of the outstanding balance of the housing loans portfolio based on linkage bases and as a percentage of the outstanding balance of the Bank's loans portfolio

	Unlinked segment				CPI-linked segment				Foreign currency segment		
	Fixed interest		Variable interest		Fixed interest		Variable interest		Variable interest		
	Outstanding balance in NIS millions	Percentage of the loans portfolio	Outstanding balance in NIS millions	Percentage of the loans portfolio	Outstanding balance in NIS millions	Percentage of the loans portfolio	Outstanding balance in NIS millions	Percentage of the loans portfolio	Outstanding balance in NIS millions	Percentage of the loans portfolio	Maximum credit in NIS millions
December 31 2016	13,706	17.5	31,249	40.0	11,792	15.1	20,194	25.8	1,243	1.6	78,184
December 31 2017	13,858	18.0	31,730	41.2	12,002	15.6	18,405	23.9	1,010	1.3	77,005
December 31 2018	**14,848**	**18.6**	**33,038**	**41.3**	**12,596**	**15.8**	**18,503**	**23.1**	**959**	**1.2**	**79,944**

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
	Q4	Q3	Q2	Q1	Annual average	Annual average
	Rate of performance					
	In %					
Fixed - linked	**19.4**	17.7	15.8	15.0	15.3	18.7
Variable every 5 years or more - linked	**18.9**	17.5	16.6	15.6	16.4	13.3
Variable up to 5 years - linked	**-**	-	0.1	-	0.1	0.6
Fixed - unlinked	**25.8**	26.1	28.8	31.3	29.6	30.2
Variable every 5 years or more - unlinked	**4.0**	5.2	5.9	6.3	6.9	7.7
Variable up to 5 years - unlinked	**31.6**	33.1	32.7	31.2	31.3	29.2
Variable - foreign currency	**0.3**	0.4	0.1	0.6	0.4	0.3

The percentage of new variable-interest housing loans granted by the Bank during 2018 was 55 percent, similar to 2017. The data refer to all variable interest tracks and the various linkage segments, including loans in which the interest rate changes every five years or more. Excluding loans in which the variable interest rate changes every 5 years or more - which do not qualify as a variable interest loan under the Supervisor of Bank's directive - the percentage of variable-rate housing loans extended during 2018 is 32.4 percent compared to 31.8 percent in 2017.

Data on new housing loans in Israel

During 2018, the Bank granted new housing loans in the amount of NIS 11.8 billion out of its funds.

The average loan extended by the Bank in 2018 was NIS 717 thousand, compared with NIS 641 thousand in 2017 and NIS 555 in 2016.

It should be noted that in 2016 (beginning in June) and through 2017, the Bank and an institutional entity had a joint credit granting operation. During this period, the Bank's exposure to an average loan was lower – NIS 529 thousand in 2017 and NIS 555 thousand in 2016.

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

	Recorded outstanding debt	Delinquent amount	Percentage of delinquent amount
	In NIS millions		In %
December 31 2016	78,645	747	0.9
December 31 2017	77,448	743	1.0
December 31 2018	**80,417**	**862**	**1.1**

As of December 31 2018, the outstanding loan loss provision, which includes the collective provision for housing loans (hereinafter - the "collective provision"), is NIS 473 million, constituting 0.59 percent of the housing loans' outstanding balance, compared with NIS 443 million as at December 31 2017, which constitutes 0.57 percent of the outstanding housing loan balance.

Development of LTV ratio for new loans over 60 percent, in Israel

Following is the development in new credit granted by the Bank at a loan-to-value ratio of over 60 percent, (LTV 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
	Q4	Q3	Q2	Q1	Annual average	Annual average
LTV ratio	In %					
Over 60 to 70, inclusive	**17.2**	16.7	18.0	18.0	18.0	16.1
Over 70 to 80, inclusive	**16.1**	16.6	16.3	13.0	16.0	14.7
Over 80	**0.20**	0.07	0.05	0.20	0.09	0.12

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 percent or more – was reduced from 75 percent to 60 percent.

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

The average LTV of the outstanding loan portfolio as at December 31 2018 stands at 45.6 percent, compared with 46.0 percent in 2017.

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

Repayment ratio is defined as the ratio between the monthly available income and the monthly repayment amount.

The percentage of loans with a repayment ratio of less than 2.5 on the loan approval date in 2018 was 0.8 percent of the total number of new loans granted compared with 1.4 percent 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 new percentage of housing loans in which the repayment dates under the loan agreements are more than 25 years, stood at an average of 36 percent of the total new loans granted in 2018, compared with an average of 35 percent in 2017 and 36 percent in 2016.

Credit Risk in respect of Loans to Private 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 significant diversification of borrowers and a variety of credit products (various types of loans, current accounts, credit cards) and to a lesser extent (on average) - credit per individual customer.
Individual customers' activity is almost entirely concentrated in the Banking Division.

To address the increase in credit granted to individuals and given the wide span of control required to manage it, and with the aim of implementing adequate corporate governance, several functions have been extended and enhanced, both in the Banking Division - which constitutes the first line of defense, and in the Risk Management Division - which constitutes the second line of defense.

In recent years, the Banking Division has operated special-purpose units. Following are the key ones:

Credit and risk management centers, which coordinate all the loan applications that do not come within the purview of the branches, while separating between account managers and parties which challenge the granting of the loan; serve as a professional resource for loan officers at the branches; regularly monitor and control the provision of credit at the branches, with lessons drawn and conveyed both to the field (branches) and to the Division’s management.

Early collection units and troubled debt centers - coordinate the handling of loans in arrears before classifying the borrower as troubled as well as handling borrowers classified as troubled. These units provide professional services of handling, making arrangements and collection, including through external law firms.

The Risk Management Division monitors and maintains a second line of defense, which includes - inter alia- identifying trends and segments in the private loans portfolio; monitoring the prediction quality of risk estimation models for borrowers; examining the quality and integrity of business entities’ control procedures; reviewing samples of individual portfolios, as needed, etc.

The retail credit policy, formulated by the Risk Management Division in collaboration with the Banking Division, constitutes a key element in outlining the risk appetite and ongoing management of this domain. The following are some of the key principles of the Bank’s consumer credit policy: assess each borrower’s credit risk; base underwriting decisions on the borrower’s debt service capacity, especially his income; create a well-defined, structured chain of command for authorizing credit; adhere to fair business conduct practices (integrity; transparency; match products to customers’ needs; fair pricing; address customer complaints); match the credit to the customers' needs and capacity; and increase awareness of the compliance aspects that could arise from credit provision.

Due to the increased debt levels of Israeli households in recent years, the Bank extended and boosted its ongoing monitoring of its entire consumer credit portfolio, in addition to its adherence to strict underwriting processes and management and control at the individual borrower level.
A set of internal measures was developed, both for developments of the entire portfolio (“inventory”) and the new credit risk profile, which are monitored on a regular basis, at least quarterly. The developed parameters address numerous aspects and characteristics which reflect diverse and complementary points of view about the new credit risk profile. Although these are “red flags” rather than restrictions (as they are formally defined), they do express the desirable risk appetite at the individual loan portfolio level. In 2018, due to the continued private consumption trends in the Israeli economy and, as a result, in the leverage level of households, the Bank boosted its close monitoring of the developments in this portfolio. These measures are expressed in developments in outstanding loans of private individuals, which decreased over 2018, as well as additional parameters, as presented below.

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

	Balance of credit risk
	In NIS millions
December 31 2016	49,987
December 31 2017[(a)]	46,325
December 31 2018	**45,806**

(a) Reclassified. For more information, please see Note 13.

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

	December 31			
	2018		2017[(a)]	
	In NIS millions	% of portfolio	In NIS millions	% of portfolio
Up to one year	**5,564**	**19.3**	4,979	17.5
Over one year to 3 years	**5,101**	**17.7**	4,968	17.4
Over 3 years to 5 years	**10,046**	**34.9**	8,914	31.3
Over 5 years to 7 years	**5,046**	**17.6**	6,353	22.3
Over 7 years	**419**	**1.5**	559	2.0
Without repayment period[(b)]	**2,589**	**9.0**	2,726	9.5
Total	**28,765**	**100.0**	28,499	100.0

(a) Reclassified. For more information, please see Note 13.
(b) The amount includes overdrawn balances in current accounts and loans in arrears.

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

		December 31			
Credit risk amount in NIS thousands		**2018**		2017[(a)]	
From	To	In NIS millions	% of portfolio	In NIS millions	% of portfolio
-	25	**5,143**	**11.2**	4,820	10.4
25	50	**6,879**	**15.0**	6,945	15.0
50	75	**6,324**	**13.8**	6,481	14.0
75	100	**5,598**	**12.2**	5,763	12.4
100	150	**8,093**	**17.7**	8,240	17.8
150	200	**5,201**	**11.4**	5,199	11.3
200	300	**4,930**	**10.8**	5,059	10.9
Over 300		**3,638**	**7.9**	3,818	8.2
Total credit risk		**45,806**	**100.0**	46,325	100.0

(a) Reclassified. For more information, please see Note 13.

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

	December 31			
	2018		2017[(a)]	
	In NIS millions	% of portfolio	In NIS millions	% of portfolio
Current balances and utilized credit card balances	**6,710**	**14.7**	7,174	15.5
Car purchase loans (secured)	**1,731**	**3.8**	2,052	4.4
Other loans	**20,324**	**44.4**	19,273	41.6
Total balance-sheet credit risk	**28,765**	**62.9**	28,499	61.5
Unutilized current account credit facilities	**6,659**	**14.5**	6,870	14.9
Unutilized credit card facilities	**10,103**	**22.0**	10,617	22.9
Other off balance sheet credit risk	**279**	**0.6**	339	0.7
Total off balance-sheet credit risk	**17,041**	**37.1**	17,826	38.5
Total credit risk	**45,806**	**100.0**	46,325	100.0

(a) Reclassified. For more information, please see Note 13.

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

	December 31 2018				
	Unlinked	Linked	Foreign currency	Total balance-sheet credit risk	% of portfolio
	In NIS millions				In %
Variable interest loans	**27,336**	**42**	**70**	**27,448**	**95.4**
Fixed interest loans	**1,252**	**39**	**26**	**1,317**	**4.6**
Total balance-sheet credit risk	**28,588**	**81**	**96**	**28,765**	**100.0**

	December 31 2017(a)				
	Unlinked	Linked	Foreign currency	Total balance-sheet credit risk	% of portfolio
	In NIS millions				In %
Variable interest loans	27,502	33	65	27,600	96.8
Fixed interest loans	812	59	28	899	3.2
Total balance-sheet credit risk	28,314	92	93	28,499	100.0

(א) Reclassified. For more information, please see Note 13.

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)

	December 31	
	2018	2017(a)
	In NIS millions	
Deposits by the public	**90,500**	85,702
Securities portfolios	**56,094**	59,488
Total financial asset portfolio	**146,594**	145,190
Total indebtedness to customers with financial asset portfolios	**35,569**	34,721

(a) Reclassified. For more information, please see Note 13.

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

	December 31			
	2018		2017[(c)]	
Income	In NIS millions	In %	In NIS millions	In %
Accounts without fixed income	**2,095**	**7.3**	2,595	9.1
Of which: Loan accounts[(b)]	**1,413**	**4.9**	1,942	6.8
Less than NIS 10 thousand	**9,035**	**31.4**	9,408	33.0
More than NIS 10 thousand and less than	**9,831**	**34.2**	9,316	32.7
NIS 20 thousand or more	**7,804**	**27.1**	7,180	25.2
Total	**28,765**	**100**	28,499	100

(a) The fixed income amount deposited in a customer's current account (by ID number) includes the fixed credits to the customer's account, such as salary, transfers from another bank or bank account, cash deposits, checks, etc. The fixed monthly income is calculated according to the average income on several consecutive months, net of exceptional credits.
(b) A loan repayment account is an account whose only purpose is to repay a loan, while most of the customer's current account activity takes place in another bank.
(c) Reclassified. For more information, please see Note 13.

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 percent of balance-sheet credit is from fixed-income earners.

Distribution of the balance sheet credit risk (excluding derivatives) in respect of loans granted by the Bank to private individuals (in Israel, excluding housing loans)

	December 31	
	2018	2017[(a)]
	In NIS millions	
Performing loans	**28,168**	27,894
Troubled performing loans	**258**	262
Troubled non-performing loans	**339**	343
Total balance-sheet credit risk	**28,765**	28,499
Percentage of troubled debt risk out of total debt to private individuals	**2.1%**	2.1%
Write-offs, net	**99**	193
Balance of loan loss provision	**615**	577

(a) Reclassified. For more information, please see Note 13.

For more information, including regarding troubled debts and loan loss expenses, please see Note 13, "Credit Risk, Credit to the Public, Provision for Loan Losses" (data on "Other individuals"), Note 30, Additional Information on Credit Risk, Credit to the Public and Provision for Loan Losses. In the Credit Risk section, please see 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.

As of December 31 2018, leveraged finance is defined by the Bank in line with the Bank of Israel's directives, and includes loans, borrowers or borrower groups which meet one of the following criteria (the gross indebtedness of each of which does not exceed 0.5 percent of the Bank's Tier 1 capital):

1. Credit for the purpose of equity transactions as defined in respect of the restriction in Proper Conduct of Banking Business No. 323, with credit for acquiring a means of control or against means of control held without recourse is included in each LTV ratio (even if it is lower than prescribed by the Directive).
2. Financing for holding companies which are merely or principally holding companies of subsidiaries (without significant independent operations), as defined by the Bank's policy.
3. Financing for borrowers, by various predefined economic sectors, characterized by significant unusual values of certain parameters in relation to the norms in their respective economic sector.

As of December 31 2018, the gross outstanding balance of the leveraged credit, as defined by the Bank, stands at NIS 2.5 billion, a NIS 0.3 billion increase compared with the previous year. The Bank complies with the Bank of Israel's directives.

Balance of aggregated credit granted to leveraged borrowers

	December 31			December 31		
	2018			2017		
	Balance-sheet	Off balance-sheet	Total	Balance-sheet	Off balance-sheet	Total
Economic sector	In NIS millions					
Mining and quarrying	**80**	**251**	**331**	279	101	380
Industry and manufacturing	**458**	**145**	**603**	426	16	442
Power generation, gas, steam and air conditioning	**211**	**76**	**287**	290	409	699
Trade	**335**	**61**	**396**	198	13	211
Transportation and storage	**171**	**15**	**186**	208	15	223
Hotels, accommodation and food services	**274**	**-**	**274**	281	-	281
Construction & real estate	**27**	**160**	**187**	-	-	-
Public and community services	**212**	**31**	**243**	-	-	-
Total	**1,768**	**739**	**2,507**	1,682	554	2,236

For additional qualitative and quantitative information regarding credit risks, please see the Risk Management Report.

Market Risks

Market risk is defined the risk of a loss arising from a change in the value of assets and liabilities due to changes in the price level in markets, interest rates, exchange rates, inflation rate and stock prices. 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 market risks to which the Bank is exposed include the following (for more information, please see below):

a. Interest rate risk is the risk of loss as a result of changes in risk-free interest rates across various currencies.
b. Basis risk (foreign exchange rates and CPI) is the risk of loss as a result of changes in the consumer price index or foreign exchange rates, due to the difference between the value of the assets and the value of the liabilities, including in respect of future transactions in each of the linkage bases.
c. Tradable credit risk, caused by credit spread volatility derived from the instrument issuer's repayment capacity or from changes in the overall risk of tradable debt instruments.
d. Risk of investment in shares and funds, caused by impairment of the investment in shares or funds or a decrease in profits or dividends paid to the Group.

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 risk appetite is reflected in the established restrictions.

As part of the market risk management policy, the Board of Directors prescribed restrictions for each material market risk. In addition, restrictions were placed at the Chief Risk Officer level as well as additional restrictions complementing them. This purpose of the restrictions is to limit the damage that can be caused as a result of unexpected changes in various market risk factors, such as interest rates, inflation, exchange rates, tradable credit spreads and share prices.

It should be noted that there were no material changes in the policy in 2018.

The market risks are routinely managed at a Group level. The foreign subsidiaries determine their own market risk management policies in line with the Group's policies and its approved risk frameworks as well as in line with the local regulation and business environment in which they operate. 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 held-for-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 which are not necessarily for hedging purposes. The held-for-trading activity is conducted in designated units. The banking portfolio includes those trading transactions which are not included in the held-for-trading portfolio.

In order to oversee and monitor the implementation of the market risk management policy, the Board of Directors receives, at least each quarter, a report on the main market risk exposures according to the Group's business lines, products and risk foci, as well as reports on unusual incidents.

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

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 - according to the directives of the Bank of Israel - 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.

In 2016, the Bank received an individual approval from the Bank of Israel, for capital adequacy measurement purposes, to discount the employee benefit liabilities 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. The approval significantly moderated the volatility of the regulatory capital resulting from changes in the discount rate. The approval is valid until December 31 2020.

Against part of the actuarial liability, there is an investment in "plan assets", which is designed to service that obligation, through investment in diversified assets such as shares and bonds. The investment is subject to regulatory restrictions and restrictions prescribed by the funds managing the plan assets.

Market Risks to which the Bank Is Exposed

a. Interest Rate Risk

Interest rate risk is the risk of gains or capital arising from interest rate fluctuations and stems from several sources, as follows: repricing risk (timing differences in repayment terms and repricing dates of assets, off-balance sheet liabilities and positions); yield curve risk (unexpected fluctuations in the yield curve); basis risk (less than perfect correlation between interest rate changes in various financial markets or in various instruments with similar repricing characteristics); and optionality risk (change in the timing or scope of cash flows from a financial instrument due to changes in market interest rates).

The Bank manages the sensitivity of the economic value of its capital to possible interest rate changes and examines the effect of changes in interest rate curves on the economic value, under various assumptions of interest rate changes, including interest rate stress scenarios based on historic scenarios and hypothetical simulations. The Bank also uses a model which estimates the change in the expected finance income as a result of changes in the interest rate and future interest rate spread as well as the sensitivity of the regulatory capital, which includes the effects on capital and capital reserve as a result of a sudden change in the interest rate. These indicators are restricted by various hierarchical levels.

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.

Exposure to interest rate changes is measured both for an increase and decrease of interest 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.

Quantitative information about interest rate risk - sensitivity analysis

Net adjusted fair value[(a)] of financial instruments of the Bank and its consolidated companies

	December 31					
	2018			2017		
	NIS	Foreign currency	Total	NIS	Foreign currency	Total
	In NIS millions					
Adjusted fair value, net[(a)]	**19,805**	**(3,100)**	**16,705**	16,349	(2,293)	14,056
Of which: banking portfolio	**13,463**	**(3,228)**	**10,235**	11,659	(2,386)	9,273

For more information regarding the assumptions used to calculate the fair value of the financial instruments, please see Note 34A to the financial statements.

The effect of scenarios of interest rate changes on the net adjusted fair value[(a)] of Bank and its consolidated companies

	December 31					
	2018			2017		
	NIS	Foreign currency	Total*	NIS	Foreign currency	Total*
	In NIS millions					
Simultaneous changes						
Simultaneous increase of 1 percent	**1,019**	**235**	**1,254**	1,796	264	2,060
Of which: banking portfolio	**1,082**	**212**	**1,294**	1,779	246	2,025
Simultaneous decrease of 1 percent	**(1,398)**	**(389)**	**(1,787)**	(2,178)	(258)	(2,436)
Of which: banking portfolio	**(1,461)**	**(368)**	**(1,829)**	(2,144)	(246)	(2,390)
Non-simultaneous changes						
Steepening[(b)]	**1,443**	**66**	**1,509**	1,814	(59)	1,755
Flattening[(c)]	**(1,310)**	**(14)**	**(1,324)**	(1,496)	85	(1,411)
Short-term interest rate increase	**(663)**	**130**	**(533)**	(500)	83	(417)
Short-term interest rate decrease	**723**	**(123)**	**600**	567	(77)	490

Comment: the table presents the change in the net adjusted fair value of all the financial instruments, under the assumption that the noted change occurred for all interest rates in all linkage segments.

Effect of scenarios of interest rate changes on net interest income and on noninterest finance income:[d]

	December 31					
	2018			2017		
	In NIS millions					
	Interest income	Non-interest finance income	Total*	Interest income	Non-interest finance income	Total*
Simultaneous changes						
Simultaneous increase of 1 percent	**591**	**226**	**817**	508	310	818
Of which: banking portfolio	**591**	**281**	**872**	508	315	823
Simultaneous decrease of 1 percent	**(591)**	**(223)**	**(814)**	(508)	(244)	(752)
Of which: banking portfolio	**(591)**	**(281)**	**(872)**	(508)	(315)	(823)

(a) Fair value, net of the financial instruments, excluding non-monetary items and after the effect of the employee benefits obligation and attribution of demand deposits for the periods.
(b) Steepening - short-term interest rate decrease and long-term interest rate increase.
(c) Flattening - short-term interest rate increase and long-term interest rate decrease.
(d) The exposure to a 1% interest rate decrease is based on the interest rate on credit and deposits being reduced by the same rate. Since currently, the interest rate on most deposits is less than 1 percent, and there is a low probability that the interest on deposits will fall below 0 percent, the above exposure calculation should be considered a measure in line with the accepted standards.

* After netting effects.

Capital exposure to an immediate increase or decrease in interest rates (before tax)

	Exposure in NIS			Exposure in foreign		
	As at December 31 2018					
	To a 1 percent increase	To a 1 percent decrease	To a 0.1 percent increase	To a 1 percent increase	To a 1 percent decrease	To a 0.1 percent increase
Capital exposure to an immediate increase/decrease in interest rates[a]	**1,336**	**(1,685)**	**147**	**(519)**	**473**	**(52)**

	As at December 31 2017					
	To a 1 percent increase	To a 1 percent decrease	To a 0.1 percent increase	To a 1 percent increase	To a 1 percent decrease	To a 0.1 percent increase
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 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 December 31 2018 - to be a NIS 122 million decrease in the value of the assets (on December 31 2017 - NIS 134 million) under a scenario of a 1 percent 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.

During 2018, the Group complied with all interest exposure restriction set by the Board of Directors.

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

B. Basis Risk (Foreign Currency and CPI)

Linkage basis risk is the risk of loss as a result of changes in the consumer price index or foreign exchange rates, due to the difference between the value of the assets and the value of the liabilities, including in respect of future transactions in each of the linkage bases.

Leumi is active in currency markets through spot, forward and option transactions both for its customers and its own account. Transactions in derivatives in the banking portfolio are mainly used to financially hedge the balance sheet activity. These, however, are not considered a perfect hedge under accounting principles, and therefore affect the accounting profit and loss as a result of the difference in accounting for balance sheet assets and liabilities and derivatives. The effect is managed, monitored and reported to the Investment Committee and Assets and Liabilities Management committee.

The linkage basis exposure is managed according to the Board of Directors' restrictions.

Actual group-level economic exposure; the data are presented as a percentage of the active financial capital

	Actual position	
	December 31	
	2018	2017
	In %	
Unlinked	**(16.5)**	(10.7)
CPI-linked[(a)]	**14.3**	9.6
Foreign currency	**2.2**	1.1

(a) The exposure does not account for the effect of index floors on the capital invested in the segment.

In 2018, the average percentage of capital invested in the CPI-linked segment was 14.1 percent; the rate fluctuated over the year between a surplus of 11.3 percent and 19.4 percent of the exposed capital. A relatively small percentage of capital was invested in the foreign currency segment; as a result, the effect of exchange rate changes on the profit is immaterial.

For quantitative information regarding balances in the linkages bases, please see Note 31.

The sensitivity to changes in the exchange rates of the main currencies as at December 31 2018. The measurement relates to the effect of the changes on the Bank's capital and includes the balance sheet and off balance-sheet instrument activity

	USD	Euro	GBP	CHF	YEN
	In NIS millions				
10 percent increase in the exchange rate	**211**	**(30)**	**11**	**(2)**	**(1)**
10 percent decrease in the exchange rate	**(243)**	**47**	**(9)**	**1**	**3**

The sensitivity to changes in the CPI as at December 31 2018. The measurement relates to the effect of the changes on the Bank's capital and includes the balance sheet and off balance-sheet instrument activity

	Effect of the changes on the
	In NIS millions
A 3% increase in the CPI	**152**
A 3% decrease in the CPI	**(547)**

B. Investment in Shares and Funds

The Bank has defined the Group's investment policy, including restrictions both on the overall investment amount and the amount per company, the investment mix and the different risk levels for various types of investments.

Exposure of the share and fund investments in the banking portfolio

	Carrying amount and fair value	
	December 31	
	2018	2017
	In NIS millions	
Tradable shares and funds in the available-for-sale portfolio	**2,477**	1,936
Non-tradable shares in the available-for-sale portfolio	**1,079**	991
Total	**3,556**	2,927

For additional qualitative and quantitative information regarding the share price risk, please see the Section entitled Investment in Shares and Funds in the Risk Management Report on the Bank's website.

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

Liquidity and Financial Risk

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. As of January 1 2017, the minimum liquidity coverage ratio for the Bank and the Group is 100 percent.

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.

The banking corporation's liquidity coverage ratio (regulatory model) is based on an average of daily observations.

	As at December 31	
	2018	2017
	In %	
A. Consolidated data		
Liquidity coverage ratio	**121**	122
Minimum liquidity coverage ratio required by the Banking Supervision	**100**	100
B. Banking corporation's data		
Liquidity coverage ratio	**122**	122
Minimum liquidity coverage ratio required by the Banking Supervision	**100**	100

The Bank has a contingency plan in place for handling a liquidity crisis, which includes a system of warning signs that may indicate a shift in the Bank's liquidity position. On the appearance of warning signs, a special forum will convene to assess the situation and examine the need to activate the plan, based on the level of severity. The plan includes detailed operational measures outlining, among other things, the order of asset disposal, customer care policies, and systems of reporting to all business entities, the Board of Directors and the Bank of Israel.

For additional qualitative and quantitative information regarding liquidity risk, please see the Section entitled "Liquidity Risk" in the Risk Management Report on the Bank’s website, as well as Note 32.

Financing risk is the risk of an insufficiently stable financing source structure which fails to serve its designated uses in the long term.

Over the years, the Bank has managed an extensive and diversified infrastructure of stable financing sources for various time periods. The Bank’s main source of financing is deposits from retail customers. In addition, the Bank finances its activity through deposits made by commercial and business customers and by issuing notes payable. The sources are managed on an ongoing basis, separately for NIS and foreign currencies. About 32.5 percent of the deposits by the public are made in foreign currency. The Bank has a wide range of foreign currency sources from foreign retail, business and financial customers. In the past year, there was in increase in financial deposits and a decrease in retain deposits. The excess deposits over foreign currency credit is invested in liquid assets and short-term swaps. Sources of foreign operations are invested in credit and liquid assets, mainly low-risk bonds.
There was an increase in shekel-denominated retail deposits during the year, mainly towards its end, and a decrease in financial deposits during the reporting period, mainly due to the coming into force of Amendment 28 to the Joint Investment Trust Law. During the reporting period, the Bank issued bonds totaling NIS 1.3 billion as well as CoCo-type bonds totaling a net NIS 0.8 million.

The concentration of financing sources is managed and monitored using risk management indicators and models. The Bank performs follow-up on the composition and concentration of sources by several categories: customer size and type, single depositor, deposit’s life, typical behavior over time. The ongoing management of the sources’ composition includes developing a policy for source diversification and financing periods. The concentration of the sources is controlled and managed by the Bank as part of its liquidity risk management. Ongoing daily measurement of the liquidity indicators, minimum coverage ratio, and monitoring of warning signs enable dynamic management and follow up to ensure that the sources are sufficiently diversified, and that the liquidity status and trends are adequately supervised and controlled.

For additional qualitative and quantitative information regarding financing risk, please see the Risk Management Report on the Bank’s website.

Linkage Status, Repayment Periods and Liquidity Position

A. Linkage Status

According to the policy of managing the linkage balances, available capital is defined as total capital resources plus certain reserves less investments in investees and fixed assets, invested mainly in unlinked shekel assets and CPI-linked assets.

Following is a summary of the linkage balances, according to Note 31

	December 31					
	2018			2017		
	Unlinked	CPI-linked	Foreign currency[b]	Unlinked	CPI-linked	Foreign currency[b]
Total assets[a]	**304,322**	**45,082**	**129,323**	308,030	45,279	116,881
Total liabilities[a]	**273,381**	**44,890**	**132,473**	276,310	47,731	119,837
Surplus (deficit) of segment assets	**30,941**	**192**	**(3,150)**[c]	31,720	(2,452)	(2,956)[c]

(a) Including forward contracts and options.
(b) Including foreign currency-linked.
(c) The excess foreign currency liabilities stems mainly from a coverage transaction against a tax exposure in respect of investments in the Bank's foreign operations, investment in shares and funds classified as a non-monetary item.

The ongoing management and reporting of the Bank's exposure to basis risks are made in line with the economic approach, which includes adjustments and additions to the accounting approach presented above. The basis exposure calculated according to the economic approach is detailed in the Section entitled "Risk Exposure and Management Thereof".

In 2018, the deposits by the public grew by a total of NIS 4.3 billion (including subordinated bonds and capital notes). The loans to the public increased by NIS 3.2 billion; investments in bonds declined by NIS 2.1 billion; deposits with banks, net, decreased by a total of NIS 0.7 billion.

Following are the main changes which occurred during 2018 in the main operation, by linkage segments

Unlinked NIS segment

The portion of monetary assets in the unlinked shekel segment out of total monetary assets is 64 percent.

Most of the activity in this segment is short-term.

Loans to the public decrease by a total of NIS 0.5 billion, or 0.3 percent.

The amount of cash and deposits with banks, net was down NIS 4.3 billion and the amount of investment in securities was down by NIS 1.6 billion.

In 2018, there was a NIS 5.4 billion decrease, representing a 2.3 percent growth in shekel deposits.

The balance of net derivative transactions in the segment was NIS 23.1 billion as at December 31 2018, a NIS 3.8 billion increase compared to December 2017.

CPI-linked segment

In 2018, the amount of loans to the public was up by NIS 0.2 billion, a 0.4 percent increase, and investments in securities were down NIS 0.3 billion.

CPI-linked deposits, including subordinated bonds, were down by NIS 0.1 billion.

The balance of net derivative transactions in the segment was NIS 4.2 billion as at December 31 2018, a NIS 0.8 billion decrease compared to December 2017.

Foreign currency and foreign currency-linked segment

The portion of monetary assets in the foreign currency segment out of total monetary assets is 27 percent.

Loans to the public in this segment constitutes 35 percent of the total deposits by the public. In 2018, the loans amount was up NIS 3.5 billion, a 9.2 percent increase.

Investment in foreign-currency securities totaled NIS 35.3 billion, a NIS 0.1 decrease compared to December 2017.

Net deposits with banks were up NIS 3 billion.

Since the beginning of 2018, foreign currency deposits by the public were up NIS 9.9 billion, or 9.1 percent.

The excess of net foreign currency forwards over net shekel forwards in December 31 2018 was NIS 26.4 billion, a NIS 1.5 billion increase compared to December 2017.

B. Repayment Periods

In 2018, as in recent years. the Bank was characterized by a high level of shekel liquidity, mainly as a result of the Bank's express policy to raise funds from stable and diverse resources, by raising deposits from a large number of customers for various time frames, including long-term.

About 29.7 percent of the Bank's assets are deposited for short terms in banks and invested in tradable securities, especially government bonds.

In 2018, the Bank met all of the liquidity restrictions in the various scenarios, pursuant to the policy, which aims to secure robustness even under theoretical severe stress scenarios.

Following are the future cash flows of the assets and liabilities by repayment periods and linkage basis (including derivatives and excluding non-monetary items) (for more information, please see Note 32.

According to the directives of the Bank of Israel, cash flows for a liability with several repayment dates shall be classified according to management's assessment, at its discretion, or according to the earliest contractual payment date.

According to a circular published by the Bank of Israel in September 2013, a banking corporation is required to present its cash flows in respect of assets and liabilities separately for shekels (including shekels linked to foreign currencies) and foreign currencies. In addition, cash flows in respect of net settled derivatives shall be classified into shekels or foreign currencies according to the currency in which it is settled. Off-balance sheet amounts of these derivatives may not be reported.

Excess assets over liabilities*

	As at December 31 2018		
	NIS	Foreign currency	Total
Term to repayment:	In NIS millions		
Up to one month	**(102,611)**	**(47,801)**	**(150,412)**
1-12 months	**16,894**	**(3,511)**	**13,383**
1-5 years	**67,125**	**33,467**	**100,592**
5-10 years	**40,347**	**14,120**	**54,467**
Over 10 years	**47,475**	**8,917**	**56,392**
Without repayment date	**1,585**	**2,754**	**4,339**
Total	**70,815**	**7,946**	**78,761**

	As at December 31 2017		
	NIS	Foreign currency	Total
Term to repayment:	In NIS millions		
Up to one month	(96,427)	(52,737)	(149,164)
1-12 months	5,233	16,045	21,278
1-5 years	69,058	18,484	87,542
5-10 years	38,610	13,481	52,091
Over 10 years	41,928	5,386	47,314
Without repayment date	2,882	1,836	4,718
Total	61,284	2,495	63,779

* Less excess (deficit) in balances for derivatives.

For information regarding the description of the main policy highlights, means of supervision and implementation of the policy, as well as the restrictions normally employed in managing market risks - including the basis and liquidity risks - please see the Section entitled "Market Risks".

C. Liquidity Position and Raising Financial Resources

Liquidity position and raising financial resources from the Bank

The liquidity surplus levels of the banking industry in Israel continued to be high in 2018. To absorb the surplus, the Bank of Israel conducts monetary tenders each day, week and liquidity period.

During 2018, the Bank of Israel purchased $3.3 billion in foreign currency, $1.5 billion of which were purchased as part of the plan to offset the effect of the natural gas royalties on the exchange rate.

The Bank of Israel's foreign currency purchases had an expansionary effect on the shekel liquidity surplus in the banking industry.

However, in 2018, there was a decrease in the industry's shekel liquidity, mainly due to excess government bond issues and short-term bond redemptions.

The composition of the Bank's assets and liabilities continues to indicate a high level of liquidity, as a result of a policy intended to raise funds from stable and diverse resources, with emphasis on raising resources from a large number of customers, diverse customer segments, for different time frames and in various currencies.

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.

The balances of the banking industry (current accounts and monetary deposits) in the Bank of Israel as at the end of December 2018, was NIS 230 billion, compared with NIS 235 billion as at the end of December 2017.

Leumi's balances (current accounts and monetary deposits) in the Bank of Israel as at the end of December 2018 was NIS 64 billion, compared with NIS 66 billion as at the end of December 2017.

The balance of cash and deposits with banks as at December 31 2018 was NIS 77.0 billion, compared with NIS 76.0 billion as at the end of 2017, a 1 percent increase.

In addition, the Bank has a securities portfolio valued at NIS 67 billion, which is invested primarily in Israeli government bonds, foreign government bonds and bonds of foreign banks, compared with a balance of NIS 71 billion as at December 31 2017.

During the reviewed period, the off-balance sheet monetary assets were down by NIS 26 billion, amounting to a total of NIS 670 billion.

The deposit balances of the three largest depositor groups totaled NIS 23,577 million as at December 31 2018.

Main regulatory restrictions on the transfer of liquid means or regulatory capital between the Group's companies in Israeli and foreign operations are as follows:

1. The Bank of Israel does not restrict the Bank's deposits with the Group's subsidiaries in Israel and abroad, but has imposed restrictions on the Bank's capital investments in foreign companies abroad. Any increase in investment or a decrease in holding any type of means of control to less than 80 percent requires prior approval by the Bank of Israel.
2. The US subsidiary - The US authorities restrict local banks from any type and extent of exposure to related companies. The maximum allowed exposure rate to a related company is 10 percent of the Bank's equity capital in the United States, and the US subsidiary's maximum allowed exposure to the Group is 20 percent of its equity capital.
3. The UK subsidiary (BLUK) - The UK authorities restrict local banks from any type and extent of exposure to related companies. BLUK's maximum rate of exposure to the Group's companies (excluding Bank Leumi of Israel Ltd.) is 25 percent of the UK Bank's equity. Under a waiver issued by the British regulator, the UK subsidiary may increase its exposure to Bank Leumi of Israel Ltd. to 100 percent of the Bank's equity capital in England.
4. The Romania subsidiary - The UK authorities restrict local banks' exposure to related companies. The Romanian bank's maximum rate of exposure to the Group's companies - including Bank Leumi of Israel Ltd. - is 25 percent of the Romanian bank's equity capital.

Operational Risks

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

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

The risk management approach is consistent with the Leumi Group's strategy, constitutes a basis for defining its risk tolerance, the manner of managing risk and corporate governance and determining the focus and emphases in operational risk management processes, allowing for informed and well-focused risk management as well as prioritizing tasks and resources.

The regulatory capital required in respect of operational risk is calculated using the standardized approach in the capital adequacy measurement directives of the Banking Supervision Department.

To mitigate potential damage in the event of risks materializing, the Leumi Group has purchased a variety of insurance policies covering various operational risks, including, inter alia, a directors' insurance and officeholder insurance policy as well as a cyber-insurance policy.

Corporate Governance Structure

The Group's operational risk is managed through three lines of defense and involves an ongoing proactive process to identify, assess, measure, control, minimize, monitor and report the material risks performed by all divisions.

The operational risk policy and management framework

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

To allow the Board of Directors and management to exercise appropriate corporate governance, operational risk tolerance was defined through quantitative restrictions and qualitative declarations.

The operating risk profile is periodically monitored and reported on a quarterly basis to the Bank's management and Board of Directors, serving as a basis for decision-making.

Main operational risk areas

Information security and cyber risk

Leumi continues to promote the provision of financial services through digital platforms and expands the use of advanced technologies. As a result, the risk of cyber-attacks is growing, and Leumi's exposure to the materialization of cyber risks grows.

Cyberspace is highly dynamic and characterized by uncertainty in terms of the type, scope and force of the attacks. A materialization of a cyber-event may result in monetary damage, theft of sensitive banking information, disruption of activity and operational continuity and even damage to the Bank's reputation.

Managing cyber risk and protection are implemented by investing significant resources. The resources are invested according to the business strategy and risk tolerance.

As part of the efforts to reinforce cyber protection and manage cyber threats, Leumi developed a cyber-policy and takes measures to implement it. The policy emphasizes prevention of material events and developing tools and capabilities to handle them should they occur. Lately, the Bank formed a new Fusion Center for the purpose of implementing its cyber and information security approach in an optimal manner and improving its response and real-time event managing capabilities.

In 2018, no cyber incidents were discovered which affected the Bank's financial statements.

Technological risk

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

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

In light of the above, and in order to ensure that the systems are up to date, that the business and technological elasticity increases and to improve the system's stability, Leumi is at the final planning stages of a project to replace its core systems. This significant project will take several years to complete, and will have milestones in line with Leumi's business lines.

Business continuity risk

Leumi manages and implements processes with the purpose of allowing quick recovery in case of emergency and stress events, while minimizing the damage to the business activity. The processes include the following:

- A business continuity policy that defines corporate governance, principles, and the key processes in case of an emergency.
- Developing and implementing the overall work framework that includes business continuity plans, business impact analysis, recovery strategies and a drill methodology.
- Maintaining stability of technological infrastructures, providing recovery capabilities, including backup and recovery.

Outsourcing and supplier risk

Leumi contracts suppliers and sub-suppliers for various business needs and adopts new products and services developed by external entities. Its dependence on suppliers exposes the Bank to various risks, including business continuity, disruption and information leakage. Such risks are managed on an ongoing basis through the procurement, information security, business continuity and cybersecurity workflows.

Proper Conduct of Banking Business Directive No. 359A, Outsourcing

The purpose of the Outsourcing Directive is to enable banking corporations to implement strategic objectives, increase availability to customers, continue to streamline processes and boost 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 will become effective in March 2020. The Bank is preparing to implement the directive.

Proper Conduct of Banking Business No. 363, Supply Chain Cyber Risk Management.

The aim of the Supply Chain Cyber Risk Management Directive is to establish a banking corporation's responsibility to ensure cybersecurity when working with material suppliers and its duty to manage cybersecurity risks adequately when such outsourcers work on its premises – both on the banking corporation's premises and when using the outsourcers' interfaces with the corporation. The Bank is preparing to implement the directive.

For more information regarding the two directives, please see the section entitled "Laws and Regulations Governing the Banking System" in the financial statements.

Embezzlement and fraud

The digital workplace environment increases the intensity of embezzlement and fraud risks in terms of identity, money and information theft as well as customer information leaks and misuse of information.
Leumi invests significant resources in identifying and mitigating these risks through focused, ongoing monitoring.

Risks arising from restructuring

For several years, Leumi has aimed to adjust its activity model. In this context, it has made significant changes to its corporate structure, and has altered areas of responsibility, work procedures, controls, supporting systems as well as its workforce. Such changes may increase the operational risks in the short term, with emphasis on human error. Leumi attributes great importance to maintaining a robust control environment. As a result, the Bank has developed principles and an up-to-date operational approach with the aim of reducing the number of errors and minimizing the potential damage to the business activity.

For more information on operational risks, please see the Risk Management Report on the Bank's website.

Other Risks

Regulation and Compliance Risks

Regulation Risk

Regulation risk is the risk of legislative and regulatory changes affecting the income and expenses of the Group, its capital, areas of activity or the business environment in which it operates.

The Leumi Group operates in a complex and multi-dimensional environment. Continuous material changes in a variety of regulation fields require adequate, ongoing preparations by the Bank.

Lately, there is significant emphasis on provisions intended to encourage the entry of new competitors to traditional banking domains, while removing barriers and restrictions; as well as provisions intended to promote innovation in the financial system, such as: the provisions of the Law for Increasing Competition and Reducing Concentration in the Banking Industry in Israel, the Bank of Israel's new policy for founding a banking corporation; promoting adoption and implementation of the OpenAPI standard, which aims to enable sharing customers' financial information with third parties as well as new advanced payments legislation.

In addition, the consumer regulation trend continues, including legislation aiming to reduce costs for customers. At the same time, emphasis is made on adapting the various financing products to customers' needs, while providing maximum disclosure and stressing transparent and fair conduct.

Additional trends are manifested in handling the transition to e-banking, outsourcing and use of cloud computing in the financial system, as well as privacy protection and cyber defense. These topics are on the agenda both in Israel and globally, and are reflected in the GDPR requirements, which deal with privacy protection as well as specific cybersecurity and outsourcing directives.

The abovementioned changes affect and are expected to continue affecting the banking industry in the coming years. The Bank monitors and identifies relevant regulatory provisions and examines its preparedness to the following: changing market conditions; increased competition and transparency; entry of new players into traditional banking domains; the Bank's costs compared to those of other entities; use of databases and information of the Bank's customers by non-banking entities as well as providing adequate value propositions to the Bank's customers. At the same time, the regulation erodes income, increases compliance costs and requires constant improvement of the service and innovation levels.

Compliance Risk

Compliance risk is the risk of a legal or regulatory sanction being imposed, or a material financial loss or a reputational damage incurred, by the banking corporation as a result of failing to comply with the provisions of the law or regulations.

Proper Conduct of Banking Business Directive No. 308, Compliance and the Compliance Function in Banking Corporations, formally defines the compliance function's areas of responsibility at the Group level. The directive outlines the definition of compliance provisions and stipulates that compliance risk stems from laws, regulations, directives, internal procedures, conduct rules and Israel Security Authority's position papers. The directive stipulates that a bank must assess the effectiveness of its compliance risk management, and find means to measure it, with the compliance risk derived, as stated above, from the entire body of laws governing the Bank's activity.

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

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.

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

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

The complexity of and developments in banking activity requires the Bank to strictly comply with all applicable requirements in its relations with customers, under primary legislation, regulations, ordinances, permits and the Bank of Israel's directives, as well as global regulations and standards governing the Bank's activities.

The compliance function is responsible for managing the compliance risk derived from the compliance directives and similar directives: conflict of interest, conduct towards customers, money laundering and financing of terrorism, consulting customers, privacy protection (excluding IT aspects), as well as taxation aspects relevant to products or services provided to customers, all in line with the Banking Supervision Department's requirements. Insofar as the risk is derived from other provisions applicable to a banking corporation, the latter may be managed by other functions from the second line of defense.

Pursuant to the directive, a comprehensive compliance policy paper is revised and approved by the Board of Directors each year. The policy paper includes corporate governance issues such as the purviews of and Board of Directors, management and Chief Compliance Officer, and the three defense lines' respective areas of responsibility.

A methodology was established for assessing risk embodied in regulatory directives (compliance directives as defined by the new directive). Pursuant to the directive, the Compliance Department prepares a multi-year risk-oriented work plan, including a schedule for tasks and activities.

Maintaining a fair compliance culture across the entire organization requires an effective control and enforcement framework, which is outlined in work processes and enables the organization to comply with all regulations. To this end, strict compliance and enforcement processes have been established for all workflows and their compliance risks. The purpose of the control and enforcement framework is, among other things, to identify existing and potential gaps and exposures in order to determine whether work processes, procedures, training program and assimilation requirements need revision. The control processes are based, inter alia, on an analysis of the compliance regulations, internal and external audit findings, complaints by the public, legal proceedings against the Bank or other banks that may indicate possible compliance exposures, as well as analysis of trends and events in Israel and around the world.

The Department is in regular contact with subsidiaries in Israel and abroad, for the purpose of monitoring the implementation of compliance issues as a whole and implementation of the collective 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. 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 and highly experienced regulation on the one hand, and on the other hand – by professional complexity and the lack of practices incorporated into the control processes due to the novelty of the issues at hand.

b. Administrative enforcement

In January 2011, the Law of Efficiency of Enforcement Procedures in the Israel Securities Authority (Legislative Amendments), 2011 was passed into law by the Knesset. The aim of the law is to improve the enforcement efficiency in the field of securities laws. The law allows to impose various sanctions on a corporation which has violated relevant provisions, including its officers and employees.

Further to the law, the Israel Securities Authority published a list of criteria for recognition of an internal securities and investment management enforcement program (hereinafter: the "Criteria List").

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

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

c. FATCA - Foreign Account Tax Compliance Act

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

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

The 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. The Income Tax (Implementation of a Uniform Standard for Reporting and Due Diligence of Information on Financial Accounts) Regulations were approved on January 1 2019. The regulations are derived from the CRS agreement to which the State of Israel is a party.

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

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

Legal risk arises from five main areas:

- Legislation risk - risk attributable to the Bank's activity which does not comply with a primary or secondary legal provision, a Bank of Israel directive or a directive issued by other competent authorities.
- Contractual risk - risk attributable to the Bank's activity with customers, suppliers and other parties with whom the Bank contracts, if it is not backed by an agreement that fully establishes the Bank's interests, or the agreement is not fully enforceable or includes illegal terms and conditions.
- Court ruling risk – risk arising from the Bank's activity if it does not comply with case law.
- Risk attributable to legal proceedings conducted against the Bank.
- Risk arising from changes in enforcement policy.

Legal risk policy and management framework

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

The Group implements a program for managing legal risk, which aims to identify, prevent, manage and mitigate legal risk. The program includes policy papers and an interface between the Legal Counsel Division and units of the Bank, as well as internal procedures applicable to the Legal Division, the purpose of which is to ensure that legal counseling provided within the Bank is professional and up-to-date. The policy document has been revised periodically over the years, including in 2018.

The Group drew up a general policy paper, applicable to all subsidiaries, for managing legal risk, according to which each company prepared an internal procedure for managing legal risk in line with its activity and the Group’s policy. The internal procedures have been approved by the Legal Division and by the subsidiaries’ board of directors. According to the policy papers, the subsidiaries are required to seek adequate legal advice for certain issues. In addition, the companies send periodic and immediate reports to the Legal Risk Officer, as required by the policy paper. The reports were sent in a uniform format prepared by the Legal Counsel Division. In 2018, the procedures for managing legal risk and related controls were revised. In addition, a legal risk stress scenario was challenged and revised.

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

- Preventing and mitigating legal risk.
- Identifying and handling sources of material legal risk.

- Preparing adequate agreements, guidelines and procedures.
- Reviewing statutory provisions (including case law) and regulatory directives, and their implications for the Bank.
- Drawing conclusions on various topics and implementing the conclusions drawn in legal documents used by the Bank, as well as providing opinions on these topics to the relevant units in the Bank.

The parties responsible for executing the legal risk management program include various officials and committees within the Legal Counsel Division, headed by the Chief Legal Counsel - who also serves as Legal Risk Officer - whose function is to review, coordinate and handle new legislation and rulings applicable to the Bank.
The Regulation Unit in the Strategy and Regulation Department is engaged in identifying and, if necessary, handling new regulation (primary legislation, secondary legislation, directives issued by authorities), as early as the proposed law or regulation stage.

The activity of each of the abovementioned officials and committees is prescribed by internal work procedures of the Legal Counsel Division. The procedures stipulate, inter alia, the information interfaces between the various parties and the Division's management and legal risk team.

General legal exposure

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, the Israel Securities Authority and other regulators to which the Bank is subjected. Some engagements with customers last many years, in the course of which policies, regulations and legal trends, as well as court rulings, may change. The Bank and the consolidated companies use complex automated systems, which are adjusted on a regular basis in light of the changes as aforesaid. All these create an increased operating and legal exposure.

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

Reputational Risk

Reputational risk is the risk of compromising shareholders' and various stakeholders' trust in the Leumi Group, as a result of conduct, action, or omission by the Group, its employees or other involved parties.

Reputational risk refers to the perceptions of the shareholders, stakeholders, the public, influencers and the media, whether they are based on facts or otherwise. Reputational risk is dynamic and changes depending on various topics and populations.

The reputational risk management policy was approved by the Bank's management and Board of Directors with the approach that trust is vital to business activity. The policy defines the organizational structure and areas of responsibility supporting the management of reputational risk.

Strategic Risk

Strategic risk is a business risk the damage of which is material and touches upon the Bank's business model or upon one of its material business lines. In fact, this type of risk may have an effect on profit that is insignificant in the immediate term, but which may become significant in the long term. Strategic risks include threats which may arise from erroneous business decisions, inappropriate implementation of decisions or lack of response to industry-specific, economic, regulatory and consumer or technological changes.

The main strategic risk stems from the fact that the financial service industry is undergoing significant digitalization changes. The opening of the banking industry to competition and the entry of new players - such as BigTech (Google, Amazon, Facebook and Apple), Fintech companies, insurers and non-banking credit companies - requires adjustment of the business model. In addition, the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (the “Strum Law”) includes components which could strategically impact the competitive map in Israel. One of its direct consequences for Bank Leumi is the sale of Leumi Card. Another strategic topic is open banking.

Strategic risk management is led by the Strategy and Regulation Department, with the involvement of the Risk Management Division and the Finance Division. These functions are in charge of identifying, mapping, assessing and monitoring this risk for all of the Bank’s units and the Board of Directors.

In view of the new trends and significant changes introduced into its operating environment, Leumi adopted two main courses of action, the combination of which is at the core of the Group strategy. On the one hand, the Bank strives to adapt its traditional banking models without compromising the high-quality professional services it provides to all customer types according to their needs, preferences and willingness to adopt digital innovation; on the other hand, the Bank develops its "New Banking" model through digital and technological channels. These two courses of action depend on and are combined with the need to streamline the Bank’s activity and maximize capital utilization while meeting capital adequacy targets.

For more information, please see the section entitled “Strategic Risk” in the Risk Management Report.

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 claims, fines or reputational damage.

The Bank adheres to transparent and fair practices in an effort to provide its customers with valuable services and products. This principle is reflected in the Bank's vision – to champion proactive, high-quality banking for its customers. In addition, the proactive and sale processes are subject to procedures and controls which ensure proper conduct. These processes are assessed on a regular basis, with the aim of continuously upgrading them.

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, some risks have risen from possible international trade developments, especially the trade relations between the US and China. If the situation escalates to an ongoing "trade war", it may have an adverse effect on global growth. As a result, the Israeli economy may be indirectly affected as well.

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

Risk Profile - Defining Risk Factors' Severity

The methodology for classifying the severity of the exposures to various risks, as depicted in the risk factor severity table below, is based on quantifying the effect of various scenarios being realized on the Group's capital, i.e. its stability. There are five levels of severity, with a highly severe risk defined as damage leading to a decrease of the capital adequacy ratio of Common Equity Tier 1 Capital under the risk appetite level (a CET1 capital ratio of 6.5 percent). The classification into other risk levels is made as a function of the potential damage to the Group's Common Equity Tier 1 capital adequacy and a relevant subjective assessment. Factors affecting the assessments include various considerations, such as: risk management processes, effect of interaction with other risks and changes in the external risk environment which can increase or decrease the severity of the risks beyond the quantitative damage to the Bank's capital. The subjective assessment also includes "expert assessments" by relevant functions in the Bank. In cases where a specific quantitative scenario does not adequately express the severity of a risk factor, greater weight will be given to a qualitative estimate.

In light of the above, it should be emphasized that the effect of the various risk factors varies among the banks, so extra care should be exercised in making various comparisons.

Some of the information in this Section constitutes forward-looking information. For the meaning of the term, please see under "Forward-Looking Information."

Risk factor severity

	Risk	Definition	Level of severity*
1	Total credit risk	The Bank's risk of loss as a result of the possibility that a counterparty fails to meet its commitments towards the banking corporation. This relates to balance-sheet and off-balance-sheet risk.	Moderate
1.1	Borrower and collateral quality risk	Risk in respect of default by a borrower or counterparty which causes them to fail to meet their contractual financial obligations, such as default by a borrower or counterparty in derivatives and the residual risk in respect of failure to realize a collateral.	Moderate
1.2	Concentration risk of a large borrower or group of borrowers	The credit risk arises from the borrowers' relatively large portion of the Bank's loan portfolio.	Low
1.3	Concentration risk per industry or segment	The credit risk arises from concentration of loans to borrowers in certain economic sectors or segments.	Moderate
2	Total credit risk	Risk of exposure of the Group's assets to changes in foreign exchange rates, inflation and asset prices, the correlation between them and their volatility.	Low to moderate
2.1	Basis Risk	The risk arising from exchange rate fluctuations, including inflation (held-for-trading and banking portfolios).	Low
2.2	Interest rate risk	The risk arising from interest rate fluctuations (held-for-trading and banking portfolios).	Low to moderate
2.3	Interest spread and share price risk	The risk arising from fluctuations in share and bond prices in the held-for-trading and banking portfolios in respect of assets revalued to market prices.	Low to moderate
3	Liquidity Risk	The risk arising due to the inability to withstand uncertainty as to the ability to raise funding and/or dispose of assets, unexpectedly and within a very short time, without incurring a substantial loss.	Low
4	Operational risk	The risk of loss arising from deficiencies or failures of processes, large projects, people or systems or external events. This risk includes legal risk but does not include strategic risk or reputational risk.	Moderate
4.1	Cyber risk	A risk arising from attack on the IT systems and/or IT infrastructure, which may result in information theft, in theft of financial assets (cash and cash equivalents) and/or disruption to the operational continuity (by disrupting information and/or compromising availability).	Moderate
5	Legal and regulatory risk	Total risks included in the legal risk and regulation risk outlined in the report.	Moderate
6	Compliance Risk	Risk arising from non-compliance with legal provisions and binding regulations.	Moderate
7	Reputational Risk	The risk that negative publicity will reduce the customer base, cause a decline in income or liquidity or lead to high legal expenses.	Low to moderate
8	Pension Risk	Total risks related to various employee-related liabilities.	Low to moderate
9	Strategic Risk	A business risk that includes current and future adverse effects on capital, profits, reputation or standing as a result of erroneous	Low to moderate

	Risk	Definition	Level of severity*
		business decisions, inappropriate implementation of the decisions or lack of response to industry-specific, economic, regulatory and technological changes.	
10	Global systemic risk	Risks caused due to global external events which may bring about the materialization of several risks at once.	Moderate to high
11	Local systemic risk	Risks resulting from local events which may lead to the materialization of several risks at once.	Moderate

* In reference to a possible damage to the capital adequacy and subjective assessment of risks that are not easily quantifiable. The level of risk does not express the probability for its occurrence but rather the damage to the Bank if the scenario were to materialize.

Accounting Policies and Estimates on Critical Issues

Overview

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.

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 actual results of these line items may differ from the estimates and/or assessments.

Note 1 provides a detailed description of the accounting policy applied by the Leumi Group.

Set forth below is a condensed description of principal critical accounting issues which required management to make estimates and assumptions and which were discussed by the Board of Directors, management and the joint auditors.

Provision for Loan Losses and Classification of Troubled Debts

Measurement and disclosure of non-performing debts, credit risk and loan loss provision

Collective provision

The collective provision reflects an estimate of credit losses based on past losses in respect of debts with similar characteristics, with adjustments made for current risk assessments. This provision for loan losses is made in respect of large groups of relatively small and homogenous debts and in respect of specifically-assessed debts that were found to be unimpaired.

The method of determining a collective loan loss provision is in accordance with the requirements of the Reporting to the Public Directives, the main points of which are as follows:

- Loans to the public are split according to industry. For each industry, two rates of collective provisions are determined: one in respect of non-troubled debts, and the other - higher - for troubled debts (debt classified as “under special supervision" or "substandard"). These rates are based on past losses (the average of the net write-offs in the current year and in the previous full calendar years, since 2011).
- The rate of past losses is added to the "quality adjustment factor" - an additional coefficient for environmental factors relevant to the prospects of collecting the credit ("quality adjustments”), such as: industry-specific characteristics; the local economy’s characteristics; and the composition and quality of the loan portfolio. To calculate the "quality adjustment factor", the Bank applies an internal formula which takes into account a wide range of indicators.

The provisions calculated and made in respect of all the debts - both balance sheet credit and off-balance sheet credit instruments - with the off-balance sheet credit multiplied by a conversion coefficient according to the type of instrument and in accordance with the directives of the Supervisor of Banks.

According to the Bank of Israel’s guidance, the rate of adjustments in respect of environmental factors shall be no less than 0.75 percent of the outstanding performing loans to private individuals as at that date, and the rate of collective provision for housing loans shall be no less than 0.35 percent of the outstanding loans.

Classification of troubled debts and specific provision

The Bank assesses the loan portfolio on an ongoing basis and in accordance with procedures in order to identify, as soon as possible, borrowers whose risk level and exposure increased and who require special supervision and close monitoring by management, either due to risk characteristics or as a result of economic/market conditions that might have an adverse effect on the borrowers, aiming to improve their condition. As to corporate and commercial customers, judgment is exercised by corporate department’s employees dealing with the borrower in order to assess the extent of the problem, which is then assessed by the Credit Risk Management units of the Risk Management Division with the aim of making an objective assessment, to the extent possible, of the identified problems in order to determine the borrower’s risk level.

Retail Division's customers whose obligo exceeds NIS 1 million are specifically identified and assessed by the Division in order to determine whether their debts should be classified as troubled debts; all other borrowers are assessed for this purpose as a group of homogenous and relatively small debts and a collective provision is made in respect thereof.

As part of its credit risk management activities the Bank applies a methodology for identifying troubled debts, which is applied to each of the business lines (in accordance with its unique characteristics). The methodology includes a structured quarterly work process designed to thoroughly review the loans portfolio based on a number of criteria that detect early indicators of a debt's classification as a troubled debt. This process is carried out as part of the Bank's dealings with customers who are defined as "sensitive customers". An additional quarterly loan control process is implemented by the Corporate and Commercial Division dealing with the Bank's large and medium-sized customers. As part of this process, the Bank assesses the credit risk of borrowers whose risk level does not justify their classification as "sensitive customers".

The methodology for dealing with troubled debts requires, among other things, a methodical assessment of the adequacy of the loan loss provision in respect of debts classified as "non-performing". The provision is assessed according to the difference between the recorded outstanding balance of the debt and the present value of the future cash flows expected to service the debt from the customer's activity and the realization of the collateral and other assets, discounted at the effective interest rate of the debt. For debts the repayment of which relies on collateral (collateral-contingent debts) and there are no other available and reliable sources of repayment, the provision is determined based on the fair value of the collateral less disposal costs of and after triggering buffers in respect of the collateral's value so that it will be possible to realize the collateral and have the debt repaid therefrom.
The adequacy of the provision is assessed on a quarterly basis when the Credit Risk Management units of the Risk Management Division (or the Commercial Loans Department of the Banking Division, according to the department to which the customer belongs) approve the adequacy of the provision made by the business units. In addition, the Bank assesses the repayment capacity of customers whose debt are classified into other debt categories (loan under special supervision and substandard loan).

The abovementioned process of loan classification and assessment of potential losses from the loans portfolio involves, among other things, subjective estimates that impact the classification of the loans and the amount of the loan loss provision.

According to revised Proper Conduct of Banking Business directives, the Risk Management Division is responsible for setting appropriate classifications and allowances for credit losses. In addition to the discussions held by business divisions' managements and by representatives of the Risk Management Division, the Bank's Provisions Committee, headed by the President and CEO, holds quarterly discussions as to the aggregate amount of the provisions required for that quarter and the classification of specific provisions (in excess for a stipulated threshold amount).

Derivative Instruments

Pursuant to the Supervision of Banks Department's Financial Reporting Directives, the Bank applies the provisions of Topics 815 and 820 as amended, in connection with accounting treatment applied to derivative instruments and the presentation thereof.

Fair value is the amount/price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between a willing seller and a willing buyer at measurement date. Among other things, the standard requires to maximize the use of observable inputs and minimize the use of unobservable inputs in fair value measurement. Observable inputs represent market data obtained from independent sources, whereas unobservable inputs reflect the Banking corporation's assumptions.

The standard requires incorporating the credit risk and the non-performance risk into the fair value measurement of a debt, including derivative instruments, which were issued by the Bank and are measured at fair value. Non-performance risk includes, but is not limited to, the Bank's credit risk.

Specific directives were set as to the methodology and inputs to be used in calculation of derivative instruments' fair value. The Bank calculates the credit risk provision at customer level, using a credit quality index, based on internal valuation models or market inputs.

The credit risk provision in the 2018 financial statements was calculated using a model that takes into consideration various potential exposure scenarios.

In a few cases where the Bank does not have a mathematical model for revaluation derivative instruments, the fair value is determined according to quotes received from entities trading these instruments. Although quotes are received from reliable brokers with whom the Bank has elected to work, it is not certain that the quotes reflect the price obtainable in an actual transaction in any amount, and especially in large-amount transactions.

For more information regarding measurement of fair value, see Note 1G.

Securities

Securities, except for held-to-maturity bonds, are stated in the balance sheet at fair value. Shares for which no fair value is available are presented at cost.

The fair value of Israeli securities is based mainly on quoted prices on the Tel Aviv Stock Exchange; the fair value of foreign securities is based on prices received from external sources. As to fair value of foreign securities, most of the portfolio is calculated on a daily basis by a reputable international entity engaged in fair value measurement for purposes of disclosure in financial statements. This entity is not dependent on issuing and marketing entities. The calculation is mainly based on transaction prices in active markets and on revaluation of similar transactions. The calculation reflects the price that a willing buyer would pay for securities based on current observable market inputs. Since only some of the securities are traded worldwide on a daily basis, the revaluing entity establishes its data for purposes of determining a price by applying a pricing algorithm to actual transactions and quotes from global and domestic banks, brokers and stock exchanges. If little or no market inputs are available, the revaluing entity uses sophisticated valuation models, taking into consideration the issuing entity's identity and the relevant industry.

Fair value of non-tradable bonds of Israeli companies is based on inputs received from "Fair Spread Ltd." The Bank validated the model and verified the fair value to a reasonable degree of certainty.

Sometimes, for reasons of conservatism, when there are indicators justifying such adjustments, the Bank adjusts the model and/or market price in order to establish a more accurate fair value.

For more information, please see the Section entitled “Structure of, and Changes in, Assets, Liabilities, Capital and Capital Adequacy", under "Securities".
For more information regarding measurement of fair value, see Note 1G.

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 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.

Set forth below is a quantitative sensitivity analysis of the impact of principal assumptions on the calculation of the actuarial liability:

A 1.0 percent decrease in the discount rate of the abovementioned liabilities will result in a NIS 2.5 billion increase in total liabilities. A 1.0 percent decrease in pay rises will result in a NIS 499 million decrease in total liabilities. A 5.0 percent increase in the life expectancy will result in a NIS 251 million increase in total liabilities. All amounts are stated before the tax effect.

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 employee benefits is on the Israel Securities Authority's website, on the following address www.magna.isa.gov.il.

As at December 31 2018, the balance of accumulated other comprehensive income for employee benefits amounted to a negative post-tax balance of NIS 1,763 million, a NIS 1,187 million decrease after taxes, compared with December 31 2017.

The outstanding balance of the liability for employee benefits as at December 31 2018, according to a discount rate based on Israeli corporate bonds ("deep market according to the Israel Securities Authority's approach") is NIS 529 million higher than the actual outstanding balance of the liability.

Liabilities for Legal Claims

The Bank's liabilities include provisions for various legal claims ledged against the Bank, including motions to approve claims as class action. The provisions are determined based on management's estimates according to legal opinions.

The Bank's Provisions Committee, headed by the Company's President and CEO, and the Board of Directors' Audit Committee hold quarterly discussions on provisions in respect of legal claims lodged against the Bank whose amounts exceeds a certain threshold.

In order to assess the exposures arising from legal claims lodged against the Bank, management relies on the opinion of external legal advisors representing the Bank in those legal claims.

These legal opinions are issued by the external legal advisors according to the best of their judgment, based on the facts presented to them by the Bank and based on the legal position (set out in law and case law) as known on assessment date, and which are quite often subject to interpretation and to potential conflicting arguments.

The assessment of the risks inherent in motions to approve legal claims as class actions is a complex process since this is a developing field and laws and case law relating thereto are still being established, even with regard to important aspects thereof. Furthermore, in view of the preliminary stage of some legal claims, the legal advisors are unable to assess the risk arising therefrom, even under the aforesaid limitations.

In view of the above, the actual outcomes of the legal claims may be different than the provisions made in respect thereof.

Income Tax

Through December 31 2016 the Group applied IAS 12 in line with the provisions set in the Reporting to the Public Directives on the subject of taxes on income as from January 1 2012.

Current and deferred taxes are carried to the income statement or directly to equity if they arise from items that are recorded directly in equity.

As from January 1 2017 the Group applies US GAAP to taxes on income pursuant to a circular published by the Supervision of Banks Department on October 22 2015 on “Reporting by banking corporations in Israel according to US GAAP on the subject of taxes on income” and pursuant to a circular published on October 13 2016 on “Reporting by Banking Corporations Pursuant to US GAAP”.

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable income for the tax year calculated at the applicable tax rates under tax laws that have been enacted as of balance sheet date.

Deferred taxes

Deferred taxes receivable/payable are recognized in respect of temporary differences between the carrying amounts of assets and liabilities as reported in the financial statements and those taken into account for tax purposes. Deferred taxes are measured at the tax rates expected to apply to the temporary differences at the time the deferred tax assets are utilized, based on the tax rates and the tax laws enacted by the balance sheet date.

Deferred tax assets in respect of carryforward losses, tax benefits and deductible temporary differences are recognized in the books of accounts when it is more likely than not that the Group will have future taxable income against which it will be able to utilize its deferred tax assets.

Through December 31 2016, the Group did not record deferred taxes in respect of gains on investments in investees that the Group intends to hold and not to realize, and also in respect of dividends that are not expected to be distributed by investees.
From January 1 2017, the Group recorded deferred taxes in respect of gains on investments in investees the Group intends to continue to hold rather than dispose of, and also in respect of dividends that are not expected to be distributed by investees.

Controls and Procedures Regarding Financial Statements Disclosures

The directives of the Banking Supervision Department's 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 Banking Supervision Department'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 validated and updated material control processes and conducted effective evaluations of its entire system of internal 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 December 31 2018, no material change has occurred in the Bank's internal control over financial reporting which has had a material effect, or is reasonably expected to have a material effect, on the Bank's internal control over financial reporting.

Board of Directors

In 2018, Leumi's Board of Directors held 36 plenum meetings and its committees held 79 meetings.

At a meeting held on March 6 2019, the Board resolved to approve and publish the Group's condensed consolidated audited financial statements as at December 31 2018 and for the period then ended.

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

David Brodet
Chairman of the Board

Rakefet Russak-Aminoach
President and CEO

March 6 2019

Certification

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

a. I have reviewed the annual report of Bank Leumi of Israel Ltd. (hereinafter: the "Bank") for 2018 (hereinafter: the "Report").

b. 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.

c. To my knowledge, the financial statements 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.

d. 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 fourth quarter and has materially affected, or is reasonably expected to affect, the Bank's internal control over financial reporting; and

e. 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.

March 6 2019

Rakefet Russak-Aminoach
President and CEO

Certification

I, Omer Ziv, hereby certify as follows:

1. I have reviewed the annual report of Bank Leumi of Israel Ltd. (hereinafter: the "Bank") for 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 financial statements 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:

   (c) 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;

   (d) 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;

   (e) 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

   (f) The Report discloses any change in the Bank's internal control over financial reporting which occurred during the fourth 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.

March 6 2019

Omer Ziv
First Executive Vice President
Head of Finance Division

Certification

I, Shlomo Goldfarb, hereby certify as follows:

1. I have reviewed the annual report of Bank Leumi of Israel Ltd. (hereinafter: the "Bank") for 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 financial statements 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:

   (b) 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;

   (c) 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;

   (d) 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

   (e) The Report discloses any change in the Bank's internal control over financial reporting which occurred during the fourth 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.

March 6 2019

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

Report of the Board of Directors and Management regarding the Internal Control over Financial Reporting

The Board of Directors and management of Bank Leumi of Israel Ltd. are responsible for the creation and existence of adequate internal control over financial reporting (as defined in the Reporting to the Public Directives regarding the "Reporting to the Public Directives and Management"). The Bank's internal control system was designed to provide a reasonable degree of assurance to the Bank's Board of Directors and management regarding adequate preparation and presentation of financial statements published in accordance with Generally Accepted Accounting Principles and the directives and guidance of the Banking Supervision Department. Regardless of the level of their design, all internal control systems have inherent limitations. As a result, even if it has been established that these systems are effective, they can provide only a reasonable degree of assurance regarding preparation and presentation of financial statements.

Management, under the Board of Directors' supervision, has in place a comprehensive system of controls designed to ensure that transactions are carried out in accordance with management's authorizations, that assets are protected and that the accounting entries are reliable. In addition, management, under the Board of Directors' supervision, takes steps to ensure that the information and communication channels are effective and monitors execution, including the execution of internal control procedures.

The Bank's management, under the Board of Directors' supervision, has assessed the effectiveness of the Bank's internal control over financial reporting as at December 31 2018, based on criteria established by the internal control model of the COSO (Committee of Sponsoring Organizations of the Treadway Commission).
Based on this assessment, management believes that, as at December 31 2018, the Bank's internal control over financial reporting is effective.

The effectiveness of the Bank's internal control over financial reporting as at December 31 2018 was audited by the Bank's joint independent auditors - Kost Forer Gabbay & Kasierer and Somekh Chaikin, as noted in their report, which included an unqualified opinion regarding the effectiveness of the Bank's internal control over financial reporting as at December 31 2018.

March 6 2019

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

Somekh Chaikin

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

Pursuant to the Reporting to the Public Directives of the Banking Supervision Department regarding internal control over financial reporting, we audited the internal control over financial reporting of Bank Leumi of Israel Ltd. and its subsidiaries (hereinafter, jointly - the "Bank") as at December 31 2018, based on criteria established by the 1992 Internal Control - Integrated Framework published by the COSO (Committee of Sponsoring Organizations of the Treadway Commission) (hereinafter – "COSO").

The Bank's Board of Directors and management are responsible for the existence of effective internal control over financial reporting and for their assessment of the effectiveness of the internal control over the financial statements, which is included in the Report of the Board of Directors and Management regarding the Internal Control over the attached financial report. Our responsibility is to express an opinion regarding the internal control over the Bank's financial reporting based on our audit.

We have prepared our audit in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) in the US regarding auditing of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel. According to these standards, we are required to plan and perform the audit so as to obtain a reasonable degree of assurance that effective internal control over financial reporting has been exercised, from all material respects. Our audit included obtaining an understanding regarding internal control over financial reporting, assessment of the risk of a material weakness as well as consideration and assessment of the effectiveness of the planning and operation of internal control based on the assessed risk. Our audit also included implementation of other procedures we believed necessary under the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A bank's internal control over financial reporting is a process designed to provide reasonable assurance as to the reliability of the financial reporting and that the financial statements for external purposes have been prepared in accordance with Israeli GAAP and the directives and guidance of the Banking Supervision Department. A bank's internal control over financial reporting includes policies and procedures which: (1) Relate to management of records which, if reasonably detailed, precisely and adequately reflect the transactions and transfers of the Bank's assets (including their removal from its possession); (2) Provide a reasonable degree of assurance that transactions are adequately recorded in order to enable the preparation of financial statements in accordance with Israeli GAAP and the directives and guidance of the Banking Supervision Department and that accepting and spending the bank's money is made only in accordance with the authorizations of the bank's Board of Directors and management; and (3) Provide a reasonable degree of assurance regarding the timely prevention or disclosure of an unauthorized purchase, use or transfer (including removal from possession) of the bank's assets, which may have a material effect on the financial statements.

Due to its inherent limitations, internal control over financial reporting may not prevent or identify misstatement. In addition, drawing conclusions regarding the future based on any current effectiveness assessment is exposed to the risk that the controls become inadequate due to changes in circumstances or that the level of compliance with the policies or procedures may adversely change.

In our opinion, the Bank has exercised, from all material respects, effective internal control over financial reporting as at December 31 2018, based on criteria determined by the 1992 Internal Control - Integrated Framework published by the COSO.

We have also, in accordance with Israeli GAAP and certain auditing standards applied to the auditing of banking corporations in accordance with the directives and guidance of the Banking Supervision Department, audited the Bank's consolidated balance sheets as at December 31 2018 2018 and 2017 and the consolidated income statements, consolidated comprehensive income statements and the consolidated statement of changes in shareholders' equity and the consolidated statements of cash flows for each of the three years ended on December 31 2018 and our report dated March 6 2019 included an unqualified opinion regarding these financial statements as well as an emphasis of matter regarding Note 26D.3.

Somekh Chaikin
CPAs

Kost Forer Gabay Kasierer
CPAs

Joint independent auditors

March 6 2019

Report of the Joint Independent Auditors to the Shareholders of Bank Leumi of Israel Ltd. - Annual Financial Statements

We have audited the attached consolidated balance sheets of Bank Leumi of Israel Ltd. and its consolidated companies (hereinafter - the "Bank") as at December 31 2018 and 2017 and the consolidated income statements, consolidated comprehensive income statements, consolidated statements of changes in shareholders' equity and the consolidated statements of cash flows for each of the three years ended on December 31 2018. These financial statements are the responsibility of the Bank's Board of Directors and management. Our responsibility is to express an opinion of these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those standards set forth in the regulations for Certified Public Accountants (Modus Operandi of an Auditor), 1973 and certain auditing standards applied to the auditing of banking corporations in accordance with the directives and guidance of the Banking Supervision Department. According to these standards, it is required that we plan and perform the audit in order to obtain a reasonable degree of assurance that the financial statements are not materially misstated. An audit includes examining, on a sample basis, evidence supporting the amounts and disclosures in the financial statements. An audit also involves assessing the accounting principles used, and significant estimates made by the Bank’s Board of Directors and management, as well as evaluating the overall financial statements’ presentation. We believe that our audit provides a reasonable basis for our opinion.

It is our opinion, based on our audit, that the said financial statements adequately represent, in all material aspects, the Bank’s financial position as at December 31 2018 and 2017 and the financial performance and changes in shareholders' equity and cash flows of the Bank for each of the three years ended December 31 2018, according to Israeli GAAP. It is also our opinion that the said financial statements are prepared in accordance with the directives and guidance of the Banking Supervision Department.

Without qualifying the above conclusion, we would like to make an emphasis of matter regarding Note 26D.3 regarding a motion and lawsuits filed against a consolidated company, including petitions to approve class actions. The Bank is unable to assess the implications of said matters, if any, on the Bank, its financial position and financial performance, and whether they shall be material.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) in the US regarding auditing of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the Bank’s internal control over financial reporting as at December 31 2017, based on criteria established by the COSO 1992 Internal Control - Integrated Framework, and our report dated March 6 2019 included an unqualified opinion of the effectiveness of the Bank’s internal control over financial reporting.

Somekh Chaikin CPAs	Kost Forer Gabay Kasierer CPAs

Joint independent auditors

March 6 2019

Report of the Board of Directors and Management regarding the Internal Control over Financial Reporting

The Board of Directors and management of Bank Leumi Le-Israel B.M. ("**The Bank**") are responsible for the creation and existence of adequate internal control over financial reporting (as defined in the Reporting to the Public Directives regarding the "Reporting to the Public Directives and Management"). The Bank's internal control system was designed to provide a reasonable degree of assurance to the Bank's Board of Directors and management regarding adequate preparation and presentation of financial statements published in accordance with Generally Accepted Accounting Principles and the directives and guidance of the Banking Supervision Department. Regardless of the level of their design, all internal control systems have inherent limitations. As a result, even if it has been established that these systems are effective, they can provide only a reasonable degree of assurance regarding preparation and presentation of financial statements.

Management, under the Board of Directors' supervision, has in place a comprehensive system of controls designed to ensure that transactions are carried out in accordance with management's authorizations, that assets are protected and that the accounting entries are reliable. In addition, management, under the Board of Directors' supervision, takes steps to ensure that the information and communication channels are effective and monitors execution, including the execution of internal control procedures.

The Bank's management, under the Board of Directors' supervision, has assessed the effectiveness of the Bank's internal control over financial reporting as at December 31 2018, based on criteria established by the internal control model of the COSO (Committee of Sponsoring Organizations of the Treadway Commission).

Based on this assessment, management believes that, as at December 31 2018, the Bank's internal control over financial reporting is effective.

The effectiveness of the Bank's internal control over financial reporting as at December 31 2018 was audited by the Bank's joint independent auditors - Kost Forer Gabbay & Kasierer and Somekh Chaikin, as noted in their report, which included an unqualified opinion regarding the effectiveness of the Bank's internal control over financial reporting as at December 31 2018.

March 6 2019

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

Report of the Joint Independent Auditors to the Shareholders of Bank Leumi Le-Israel B.M. in accordance with the public reporting instructions of the Banking Supervision Department regarding internal control over financial reporting

We have audited the internal control over financial reporting of Bank Leumi Le-Israel B.M. and its subsidiaries (hereinafter, jointly - the "Bank") as at December 31, 2018, based on criteria established by the 1992 Internal Control - Integrated Framework published by the COSO (Committee of Sponsoring Organizations of the Treadway Commission) (hereinafter – "COSO"). The Bank's Board of Directors and management are responsible for the existence of effective internal control over financial reporting and for their assessment of the effectiveness of the internal control over the financial statements, which is included in the Report of the Board of Directors and Management regarding the Internal Control over the attached financial report. Our responsibility is to express an opinion regarding the internal control over the Bank's financial reporting based on our audit.

We have prepared our audit in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) in the US regarding auditing of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel. According to these standards, we are required to plan and perform the audit so as to obtain a reasonable degree of assurance that effective internal control over financial reporting has been exercised, from all material respects. Our audit included obtaining an understanding regarding internal control over financial reporting, assessment of the risk of the existence of a material weakness as well as consideration and assessment of the effectiveness of the planning and operation of internal control based on the assessed risk. Our audit also included implementation of other procedures we believed necessary under the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A bank's internal control over financial reporting is a process designed to provide reasonable assurance as to the reliability of the financial reporting and that the financial statements for external purposes have been prepared in accordance with Israeli GAAP and the directives and guidance of the Banking Supervision Department. A bank's internal control over financial reporting includes policies and procedures which: (1) Relate to management of records which, if reasonably detailed, precisely and adequately reflect the transactions and transfers of the Bank's assets (including their removal from its possession); (2) Provide a reasonable degree of assurance that transactions are adequately recorded in order to enable the preparation of financial statements in accordance with Israeli GAAP and the directives and guidance of the Banking Supervision Department and that accepting and spending the bank's money is made only in accordance with the authorizations of the bank's Board of Directors and management; and (3) Provide a reasonable degree of assurance regarding the timely prevention or disclosure of an unauthorized purchase, use or transfer (including removal from possession) of the bank's assets, which may have a material effect on the financial statements.

Due to its inherent limitations, internal control over financial reporting may not prevent or identify misstatement. In addition, drawing conclusions regarding the future based on any current effectiveness assessment is exposed to the risk that the controls become inadequate due to changes in circumstances or that the level of compliance with the policies or procedures may adversely change.

In our opinion, the Bank has exercised, from all material respects, effective internal control over financial reporting as at December 31, 2018, based on criteria determined by the 1992 Internal Control - Integrated Framework published by the COSO.

We have also, in accordance with Israeli GAAP and certain auditing standards applied to the auditing of banking corporations in accordance with the directives and guidance of the Banking Supervision Department, audited the Bank's consolidated balance sheets as at December 31 2018 and 2017 and the consolidated income statements, consolidated comprehensive income statements and the consolidated statement of changes in shareholders' equity and the consolidated statements of cash flows for each of the three years ended on December 31, 2018, and our report dated March 6 2019 included an unqualified opinion regarding these financial statements as well as an emphasis of matter regarding Note 26D.3.

Somekh Chaikin
CPAs

Kost Forer Gabay Kasierer
CPAs

Joint Independent auditors

March 6 2019

Report of the Joint Independent Auditors to the Shareholders of Bank Leumi Le-Israel B.M. - Annual Financial Statements

We have audited the attached consolidated balance sheets of Bank Leumi Le-Israel B.M. and its consolidated companies (hereinafter - the "Bank") as at December 31 2018 and 2017 and the consolidated income statements, consolidated comprehensive income statements, consolidated statements of changes in shareholders' equity and the consolidated statements of cash flows for each of the three years ended on December 31 2018. These financial statements are the responsibility of the Bank's Board of Directors and management. Our responsibility is to express an opinion of these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those standards set forth in the regulations for Certified Public Accountants (Modus Operandi of an Auditor), 1973 and certain auditing standards applied to the auditing of banking corporations in accordance with the directives and guidance of the Banking Supervision Department. According to these standards, it is required that we plan and perform the audit in order to obtain a reasonable degree of assurance that the financial statements are not materially misstated. An audit includes examining, on a sample basis, evidence supporting the amounts and disclosures in the financial statements. An audit also involves assessing the accounting principles used, and significant estimates made by the Bank's Board of Directors and management, as well as evaluating the overall financial statements' presentation. We believe that our audit provides a reasonable basis for our opinion.

It is our opinion, based on our audit, that the said financial statements adequately represent, in all material aspects, the Bank's financial position as at December 31 2018 and 2017 and the financial performance and changes in shareholders' equity and cash flows of the Bank for each of the three years ended December 31 2018, according to Israeli GAAP. It is also our opinion that the said financial statements are prepared in accordance with the directives and guidance of the Banking Supervision Department.

Without qualifying the above conclusion, we would like to make an emphasis of matter regarding Note 26D.3 regarding a motion and lawsuits filed against a consolidated company, including petitions to approve class actions. The Bank is unable to assess the implications of said matters, if any, on the Bank, its financial position and financial performance, and whether they shall be material.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) in the US regarding auditing of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the Bank's internal control over financial reporting as at December 31 2018, based on criteria established by the COSO 1992 Internal Control - Integrated Framework, and our report dated March 6 2019 included an unqualified opinion of the effectiveness of the Bank's internal control over financial reporting.

Somekh Chaikin
CPAs

Kost Forer Gabay Kasierer
CPAs

Joint Independent auditors

March 6 2019

BANK LEUMI LE-ISRAEL B.M. AND ITS CONSOLIDATED COMPANIES

Consolidated Income Statement
For the Year Ended December 31

	Note	2018	2017	2016
		In NIS millions		
Interest income	2	**11,346**	10,069	9,552
Interest expenses	2	**2,456**	2,023	2,026
Interest income, net	2	**8,890**	8,046	7,526
Expenses (income) in respect of loan losses	13, 30	**519**	172	(125)
Interest income, net of expenses for loan losses		**8,371**	7,874	7,651
Noninterest income				
Noninterest finance income	3	**682**	919	1,282
Fees and commissions	4, 4A	**4,121**	4,052[(a)]	3,887[(a)]
Other income	5	**68**	371	159
Total noninterest income		**4,871**	5,342	5,328
Operating and other expenses				
Salaries and related costs	6	**4,544**	4,591[(a)]	4,778[(a)]
Buildings and equipment - maintenance and depreciation	16	**1,569**	1,661	1,697
Other expenses	7	**2,224**	2,163[(a)]	2,025[(a)]
Total operating and other expenses		**8,337**	8,415	8,500
Profit before taxes		**4,905**	4,801	4,479
Provision for income tax	8	**1,619**	1,692	1,717
Profit after taxes		**3,286**	3,109	2,762
The Bank's share in associates' profits, after tax	15	**36**	92	66
Net income				
Before attribution to non-controlling interests		**3,322**	3,201	2,828
Attributable to non-controlling interests		**(65)**	(29)	(37)
Attributable to the Bank's shareholders		**3,257**	3,172	2,791
Basic and diluted earnings per share (in NIS)				
Basic earnings per share attributable to the Bank's shareholders	9	**2.15**	2.08	1.85
Diluted earnings per share	9	**2.15**	2.08	1.84

(a) Reclassified. Please see Notes 1.C.5. due to expenses of acquiring insurance sale act guarantees and 1.W.3. due to retrospective application of the Banking Supervision Department's directive regarding improved presentation of expenses for pension and other post-employment benefits.

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

For the Bank's condensed financial statements, please see Note 35.

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 on which the financial statements were approved: March 6 2019

BANK LEUMI LE-ISRAEL B.M. AND ITS CONSOLIDATED COMPANIES
Consolidated Statement of Comprehensive Income
For the Year Ended December 31

	2018	2017	2016
	In NIS millions		
Net income before attribution to non-controlling interests	**3,322**	3,201	2,828
Less net income attributable to non-controlling interests	**65**	29	37
Net income attributable to the Bank's shareholders	**3,257**	3,172	2,791
Other comprehensive income (loss), before taxes:			
Adjustments in respect of presentation of available-for-sale securities at fair value, net	**(620)**	259	(281)
Adjustments from translation of financial statements, net,[a] post hedging[b]	**27**	(39)	(11)
Adjustments of liabilities in respect of employee benefits[c]	**1,796**	(1,177)	(928)
The Bank's share in other comprehensive income (loss) of associates	**21**	(10)	(20)
Other comprehensive income (loss), before taxes	**1,224**	(967)	(1,240)
Related tax effect	**(331)**	232	376
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	**893**	(735)	(864)
Other comprehensive (loss) attributable to non-controlling interests	**(26)**	-	-
Other comprehensive income (loss) attributable to the Bank's shareholders, after taxes	**919**	(735)	(864)
Comprehensive income before attribution to non-controlling interests	**4,215**	2,466	1,964
Comprehensive income attributable to non-controlling interests	**39**	29	37
Comprehensive income attributable to the Bank's shareholders	**4,176**	2,437	1,927

(a) Adjustments from 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 hedges of a net investment in foreign currency.

(c) Mostly reflects adjustments in respect of actuarial estimates, as at the end of the year, of defined benefit pension plans and deduction of amounts previously stated in other comprehensive income. Please see also Note 23.

Please see also Note 10, under "Accumulated other comprehensive income".

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

BANK LEUMI LE-ISRAEL B.M. AND ITS CONSOLIDATED COMPANIES
Consolidated Balance Sheet as at December 31

		December 31	
		2018	2017
	Note	In NIS millions	
Assets			
Cash and deposits with banks	**11**	**81,419**	82,067
Securities[(a)(b)]	**12**	**74,571**	77,299
Securities borrowed or purchased under reverse repurchase		**1,257**	1,161
Loans to the public	**13, 30**	**274,525**	271,165[(d)]
Loan loss provision	**13, 30**	**(3,352)**	(3,213)[(d)]
Loans to the public, net		**271,173**	267,952
Loans to governments	**14**	**782**	715
Investments in investee companies	**15**	**623**	807
Buildings and equipment	**16**	**2,853**	2,986
Intangible assets and goodwill	**17**	**17**	16
Assets in respect of derivatives	**28A, 28B**	**12,750**	9,573
Other assets	**18**	**6,642**	8,262[(d)]
Assets held for sale	**36F.**	**8,570**	-
Total assets		**460,657**	450,838
Liabilities and capital			
Deposits by the public	**19**	**364,591**	362,478
Deposits from banks	**20**	**5,210**	5,156
Deposits from governments		**709**	452
Securities loaned or sold under repurchase agreements		**541**	558
Bonds, promissory notes and subordinated bonds	**21**	**17,798**	15,577
Liabilities in respect of derivative instruments	**28A, 28B**	**12,089**	9,740
Other liabilities[(a)(c)]	**22, 30D**	**14,780**	23,324
Held for sale liabilities	**36F.**	**8,778**	-
Total liabilities		**424,496**	417,285
Equity attributable to the Bank's shareholders	**25A**	**35,305**	33,167
Non-controlling interests		**856**	386
Total capital		**36,161**	33,553
Total liabilities and capital		**460,657**	450,838

(a) For more information regarding amounts measured at fair value, please see Note 33A.
(b) For more information on securities pledged to lenders, please see Note 12.
(c) Of which: a provision for loan losses for off-balance-sheet credit instruments of NIS 461 million (as at December 31 2017 - NIS 484 million).
(d) Reclassified.

The notes to the consolidated financial statements form an integral part thereof.
For the Bank’s condensed financial statements, please see Note 35.

BANK LEUMI LE-ISRAEL B.M. AND ITS CONSOLIDATED COMPANIES

Statement of Changes in Equity

For the Year Ended December 31 2018

		Capital reserves	
	Share capital	Premium	Stock compensation and other transactions[a]
	In NIS millions		
Balance as at January 1 2016	7,059	1,129	43
Net income	-	-	-
Other comprehensive loss, net of tax	-	-	-
Dividend paid by consolidated companies	-	-	-
Issue of shares	50	593	(7)
Adjustments in respect of associates, net	-	-	-
Balance as at December 31 2016	7,109	1,722	36
Implementation of the US tax reform[c]	-	-	-
Net income	-	-	-
Other comprehensive loss, net of tax	-	-	-
Dividend paid by consolidated companies	-	-	-
Dividends paid	-	-	-
Issue of shares	1	7	(8)
Employee benefit in respect of stock compensation	-	-	10
Balance as at December 31 2017	7,110	1,729	38
Effect of first-time application of IFRS 9 on foreign subsidiaries	**-**	**-**	**-**
Net income	**-**	**-**	**-**
Other comprehensive income, net of tax	**-**	**-**	**-**
Dividend paid by consolidated companies	**-**	**-**	**-**
Dividends paid	**-**	**-**	**-**
Issue of shares	**1**	**7**	**(8)**
Share buyback	**(30)**	**(670)**	**-**
Employee benefit in respect of stock compensation	**-**	**-**	**28**
Sale of equity in subsidiaries to non-controlling	**-**	**21**	**-**
Balance as at December 31 2018	**7,081**	**1,087**	**58**

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

(b) Including NIS 2,149 million that are non-distributable (December 31 2017 – NIS 3,338 million, December 31, 2016 – NIS 2,373 million). The remaining distributable amount is subject to the Bank of Israel's Directives and to the restrictions set out in the Proper Conduct of Banking Business Directives, please see Note 25A.G.

(c) 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 consolidated financial statements form an integral part thereof.

Total share capital and capital reserves	Accumulated other comprehensive income (loss)	Retained earnings[(b)]	Total	Non-controlling interests	Total capital
8,231	(1,448)	21,984	28,767	340	29,107
-	-	2,791	2,791	37	2,828
-	(864)	-	(864)	-	(864)
-	-	-	-	(10)	(10)
636	-	-	636	-	636
-	-	17	17	-	17
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
-	**-**	**(18)**	**(18)**	**-**	**(18)**
-	**-**	**3,257**	**3,257**	**65**	**3,322**
-	**888**	**-**	**888**	**18**	**906**
-	**-**	**-**	**-**	**(42)**	**(42)**
-	**-**	**(1,369)**	**(1,369)**	**-**	**(1,369)**
-	**-**	**-**	**-**	**-**	**-**
(700)	**-**	**-**	**(700)**	**-**	**(700)**
28	**-**	**-**	**28**	**1**	**29**
21	**31**	**-**	**52**	**428**	**480**
8,226	**(2,132)**	**29,211**	**35,305**	**856**	**36,161**

Consolidated Cash Flow Statement
For the Year Ended December 31

	2018	2017	2016
	In NIS millions		
Cash flows from operating activities			
Net income for the year	**3,322**	3,201	2,828
Adjustments:			
Group's share in undistributed losses (profits) of associates[a]	**77**	68	(28)
Depreciation of buildings and equipment (including impairment)	**572**	662	663
Expenses (income) in respect of loan losses	**519**	172	(125)
Gains on sale of loan portfolios	**-**	(9)	(44)
Gains on sale of available-for-sale securities	**(248)**	(238)	(884)
Realized and unrealized gains (losses) from fair value adjustments of held-for-trading securities	**(60)**	45	116
Gain on sale of investees' shares	**(224)**	-	(7)
Gains on disposal of buildings and equipment - net	**(33)**	(278)	(66)
Provision for impairment of available-for-sale bonds	**19**	-	-
Provision for impairment of available-for-sale shares	**84**	62	33
Expenses for share-based payment transactions	**28**	-	10
Deferred taxes - net	**199**	(243)	81
Severance pay and pension – increase (decrease) in excess of provision over amounts funded	**134**	(52)	261
Excess of interest received (receivable) for available-for-sale bonds over the interest accrued during the period	**(177)**	100	312
Payable interest in respect of bonds and subordinated bonds	**144**	(466)	(557)
Effect of exchange rate differentials on cash and cash equivalent balances	**(467)**	447	591
Other, net	**4**	(2)	-
Net change in current assets:			
Assets in respect of derivatives	**(3,172)**	1,077	595
Held-for-trading securities	**(1,197)**	2,948	3,322
Other assets	**592**	(105)	(217)
Net change in current liabilities:			
Liabilities in respect of derivative instruments	**2,355**	(915)	(314)
Other liabilities	**(595)**	317	369
Net cash provided by operating activities	**1,876**	6,791[b]	6,939[b]

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

The notes to the consolidated financial statements form an integral part thereof.
For the Bank's condensed financial statements, please see Note 35.

BANK LEUMI LE-ISRAEL B.M. AND ITS CONSOLIDATED COMPANIES
Consolidated Cash Flow Statement (cont.)
For the Year Ended December 31

	2018	2017	2016
	In NIS millions		
Cash flow from investing activities			
Net change in deposits with banks with original maturities of more than three months	**(3,866)**	(1,085)[a]	(207)[a]
Net change in loans to the public[b]	**(10,720)**	(8,011)[a]	(2,986)[a]
Net change in loans to governments	**(67)**	(73)[a]	(189)[a]
Change in securities borrowed or purchased under reverse repurchase agreements	**(96)**	123[a]	480[a]
Purchase of held-to-maturity bonds	**(3,997)**	(74)	-
Proceeds from redemption of held-to-maturity bonds	**72**	128	-
Purchase of available-for-sale securities	**(86,905)**	(90,845)	(92,212)
Proceeds from sale of available-for-sale securities	**54,122**	42,394	35,438
Proceeds from redemption of available-for-sale securities	**40,945**	45,187	45,457
Purchase of associates’ shares	**(123)**	17	-
Proceeds from disposal of investment in associates	**260**	-	73
Proceeds from disposal of an investment in a previously-consolidated subsidiary	**11**	-	-
Proceeds from sale of loan portfolios	**503**	96	2,723
Purchase of buildings and equipment	**(716)**	(637)	(634)
Proceeds from disposal of buildings and equipment	**80**	315	99
Proceeds from disposal of assets transferred to the Group's ownership	**-**	-	2
Central severance pay fund	**251**	383[a]	200
Other	**(16)**	-	-
Net cash for investing activities	**(10,262)**	(12,082)	(11,756)
Cash flow from financing activities			
Net change in deposits from banks with original maturities of more than three months	**1,113**	2,094[a]	(447)[a]
Net change in deposits by the public	**275**	17,817[a]	18,358[a]
Net change in deposits by governments	**229**	(387)[a]	156[a]
Net change in securities loaned or sold under agreements to repurchase	**(17)**	19[a]	(399)[a]
Issue of bonds and subordinated bonds	**3,378**	-	4,442
Redemption of bonds and subordinated bonds	**(32)**	(6,597)	(2,553)
Dividend paid to shareholders	**(1,369)**	(627)	-
Dividend paid to external shareholders in consolidated companies	**(42)**	(10)	(10)
Proceeds on disposal of investments in investees	**512**	-	-
Share buyback	**(700)**	-	-
Net cash from financing activities	**3,347**	12,309	19,547
Increase (decrease) in cash and cash equivalents, including cash and cash equivalents classified as held-for-sale assets and liabilities[c]	**(5,039)**	7,018	14,730
Net of increase (decrease) in cash and cash equivalents classified as held-for-sale assets and liabilities[c]	**3**	-	-
Increase (decrease) in cash and cash equivalents	**(5,042)**	7,018	14,730
Cash and cash equivalents balance at the beginning of the year	**78,840**	72,269	58,130
Effect of exchange rate fluctuations on cash and cash equivalent balances	**467**	(447)	(591)
Cash and cash equivalents balance at the end of the year	**74,265**	78,840	72,269

(a) Reclassified, including in respect of the application of US GAAP ASC 230, Statement of Cash Flows. Please see Note 1.W.2.
(b) Including current activities from invoice factoring. Please see Note 30E.
(c) For more information, please see Note 36F.

The notes to the consolidated financial statements form an integral part thereof.
For the Bank’s condensed financial statements, please see Note 35.

Consolidated Cash Flow Statement (cont.)
For the Year Ended December 31

Interest and taxes paid and/or received and dividends received

	2018	2017	2016
	In NIS millions		
Interest received	**10,631**	10,057	9,864
Interest paid	**(2,696)**	(2,447)	(3,041)
Dividends received	**129**	176	48
Income tax paid	**(1,093)**	(1,855)	(1,629)

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

For the Year Ended December 31 2018
On December 17 2018, an investment in Direct Finance of the Direct Finance (2006) Ltd. Group was sold for consideration of available-for sale-shares totaling NIS 167 million.

During the year, shares were issued against benefits accrued for the employees for a total of NIS 18 million.

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 the "Other liabilities" line item to the "Stock compensation transactions reserve".

Please see Note 24A.

For the year ended on December 31 2016
During the year, property, plant and equipment were purchased against liabilities to suppliers in the amount of NIS 119 million.

During the year, shares were issued for the conversion of benefits accrued for employees in the amount of NIS 636 million.

Appendix B - Proceeds from Disposal of Investments in a Previously-Consolidated Subsidiary[(a)]:

Assets and liabilities of the previously consolidated subsidiary and cash flow from disposal of investments in a previously consolidated subsidiary as of the sale date:

	2018
	In NIS millions
Derecognized cash	**7**
Assets (excluding cash)	**1**
Liabilities	**4**
Identified assets and liabilities	**4**
Derecognized assets and liabilities	**4**
Capital gain from disposal of investments in a previously-consolidated subsidiary	**7**
Total proceeds from disposal of investments in a previously-consolidated subsidiary	**11**

(a) For more information, please see Note 36C.

The notes to the consolidated financial statements form an integral part thereof.
For the Bank's condensed financial statements, please see Note 35.

List of Notes

Note 1 - Significant Accounting Policies

A. Overview

The financial statements are prepared in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and the directives and guidelines of the Banking Supervision Department regarding the preparation of annual financial statements of a banking corporation.

These financial statements are presented on a consolidated basis only. The standalone financial statements of the Bank are presented in Note 35.

The Bank's Board of Directors approved the publication of the financial statements on March 6 2019.

B. Definitions

In these financial statements:

The Bank – Bank Leumi Le-Israel B.M.

The Group – the Bank and its subsidiaries.

Consolidated companies – companies whose financial statements were fully consolidated, whether directly or indirectly, with those of the Bank.

Associates – companies, excluding consolidated companies, including partnerships or joint ventures, the Bank's direct or indirect investment in which is presented according to the equity method.

Investees – Consolidated Companies and Associates.

Foreign offices – representative offices, agencies, branches or consolidated companies of the Bank based overseas.

Functional currency - the currency of the primary economic environment in which the Bank operates. This is generally the currency of the environment in which a corporation generates and expends most of its cash.

Presentation currency - the currency in which the financial statements are presented.

Related parties and interested parties – as defined in Section 80 of the Reporting to the Public Directives.

The Index/CPI – The Israeli Consumer Price Index published by the Israel Central Bureau of Statistics.

Adjusted amount – nominal historical amount adjusted to reflect the CPI in respect of December 2003, pursuant to the provisions of Opinions 23 and 36 of the Institute of Certified Public Accountants in Israel.

Reported amount – adjusted amount as of the transition date (December 31 2003) plus amounts in nominal values that were added after the transition date, less amounts derecognized after the transition date.

Nominal financial reporting – financial reporting based on reported amounts.

Adjusted financial reporting – reporting in amounts adjusted for the changes in the general purchasing power of Israeli currency pursuant to the provisions of the Opinions of the Institute of Certified Public Accountants in Israel.

Cost – costs in reported amounts.

Fair value - the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Recorded debt balance – debt balance after deducting accounting write-offs but before deducting loan loss provision in respect of that debt. Recorded debt balance does not include unrecognized accrued interest.

US GAAP for banks - accounting principles set by the banking supervision agencies in the USA, the Securities and Exchange Commission, the Financial Accounting Standards Board and other entities in the USA. The principles are implemented according to the hierarchy established in FAS 168 (ASC 105-10), FASB Accounting Statements Codification, of the Financial Accounting Standards Board (FASB) in the USA and the hierarchy of generally accepted accounting principles. Additionally, according to the Banking Supervision Department's guidance, despite the hierarchy prescribed by FAS 168, any position published by the US banking regulators or by their teams regarding the implementation of US GAAP, constitutes part of US GAAP.

Note 1 - Significant Accounting Policies (cont.)

International Financial Reporting Standards (IFRS) – standards and interpretations published by the International Accounting Standards Board (IASB), including International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and interpretations issued by the Standing Interpretations Committee (SIC).

C. Basis of Preparation of the Financial Statements

1. Reporting principles

The Bank's financial statements are prepared in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and with Reporting to the Public Directives and the guidance of the Banking Supervision Department. In most topics, the directives are based on US GAAP for banks. In other, less material, topics, the directives are based on IFRSs and Israeli GAAP.

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

For information regarding first-time application of new accounting standards, revised accounting standards and new directives of the Banking Supervision Department, please see Section (W) below.

2. Functional currency and presentation currency

Unless otherwise stated, the financial statements are presented in New Israeli Shekels (NIS) and are rounded to the nearest million.

The New Israeli Shekel (NIS) is the currency representing the primary economic environment in which the Bank operates.

For information regarding the functional currency of banking offices abroad, please see Section (D) below.

3. Measurement basis

The financial statements were prepared in accordance with historical cost, excluding the assets and liabilities outlined below:

- Derivative instruments and other financial instruments measured at fair value through profit and loss.
- Financial instruments classified as available for sale.
- Non-current assets held for sale.
- Deferred tax assets and liabilities.
- Provisions.
- Assets and liabilities in respect of employee benefits.
- Investments in investees.

The value of non-monetary assets and equity items measured at historic cost, adjusted for changes in the Consumer Price Index until December 31 2013. As of January 1 2004, the Bank prepares its financial statements using reported amounts.

4. Use of estimates

The preparation of the financial statements in conformity with Israeli GAAP and the directives and guidance of the Banking Supervision Department require the Bank's management to exercise judgment and to use estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and income and expense amounts during the reporting period. It is clarified that the actual results may differ from those estimates.

Note 1 - Significant Accounting Policies (cont.)

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 restated and for any future affected period.

5. Reclassified

The Bank has reclassified expenses in respect of purchase of insurance for Sale Law guarantees under the "Other expenses" line item so that they are presented less the fees and commissions charged in respect of these guarantees in order the more adequately reflect them. The comparative results were revised accordingly.

D. Foreign Currency and Linkage

Foreign currency transactions

Assets and liabilities denominated in foreign currency or linked thereto are translated according to the representative exchange rates published by Bank of Israel as of the balance sheet date, or other appropriate date, as follows:

- Assets and liabilities denominated in foreign currency or linked thereto are translated into the functional currency at the exchange rate as of reporting date.
- Nonmonetary assets and liabilities denominated in foreign currency or linked thereto and measured at fair value are translated into the functional currency at the exchange rate as of the date on which the fair value is determined. Nonmonetary assets and liabilities denominated in foreign currency or linked thereto and measured at historical cost are translated at the exchange rate as of the transaction date.

  Foreign currency income and expenses are stated in the income statement at current representative exchange rates as of transaction dates; exchange rate differences on assets and liabilities in respect of which the aforesaid income and expenses arose are also included in the income statement.

  According to the Reporting to the Public Directives, exchange rate differences in respect of available-for-sale debt instruments will continue to be recognized in the income statement until January 1 2021. As of this date - they will be recognized in other comprehensive income. In the case of other-than-temporary impairment, translation differences recognized in other comprehensive income shall be reclassified to profit and loss.

Functional currency of foreign offices

An entity’s functional currency is the currency of the primary economic environment in which the entity operates. This is usually the currency of the environment in which an entity generates cash.
The functional currency of foreign offices is determined according to the following criteria:

- The office generates and expends cash in foreign currency and the scope of its NIS-denominated operations is insignificant.
- The office acquired its customers independently, such that its activities with the Bank’s customers or parties closely affiliated therewith are insignificant.
- The office’s activity with the Bank and related parties thereof is insignificant and the foreign office is not dependent, among other things, on the Bank’s funding resources or related parties thereof.

Note 1 - Significant Accounting Policies (cont.)

- The office's activity is independent and does not constitute an extension of the Bank's domestic activity nor is it complementary to this activity.

When it is clear that one of the aforementioned criteria is not met, the office should be accounted for as a foreign operation whose functional currency is NIS.

The Bank assessed its US banking office based on the aforementioned criteria and classified it as a foreign operation whose functional currency is other than NIS.

Foreign operations

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, were translated into NIS at exchange rates in effect on reporting date. Income and expenses of foreign operations were translated into NIS at exchange rates in effect on transaction dates.

Exchange rate differentials are recognized in other comprehensive income and presented in equity under "adjustments from translation of financial statements".

Upon disposal (including liquidation) of a foreign operation that results in loss of control, the cumulative amount in the translation reserve arising from the foreign operation is reclassified to profit and loss as part of the profit or loss from disposal.

Furthermore, when the Bank's ownership interest in a subsidiary that constitutes a foreign operation changes while maintaining control, the relevant proportion of the cumulative amount in the translation reserve recognized in other comprehensive income is reclassified to non-controlling interest.

When the Group disposes of part of its investment in an associate that includes a foreign operation while maintaining significant influence, the relevant proportion of the cumulative amount in the translation reserve is reclassified to profit or loss.

Hedges of a net investment in a foreign operation

The Group applies hedge accounting to exchange rate differentials between the foreign operation's functional currency and the Bank's functional currency (NIS).

The exchange rate differentials arising from translation of a financial liability that hedges a net investment in a foreign operation are carried to other comprehensive income in respect of the effective portion of the hedge and presented in equity under "adjustments from translation of financial statements" The non-effective portion is carried to profit and loss. Upon disposal of the hedged investment, the relevant amount that has accumulated in "adjustment from translation of financial statements" is transferred to profit and loss as part of the profit or loss from disposal of the investment.

CPI-Linked assets and liabilities not measured at fair value

Index-linked assets and liabilities are stated according to the linkage terms established for each balance.

Note 1 - Significant Accounting Policies (cont.)

Set forth below are data regarding the representative exchange rates and CPI and changes therein:

	December 31			Rate of change in		
	2018	2017	2016	**2018**	2017	2016
	(In NIS)			(%)		
Exchange rate of:						
US dollar	3.748	3.467	3.845	8.10	(9.83)	(1.46)
Euro	4.292	4.153	4.044	3.35	2.69	(4.78)
Pound sterling	4.793	4.682	4.725	2.37	(0.92)	(18.31)
Swiss franc	3.807	3.555	3.767	7.09	(5.64)	(4.01)
Consumer Price Index:	(Points)					
November – known Index	**100.0**	100.3	100.0	(0.3)	0.3	(0.3)

E. Basis of Consolidation

1. Subsidiaries

Subsidiaries are entities controlled by the Bank. The consolidated financial statements include the financial statements of the Bank and of entities controlled by the Bank. Potential voting rights are not taken into account when assessing control. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control is obtained until the date on which control ceases. The accounting policies of subsidiaries were amended, as needed, so as to align them with the accounting policy adopted by the Group.

Intercompany balances and transactions between the consolidated companies were eliminated in the consolidated financial statements.

The financial statements of two wholly-owned property and service subsidiaries of the Bank have been included in the Bank's standalone financial statements.

Non-controlling interests

Non-controlling interests are that portion of subsidiaries' equity that is not attributable, whether directly or indirectly, to the parent company. These interests, which confer upon their holder a share of the net assets of the acquiree, are measured at fair value on acquisition date.

Profit or loss and any other component of other comprehensive income are attributed to the Bank's owners and to non-controlling interests. The total amount of profit, loss and other comprehensive income is attributed to the Bank's owners and to non-controlling interests even if this results in the non-controlling interests having a negative balance.

Transactions with non-controlling interests that do not result in change of control are accounted for as equity transactions. Any difference between the consideration paid or received and the amount by which the non-controlling interest is adjusted is recognized directly in the Bank's owners' share in equity.

When the Bank's interest in a subsidiary changes without loss of control, the Bank reallocates the accumulated amounts recognized in other comprehensive income between the Bank's owners and non-controlling interests.

On loss of control of a subsidiary, the Bank derecognizes the subsidiary's assets and liabilities as well as other equity components attributed to the subsidiary. Any retained investment in a former subsidiary is measured at fair value on the date on which control is lost. The difference between the consideration received and the fair value of the retained investment in the former subsidiary and any derecognized balances is recognized in profit and loss. Amounts recognized in equity through other comprehensive income in respect of that subsidiary are reclassified to profit or loss.

Note 1 - Significant Accounting Policies (cont.)

2. Associates

Associates are entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is generally presumed when the Group holds a 20 percent to 50 percent interest in a company. Potential voting rights are not taken into account when assessing significant influence.

Investment in associates' shares is accounted for by the equity method; such investment is initially recorded at cost. When the Bank obtains significant influence over an investment that was previously accounted for as an available-for-sale asset, then the equity method is applied prospectively.

Gains or losses recognized in other comprehensive income in respect of available for sale investments shall be classified to profit or loss when the scope of investment requires the application of the equity method.

The consolidated financial statements include the Group's share in income and expenses, profit and loss or other comprehensive income of entities accounted for by the equity method.

When there is a decrease in the Group's interest in an associate accounted for by the equity method, but the Group retains significant influence, the Group derecognizes a proportionate share of its investment and recognizes the profit or loss from the disposal. Furthermore, on the same date, a pro rata share of the amounts recognized in capital reserves through other comprehensive income in respect of that associate, is reclassified to profit and loss.

Upon loss of significant influence, the Group stops using the equity method and accounts for the remaining investment as a financial asset. The difference between the fair value of the remaining investment and the carrying amount of the investment is carried to profit and loss on that date.

Furthermore, when significant influence is lost, a pro rata share of the amounts recognized in respect of that associate in equity reserves through other comprehensive income is reclassified to the income statement.

The Bank assesses the need to record impairment in respect of its investment in associates; please see Section (V.3) below.

F. Basis of Recognition of Income and Expenses

Income and expenses are stated on an accrual basis, except as described below:

- Income and expenses from securities held for trading and derivative instruments are recognized according to the changes in fair value.

- Interest accrued on troubled debts that were classified as non-performing loans is recognized as income on a cash basis when it is certain that the remaining recorded balance of an non-performing loans will be collected. In such situations, the maximum amount collected on account of interest that will be recognized as interest income will be the amount that would have accrued during the reported period on the remaining recorded balance of the debt according to the contractual interest rate. Cash-basis interest income is classified as interest income within the relevant line item of the income statement. When there is significant doubt as to the collection of the remaining recorded balance, all collected payments are used to reduce the loan's principal. Furthermore, interest payable on amounts in arrears in respect of housing loans is recorded in the income statement on the basis of actual collection.

- Loan origination fees – fees charged in respect of issuing the loan, except for loans for a period of up to three months, are not recognized immediately as income in the income statement, but rather deferred and recognized over the term of the loan as an adjustment of the return. Income from such fees is recognized using the effective interest method and reported as part of the interest income.

Note 1 - Significant Accounting Policies (cont.)

- Early repayment fees – income from early repayment fees that were charged in respect of early repayment carried out prior to January 1, 2014 and which have not yet been amortized, are recognized over the shorter of a three-year period or the remaining term of the loan. Fees charged in respect of early repayment carried out after January 1, 2014 are recognized immediately in interest income.
- Changes to the debt's terms – in cases of refinancing or restructuring of non-troubled debts, the Bank assesses whether or not the changes made to the terms of the loan are minor. If the loan terms change is minor, all unamortized fees as well as early repayment fees that were collected from the customer in respect of changes to the loan terms are included within the net investment in the new loan and recognized as adjustment of return as stated above. If the change in the loan terms is other than minor, the fees and commissions will be stated directly in profit and loss.
- Credit service charges are accounted for according to the likelihood that the undertaking to extend the loan will be fulfilled. If the likelihood is remote, the fee is recognized on a straight-line basis over the term of the undertaking; otherwise the Bank defers the recognition of income from those fees until the undertaking is fulfilled or until it expires, the earlier of the two. If the undertaking is fulfilled, then the fees are recognized by way of adjusting the return over the term of the loan as stated above. If the undertaking has expired unexercised, the fees are recognized on expiry date and reported in income from fees and commissions. For this purpose, the Bank assumes that the likelihood of the undertaking's fulfilment is not remote.
- Income from fees in respect of provision of services is charged to profit or loss when the service is provided.
- In subsequent periods to other-than-temporary impairment, interest income from investment in debt instruments will be recognized based on cash flows received in excess of the debt instrument's expected cash flows.

G. Fair Value of Financial Instruments

The Bank applies the rules set in ASC 820, which defines fair value and sets a consistent basis for fair value measurement by defining fair value valuation techniques to be used to measure the value of assets and liabilities, setting the fair value hierarchy and providing detailed implementation guidelines. Furthermore, the Bank implements the Banking Supervision Department's directive regarding fair value measurement, which integrates the rules that were set in ASU 2011-04 regarding fair value measurement into the Public Reporting Directives.

The standard requires to maximize the use of observable inputs and minimize the use of unobservable inputs in fair value measurement. Observable inputs represent market data obtained from independent sources, whereas unobservable inputs reflect the Bank's assumptions.

Subtopic 820-10 established a hierarchy of valuation techniques, which are based on whether the inputs used to measure fair value are observable or unobservable.

The following types of inputs create a fair value hierarchy:

- Level 1 inputs: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2 inputs: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; prices derived from fair value measurement models whose principal data are observable or corroborated market inputs.
- Level 3 inputs: unobservable data for the asset or liability.

This hierarchy requires the use of observable market inputs, where such inputs are available. Where possible, the Bank takes into account relevant observable market inputs when measuring fair value. The scope and frequency of transactions, the size of the bid-ask spread and the amount of adjustment necessary when

Note 1 - Significant Accounting Policies (cont.)

comparing similar transactions are all factors in determining the liquidity of markets and the relevance of observed prices in these markets.

The categorization of a financial instrument's fair value measurement within the fair value hierarchy is determined based on the lowest level input that is significant to the entire measurement.

The valuation techniques used by the Bank in measuring fair value are assessed while taking into consideration the relevant circumstances of the various transactions, including last transaction prices, indicative prices of pricing services and results of back-testing of similar transactions.

Credit risk and nonperformance risk assessment

The standard requires incorporating the credit risk and nonperformance risk into the fair value measurement of a debt, including derivative instruments issued by the Bank and measured at fair value. Nonperformance risk includes, but is not limited to, the Bank's credit risk.

For more information regarding the principal methods and assumptions used in measuring the fair value of the financial instruments, please see Note 33A - "Financial Instruments - Balances and Fair Value Measurement".

Securities

The fair value of securities held for trading and available-for sale securities is determined based on quoted market prices in the principal market. The quoted price is not adjusted due to the size of the Bank's position in relation to the trading volume (holding size factor). Where quoted market prices are unavailable, the fair value estimate is based on the best available information while maximizing the use of observable inputs and taking into account the risks inherent in the financial instrument. Fair value is determined using generally acceptable pricing models, based on valuations carried out by financial instruments valuation experts or based on the Bank's independent system. The valuation techniques include using various parameters, such as interest curves, exchange rates and standard deviations, taking into consideration the risks inherent in the financial instrument (market risk, credit risk, lack of marketability, etc.).

Most of the portfolio is calculated on a monthly basis by a reputable international entity which is engaged in fair value measurement and is not dependent on issuing and marketing entities. The calculation is mainly based on transaction prices in active markets. The portfolio's balance is revalued based on quotes from brokers or the issuers of the instruments, or based on the Bank's system.

Derivative financial instruments

The fair value of derivative financial instruments with an active market is determined based on quoted market prices in a principal market.

Where a quoted market price is not available, the fair value is measured by using models that incorporate the risks inherent in the derivative instrument.

Non-derivative financial instruments

Most financial instruments included in this category do not have an active market in which they are traded. Accordingly, fair value is measured using generally accepted pricing models, such as the present value of future cash flows discounted at an interest rate reflecting the level of risk inherent in the financial instrument. For this purpose, pursuant to Banking Supervision Department's guidelines, future cash flows in respect of non-performing loans and other debts were calculated after deducting the effect of accounting write-offs and loan loss provisions in respect of the debts.

The fair value option for financial assets and financial liabilities

Subtopic 825-10 permits banking corporations to opt, on specified dates, to measure at fair value financial instruments and other items (eligible items) for which the Reporting to the Public Directives do not require such measurement. Unrealized gains and losses in respect of the changes in the fair value of items for which the fair value option was selected, shall be reported in the income statement on each subsequent reporting date. Furthermore, prepaid costs and fees, which are related to items for which the fair value option will be selected, shall not be deferred but rather recognized in profit and loss as incurred. The fair value option selection, as

Note 1 - Significant Accounting Policies (cont.)

stated above, shall be made on an instrument-by-instrument basis and is irrevocable. Furthermore, the standard prescribes presentation and disclosure requirements aimed to facilitate the comparison between banking corporations that select different measurement bases to similar types of assets and liabilities.

Despite the aforesaid, the Banking Supervision Department clarified that a banking corporation will only select the fair value option if it has developed in advance high-level knowhow, systems, procedures and controls that will enable it to measure the item’s fair value at a high level of reliability. Therefore, a banking corporation will not select the fair value option for any asset that may be categorized to Level 2 or Level 3 of the fair value hierarchy or to any liability, unless it first obtained the approval of the Banking Supervision Department to do so. The Bank did not select the fair value option for financial instruments.

H. Impaired Debts, Credit Risk and Loan Loss Provision

As from January 1, 2011, in accordance with the Banking Supervision Department on measurement and disclosure of impaired debts, credit risk, and the loan loss provision, the Bank applies ASC 310, the positions of the US banking supervisory authorities and the Securities and Exchange Commission as adopted by the Banking Supervision Department’s Public Reporting Directives.
Furthermore, as of January 1, 2012, the Bank applies the Banking Supervision Department’s directives on revising the disclosure on credit quality of debts and on the loan loss provision.

The Directive is applied to all receivables, such as deposits with banks, bonds, securities borrowed or purchased under reverse repurchase agreements, loans to the public, loans to the government, etc. Loans to the public and other receivable balances for which no specific rules were set in the Reporting to the Public Directives regarding measurement of the loan loss provision (such as loans to the government, deposits with banks, etc.) are reported in the Bank’s books of accounts according to the recorded receivable balance. Recorded receivable balance – debt balance after deducting accounting write-offs but before deducting a loan loss provision in respect of that debt. Regarding other receivable balances for which there are specific rules regarding measurement and recognition of a loan loss provision (such as bonds), the Bank continues to apply the same measurement rules.

The Bank has set procedures required to maintain a loan loss provision able to cover expected loan losses arising from its loan portfolio, including off-balance sheet credit risk. The provision to cover the expected loan losses arising from the loan portfolio is estimated through one of the following tracks:

Specific loan loss provision

The provision is made by measuring the debt’s impairment based on the present value of the expected cash flow discounted by the original effective interest rate of the debt, or when the debt is a collateral-dependent debt (a debt the repayment of which is expected to made solely out of the pledged collateral or another asset held by the borrower) or when an asset is expected to be foreclosed, according to the fair value of the collateral that was pledged to secure that loan (net of costs to sell).
For this purpose, the Bank defines a debt as a collateral-dependent debt when its repayment is expected to be made solely out of the collateral pledged in favor of the Bank or out of an asset held by the borrower, even if there is no specific pledge on the asset, provided that the borrower has no other available and reliable resources to repay its debt.
As a rule, a specific provision required is assessed for each debt whose contractual balance (without deducting: accounting write-offs not involving a legal waiver, unrecognized interest, provisions for loan losses and collaterals) is at least NIS 1 million and any other debt identified by the Bank for specific assessment purposes. In some of the consolidated subsidiaries, assessment is also carried out for lower amounts. A specific provision is recognized for each debt classified as an non-performing loans (please see below).

Collective loan loss provision

Balance sheet loans – aiming to reflect provisions for impairment in respect of loan losses which have not been identified specifically and which arise from large pools of small debts with similar risk characteristics and in respect of specific debts that were assessed and found to be unimpaired. The loan losses are measured based

Note 1 - Significant Accounting Policies (cont.)

on the rules set out in ASC 450 – Accounting for Contingencies – and the Banking Supervision Department's directives, based on historical loss rates in various sectors of the economy, allocated between troubled debt and non-troubled debt for the period ranging from January 1, 2011 through the reporting date. Furthermore, in order to determine the appropriate allowance rate, the Bank takes into account an adjustment in respect of environmental factors such as: conditions of the sector, macroeconomic data, a general assessment of the quality of loans extended to sectors, changes in volume and the trend of balances in arrears and impaired balances, and the effect of the changes on credit concentration.

In respect of consumer loans granted to private persons, the adjustment rate in respect of environmental factors shall be no less than 0.75 percent of the outstanding balance of unimpaired consumer loans. The credit risk deriving from receivables in respect of banking credit cards without interest charges were excluded from the aforesaid.

According to guidance issued by the Banking Supervision Department, banking corporations are required to include 2011 and onwards in the "year range" used for establishing their collective loan loss provision.

Off-balance sheet loans - the provision is based on provision rates set for balance sheet loans, taking into account the utilization rate of off-balance sheet loans. The utilization rate of loans is calculated by the Bank based on credit conversion factors (CCFs) as set out in Proper Conduct of Banking Business Directive No. 203 – Measurement and Adequacy of Capital – Credit Risk – Standardized Approach, with certain adjustments in cases where the Bank has past experience indicating the loan unitization rates.

Housing loans – a minimum provision for doubtful accounts is calculated according to a formula set by the Banking Supervision Department, taking into account the extent of arrears, such that the provision rates grow as the debt delinquency rates increase. The calculation of the provision according to the extent of arrears formula applies to all housing loans, except for loans that are not repaid by periodic installments and loans that fund a business activity. Furthermore, the balance of outstanding non-delinquent housing loans is provided for based on past statistics. The Bank also applies the provisions of the revised Proper Conduct of Banking Business Directive No. 329 – *Restrictions on Extending Housing Loans*. The Bank has set a policy designed to ensure that it complies with the new requirements and that - as of June 30, 2013 - the balance of the collective loan loss provision in respect of housing loans will be no less than 0.35 percent of the balance of the said loans at the reporting date.

The Bank assesses the overall appropriateness of the collective loan loss provision based on management's judgment, taking into account the risks inherent in the loan portfolio.

Identification and classification of troubled debt

The Bank has set procedures for identifying troubled debt and for classifying debts as non-performing loans. According to these procedures, the Bank classified the balance of the various troubled debts as follows: special supervision, substandard or non-performing.

Loan under special supervision

Loans under Special Supervision is credit for which there are potential weaknesses which should be monitored closely by the Bank's management. Off-balance sheet loans are classified as credit under special supervision if the materialization of the contingent liability in respect of the item is defined as "reasonably possible" and if the debts that may be recognized as a result of the materialization of the contingent liability meet the criteria for classification into this category.

Substandard loans

A loan which is insufficiently guaranteed by the current sound worth and repayment capacity of the borrower or the pledged collateral, if any. Balance sheet credit risk that has been classified in this way should have a well-defined weakness or weaknesses, which jeopardize the liquidation of the debt. A loan in respect of which a collective loan loss provision is recorded shall be classified as a substandard loan when it has been past due for 90 days or more.

Note 1 - Significant Accounting Policies (cont.)

Impaired loans

A debt is classified as non-performing when the Bank expects it will be unable to collect the full amounts receivable under the contractual terms of the debt agreement, based on up-to-date information and events, such as: the debt's delinquency status; the borrower's financial position and solvency; an assessment of the primary repayment source for the debt; status of the collateral; the guarantors' financial position, etc.

Since July 1 2017, the Bank applies the Banking Supervision Department's revised Frequently Asked Questions and Examples of Implementation of Reporting to the Public Directives on Impaired Debt, Credit Risk, and Loan Loss Provision". The revision focuses on establishing debt classifications based on the debtor's repayment capacity, i.e.: the expected strength of the primary repayment source, notwithstanding the support of secondary and tertiary repayment sources.

Primary repayment source – a sustainable source of cash which must be under the borrower's control, must be reserved, explicitly or implicitly, to cover the debt obligation. For a source of repayment to be considered primary, the Bank must show that the borrower is highly likely to generate, within a reasonable period of time, an adequate cash flow from a continuing business operation, which shall be used to repay all of the required installments in full and according to the repayment schedule set in the agreement.

A debt shall be classified as non-performing whenever the principal or interest has been in arrears for a period of 90 days or more, unless it is both well secured and in the process of collection. Additionally, non-performing loans is also considered as a debt whose terms were changed due to troubled debt restructuring, unless a minimum credit loss provision was made before and after the restructuring according to the extent of arrears method.

Restructured troubled debt

A troubled debt which underwent formal restructuring is considered a debt for which, for economic or legal reasons related to the debtor's financial difficulties, the Bank had granted a concession by changing the terms of the loan to alleviate the burden of the debtor's near-term cash payments or by accepting other assets in satisfaction of the debt. In order to determine whether a debt restructuring carried out by the Bank constitutes restructuring of a troubled debt, the Bank carries out a qualitative assessment of the debt restructuring's terms and circumstances with the aim of determining whether (1) the borrower has financial difficulties and (2) the Bank granted a concession to the borrower as part of the debt restructuring.

In order to determine whether the debtor has financial difficulties, the Bank assesses whether there are indications that the borrower has difficulties as of restructuring date or whether it is reasonably probable that the borrower will have financial difficulties were it not for the restructuring.

Among other things, the Bank assesses whether one or more of the following criteria are met:

- As of restructuring date, the borrower is in financial difficulties;
- With regards to debts which are not in arrears as of restructuring date, the Bank assesses whether - under the customer's current repayment capacity - it is probable that the customer will default in the foreseeable future and will fail to meet the original contractual terms of the debt;
- The debtor has declared bankruptcy, is under receivership, or there are significant doubts as to the borrower's continued existence as a going concern.
- If the terms of the debt are not changed, the borrower will be unable to raise debt from other sources at the market interest rate applicable to borrowers who have not defaulted.

The borrower was granted a concession even if - as part of the restructuring - the contractual interest rate was increased, provided that one or more of the following criteria are met:

- As a result of the restructuring, the Bank is not expected to collect all outstanding amounts (including interest accrued) according to contractual terms;

Note 1 - Significant Accounting Policies (cont.)

- The up-to-date fair value of the collateral for collateral-dependent debts does not cover the contractual outstanding balance and indicates that it will be impossible to collect all amounts due;
- The borrower is unable to raise debt at prevailing market interest rate for a loan with terms and characteristics such as those of the loan extended as part of the restructuring.

In addition, the Bank does not classify a debt as a restructured troubled debt if - as part of the restructuring - the borrower was granted an immaterial payments deferral, given the frequency of payments, contractual repayment period and expected average life of the original debt. In this regard, if several restructurings were carried out that involve changing the debt's terms, the Bank takes into account the cumulative effect of the previous restructurings when determining if the payments deferral is immaterial.

Restructured debts, including debts that were assessed on a collective basis prior to restructuring, will be classified as non-performing loans and assessed on a specific basis in order to calculate the loan loss provision or accounting write-off. As a rule, a restructured troubled debt will be classified as non-performing until it is fully repaid, unless it has complied with the conditions for restoration to accrual status as described above.

Restoring a non-performing loan to accrual loan status

A non-performing loan may be restored to accrual status when one of the following criteria is met:

- Principal or interest are no longer past due and unpaid and the Bank expects full repayment of the outstanding principal and interest pursuant to the terms of the contract (including accounting write-offs or amounts that have been provided for).
- The loan is both well secured and in the process of collection.
- The loan was restructured (without forgiving the principle) and subsequently the banking corporation and the debtor entered into another restructuring agreement (subsequent restructuring), provided that at the time of the subsequent restructuring, the borrower is not experiencing financial difficulties and, under the terms of the subsequent restructuring agreement, the banking corporation granted no concession to the borrower. This section applies to restructuring carried out or renewed as of December 31, 2016.

The rules for restoring a loan to non-impaired status shall not apply to loans classified as non-performing as a result of restructuring a troubled loan except for subsequent restructuring as stated above.

Restoring an impaired loan to impaired accrual status

After there is reasonable assurance that a restructured loan will perform and be repaid under the modified terms, it is once again accounted for as an non-performing accrual loan, provided that the restructuring and any accounting write-offs made in connection with the loan are supported by a revised credit assessment of the debtor's financial condition, based on sustained repayment performance for a period of at least six consecutive months and only after the recorded outstanding loan, post restructuring, is significantly reduced (by at least 20 percent) by repayments.

Revenue recognition

When a debt is classified as non-performing, the Bank defines it as a nonaccrual debt that no longer accrues interest income, except as set out below for certain restructured debts. Furthermore, when the debt is classified as non-performing loans, the Bank cancels all interest income which has been accrued but not yet collected which had been recognized as income in the income statement. As long as its non-performing loans classification is not cancelled, the debt is classified as a nonaccrual debt. A debt that has undergone a formal troubled debt restructuring and after restructuring there is reasonable assurance of repayment and performance under its modified terms shall be accounted for as accrual non-performing loans. For more information regarding revenue recognition on a cash basis in respect of debts that were classified as impaired, please see Section (F) above.

The Bank does not discontinue accruing interest income on debts in arrears of 90 days or more which are assessed and provided for on a collective basis. These debts are subject to loan loss provision valuation methods that ensure that the Bank's profit is not overstated. Late-payment fees in respect of these debts are recorded as income when the Bank's right to receive the fees from the customer has been established, provided that collection is reasonably assured.

Accounting write-offs

The Bank performs accounting write-offs in the following cases:

- Any debt or part thereof which is assessed on a specific basis and is considered uncollectible and has a low value such that maintaining it as an asset is unjustifiable or a debt which the Bank has attempted to collect over a considerable period of time (normally for more than two years).
- In the case of a collateral-dependent debt, any portion of such debt in excess of the value of the collateral which is identified as uncollectible shall be written off immediately against the loan loss provision.
- Troubled debts, the loan loss provision for which is made collectively, when the arrears period exceeds 150 days, except for restructurings which are tested whether they require immediate write-offs. In addition, troubled debt under restructuring which were tested collectively and failed, are written off when delinquent for 60 days or more under the restructuring terms.

It should be clarified that accounting write-offs do not involve a legal concession and reduce the reported outstanding debt for accounting purposes only, while establishing a new cost basis for the debt in the Bank's books of account.

I. Securities

1. The securities in which the Bank invests are classified into three portfolios, as follows:

   a. Held-to-maturity bonds

   Bonds which the Bank intends to and can hold until maturity. Held-to-maturity bonds are stated at cost plus accrued interest and exchange rate and linkage differentials, taking into account the premium or discount pro rata, and net of other-than-temporary impairment.

   b. Held-for-trading securities

   Securities that were purchased and are held with the intent of selling them within a short period of time. Held-for-trading securities are stated at fair value as of the reporting date. Realized and unrealized gains and losses are carried to the income statement.

   c. Available-for-sale securities

   Securities which were not classified as held-to-maturity or held-for-trading securities. Available-for-sale securities are stated in the balance sheet at fair value as of reporting date, except for shares and venture capital funds in respect of which fair value is unavailable and which are therefore stated at cost.

   The differences between the fair value and amortized cost net of tax reserve are carried to a separate line item in shareholders' equity in other comprehensive income. Other-than-temporary impairment is carried to the income statement as stated in Section 6 below.

   Unrealized gains or losses from fair value adjustments in respect of available-for-sale securities designated as being hedged by fair value hedges were carried to the income statement over the hedging period in respect of the hedged risk.

2. Dividend income, accrued interest, linkage and exchange rate differentials, amortization of premium or discount (according to the effective interest method) and impairment losses from other-than-temporary amortization are carried to the income statement.

Note 1 - Significant Accounting Policies (cont.)

3. Interest income in respect of purchased beneficial interests - e.g. asset-backed financial instruments such as CDOs, CLOs, MBSs and CMOs (except for instruments with high quality credit) - is recognized according to the prospective interest method (the future interest rate which also incorporates prospective changes), while adjusting the interest rate used to recognize interest income to reflect changes in the estimated future cash flows. Beneficial interests of high credit quality are beneficial interests issued by the US government and are guaranteed thereby or by US government agencies, as well as asset-backed assets whose international credit rating is at least AA.

4. Investments for which no fair value is available will be stated at cost less losses from other-than-temporary impairment. Gain from such investments is carried to the income statement upon disposal of the investment.

5. Fair value

   For more information about the methods applied to determine fair value, please see Section (G) above.

6. Impairment

   At each reporting period, the Bank assesses the need to record losses for other-than-temporary impairment of the securities comprising the available-for-sale portfolio and the held-to-maturity portfolio. The assessment is carried out when there are indications that the value of the securities may have been non-performing. The criteria for determining whether the impairment is other-than-temporary are based on the following considerations and tests:

   - Intention and ability to hold the security until the forecasted recovery of its entire cost basis.
   - The assets and collaterals backing the security.
   - The rate of impairment out of the total cost of the security.
   - The period of time during which the fair value of the security is lower than its cost.
   - Assessment of the repayment capacity and rating.
   - Deterioration of the issuer's business or of market conditions.

   It is the Bank's policy to recognize other-than-temporary impairment of a security when a security meets one or more of the following criteria:

   - The security was sold as of the report's publication date.
   - The security which the Bank intended to sell shortly before the publication of the report.
   - A bond whose rating has been significantly downgraded during the period since the date of acquisition by the Bank and the report's publication date. For purposes of this section, only a decline below -BBB is considered a significant rating decline.
   - A bond classified by the Bank as troubled debt subsequent to its purchase.
   - A bond in respect of which credit default has occurred which was not rectified within a reasonable period of time.
   - A security whose fair value was lower than its fair value upon purchase for a period of at least nine months as of the end of the reporting period and whose fair value as of the end of the reporting period and close to the date of the publication of the report is 35 percent or lower than its cost (in the case of a bond – its amortized cost).

     For this purpose, an exception can be made if the Bank has concrete objective evidence and a conservative analysis of all the relevant factors showing with a high degree of certainty that the impairment is of a temporary nature. The objective evidence and the relevant factors include parameters such as: an increase in value after the date of the financial statements, a high credit rating (group A or above), an analysis of resilience under stress tests carried out by an independent external party or by the Bank, backing, including direct government investment in equity for the purpose of ensuring the issuing Bank's stability.

These principles are in accordance with the directive issued by the Banking Supervision Department, except for the definitions of "significant rating" and "significant impairment" which were determined by the Bank.

When other-than-temporary impairment occurs, the value of the security is written-down to its fair value, which serves as its new cost basis. Other-than-temporary losses from securities are carried to the income statement. Increase in the value of the security during subsequent reporting periods compared to its new cost basis are carried as a separate item in common equity within other accumulated comprehensive income and are not carried to profit and loss.

J. Derivative Financial Instruments Including Hedge Accounting

The Bank holds derivative financial instruments in order to hedge foreign currency and interest rate risks; the Bank also carries out derivative activity for purposes other than hedging, including embedded derivatives that have been bifurcated.

Hedge accounting

At inception, the Bank formally documents all ratios between designated hedging instruments and hedged items as well as its risk management objectives and strategies for undertaking hedge transactions and the manner in which the Bank will assess the effectiveness of the hedge ratios. The Bank assesses the effectiveness of the hedge ratios both at the beginning of the hedging period and on an ongoing basis. The Bank also applies hedge accounting using the "abbreviated method", which assumes full effectiveness according to the provisions of the standard.

1. Fair value hedges

   Changes in the fair value of derivatives designated to hedge fair value are carried to the income statement. The hedged item is also stated at fair value and changes in fair value that can be attributed to the hedged risk are carried to the income statement.

   If the hedging instrument no longer meets the hedge accounting criteria, or if it expires, sold, terminated or exercised, or if the Bank cancels the designation of the fair value hedge, then it is no longer accounted for according to hedge accounting.

   Hedges of a net investment in a foreign operation – please see Section (D) above.

2. Asset and Liability Management (ALM)

   Hedge accounting is not applied to derivative instruments used by the Bank in its Asset and Liability Management (ALM) activities. Changes in the fair value of these derivatives are recognized in the income statement as incurred.

3. For hedges of foreign operations – please see Section (D) above.

Other derivatives

Changes in fair value of derivatives that are not used for hedging are carried immediately to profit and loss.

Embedded derivatives

Embedded derivative instruments are bifurcated from the host contract and accounted for separately if: (a) there is no clear and close connection between the economic characteristics and risks of the host contract and embedded derivative, including credit risks arising from certain embedded credit derivatives (b) a separate instrument with the same terms as the embedded instrument would have qualified as a derivative, and (c) the hybrid derivative is not measured at fair value through profit and loss.

A bifurcated embedded derivative is presented in the balance sheet together with the host contract; changes in the fair value of bifurcated embedded derivatives are carried immediately to profit or loss.

Note 1 - Significant Accounting Policies (cont.)

In certain cases, (such as when the Bank is unable to bifurcate an embedded derivative from the host contract), pursuant to Subtopic 815-15 - Accounting for Certain Hybrid Financial Instruments, the Bank elects not to bifurcate the embedded derivative and to measure the fair value of the hybrid instrument in its entirety and carry any changes in fair value to the income statement as incurred. Such election is made when the hybrid instrument is purchased or upon the occurrence of certain events in which the instrument is subject to re-measurement (a re-measurement event), such as a result of business combinations or material changes in debt instruments. Such fair value election is irrevocable.

Fair value

For information regarding the determination of fair value, please see Section (G) above.

K. Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

The Bank applies the measurement and disclosure principles prescribed in Subtopic 860-10 – Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, for the purpose of dealing with transfers of financial assets and extinguishment of liabilities. According to these rules, the transfer of an entire financial asset, a group of financial assets or a participating interest in an entire financial asset will be accounted for as a sale, if and only if, all of the following conditions are met: (1) the transferred financial asset has been isolated from the transferor, even under bankruptcy or other type of receivership; (2) each transferee may pledge or exchange the assets it had received, and no condition also restricts the transferee or holder from exercising its right to pledge or exchange and confers upon the transferor more than a trivial benefit to the transferor; (3) the transferor or consolidated companies included in its financial statements or its agents do not maintain effective control over the transferred financial assets.

In this context, a participating interest has all of the following attributes: (1) as of the transfer date, it represents a pro rata ownership interest in the entire financial asset; (2) as of the transfer date, all of the cash flows received from the entire financial asset are divided pro rate between the holders of the participating interests relative to their respective ownership holdings; (3) the interests of each of the participating interest (including the transferor in its capacity as a holder of participating interests) have the same preference, and none of the interests of any particular interest holder is subordinate to the interest of another holder; and (4) no party has the right to pledge or replace the entire financial asset, unless all of the holders of the participating interests agree to pledge or replace the entire financial asset.

If the transaction meets the criteria for accounting for it as a sale, the transferred financial assets are derecognized from the Bank's balance sheet. If the transaction does not meet the conditions for accounting as a sale, the transfer shall be accounted for as a secured debt. The assets shall continue to be stated in the Bank’s balance sheet and the proceeds of the sale are recognized as the Bank’s liability.

The Bank applies specific provisions included in the Reporting to the Public Directives regarding lending or loaning of securities. The securities are not derecognized from the balance sheet but rather presented in the securities line item. The collateral put up to secure the securities is presented in the "Securities loaned or sold under repurchase agreements" line item or under the "Securities loaned or sold under reverse repurchase agreements" line item, as applicable and according to their value on the transaction date.

The Bank monitors changes in fair value on a daily basis and where applicable - demands collaterals. Interest received or paid in respect of such securities is reported under net interest income (expenses).

Pursuant to the directives of the Banking Supervision Department, unsecured securities lending or borrowing transactions in which the borrower does not provide the banking corporation with a security margin relating specifically to the securities lending transaction, are accounted for as follows:

a. Unsecured lending out of the Bank’s available-for-sale or held-for-trading portfolios – when the Bank lends securities, it derecognizes the borrowed securities and recognizes a loan at the transferred securities' market value as of the transfer date. In subsequent periods, the Bank measures the loans in the same way in which the securities were measured prior to the lending thereof. Income on accrual basis is recognized as interest income on loans; changes in market value (other than accrual basis changes) are classified as noninterest financing income if the relevant securities are held-for-trade securities or to other comprehensive income if the relevant securities are available-for-sale securities. At the end of the lending period, the Bank derecognizes the loan and re-recognizes the security.

b. Unsecured borrowing of securities – when the Bank borrows a security in an unsecured borrowing transaction, the Bank recognizes the security and a deposit against that security, at the security's market value as of the borrowing date. Such securities are classified to the held-for-trading portfolio. In subsequent periods, changes in the reporting period arising from changes in the security's market value are classified as noninterest finance income. When the Bank sells a borrowed security short, the Bank recognizes, in noninterest finance income at each reporting date, the difference - only if it is positive - between the market value of the shorted security at the reporting date and the balance for the unsecured borrowing transaction included in the deposits line item.

L. Employee Benefits

Post-employment benefits - pension, severance pay and other benefits - defined benefit plans

Pension benefit is part of the compensation paid to employees for their services. In a defined benefit pension plan, the Bank undertakes to pay employees' salaries during years of employment as well as post-retirement pension annuities. The amount of the benefit paid depends on certain future events taken into consideration in the plan's benefit formula, including, inter alia, the remaining life of the employees or his/her survivors, the number of the employees' years of service and his/her salary in the years immediately preceding his/her retirement.

Definitions:

- Discount rate applied to employee benefits obligations – the discount rate used to calculate the actuarial liability in respect of the Bank's employee benefits is based on market yields according to the option selected by the Bank out of the options set by the Bank of Israel, which is the Government of Israel's bonds yield curve plus the spread curve of corporate bonds rated AA or more in the U.S.
- Actuarial gain/loss – the change in the value of a projected obligation or plan assets resulting from the fact that actual payments differ from estimated amounts or arising from a change in an actuarial assumption.
- Expected return on plan assets – the Bank calculates the expected long-term rate of return on plan assets using historical rates of return over a long period of time for a portfolio comprising similar assets.
- Projected benefit obligation– the actuarial present value of all benefits attributed to the employee's service provided prior to the balance sheet date in accordance with the plan's benefit formula.
- Cost of pension, net - the amount recognized in the Bank's financial statements as the cost of a pension plan for a specific period. This cost includes costs charged to profit and loss: cost of service, interest cost, expected return on plan assets and amortization of net actuarial gain/loss and costs charged to other comprehensive income: actuarial profit and loss.

Actuarial profits and losses stated in comprehensive income arise, inter alia, from:
The effect of the transition created on first-time application
Current changes in the discount rates
Changes arising from the difference between the actual experience and the actuarial assumption used to calculate the liability.
The difference between the expected return and the actual return on plan assets is carried to other comprehensive income.

Actuarial gains and losses as outlined below are amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits according to the plan.

Note 1 - Significant Accounting Policies (cont.)

When all or almost all of the plan participants shall no longer be active, the average remaining life expectancy of the inactive employees shall replace the average remaining service period.

The obligation in respect of expected benefit in the balance sheet is recorded net of the fair value of plan assets. When the obligation in respect of expected benefit exceeds the fair value of plan's assets, the Bank will record in the balance sheet a liability at the total amount of the said difference. If the fair value of plan assets exceeds the obligation in respect of the expected benefit, the Bank will record in the balance sheet an asset at the total amount of the said difference.

The Bank carries out an actuarial measurement on a quarterly basis.

Retirement benefits – defined contribution plans

A defined contribution plan is a plan which pays retirement benefits for services rendered, provides an individual account for each participant in the plan and defines how employee's contributions will be determined. In this type of plan, the benefits paid to a participant depend solely on the amounts contributed to the participant's account, the returns accumulated from investing these contributions, and forfeitures of benefits of other participants that may be allocated to the account of that participant. In this case, the net benefit cost for the period is the contribution required for that period.

The Bank's liability to pay severance pay under Section 14 of the Severance Pay Law is accounted for as a defined contribution plan.

Other post-employment benefits

The Bank accrues the liability across the employment period, under the predetermined terms and conditions.

Paid leave

The Bank accrues a liability for employees' compensation in respect of future absences, if all of the following conditions are met:

- The Bank's obligation is related to services already provided by the employees.
- The obligation relates to vested or accrued rights.
- Payment of the expected compensation.
- The amount is reasonably estimable.

The liability in respect of paid leave is measured on a current basis without using discount rates and actuarial assumptions.
Discount rates and actuarial assumptions are taken into account in the calculation of the liability in respect of long-service (jubilee) leave.
Changes in the liability in respect of long-service leave (jubilee) are carried immediately to the income statement.

Stock compensation transactions

Stock compensation transactions are transactions in which the Bank receives services from the employee and the consideration is provided in equity instruments.
As a rule, the Bank recognizes an expense in respect of the stock compensation it grants to its employees on the date in which the services are provided. An expense is recorded if it is probable that the conditions for performance will be met.
The Bank recognizes an increase in capital or liability depending on whether the bonus is equity-settled or liability-based.
Equity-settled awards are measured at fair value on the grant date.
Cash-settled awards are measured at fair value on grant date and the liability is re-measured at each balance sheet date until settled.
The tax effects of stock compensation transactions are recognized at the time of settlement (or expiry) through profit and loss.

Note 1 - Significant Accounting Policies (cont.)

M. Offsetting Assets and Liabilities

The Bank offsets assets and liabilities arising from the same counterparty and states their net balance in the balance sheet, when the following cumulative conditions are met:

- There is a legally enforceable right to offset the liabilities against the assets in respect of those liabilities;
- There is an intention to settle the liability and realize the assets on a net basis or simultaneously;
- The Bank and the counter-party owe each other determinable amounts.

The Bank offsets assets and liabilities with two different counterparties and states a net balance in the balance sheet if all of the above cumulative conditions are met, provided that there is an agreement between the three parties that clearly defines the Bank's right to offset those assets and liabilities.

The Bank offsets deposits whose repayment to the depositor is contingent on the extent of collection of the loans and the loans that were extended out of these deposits, with the Bank having no loan loss risk. The margin on this activity is included under the "fees and commissions" line item.

The Bank offsets derivative instruments entered into with the same counterparty which are subject to a master netting arrangement, only for the purpose of calculating customer’s debt as presented in the various notes to the financial statements. Such offsetting is not carried out in the balance sheet.

N. Buildings and Equipment

Recognition and measurement

Buildings and equipment are presented at cost, net of accumulated depreciation and impairment losses. Cost includes expenses directly attributable to the purchase of the asset. The cost of self-constructed assets includes the cost of materials and direct salaries as well as any additional cost directly attributable to bringing the asset to an active state as intended by management. Cost of purchased software that constitutes an integral part of operating the related equipment, is recognized as part of the cost of that equipment.

Buildings held-for-sale are presented at the lower of their carrying amount or realizable value.

Gain or loss on sale of property, plant & equipment is included in the "other income" line item in the income statement.

Subsequent costs

The carrying amount of an item of property, plant & equipment will include the cost of replacing the part of such an item if it is expected that the future economic benefits associated with the replaced part will flow to the Bank and if its cost can be measured reliably. The carrying amount of the replaced part is derecognized.

Current maintenance costs of property, plant & equipment items are carried to income or loss as incurred.

Software costs

Pursuant to the Reporting to the Public Directives, the Bank classifies under this line item, the costs in respect of software assets acquired or costs capitalized as an asset in respect of internally-developed and used software.

Purchased software is measured at cost net of accumulated depreciation and impairment losses.

Costs associated with the development and customization of internal use software are capitalized only if the development costs can be measured reliably, if future economic benefits are expected and if the Bank intends to complete the development of the software and use it and has sufficient resources to do so. The Bank has also set a materiality threshold of NIS 750 thousand for capitalization of internally-used software. Capitalized costs include direct costs of materials and services and direct labor costs. These costs are measured at cost net of accumulated depreciation and impairment losses. Other costs are carried to profit and loss as incurred. Subsequent software costs are capitalized only if it is expected that the incurred costs will lead to additional functionalities. All other costs are carried to the income statement as incurred.

Note 1 - Significant Accounting Policies (cont.)

Depreciation and amortization

Depreciation is calculated according to cost on a straight-line basis over the useful life of the asset as of the date on which the asset is ready for use. The Bank depreciates separately each part of property, plant & equipment with a different useful life. Leasehold improvements are amortized over the shorter of the term of the lease, including an option which is likely to be exercised, or the estimated useful life of the improvements. An asset is amortized as of the date on which it is available for use.

The Bank reviews the useful life and residual value when events or changes in circumstances indicate that the current estimates are no longer adequate, in which case they are adjusted as necessary.

For more information regarding impairment of nonmonetary assets, please see Section V below.

Derecognition

Profit or loss from derecognition of a property, plant & equipment item is the difference between the asset's derecognition amount and carrying amount. This difference will be recorded net in the other income line item in the income statement.

Leases

Leases, including leases of land from the Israel Land Authority or other third parties, where the Group bears substantially all the risks and benefits associated with the asset, are classified as finance leases. Upon initial recognition, the leased assets are measured and a liability is recognized at an amount equal to the lower of the fair value and the present value of the minimal future lease payments. Future payments in respect of the exercise of an option to extend the period of the lease with the Israel Land Authority are not recognized as part of the asset and the relating liability to the extent their amount is derived from the fair value of the land at future renewal dates of the lease agreement. Subsequent to initial recognition, the asset is accounted for according to the accounting policy applied for this type of asset.

The lease period is the non-cancelable period in respect of which the lessee has entered into an agreement to lease the asset, together with any other periods in respect of which the lessee has an option to continue the lease for additional payment or without an additional payment, such that on the date of entering into the lease contract it is reasonably certain that the lessee will exercise the option.

All other leases are classified as operating leases, in which case the leased assets are not recognized in the balance sheet.

Lease payments made in advance to the Israel Land Administration in respect of operating leases are stated in the balance sheet as prepaid expenses and carried to income or loss on a straight-line basis over the lease period.

O. Issuance Costs

Costs relating to issuance of bonds, promissory notes and subordinated bonds are amortized according to the effective interest method over the expected life of the issued instrument.

P. Foreclosed Assets

Assets which were foreclosed and transferred to Group ownership due to settlement of troubled loans, that are included under the "other assets" line item, are presented at the lower of the fair value of the asset as of transfer date or as of balance sheet date. Amortization is carried to "operating and other expenses".

Q. Contingent Liabilities

The financial statements include adequate provisions for legal claims which, in the opinion of the Bank's management and the managements of its consolidated companies, based on the opinions of their legal counsel, will not be dismissed or withdrawn, although the Bank denies the validity of those claims. In addition, there are legal proceedings whose odds and/or results cannot be assessed at this stage and therefore no provision was recorded in respect thereof.

The legal claims lodged against the Bank are classified into three categories, according to the probability of the materialization of risks, as follows:

- Probable risk – the probability that the risk will materialize exceeds 70 percent. Appropriate provisions are included in the financial statements for legal claims included in this risk group.
- Possible risk – the probability that the risk will materialize ranges from 20 percent to 70 percent. No provisions were included in the financial statements for legal claims included in this risk group, but they are disclosed in the financial statements.
- Remote risk – the probability that the risk will materialize is smaller than or equal to 20 percent. No provisions were included in the financial statements for legal claims included in this risk group and they were not disclosed in the financial statements.

In rare cases, where - in the opinion of the Bank's management, based on the opinion of its legal counsel, it is impossible to assess the prospects of a risk materializing as a result of an ordinary legal claim or a motion approved as a class action - no provision is made in the financial statements.

The Group is also exposed to legal claims that have not yet been put forward/filed since, among other things, there are doubts as to the interpretation of an agreement and/or a legal provision and/or the implementation thereof. A number of ways are employed to bring this exposure to the attention of the Group. In its assessment of the risk arising from demands/legal claims that have not yet been put forward, the Group's management relies on internal assessments made by management and by the parties responsible; these assessments weigh the prospects that a legal claim will be filed, the chances of the legal claim being successful, if and to the extent that it is filed, and amounts that may be payable if a compromise is reached. The assessment is based on past experience and on an analysis of the legal claims on their own merit. By nature, in view of the preliminary stages of the legal proceedings, the actual outcome may, of course, be different than the assessment made before the legal claim was filed.

A legal claim in respect of which the Banking Supervision Department determines that the Bank is required to make refunds is classified as "probable" and a provision is made in respect of the amount the Bank is required to refund.

Note 26, Contingent Liabilities and Special Commitments, provides details regarding the amount of the additional exposure arising from pending legal claims whose amount exceeds 0.5 percent of the Bank's equity and whose materialization prospects are not remote. In addition, disclosure is given as to material legal proceedings against the Bank and consolidated companies.

R. Guarantees

Guarantees are contracts which include contingent payments requiring the guarantor to make payments for the guaranteed party according to the terms and conditions of the letter of guarantee. The liability is derecognized on the date in which the Bank is released from the risk.

S. Income Tax

The provision for income tax by the Bank and by those of its consolidated companies which are considered financial institutions for Value Added Tax purposes include a provision for profit tax levied on the income pursuant to the Value Added Tax Law. Value Added Tax levied on salaries in financial institutions is included in the income statement under "Salaries and related expenses". The financial statements include current taxes and deferred taxes.

Current taxes

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable income for the year calculated at the applicable tax rates under tax laws that have been enacted or substantively enacted as of the reporting date. A law shall be considered as having been enacted only after its publication in the Official Gazette.

Note 1 - Significant Accounting Policies (cont.)

Deferred taxes

Deferred tax liabilities and deferred tax assets are created in respect of temporary differences and transferred losses as at the end of the period.

Deferred tax balances are measured at the tax rates expected to be in effect at the time the deferred tax asset is utilized or the deferred tax liability is settled, based on the tax rates and tax laws enacted as at the balance sheet date. A law shall be considered as having been enacted only after its publication in the Official Gazette.

Deferred tax liabilities are recognized by the Bank for all taxable temporary differences except for tax liabilities arising from temporary differences related to goodwill which is not tax deductible or deferred tax liabilities in respect of temporary differences arising from investment in domestic subsidiaries until December 31 2016. As of January 1 2017, the Bank recognizes a deferred tax liability in respect of temporary differences accrued as of that date in respect of domestic subsidiaries. The Bank does not recognize deferred tax liabilities in respect of investment in foreign companies since it does not intend to reinvest the undistributed profits for an indefinite period nor does it have the ability to do so.

Deferred tax assets are only recognized to the extent that it is probable that the temporary difference will reverse in the foreseeable future. When recognizing a deferred tax asset, an entity must determine whether it will have future taxable income from which to deduct the difference. At the same time, the Bank recognizes a separate valuation allowance in respect of the same amount included in the asset which - more likely than not - shall not be disposed of. Subsequent changes in the valuation allowance will be recognized in profit and loss in the reported period even if the allowance was initially recorded in equity.

The Bank classifies interest income and expenses in respect of income taxes and fines imposed by the tax authorities to the "Income taxes" line item.

Offsetting deferred tax assets and liabilities

The Bank offsets assets and liabilities in respect of deferred assets as described in Section M above.

Uncertain tax positions

The Bank recognizes the effect of tax positions only if it is more likely than not that the positions will be accepted by the tax authorities or the Court. Recognized tax positions are measured at the highest amount that has a greater than 50 percent likelihood of being realized. Changes in recognition or measurement of deferred taxes are reflected in the period in which the circumstances leading to a change in judgment occurred. The Bank implements the rules for recognition and measurement set out in FIN48.

T. Earnings per Share

The Group presents basic and diluted earnings per share data for its ordinary share capital. Basic earnings per share is calculated by dividing the profit or loss attributed to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. The diluted earnings per share is determined by adjusting the profit or loss attributed to ordinary equity holders and the weighted average number of ordinary shares outstanding, to the effects of all dilutive potential ordinary shares.

U. Interested Party Transactions

The Bank implements the accounting treatment set under US GAAP in its accounting for transactions between a banking corporation and its controlling shareholder and a company controlled by the Bank. In such cases, where the said rules do not refer to the accounting treatment, the Bank implements the rules set out in Standard No. 23 of the Israel Accounting Standards Board on the matter.

Assets and liabilities in respect of which a transaction was carried out with a controlling shareholder are measured at fair value as of the transaction date. Due to the fact that the transaction in question is an equity transaction, the Group carries to equity the difference between the fair value and the consideration from the transaction.

Note 1 - Significant Accounting Policies (cont.)

V. Impairment of Non-Financial Assets

1. The Bank assesses the need to record a provision for impairment in respect of non-financial assets (such as: buildings and equipment, investments in associates and intangible assets including goodwill and excluding internally-used software) when events or changes in circumstances indicate that the carrying amount of its assets exceed their recoverable amount. Impairment losses are recognized only if the carrying amount of a non-current asset is non-recoverable and exceeds its fair value. I.e., the total undiscounted cash flows expected to arise from the use of the asset and its disposal is lower than its carrying amount.
In this case, the Bank will recognize an impairment loss equal to the difference between the asset's carrying amount and its fair value. This loss will be charged to the income statement.

   When such a loss is recognized, the non-performing carrying amount constitutes a new cost basis. The recognized loss shall not be reversed in subsequent periods, unless an appreciation occurs.

2. Impairment of internally-developed software
The Bank tests for impairment intangible assets remaining from a software project when there are events are changes in circumstance which indicate that the amortized cost may be unrecoverable.

   Set forth below are examples for events or changes in circumstance that indicate an impairment:

   a. Internal-use computer software is not expected to provide substantive service potential;

   b. A significant change occurs in the extent or manner in which the software is used or is expected to be used;

   c. A significant change is made or will be made to the software;

   d. Costs of developing or modifying internal-use software significantly exceed the amount originally expected to develop or modify the software;

   e. It is no longer probable that the development of the software will be completed and that the software will be placed in service.

   The Bank recognizes impairment loss when the carrying amount is unrecoverable and exceeds the fair value. A recognized impairment loss will not be reversed in the subsequent period even if the value appreciates.

3. Impairment of investments in associates presented according to the equity method
An investment in an associate is tested for impairment when events or changes in circumstances indicate that the investment's carrying amount is unrecoverable. In such a case, the Bank tests whether the impairment is other than temporary, based on the time during which the fair value of the investment is lower than its book value and the severity of the impairment; the financial position of the investee; as well as the intention and ability of the banking corporation to continue to hold the investment until a date on which the investment is not expected to be sold at a loss. Impairment that is other-than-temporary shall be recognized in the income statement and not reversed in subsequent periods.

4. Non-current assets held for sale
A non-current asset (or disposal group) shall be classified as held for sale when management commits to an active plan to sell the asset, the asset is available-for-sale immediately at its current state, it is expected that the sale of the asset will be completed in one year and the asset is actively marketed for sale purposes.
The asset (or disposal group) shall be presented at the lower of the carrying amounts or fair value less selling costs. The asset shall not be amortized as long as it is classified as held for sale.

5. Discontinued operation
The Bank classifies a disposal group as a discontinued operation under the following conditions:

Note 1 - Significant Accounting Policies (cont.)

a. The disposal group is a component of the entity

b. The disposal group has been disposed of or meets the conditions for classification as a held-for-sale asset.

c. The disposal group represents a strategic change with a material effect on the Bank's activity and financial performance.

For a discontinued operation, comparative results should be restated in the income statement as if the operation had been discontinued from the beginning of the earliest comparative period.

W. 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. Recognition of income from contracts with customers

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 ASU 2014-09, which adopts a new US GAAP standard on revenue recognition. According to the standard, revenue should be recognized in the amount expected to be received in return for the transfer of goods or provision of services to customers.
The standard provides a five-stage model for determining the timing and amount for recognizing revenue.

The standard also outlines the rules for presenting revenues and the costs incurred in respect thereof, as follows:

- Identify the contract with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contract.
- Recognize revenue when (or as) the entity satisfies a performance obligation.

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 inapplicable to the accounting treatment of interest income and expenses and noninterest finance income. As a result, the new directives have had no effect on most of the Bank's revenues.

The circular's guidelines were implemented prospectively from January 1 2018, by charging the cumulative effect to retained earnings.

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

2. Reporting by banking corporations pursuant to US GAAP

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

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

- Discontinued operations in accordance with ASC Subtopic 205-20, Non-Current Assets Held for Sale and Discontinued Operations.

Note 1 - Significant Accounting Policies (cont.)

- 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 circular's guidelines shall apply as of January 1 2018.

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

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

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

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

In addition, the circular clarified that only the cost of service component may be capitalized in cases where salary costs are capitalized.

The circular's guidelines shall apply as of January 1 2018.

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 results for prior periods.

4. ASU 2017-09 — Compensation — Stock Compensation

In May 2017, the Financial Accounting Standards Board (FASB) issued ASU 2017-09, which amends the provisions of ASC 718 — Compensation — Stock Compensation. The purpose of the ASU was to clarify when modification accounting is applicable following a change in the stock compensation terms. modification accounting should be applied in respect of plan changes, unless the fair value, vesting terms or classification of the award were identical before and after the modification.

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

X. New Accounting Standards and New Directives Issued by the Banking Supervision Department in the Period Preceding their Application

Publication topic	Publication's requirements	Effective date and Transition Provisions	Effect on the financial statements
ASU 2017-04 — Intangibles — Goodwill and Other	In January 2017, the FASB issued ASU 2017-04 — Intangibles — Goodwill and Other, 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 may 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.

Note 1 - Significant Accounting Policies (cont.)

Publication topic	Publication's requirements	Effective date and Transition Provisions	Effect on the financial statements
ASU 2017-08, Premium Amortization of Purchased Callable Debt Securities	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 ACU, 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 ACUs to US GAAP for banks - provisions for expected loan losses and other directives	On March 28 2018, the Banking Supervision Department published a letter entitled "Adoption of Updates to US GAAP for Banks - Provisions for Expected Loan Losses and other Directives."		
	Revised accounting treatment of loan loss provisions - CECL The letter adopts US GAAP's ASU 2016-13, Financial Instruments - Credit Losses. 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 and the manner in which these risks are reflected in the financial statements. The main highlights of the expected changes are as follows: • The loan loss provision will be calculated according to the expected loss over the life of a loan rather than the estimated loss that has been incurred but not yet identified. • When estimating loan losses, significant use will be made of forward-looking information which shall reflect reasonable forecasts regarding future economic events.	The effective date of the change is January 1 2021, which is to be applied by recording retained earnings on the first-time application date of the cumulative effect of the rules' application.	The Bank is preparing to apply the letter and is assessing the effect of the circular on its financial statements

Publication topic	Publication's requirements	Effective date and Transition Provisions	Effect on the financial statements
	• Disclosure of the effect of the loan granting date on the credit quality of the loan portfolio will be expanded. • A change will be made in the manner in which impairment of bonds in the available-for-sale portfolio is recorded. • The new rules for calculating the loan loss provision will apply to loans, held-to-maturity bonds and certain off-balance sheet credit exposures.		
Reporting by banking corporations and credit card companies in Israel pursuant to US GAAP on derivative instruments and hedging, classification and measurement of financial instruments, cash flow statement and additional topics	Following a letter published by the Banking Supervision Department on March 28 2018, the Banking Supervision Department published on August 30 2018 a circular entitled "Reporting by banking corporations and credit card companies in Israel pursuant to US GAAP on derivative instruments and hedging, classification and measurement of financial instruments, cash flow statement and additional topics." **Revised treatment of financial instruments** The circular adopts ASU 2016-01. The purpose of the new rules is to simplify the model of reporting on financial instruments and provide users with more useful information for decision making purposes. The main changes related to classification and measurement of financial instruments are as follows: 1. Available for sale shares with an available fair value shall be measured at fair value through profit or loss rather than unrealized adjustments to fair value in other comprehensive income. 2. As a rule, shares with no available fair value shall be presented at cost less impairment (as presented so far). The cost shall be adjusted to changes in observable prices of shares of the same issuer. There is an option for current measurement at fair value subject to condition prescribed by the directive.	The change is to be applied from January 1 2019, in accordance with the Transition Provisions in the US GAAP. Unrealized gains for shares in the available-for-sale portfolio recorded in a capital reserve will be reclassified to retained earnings.	The implementation of the circular is not expected to have a material effect on the financial statements.

Note 1 - Significant Accounting Policies (cont.)

Publication topic	Publication's requirements	Effective date and Transition Provisions	Effect on the financial statements
	Revised accounting treatment of derivatives and hedging activities The circular adopts US GAAP's ASU 2017-12, "Changes to Accounting for Hedging Activities". The objective of the new rules is to improve financial reporting on hedge ratios so as to better reflect the financial results of the banking corporation's risk management through changes in the designation, measurement and presentation of the hedging results. Another objective is to simplify the application of hedge accounting. The main highlights of the expected changes are as follows: **a.** The rules expand the ability to hedge certain risk components, thereby matching the recording of hedging instruments and hedged items in the financial statements. **b.** The rules facilitate the application of accounting guidelines on hedging, mainly by easing requirements on testing for hedge effectiveness and documenting hedges. **c.** The disclosure of activities in derivatives will be updated.		The implementation of the standard is not expected to have a material effect on the financial statements.
Reporting by banking corporations and credit card companies pursuant to US GAAP on leases	**Revised treatment of leases** On July 1 2018, the Banking Supervision Department published a circular entitled "Reporting by banking corporations and credit card companies pursuant to US GAAP on leases", which adopts ASU 2016-02, Leases, and inter alia, the rules of presentation, measurement and disclosure according to ASC Topic 842. The main highlights of the expected changes are as follows: **a.** Leases longer than 12 months will be recognized in the balance sheet even if the lease is classified as an operating lease. **b.** In operating leases, an asset shall be recorded in the balance sheet which reflects the corporation's right to use the leased asset against an obligation to pay the lease. **c.** Leasing transactions in which a banking corporation sells an asset and leases it	The change is to be applied as of January 1 2020.	The Bank is assessing the effect of the circular on its financial statements

Note 1 - Significant Accounting Policies (cont.)

Publication topic	Publication's requirements	Effective date and Transition Provisions	Effect on the financial statements
	back may be considered, under certain circumstances, as accounting sales transactions subject to meeting certain conditions specified in the new rules. **d.** Risk-weighted assets in respect of right of use assets for operational leases recognized in the balance sheet will be fully weighted for minimum capital ratio purposes. According to the Transition Provisions, exchange rate differentials in respect of available-for-sale bonds should not be included as part of the adjustments to fair value of these bonds, extended until January 1 2021.		
ASU 2018-14, Compensation - Retirement Benefits - Defined Benefit Plans	**Disclosure requirements of defined benefit plans** The objective of the revision is to improve the effectiveness of disclosures in the notes to the financial statements. The main amendments are as follows: **a.** The requirement to present an estimate of the amounts included in other comprehensive income that are expected to be deducted as an expense from accumulated other comprehensive income to the income in the following year was revoked. **b.** A requirement was added according to which details should be provided regarding the reasons for material profits or losses related to a change in the defined benefit obligation during the period and other material changes.	The change is to be applied retrospectively from January 1 2021.	The implementation of the circular is not expected to have a material effect on the financial statements.
ASU 2018-15 Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract	**Customer's Accounting for Implementation Costs of a cloud computing Arrangement that is a Service Contract** Costs incurred for the purpose of integrating cloud computing services shall be deferred or charged to profit or loss in the same manner they would have been treated in accordance with provisions regarding internal use software, despite being service contracts. In addition, the deferred integration costs shall be amortized to profit and loss in accordance with the contractual term of the arrangement, including extension periods. Such costs shall be	The change is to be applied from January 1 2020 onwards. May be applied by way of prospective or retrospective application.	The Bank is assessing the effect of the revision on its financial statements

Note 1 - Significant Accounting Policies (cont.)

Publication topic	Publication's requirements	Effective date and Transition Provisions	Effect on the financial statements
	subject to provisions regarding impairment, such as internal use software.		
ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	In February 2018, the FASB published ASU 2018-02, which amends the provisions of Topic 220, Income Statement - Reporting Comprehensive Income. According to the ASU, a banking corporation may reclassify from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act.	The change is to be applied from January 1 2019. Earlier adoption.	The implementation of the standard is not expected to have a material effect on the financial statements.
ASU 2018-13, Changes to the Disclosure Requirements for Fair Value Measurement.	In August 2018, the FASB published ASU 2018-13, which revises the disclosure requirements of fair value measurements required under Topic 820. The objective of the revision is to improve the effectiveness of disclosures in the notes to the financial statements. The main amendments, among others, are as follows: **a.** The requirement to present the amounts and reasons for transfers between Levels 1 and 2 in the fair value hierarchy was revoked. **b.** The requirement to present a description of the fair value measurement process in Level 3 was revoked. **c.** As part of the requirement to provide a narrative description of the sensitivity to changes in unobservable inputs for recurring fair value measurements classified into Level 3 of the fair value hierarchy, the term "sensitivity" was changed to "uncertainty", in order to highlight that the required information does not include uncertainties. **d.** A requirement was added whereby unrealized changes in other comprehensive income during the period, in respect of Level 3 fair value measurements for assets held as at the end of the period.	The change is to be applied from January 1 2020. Earlier adoption.	The implementation of the standard is not expected to have a material effect on the financial statements.

Note 2 - Interest Income and Expenses

	For the Year Ended December 31		
	2018	2017	2016
	In NIS millions		
A. Interest income[(a)]			
From loans to the public	**10,085**	9,199	8,697
From loans to governments	**33**	25	18
From deposits with banks	**139**	91	86
From deposits with central banks and cash	**72**	69	42
From securities borrowed or purchased under agreements to resell under reverse repurchase agreements	**2**	2	2
From bonds[(b)]	**1,015**	683	707
Total interest income	**11,346**	10,069	9,552
B. Interest expenses[(a)]			
For deposits by the public	**(1,847)**	(1,329)	(1,224)
For deposits by governments	**(4)**	(3)	(4)
For deposits by banks	**(29)**	(17)	(15)
For securities loaned or sold under repurchase agreements	**(2)**	(2)	(2)
For bonds, promissory notes and subordinated bonds	**(574)**	(672)	(781)
Total interest expenses	**(2,456)**	(2,023)	(2,026)
Total interest income, net	**8,890**	8,046	7,526
C. Details on the net effect of hedging derivative instruments[(c)]			
From interest income	**7**	(16)	(42)
D. Details on interest income from bonds, on accrual basis			
Available for sale	**923**	626	638
Held for trading	**40**	55	69
Held to maturity	**52**	2	-
Total included in interest income	**1,015**	683	707

(a) Including effective component in hedge ratios.
(b) Including interest in respect of mortgage-backed bonds (MBSs) totaling NIS 203 million (2017 – NIS 196 million, 2016 – NIS 197 million).
(c) More information about the effect of hedging derivatives in Subsections a. and b.

Note 3 - Noninterest Finance Income

	For the Year Ended December 31		
	2018	2017	2016
	In NIS millions		
A. Noninterest finance income (expenses) for non-trading activities			
A.1. From activity in derivatives[a]			
Net income (expenses) in respect of ALM derivatives[b]	**2,484**	(1,722)	(213)
Total from activity in derivatives	**2,484**	(1,722)	(213)
A.2. From investment in bonds			
Gains on sale of available-for-sale bonds[h]	**61**	160	387
Losses on sale of available-for-sale bonds[f][h]	**(71)**	(45)	(30)
Total from investment in bonds	**(10)**	115	357
A.3. Exchange rate differentials, net	**(2,246)**	2,501	700
A.4. Gains (losses) on investment in shares			
Gains on sale of available-for-sale shares[c][h]	**239**	128	576
Losses on sale of available-for-sale shares[g][h]	**(84)**	(67)	(82)
Gain on sale of investees' shares[i]	**224**	-	24
Dividends from available-for-sale shares	**16**	16	10
Losses from investees	**(1)**	(16)	(18)
Total from investment in shares	**394**	61	510
A.5. Gains on sold loans, net	**-**	9	44
Total noninterest finance income (expenses) for non-trading activities	**622**	964	1,398
B. Noninterest finance income (expenses) in respect of trading activities[j]			
Realized and unrealized losses from adjustments to fair value of held-for-trading bonds, net[d]	**(25)**	(74)	(84)
Realized and unrealized gains (losses) from adjustments to fair value of held-for-trading shares, net[e]	**85**	29	(32)
Total from trading activities[k]	**60**	(45)	(116)
Total noninterest finance income	**682**	919	1,282

(a) Excluding an effective component in hedge ratios.
(b) Derivatives which constitute part of the Bank's assets and liabilities management system and are not designated for hedging purposes.
(c) Mainly includes gain on sale of the Tel Aviv Stock Exchange Ltd. and Automated Bank Services Ltd. for a total of NIS 47 million and NIS 25 million, respectively (2017 - mainly includes gain on sale of Kenon shares for a total of NIS 14 million, 2016 - mainly includes gain on sale of Visa Europe for a total of NIS 378 million).
(d) Of which the share of gains (losses) totaling NIS (25) million (2017 – NIS 23 million, 2016 – NIS 8 million) associated with unrealized held-for-trade bonds as of balance sheet date.
(e) In 2018, there were no gains (losses) related to unrealized held-for-trading bonds as at the balance sheet date (2017 – NIS (16) million; in 2016, there were no gains (losses) related to unrealized held-for-trade bonds as at the balance sheet date).
(f) Including impairment provisions in respect of available-for-sale bonds totaling NIS 19 million (2017 – NIS 3 million, 2016 – NIS 3 million).
(g) Including impairment provisions in respect of available-for-sale shares totaling NIS 84 million (2017 – NIS 62 million, 2016 – NIS 33 million).
(h) Reclassified from accumulated other comprehensive income.
(i) Mainly includes gain on the sale of Avgol Industries and Direct Finance for a total of NIS 121 million and NIS 96 million (in 2017 and 2016 there were no material gains).
(j) Including exchange rate differentials from trading activities.
(k) For interest income from investments in held-for-trading bonds, please see Note 2.

Note 4 - Fees and Commissions

	For the year ended December 31		
	2018	2017	2016
	In NIS millions		
Account management	**716**	701	715
Credit cards	**1,129**	1,075	1,023
Activity in securities and certain derivatives[(c)]	**638**	675	592
Financial product distribution fees and commissions[(a)]	**265**	257	240
Management, operating and trust services to institutional entities[(b)]	**85**	75	61
Credit handling	**186**	183	177
Exchange differences	**361**	338	327
Foreign trade activity	**121**	128	131
Net income from loan portfolio servicing	**12**	14	16
Management fees and commissions on life and home insurance	**51**	50	47
Loan fees and commissions	**454**	455[(d)]	454[(d)]
Other fees and commissions	**103**	101	104
Total operating fees and commissions	**4,121**	4,052	3,887

(a) Primarily mutual fund distribution fees.
(b) Primarily operation of provident funds.
(c) Including fees and commissions from underwriting activity.
(d) Reclassified. Please see Note 1.C.5.

Note 4 A - Income from Contracts with Customers[(a)]

	For the year ended December 31 2018										
	Retail, premium and private banking	Mort-gages	Small busi-nesses	Com-mercial	Business	Real estate	Capital markets	Other and adjust-ments	Israeli subsi-diaries	Foreign subsi-diaries	Total
	In NIS millions										
Account management	**313**	**1**	**184**	**80**	**27**	**5**	**24**	**1**	**1**	**80**	**716**
Credit cards	**142**	**-**	**24**	**2**	**-**	**-**	**3**	**-**	**946**	**12**	**1,129**
Activity in securities and certain derivatives	**374**	**-**	**40**	**16**	**6**	**1**	**150**	**-**	**16**	**35**	**638**
Financial product distribution fees and commissions	**220**	**5**	**18**	**6**	**-**	**-**	**-**	**-**	**45**	**22**	**316**
Management, operating and trust services provided to institutional entities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**85**	**-**	**85**
Credit handling	**10**	**6**	**37**	**48**	**20**	**47**	**8**	**-**	**-**	**10**	**186**
Exchange differences	**134**	**-**	**91**	**86**	**15**	**2**	**26**	**-**	**-**	**7**	**361**
Foreign trade activity	**3**	**-**	**30**	**64**	**15**	**-**	**7**	**-**	**-**	**2**	**121**
Net income from loan portfolio servicing	**1**	**11**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**12**
Loan and other fees and commissions	**4**	**-**	**35**	**83**	**115**	**256**	**11**	**13**	**-**	**40**	**557**
Total fees and commissions from main services	**1,201**	**23**	**459**	**385**	**198**	**311**	**229**	**14**	**1,093**	**208**	**4,121**

(a) Reclassification of income was done in accordance with operating segments – management's approach.

Note 5 – Other Income

	For the year ended December 31		
	2018	2017	2016
	In NIS millions		
Gains on disposal of assets received in respect of loans extinguishment	**-**	-	1
Capital gain on sale of buildings and equipment	**45**	302[a]	89
Capital losses on sale of buildings and equipment	**(5)**	(1)	(3)
Gains on main severance pay funds, net	**8**	41	34
Other, net	**20**	29	38
Total other income	**68**	371	159

(a) Including gain on sale of main branch building in Tel Aviv for a total of NIS 265 million in 2017.

Note 6 - Salaries and Related Expenses

	For the year ended December 31		
	2018	2017	2016
	In NIS millions		
Salaries	**3,199**	3,281[d]	3,486
Expense arising from stock compensation transactions[c]	**40**	-	10
Other related expenses, including study fund, paid leave and sick leave[d]	**272**	259	281
Long-term benefits	**(5)**	(14)	(90)
National Insurance fees and payroll tax	**690**	699	769
Pension-related expenses (including severance pay and pension)[a]			
Defined benefit[d]	**145**	146	160
Defined contribution[d]	**200**	204	171
Other post-employment benefits and non-pension retirement benefits[a][d][e]	**3**	16	(9)
Total salaries and related expenses	**4,544**	4,591	4,778
Of which: salaries and related expenses payable abroad	**523**	467	491

(a) For more information regarding employee benefits, please see Note 23.
(b) Expenses in respect of early retirement of employees as part of the Bank's restructuring plan.
(c) Please see Note 23H – Stock Compensation Transactions.
(d) Reclassified due to retrospective application of the Banking Supervision Department's directive regarding improved presentation of expenses for pension and other post-employment benefits. Please see Note 1.W.3.
(e) Of which: Service cost in respect of other post-employment benefits and non-pension retirement benefits for 2018, 2017 and 2016 of NIS 10 million, NIS 11 million and NIS 5 million, respectively.

Note 7 - Other Expenses

	For the year ended December 31		
	2018	2017	2016
	In NIS millions		
Pension expenses - defined benefit and other post-employment benefits, excluding service cost	**671**	681 [d]	644 [d]
Marketing and advertising	**314**	293	289
Professional fees: legal fees, audit fees	**290**	302	282
Communication: postage, telephone, couriers, etc.	**160**	155	156
IT[a]	**120**	103	115
Office supplies	**53**	58	59
Insurance	**17**	32[d]	21[d]
Training and courses	**17**	25	28
Fees and commissions	**222**	188	162
Loss on assets received in respect of loans extinguishment	**2**	2	1
Fines paid to the Bank of Israel	**2**	-	-
Other[b]	**356**	324	268[c]
Total other expenses	**2,224**	2,163	2,025

(a) The item includes outsourcing expenses, but does not include the Bank's IT expenses since the Operating Department is part of the Bank and its expenses were recorded and classified into the various expense items.
(b) For more information regarding the salary of Bank's directors included in this item – please see Note 34C.
(c) Including a NIS 235 million income in respect of reimbursement from insurance company of costs incurred in connection with investigation held by US authorities.
(d) Reclassified. Please see Note 1.C.5. regarding expenses of acquiring insurance sale act guarantees and Note 1.W.3. regarding the retrospective application of the Banking Supervision Department's directive regarding improved presentation of expenses for pension and other post-employment benefits.

Note 8 - Provision for Income Tax

A. Composition of the Line Item:

	For the year ended December 31		
	2018	2017	2016
	In NIS millions		
Current Taxes			
For the reporting year	**1,491**	2,027[a]	1,585[a]
For previous years	**(71)**	(92)	51
Current taxes - total	**1,420**	1,935	1,636
Including (excluding) changes in deferred taxes:			
For the reporting year	**199**	(285)[a]	(222)[a]
For previous years	**-**	42	303
Total changes in deferred taxes	**199**	(243)	81
Provision for income taxes	**1,619**	1,692	1,717
Of which: provision for taxes abroad	**91**	149	69

(a) Reclassified, as detailed in Note 13.

Note 8 - Provision for Income Tax (cont.)

A. Composition of the Line Item: (cont.):

The composition of deferred tax expenses (income) allocated to continuing operations is as follows:

	For the year ended December 31		
	2018	2017	2016
	In NIS millions		
Deferred tax expenses (income) before the effect of the following items:	**202**	(254)[(a)]	(214)[(a)]
Increase in deductions carried forward for tax purposes	**(3)**	-	(8)
Effect of changes in tax laws	**-**	42	303
Change in provision for deferred taxes due to change of circumstances resulting in changes to entity's assessment as to its ability to utilize a deferred tax asset	**-**	(31)	-
Total deferred tax expenses (income)	**199**	(243)	81

(a) Reclassified.

The table does not include the tax effect of certain items recognized directly in equity in each reporting period. The tax effect of all items recognized directly in equity resulted in a NIS 319 million equity decrease in 2018, a NIS 214 million equity increase in 2017 and a NIS 376 million equity increase in 2016.

B. Reconciliation of the Theoretical Tax Expense and the Provision for Taxes:

	For the year ended December 31		
	2018	2017	2016
	In NIS millions		
Statutory tax rate applicable to the Bank	**34.2%**	35.0%	35.9%
Tax amount based on the statutory tax rate	**1,677**	1,682	1,608
Tax (tax saving) in respect of:			
Income of foreign consolidated companies	**(44)**	(5)	32
Tax-exempt income and income subject to reduced tax rates	**(2)**	(6)	(102)
Differences in depreciation, depreciation adjustments and capital gains	**(23)**	(36)	(46)
Other non-deductible expenses	**33**	48	32
Losses and timing differences in respect of which deferred taxes were not recorded	**(29)**	(13)	(172)
Income of consolidated subsidiaries in Israel	**-**	-	(41)
Change in deferred taxes due to changes in tax rates	**-**	54	303
Tax for previous years	**(71)**	(92)	51
Changes in the balance of the provision for deferred tax asset	**-**	(31)	-
Other	**78**	91	52
Provision for income taxes	**1,619**	1,692	1,717

C. Tax Assessments

1. The Bank has final tax assessments up to and including the 2014 tax year. As of the end of 2018, the Bank signed an agreement with the Israel Tax Authority for the 2012-2014 tax years. The main consolidated subsidiaries have final tax assessments up to and including the 2013 tax year.
2. In late 2016, a VAT assessment was issued for subsidiary Leumi Card. The assessment focused on requiring the subsidiary to pay full VAT in respect of fees and commissions it collected for transactions

Note 8 - Provision for Income Tax (cont.)

made between holders of credit cards issued by the company and foreign-based merchants for charge periods ranging from January 2012 to August 2016. The subsidiary disputed the assessment and submitted an objection thereto in March 2017. On March 8 2018, the subsidiary received an updated VAT assessment (hereinafter - the "Updated Assessment"). In the decision, the VAT and Customs Authority rejected the subsidiary's claims. The payable amount in the Updated Assessment, including interest and linkage, is NIS 86 million. Based on the opinion of its legal counsel, the subsidiary disputed the Assessment and filed an appeal with the Tel Aviv District Court on January 31 2019.

The Group believes that the financial statements reflect adequate provisions.

Note 8 - Provision for Income Tax (cont.)

D. Changes in Deferred Tax Assets and Liabilities Are Attributed to the Following Items:

	Balance as at December 31 2017	Changes carried to profit and loss	Effect of change in tax rate carried to profit and loss	Changes carried to other comprehensive income	Translation differences in respect of deferred tax balances	Balance as at December 31 2018	Average tax rates in 2018 (in %)
	In NIS millions						
Deferred tax assets							
From loan loss provision	**1,249[(c)]**	**64**	**-**	**-**	**5**	**1,318**	**34%**
From provision for paid leave and bonuses	**383**	**(129)**	**-**	**-**	**3**	**257**	**31%**
From excess of employee benefits liability over plan assets	**3,754**	**85**	**-**	**(609)**	**1**	**3,231**	**34%**
From interest not recognized in current year's income	**19**	**2**	**-**	**-**	**2**	**23**	**28%**
Tax credit and losses carried forward for tax purposes	**260**	**(60)**	**-**	**-**	**-**	**200**	**20%**
From securities	**49**	**(164)**	**-**	**208**	**4**	**97**	**25%**
Property, plant & equipment and leases	**2**	**1**	**-**	**-**	**-**	**3**	**21%**
Other from nonmonetary items	**75**	**(10)**	**-**	**-**	**-**	**65**	**17%**
Balance of deferred tax assets, gross	**5,791**	**(211)**	**-**	**(401)**	**15**	**5,194**	
Provision for deferred tax asset	**(227)**	**65**	**-**	**-**	**-**	**(162)**	
Balance of deferred tax assets net of provision for deferred taxes	**5,564**	**(146)**	**-**	**(401)**	**15**	**5,032**	
Balances that can be offset[(a)]	**(114)**	**-**	**-**	**-**	**-**	**(174)**	
Deferred tax balance net of provision	**5,450**	**-**	**-**	**-**	**-**	**4,858**	
Deferred tax liability							
For investment in investees	**(141)**	**(44)**	**-**	**-**	**-**	**(185)**	**14%**
Tax credit and losses carried forward for tax purposes	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Adjustment of depreciable nonmonetary assets	**(105)**	**(17)**	**-**	**-**	**(3)**	**(125)**	**25%**
Other from monetary items	**(17)**	**(1)**	**-**	**-**	**-**	**(18)**	**34%**
Other from nonmonetary items	**(18)**	**9**	**-**	**-**	**-**	**(9)**	**17%**
Balance of deferred tax liabilities, gross	**(281)**	**(53)**	**-**	**-**	**(3)**	**(337)**	
Balances that can be offset[(a)]	**(114)**	**-**	**-**	**-**	**-**	**(174)**	
Balance of deferred tax liabilities	**(167)**	**-**	**-**	**-**	**-**	**(163)**	
Balance of deferred taxes, net	**5,283**	**(199)**	**-**	**(401)**	**12**	**4,695[(b)]**	

(a) Deferred tax balances are presented in the consolidated balance sheet according to the net balance's classification in the books of accounts of the Bank and its consolidated subsidiaries.

(b) Including deferred tax balances classified as held-for-sale assets in the amount of NIS 73 million. For more information, please see Note 36F.

(c) Reclassified, as detailed in Note 13.

Note 8 - Provision for Income Tax (cont.)

D. Changes in Deferred Tax Assets and Liabilities Are Attributed to the Following Items (cont.):

	Balance as at December 31 2016	Changes carried to profit and loss	Effect of change in tax rate carried to profit and loss	Changes carried to other comprehensive income	Translation differences in respect of deferred tax balances	Balance as at December 31 2017	Average tax rates in 2017 (in %)
	In NIS millions						
Deferred tax assets							
From loan loss provision[(b)]	1,237	37	(18)	-	(7)	1,249	34%
From provision for paid leave and bonuses	398	(1)	(11)	-	(3)	383	32%
From excess of employee benefits liability over plan assets	3,208	157	(9)	402	(4)	3,754	34%
From interest not recognized in current year's income	25	4	(8)	-	(2)	19	28%
Tax credit and losses carried forward for tax purposes	429	(169)	-	-	-	260	25%
From foreign operations	5	(5)	-	-	-	-	-
From securities	49	96	(8)	(83)	(5)	49	22%
Property, plant & equipment and leases	7	(5)	-	-	-	2	24%
Other from nonmonetary items	75	11	(9)	-	(2)	75	19%
Balance of deferred tax assets, gross	5,433	125	(63)	319	(23)	5,791	
Provision for deferred taxes	(427)	200	-	-	-	(227)	
Balance of deferred tax asset less deferred tax provision	5,006	325	(63)	319	(23)	5,564	
Balances that can be offset[(a)]	(84)	-	-	-	-	(114)	
Deferred tax balance net of provision	4,922	-	-	-	-	5,450	
Deferred tax liability							
For investment in investees	(98)	(43)	-	-	-	(141)	15%
Tax credit and losses carried forward for tax purposes	(4)	4	-	-	-	-	-
Adjustment of depreciable nonmonetary assets	(122)	(9)	21	-	5	(105)	25%
Other from monetary items	(19)	2	-	-	-	(17)	34%
Other from nonmonetary items	(24)	6	-	-	-	(18)	21%
Balance of deferred tax liabilities, gross	(267)	(40)	21	-	5	(281)	
Balances that can be offset[(a)]	(84)	-	-	-	-	(114)	
Balance of deferred tax liabilities	(183)	-	-	-	-	(167)	
Balance of deferred taxes, net	4,739	285	(42)	319	(18)	5,283	

(a) Deferred tax balances are presented in the consolidated balance sheet according to the net balance's classification in the books of accounts of the Bank and its consolidated subsidiaries.

(b) Reclassified, as detailed in Note 13.

Note 8 - Provision for Income Tax (cont.)

E. Deferred taxes

In the year ended December 31 2017, the Bank recognized a net decrease of NIS 31 million in a provision for a deferred tax asset, based on management's assessment regarding the amount of deferred tax assets which are more likely than not to be utilized.

F. Deferred Tax Liabilities that Were Not Recognized in Respect of Temporary Differences Related to Investments in Local Subsidiaries

Pursuant to the Transition Provisions set in the Banking Supervision Department's directives, the Bank did not record a deferred tax liability in respect of certain temporary differences related to the Bank's investment in local subsidiaries, which is permanent in nature. The said amount will be taxed only upon disposal or liquidation of the subsidiaries.

G. Carryforward Tax Losses and Tax Credits

	For the year ended December 31 2018				
	Deferred tax assets	Provision for deferred tax assets	Deferred taxes - net	Accumulated loss	First expiry year
	In NIS millions				
Losses for tax purposes					
Subsidiaries in Israel	**2**	**(2)**	**-**	**5**	**-**
Foreign subsidiaries	**37**	**(33)**	**4**	**109**	**2019**
Tax credits					
The Bank	**161**	**(127)**	**34**	**-**	**-**

	For the year ended December 31 2017				
	Deferred tax assets	Provision for deferred tax assets	Deferred taxes - net	Accumulated loss	First expiry year
	In NIS millions				
Losses for tax purposes					
Foreign subsidiaries	29	(27)	2	85	2018
Tax credits					
The Bank	230	(199)	31	-	-

Certain foreign consolidated companies had losses and other deductions totaling approximately NIS 75 million (December 31 2017 – approximately NIS 72 million) which were recorded as deductible for tax purposes and in respect of which no deferred taxes were recorded, since in the opinion of the Group it is not expected that it will have future taxable income against which it will be able to utilize the tax benefits. The Group will be able to utilize these amounts in the future if the consolidated companies in which these amounts were recorded will have taxable income.

H. Deferred tax balances are measured at the tax rates expected to be in effect at the time the deferred tax asset is utilized or the deferred tax liability is settled, based on the tax rates and tax laws enacted as at the balance sheet date. A law shall be considered as having been enacted only after its publication in the Official Gazette.

I. Following the publication of the Supervision of Banks Department's circular regarding the measurement and disclosure of non-performing loans, loans and provision for loan losses, the banks (including the Bank) and Israel Tax Authority reached an agreement regarding the recognition of provisions for loan losses for tax

Note 8 - Provision for Income Tax (cont.)

purposes. The agreement was signed on March 19 2012; it applies to non-performing loans recorded beginning on January 1 2011 (the previous agreement applies to doubtful accounts recorded until December 31 2010).

Following are the main points of the agreement:

Specifically assessed large debts – the provision is deductible for tax purposes in the year in which it was recorded as an expense in the financial statements. In a tax year in which the balance of the loan loss provision decreased (for reasons other than an accounting "write-off" or "loan forgiveness"), an "additional tax" will be added to the Bank's tax liability with the addition of interest and linkage differentials; such "additional tax" will trigger the collection of the tax that would have been collected had the deductible provision not recorded in the first place.
For these purposes – a "large debt" is a debt of NIS 1 million or more, or a lower amount as set out in the Bank's notice to the Assessment Officer and according to the Bank's characteristics.

Impaired debts which are not large – half of the expenses in respect of net "accounting write-offs" (net of collections during that year) will be deductible for tax purposes in the first tax year after the tax year in which they were recorded; the other half will become deductible in the second tax year after the tax year in which the expenses were recorded.

Collective provision – not deductible for tax purposes

J. A compromise agreement between the Bank and the Large Enterprises Assessor dated August 1987, which regulates the tax payments in Israel in respect of the Bank's foreign subsidiaries. The agreement is effective until one of the parties announces (a year in advance) its intention to propose changes to the agreement.

K. According to an arrangement with the tax authorities dated April 14 2005, June 29 2014 and December 30 2018, the Bank may deduct tax amounts under certain conditions if the overall tax rate on the Bank's domestic income is higher than the tax rate applicable to foreign subsidiaries. The amount which has not yet been deducted from the tax liability and for which there are no tax savings in the future included in the balance sheet as at December 31 2018 is approximately USD 15 million (as at December 31 2017 - approximately USD 24 million). The maximum deductible tax amount per year is between USD 5-8 million.

L. As a rule, the Bank, under agreement with the tax authorities, is taxed based on the appreciation of its securities, according to their presentation in the financial statements financial entities.

M. Changes in Tax Legislation

On January 5 2016, the Law for the Amendment of the Income Tax Ordinance (No. 216), 2016 was published, reducing the corporate tax rate from 26.5 percent to 25 percent, as of 2016. On December 29 2016, the Economic Efficiency Law (Legislative Amendments for Implementing the Economic Policy for the 2017 and 2018 Budget Year), 2016 was published, introducing, among other things, a gradual, two-stage reduction in the corporate tax rate from 25 percent to 23 percent. In the first stage, which began on January 1 2017, the tax rate was reduced to 24 percent; in the second stage, which began on January 1 2018, the tax rate was reduced to 23 percent.

The deferred tax balances were calculated in accordance with the new tax rates applicable at the date of reversal. The effect of the corporate tax rate changes described above on the financial statements as at December 31 2016 was reflected in a decrease in the net deferred tax receivables balances by approximately NIS 380 million. Out of this amount, a total of approximately NIS 303 million was recognized against deferred tax expenses and approximately NIS 77 million against capital.

Tax rates table

The taxes applicable to the profit of banking corporations include corporate tax levied pursuant to the Income Tax Ordinance and profit tax levied pursuant to the Value Added Tax Law. Set forth below is a table of the statutory tax rates applicable to banking corporations:

Note 8 - Provision for Income Tax (cont.)

Year	Payroll and profit tax rate	Corporate tax rate	Total tax rate	Comments
2016	17.00%	25.00%	35.90%	As a result of a decrease in the corporate tax rate as of January 1 2016
2017	17.00%	24.00%	35.04%	As a result of a decrease in the corporate tax rate as of January 1 2017
From 2018	17.00%	23.00%	34.19%	As a result of a decrease in the corporate tax rate as of January 1 2018

On December 22 2017, the US President signed a tax reform (Tax Cuts and Jobs Act). Under the reform, the federal corporate tax rate in the United States was reduced from 35 percent to 21 percent beginning in the 2018 tax year. The deferred tax balances as at December 31 2017 in consolidated subsidiary Bank Leumi USA (BLUSA) is calculated in accordance with the new tax rates applicable at the date of reversal. The effect of the change in the US corporate tax rates described above on the consolidated financial statements as at December 31 2017 is immaterial.

Note 9 - Earnings per Ordinary Share

A. Basic Earnings Attributable to Shareholders

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 year ended December 31		
	2018	2017[(a)]	2016
	In NIS millions		
Basic earnings			
Net income attributable to the Bank's shareholders	**3,257**	3,172	2,791
Weighted average of the number of shares (in thousands of shares)			
Balance as at beginning of period	**1,523,516**	1,522,965	1,473,798
Weighted effect of exercised PSUs and RSUs and the issue of shares	**417**	176	38,528
Weighted effect in respect of the share buyback	**(10,931)**	-	-
Weighted average of the number of shares	**1,513,002**	1,523,141	1,512,326
Basic earnings per share (in NIS)	**2.15**	2.08	1.85

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 dilutive ordinary shares, as follows:

	For the year ended December 31		
	2018	2017[(a)]	2016
	In NIS millions		
Diluted earnings			
Net income attributable to the Bank's shareholders	**3,257**	3,172	2,791
Weighted average of the number of shares (in thousands of shares)			
Weighted average number of ordinary shares used to calculate basic earnings per share	**1,513,002**	1,523,141	1,512,326
Weighted effect of yet unexercised PSUs and RSUs and the issue of shares	**788**	1,346	1,035
Weighted average of the number of shares, fully diluted	**1,513,790**	1,524,487	1,513,361
Diluted earnings per share (in NIS)	**2.15**	2.08	1.84

(a) Reclassified.

Note 10 - Accumulated Other Comprehensive Income (Loss)

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

	For the year ended December 31 2018						
	Other comprehensive income before attribution to non-controlling interests						
	Adjust-ments in respect of presen-tation of available-for-sale securities at fair value	Translation adjust-ments,[a] net, post hedging[b]	The Bank's ownership interests in other compre-hensive income of investees accounted for under the equity method	Adjust-ments in respect of employee benefits	Total	Other compre-hensive income attributable to non-controlling interests	Other compre-hensive income (loss) attribu-table to the Bank's share-holders
	In NIS millions						
Balance as at January 1 2016	67	(67)	38	(1,490)	(1,452)	(4)	(1,448)
Net change during the year	(153)	(12)	(20)	(679)	(864)	-	(864)
Balance as at December 31 2016	(86)	(79)	18	(2,169)	(2,316)	(4)	(2,312)
Net change during the year[c]	161	(116)	(3)	(781)	(739)	-	(739)
Balance as at December 31 2017	75	(195)	15	(2,950)	(3,055)	(4)	(3,051)
Net change during the year[d]	**(408)**	**110**	**17**	**1,187**	**906**	**18**	**888**
Sale of equity in subsidiaries to non-controlling interests	**-**	**(13)**	**-**	**-**	**(13)**	**(44)**	**31**
Balance as at December 31 2018	**(333)**	**(98)**	**32**	**(1,763)**	**(2,162)**	**(30)**	**(2,132)**

(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 "Statement of Changes in Equity".
(d) Including balances classified as held-for-sale assets. For more information, please see Note 36F.

Note 10 - Accumulated Other Comprehensive Income (Loss) (cont.)

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

	For the year ended December 31								
	2018			2017			2016		
	Pretax	Tax effect	After tax	Pretax	Tax effect	After tax	Pretax	Tax effect	After tax
	In NIS millions								
Changes in other comprehensive income (loss) components before attribution to non-controlling interests:									
Adjustments in respect of presentation of available-for-sale securities at fair value:									
Net realized and unrealized gains (losses) from adjustments to fair value	**(475)**	**162**	**(313)**	435	(152)	283	570	(194)	376
(Gains) in respect of available-for-sale securities reclassified to the income statement[(a)]	**(145)**	**50**	**(95)**	(176)	62	(114)	(851)	322	(529)
Net change during the year	**(620)**	**212**	**(408)**	259	(90)	169	(281)	128	(153)
Translation adjustments[(b)]:									
Adjustments from translation of financial statements	**229**	**-**	**229**	(284)	-	(284)	(9)	-	(9)
Hedges[(c)]	**(182)**	**63**	**(119)**	245	(87)	158	(2)	(1)	(3)
Sale of equity in subsidiaries to non-controlling interests	**(20)**	**7**	**(13)**	-	-	-	-	-	-
Net change during the year	**27**	**70**	**97**	(39)	(87)	(126)	(11)	(1)	(12)
The Bank's share in other comprehensive income (loss) of associates accounted for using the equity method	**21**	**(4)**	**17**	(10)	7	(3)	(20)	-	(20)
Net change during the year	**21**	**(4)**	**17**	(10)	7	(3)	(20)	-	(20)
Employee benefits:[(e)]									
Net actuarial gain (loss) for the year	**1,434**	**(485)**	**949**	(1,512)	519	(993)	(1,241)	361	(880)
Net gains reclassified to the income statement[(d)]	**362**	**(124)**	**238**	335	(117)	218	313	(112)	201
Net change during the year	**1,796**	**(609)**	**1,187**	(1,177)	402	(775)	(928)	249	(679)
Total net change during the year	**1,224**	**(331)**	**893**	(967)	232	(735)	(1,240)	376	(864)
Changes in other comprehensive income (loss) components attributable to non-controlling interests									
Total net change during the year	**(24)**	**(2)**	**(26)**	-	-	-	-	-	-
Changes in other comprehensive income (loss) attributable to the Bank's shareholders									
Total net change during the year	**1,248**	**(329)**	**919**	(967)	232	(735)	(1,240)	376	(864)

(a) The pre-tax amount is reported in the income statement under the noninterest finance income line item. Please 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 23 - "Employee Benefits".

(e) Including balances classified as held-for-sale assets. For more information, please see Note 36F.

Note 11 - Cash and Deposits with Banks

	December 31	
	2018	2017
	In NIS millions	
Cash and deposits with central banks	**68,206**	73,082
Deposits with commercial banks[(a)]	**13,248**	8,985
Less balances classified as held-for-sale assets[(c)]	**(35)**	-
Total[(b)]	**81,419**	82,067
Of which: cash, deposits with banks and deposits with central banks with original maturity of up to three months[(c)]	**74,265**	78,840

(a) Net of loan loss provision.
(b) Of which: pledged cash amounting to NIS 4,949 million (December 31 2017 – NIS 1,635 million).
(c) For more information, please see Note 36F.

Comment: For information on liens, please see Note 27.

Note 12 - Securities

	December 31									
	2018					2017				
	Balance sheet value	Amortized cost	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value[(a)]	Balance sheet value	Amortized cost	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value[(a)]
	In NIS millions									
Held-to-maturity bonds:										
Of the Israeli government	**2,334**	**2,334**	**14**	**(3)**	**2,345**	35	35	-	-	35
Mortgage-backed (MBSs)	**1,596**	**1,596**	**4**	**(17)**	**1,583**	353	353	1	(7)	347
Of other foreign entities	**946**	**946**	**-**	**(15)**	**931**	478	478	10	(2)	486
Total held-to-maturity bonds	**4,876**	**4,876**	**18**	**(35)**	**4,859**	866	866	11	(9)	868

Please see comments on page 178.

Note 12 - Securities (cont.)

	December 31									
	2018					2017				
			Accumulated other comprehensive income (loss)					Accumulated other comprehensive income (loss)		
	Balance sheet value	Amor-tized cost (in shares - cost)	Gains	Losses	Fair value[(a)]	Balance sheet value	Amor-tized cost (in shares - cost)	Gains	Losses	Fair value[(a)]
	In NIS millions									
Available-for-sale securities: Bonds -										
Of the Israeli government	**30,573**	**30,783**	**40**	**(250)**	**30,573**	36,633	36,516	156	(39)	36,633
Of foreign governments	**5,904**	**5,898**	**13**	**(7)**	**5,904**	10,755	10,768	3	(16)	10,755
Of Israeli financial institutions	**-**	**-**	**-**	**-**	**-**	11	11	-	-	11
Of foreign financial institutions	**9,707**	**9,803**	**13**	**(109)**	**9,707**	9,653	9,627	44	(18)	9,653
Asset-backed (ABS) or mortgage-backed (MBS)	**9,433**	**9,608**	**15**	**(190)**	**9,433**	8,529	8,595	11	(77)	8,529
Of other Israeli entities	**242**	**241**	**3**	**(2)**	**242**	70	66	4	-	70
Of other foreign entities	**3,517**	**3,580**	**12**	**(75)**	**3,517**	2,352	2,349	18	(15)	2,352
Total bonds	**59,376**	**59,913**	**96**	**(633)**	**59,376**	68,003	67,932	236	(165)	68,003
Shares and mutual funds[(b)]	**3,556**	**3,513**	**100**	**(57)**	**3,556**	2,927	2,852	97	(22)	2,927
Total available-for-sale securities[(f)]	**62,932**	**63,426**	**196[(c)]**	**(690)[(c)]**	**62,932**	70,930	70,784	333[(c)]	(187)[(c)]	70,930

Please see comments on page 178.

Note 12 - Securities (cont.)

	December 31									
	2018					2017				
	Balance sheet value	Amor-tized cost (in shares - cost)	Unrealized gains from adjust-ments to fair value	Unrealized losses from adjust-ments to fair value	Fair value(a)	Balance sheet value	Amor-tized cost (in shares - cost)	Unrealized gains from adjust-ments to fair value	Unrealized losses from adjust-ments to fair value	Fair value(a)
	In NIS millions									
Held-for-trading securities: Bonds -										
Of the Israeli government	**5,677**	**5,680**	**4**	**(7)**	**5,677**	3,204	3,185	19	-	3,204
Of foreign governments	**52**	**53**	**-**	**(1)**	**52**	82	83	-	(1)	82
Of Israeli financial institutions	**119**	**120**	**-**	**(1)**	**119**	90	89	1	-	90
Of foreign financial institutions	**132**	**137**	**-**	**(5)**	**132**	142	142	1	(1)	142
Asset-backed (ABS) or mortgage-backed (MBS)	**271**	**272**	**1**	**(2)**	**271**	268	267	2	(1)	268
Of other Israeli entities	**290**	**298**	**-**	**(8)**	**290**	111	107	4	-	111
Of other foreign entities	**220**	**225**	**-**	**(5)**	**220**	299	298	3	(2)	299
Total bonds	**6,761**	**6,785**	**5**	**(29)**	**6,761**	4,196	4,171	30	(5)	4,196
Shares and mutual funds	**2**	**2**	**-**	**-**	**2**	1,307	1,323	1	(17)	1,307
Total held-for-trading securities	**6,763**	**6,787**	**5**(d)	**(29)**(d)	**6,763**	5,503	5,494	31(d)	(22)(d)	5,503
Total securities(e)	**74,571**	**75,089**	**219**	**(754)**	**74,554**	77,299	77,144	375	(218)	77,301

Comments:

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

(b) Including shares for which no fair value is available, which are stated at cost, in the amount of NIS 1,079 million (December 31 2017 - NIS 991 million).

(c) Included in equity under the "Adjustments in respect of the presentation of available-for-sale securities at fair value" 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 non-performing interest-accruing bonds as at December 31 2018 totaling NIS 8 million (December 31 2017 - NIS 7 million).

(f) A total of NIS 9.7 billion out of total foreign currency securities are rated SSA (Supernationals, Sovereign and Agencies) (2017 – NIS 9.1 billion).

General comments:

Loaned securities in the amount of NIS 109 million (December 31 2017 - NIS 215 million) under the loans to the public line item.

Securities pledged to lenders totaled NIS 2,989 million (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 Notes 2 and 3.

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

Note 12 - 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

	December 31 2018									
	Less than 12 months[a]					12 months or more[b]				
		Unrealized losses from adjustments to fair value					Unrealized losses from adjustments to fair value			
	Amortized cost	0-[c]20%	20%-[d]35%	More than 35%[e]	Total	Amortized cost	0-[c]20%	20%-[d]35%	More than 35%[e]	Total
	In NIS millions									
Bonds										
Of the Israeli government	**694**	**3**	**-**	**-**	**3**	**-**	**-**	**-**	**-**	**-**
Mortgage-backed (MBSs)	**465**	**4**	**-**	**-**	**4**	**285**	**13**	**-**	**-**	**13**
Of other foreign entities	**179**	**2**	**-**	**-**	**2**	**293**	**13**	**-**	**-**	**13**
Total held-to-maturity bonds	**1,338**	**9**	**-**	**-**	**9**	**578**	**26**	**-**	**-**	**26**

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

Please see comments in the next page.

Note 12 - 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

	December 31 2018									
	Less than 12 months[a][g]					12 months or more[b][g]				
		Unrealized losses					Unrealized losses			
	Fair value	0-[c]20%	20%-[d]35%	More than 35%[e]	Total	Fair value	0-[c]20%	20%-[d]35%	More than 35%[e]	Total
	In NIS millions									
Bonds										
Of the Israeli government	**23,891**	**231**	**-**	**-**	**231**	**818**	**19**	**-**	**-**	**19**
Of foreign governments	**2,679**	**5**	**-**	**-**	**5**	**153**	**2**	**-**	**-**	**2**
Of foreign financial institutions	**3,641**	**80**	**-**	**-**	**80**	**1,275**	**29**	**-**	**-**	**29**
Asset-backed (ABS) or mortgage-backed (MBS)	**2,378**	**30**	**-**	**-**	**30**	**5,293**	**160**	**-**	**-**	**160**
Of other Israeli entities	**103**	**2**	**-**	**-**	**2**	**-**	**-**	**-**	**-**	**-**
Of other foreign entities	**1,516**	**46**	**-**	**-**	**46**	**896**	**29**	**-**	**-**	**29**
Shares and mutual funds	**680**	**43**	**2**	**-**	**45**	**35**	**12**	**-**	**-**	**12**
Total available-for-sale securities	**34,888**	**437**	**2**	**-**	**439**	**8,470**	**251**	**-**	**-**	**251**

Note 12 - Securities (cont.)

	December 31 2017									
	Less than 12 months[a][g]					12 months or more[b][g]				
		Unrealized losses					Unrealized losses			
	Fair value	0-[c]20%	20%-[d]35%	More than 35%[e]	Total	Fair value	0-[c]20%	20%-[d]35%	More than 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 percent of their amortized cost.
(d) Investments whose unrealized loss represents over 20 percent but no more than 35 percent of their amortized cost.
(e) Investments whose unrealized loss represents over 35 percent 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 12 - Securities (cont.)

Additional Information on Unrealized Mortgage-Backed and Asset-Backed Available-for-Sale Securities in a Loss Position

	December 31 2018					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses from adjust-ments to fair value[(a)]	Fair value	Unrealized losses from adjust-ments to fair value[(a)]	Fair value	Unrealized losses from adjust-ments to fair value[(a)]
	In NIS millions					
Mortgage-backed securities (MBSs)	**209**	**(4)**	**1,899**	**(54)**	**2,108**	**(58)**
Other mortgage-backed securities (including REMICS, CMOs and stripped MBSs)	**1,017**	**(10)**	**2,454**	**(87)**	**3,471**	**(97)**
Asset-backed securities (ABSs)	**1,152**	**(16)**	**940**	**(19)**	**2,092**	**(35)**
Total	**2,378**	**(30)**	**5,293**	**(160)**	**7,671**	**(190)**

	December 31 2017					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses from adjust-ments to fair value[(a)]	Fair value	Unrealized losses from adjust-ments to fair value[(a)]	Fair value	Unrealized losses from adjust-ments to fair value[(a)]
	In NIS millions					
Mortgage-backed securities (MBSs)[(b)]	1,060	(10)	920	(18)	1,980	(28)
Other mortgage-backed securities (including REMICS, CMOs and stripped MBSs)	1,833	(8)	1,090	(31)	2,923	(39)
Asset-backed securities (ABSs)[(b)]	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) Reclassified.

Note 12 - Securities (cont.)

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

	December 31							
	2018				2017			
	Amor-tized cost	Unrea-lized gains from adjust-ments to fair value	Unrea-lized losses from adjust-ments to fair value	Fair value	Amor-tized cost	Unrea-lized gains from adjust-ments to fair value	Unrea-lized losses from adjust-ments to fair value	Fair value
	In NIS millions							
Mortgage-backed securities (MBSs)								
Pass-through type held-to-maturity securities	**1,280**	**4**	**(4)**	**1,280**	-	-	-	-
Of which: GNMA-guaranteed securities	**1,100**	**4**	**(3)**	**1,101**	-	-	-	-
Securities issued by FNMA or FHLMC	**180**	**-**	**(1)**	**179**	-	-	-	-
Other mortgage-backed securities (including CMOs and Stripped MBSs)	**316**	**-**	**(13)**	**303**	353	1	(7)	347
Of which: Securities issued or guaranteed by GNMA, FNMA, or FHLMC	**134**	**-**	**(8)**	**126**	169	-	(6)	163
Total mortgage-backed securities (MBSs)	**1,596**	**4**	**(17)**	**1,583**	353	1	(7)	347
Total held-to-maturity mortgage-backed securities	**1,596**	**4**	**(17)**	**1,583**	353	1	(7)	347

Note 12 - Securities (cont.)

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

	December 31							
	2018				2017			
		Accumulated other comprehensive income (loss)[(a)]				Accumulated other comprehensive income (loss)[(a)]		
	Amor-tized cost	Gains	Losses	Fair value	Amor-tized cost	Gains	Losses	Fair value
	In NIS millions							
Mortgage-backed securities (MBSs)								
Pass-through securities[(b)]	**2,956**	**5**	**(58)**	**2,903**	2,286	1	(28)	2,259
Of which: GNMA-backed securities	**460**	**-**	**(1)**	**459**	326	-	(8)	318
Securities issued by FNMA or FHLMC	**2,496**	**5**	**(57)**	**2,444**	1,960	1	(20)	1,941
Other mortgage-backed securities (including CMOs and Stripped MBSs)	**4,398**	**10**	**(97)**	**4,311**	3,960	4	(39)	3,925
Of which: Securities issued or guaranteed by GNMA, FNMA, or FHLMC	**4,156**	**9**	**(97)**	**4,068**	3,800	3	(39)	3,764
Total mortgage-backed securities (MBSs)	**7,354**	**15**	**(155)**	**7,214**	6,246	5	(67)	6,184
Asset-backed securities (ABSs)[(b)]	**2,254**	**-**	**(35)**	**2,219**	2,349	6	(10)	2,345
Of which: Loans to non-individuals - CLO-type bonds	**1,547**	**-**	**(21)**	**1,526**	1,599	6	(2)	1,603
Loans to non-individuals - SBA-guaranteed securities	**648**	**-**	**(14)**	**634**	750	-	(8)	742
Total mortgage-backed and asset-backed available-for-sale securities	**9,608**	**15**	**(190)**	**9,433**	8,595	11	(77)	8,529

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

Note 12 - Securities (cont.)

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

	December 31							
	2018				2017			
	Amor-tized cost	Unrea-lized gains from adjust-ments to fair value[(a)]	Unrea-lized losses from adjust-ments to fair value[(a)]	Fair value	Amortized cost	Unrea-lized gains from adjust-ments to fair value[(a)]	Unrealized losses from adjust-ments to fair value[(a)]	Fair value
	In NIS millions							
Mortgage-backed securities (MBSs)								
Pass-through securities	**4**	**-**	**-**	**4**	4	-	-	4
Of which: Securities issued by FNMA or FHLMC	**4**	**-**	**-**	**4**	4	-	-	4
Other mortgage-backed securities (including CMOs and Stripped MBSs)	**49**	**-**	**(1)**	**48**	54	-	-	54
Of which: Securities issued or guaranteed by GNMA, FNMA, or FHLMC	**-**	**-**	**-**	**-**	-	-	-	-
Total mortgage-backed securities (MBSs)	**53**	**-**	**(1)**	**52**	58	-	-	58
Total asset-backed securities (ABSs)	**219**	**1**	**(1)**	**219**	209	2	(1)	210
Total mortgage-backed and asset-backed held-for-trading securities	**272**	**1**	**(2)**	**271**	267	2	(1)	268

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

Note 13 - Credit Risk, Loans to the Public and Loan Loss Provision

Reclassification of credit risk in respect of loans to individuals (excluding housing loans) and loans to small businesses

It should be noted that following the assimilation of a designated system for handling troubled debt, a new module was developed during 2018 to improve automated identification of restructured debt in lieu of adequate or troubled 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 December 31 2017, the outstanding balances of loans to individuals (excluding housing loans) and loans to small businesses were reclassified from non-troubled debt to troubled debt. A total of NIS 282 million was reclassified in respect of loans to private individuals, gross (excluding housing loans) and for gross loans to small businesses - NIS 273 million.

The total reclassified amount in respect of gross non-performing loans for loans to private individuals was NIS 265 million as at December 31 2017 (approximately NIS 205 million was reclassified from non-troubled debt and approximately NIS 60 million was reclassified from unimpaired troubled debts). The total reclassified amount in respect of gross non-performing loans for loans to small businesses was NIS 317 million as at December 31 2017 (approximately NIS 209 million was reclassified from non-troubled debt and approximately NIS 108 million was reclassified from unimpaired troubled debts).

It should also 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 year is immaterial.

Note 13 - Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

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

	December 31 2018					
	Loans to the public				Banks and governments	Total
	Commercial	Housing	Individuals - other	Total - public		
	In NIS millions					
Recorded outstanding debt balance:(a)						
Examined on a specific basis	**120,192**	**31**	**901**	**121,124**	**15,091**	**136,215**
Examined on a collective basis[1]	**44,746**	**80,859**	**36,006**	**161,611**	**673**	**162,284**
[1]Of which: By extent of arrears	**913(c)**	**80,432**	**-**	**81,345**	**-**	**81,345**
Less balances classified as held-for-sale assets(d)	**(655)**	**-**	**(7,555)**	**(8,210)**	**(35)**	**(8,245)**
Total debt(a)2	**164,283**	**80,890**	**29,352**	**274,525**	**15,729**	**290,254**
[2]Of which:						
Restructured debt	**1,318**	**-**	**345**	**1,663**	**-**	**1,663**
Other non-performing loans	**1,063**	**31**	**39**	**1,133**	**-**	**1,133**
Total non-performing loans	**2,381**	**31**	**384**	**2,796**	**-**	**2,796**
Debts in arrears of 90 days or more	**120**	**862**	**72**	**1,054**	**-**	**1,054**
Other troubled debt	**2,585**	**-**	**519**	**3,104**	**-**	**3,104**
Less balances classified as held-for-sale assets(d)	**(7)**	**-**	**(361)**	**(368)**	**-**	**(368)**
Total troubled debt	**5,079**	**893**	**614**	**6,586**	**-**	**6,586**
Balance of loan loss provision in respect of debts(a):						
Examined on a specific basis	**1,750**	**5**	**87**	**1,842**	**3**	**1,845**
Examined on collective basis[3]	**517**	**474**	**687**	**1,678**	**-**	**1,678**
[3]Of which: By extent of arrears	**-**	**473(b)**	**-**	**473**	**-**	**473**
Less balances classified as held-for-sale assets(d)	**(11)**	**-**	**(157)**	**(168)**	**-**	**(168)**
Total loan loss provision[4]	**2,256**	**479**	**617**	**3,352**	**3**	**3,355**
[4]Of which: For non-performing loans	**459**	**4**	**150**	**613**	**-**	**613**

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(b) Including an outstanding collective provision that exceeds the amount required under the extent of arrears method, in the amount of NIS 295 million.
(c) Outstanding housing loans extended to certain purchasing groups currently in the process of construction.
(d) For more information, please see Note 36F.

Note 13 - Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

A. Debts[(a)], Credit to the Public and Outstanding Provision for Loan Losses (cont.)

	December 31 2017					
	Loans to the public				Banks and governments	Total
	Commercial[(d)]	Housing	Individuals - other[(d)]	Total - public		
	In NIS millions					
Recorded outstanding debt balance[(a)]:						
Examined on a specific basis	113,120	29	1,018	114,167	11,457	125,624
Examined on a collective basis[1]	43,344	77,928	35,726	156,998	1,122	158,120
[1]Of which: By extent of arrears	1,066[(c)]	77,465	-	78,531	-	78,531
Total debt[(a)2]	156,464	77,957	36,744	271,165	12,579	283,744
[2]Of which:						
Restructured debt	1,753	-	339	2,092	-	2,092
Other non-performing loans	1,296	29	38	1,363	-	1,363
Total non-performing loans	3,049	29	377	3,455	-	3,455
Debts in arrears of 90 days or more	79	722	85	886	-	886
Other troubled debt	2,545	-	477	3,022	-	3,022
Total troubled debt	5,673	751	939	7,363	-	7,363
Balance of loan loss provision in respect of debts[(a)]:						
Examined on a specific basis	1,604	5	75	1,684	3	1,687
Examined on collective basis[3]	458	445	626	1,529	-	1,529
[3]Of which: By extent of arrears	-	443[(b)]	-	443	-	443
Total loan loss provision[4]	2,062	450	701	3,213	3	3,216
[4]Of which: For non-performing loans	447	5[(d)]	61	513	-	513

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

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

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

(d) Reclassified, including as described in Note 13 in respect of the improvement effort carried out in 2018.

Note 13 - Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Change in Loan Loss Provision

	For the year ended December 31 2018					
	Loan loss provision					
	Loans to the public					
	Com-mercial	Housing	Indivi-duals - other	Total loans to the public	Banks and govern-ments	Total
	In NIS millions					
Balance of loan loss provision as at the beginning of the year	**2,510**	**450**	**737**	**3,697**	**3**	**3,700**
Changes recognized in equity[(a)]	**21**	**-**	**-**	**21**	**-**	**21**
Balance as at January 1 2018	**2,531**	**450**	**737**	**3,718**	**3**	**3,721**
Loan loss expenses	**247**	**32**	**240**	**519**	**-**	**519**
Write-offs	**(785)**	**(4)**	**(491)**	**(1,280)**	**-**	**(1,280)**
Collection of debts written off in previous years	**699**	**-**	**325**	**1,024**	**-**	**1,024**
Write-offs, net	**(86)**	**(4)**	**(166)**	**(256)**	**-**	**(256)**
Adjustments from translation of financial statements	**16**	**1**	**(1)**	**16**	**-**	**16**
Less balances classified as held-for-sale assets[(b)]	**(11)**	**-**	**(173)**	**(184)**	**-**	**(184)**
Balance of loan loss provision as at year end[1]	**2,697**	**479**	**637**	**3,813**	**3**	**3,816**
[1]Of which: For off-balance sheet credit instruments	**441**	**-**	**20**	**461**	**-**	**461**

	For the year ended December 31 2017					
	Loan loss provision					
	Loans to the public					
	Commer-cial[(c)]	Housing	Private individuals - other[(c)]	Total loans to the public	Banks and govern-ments	Total
	In NIS millions					
Balance of loan loss provision as at the beginning of the year	2,708	473	778	3,959	1	3,960
Expenses (income) in respect of loan losses	(4)	(13)	187	170	2	172
Write-offs	(852)	(9)	(593)	(1,454)	-	(1,454)
Collection of debts written off in previous years	678	-	364	1,042	-	1,042
Write-offs, net	(174)	(9)	(229)	(412)	-	(412)
Adjustments from translation of financial statements	(20)	(1)	1	(20)	-	(20)
Balance of loan loss provision as at year end[1]	2,510	450	737	3,697	3	3,700
[1]Of which: For off-balance sheet credit instruments	448	-	36	484	-	484

(a) Effect of first-time application of IFRS 9 on foreign subsidiaries.
(b) For more information, please see Note 36F.
(c) Reclassified, including as described in Note 13 in respect of the improvement effort carried out in 2018.

Note 13 - Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Change in Balance of Provision for Loan Losses (cont.)

	For the year ended on December 31 2016					
	Loan loss provision					
	Loans to the public					
	Commer-cial[(a)]	Housing	Private individuals - other[(a)]	Total loans to the public	Banks and govern-ments	Total
	In NIS millions					
Balance of loan loss provision as at the beginning of the year	3,018	513	622	4,153	3	4,156
Expenses (income) in respect of loan losses	(571)	(9)	457	(123)	(2)	(125)
Write-offs	(580)	(31)	(701)	(1,312)	-	(1,312)
Collection of debts written off in previous years	843	-	400	1,243	-	1,243
Write-offs, net	263	(31)	(301)	(69)	-	(69)
Adjustments from translation of financial statements	(2)	-	-	(2)	-	(2)
Balance of loan loss provision as at year end[1]	2,708	473	778	3,959	1	3,960
[1]Of which: For off-balance sheet credit instruments	452	-	36	488	-	488

(a) Reclassified, including as described in Note 13 and in respect of the improvement effort carried out in 2018.

Note 14 - Loans to Governments

	December 31	
	2018	2017
	In NIS millions	
Loans to governments	**75**	130
Loans to foreign governments	**707**	585
Total loans to governments	**782**	715

Note 15 - Investments in, and Information about, Investees

A. Composition

	December 31	
	2018[b]	2017
	Associates	
	In NIS millions	
Total investments in shares accounted for by the equity method (including goodwill)	**630**	807
Of which – gains accrued since acquisition date	**238**	361
Items accrued in equity since acquisition date:		
Adjustments in respect of associates	**(25)**	(46)
Information regarding goodwill:		
Net original amount	**171[a]**	208[a]
Carrying value	**161**	189

Details Regarding the Carrying Amounts and the Market Value of Tradable Investments:

	December 31			
	2018		2017	
	Carrying amount	Market value	Carrying amount	Market value
	In NIS millions			
Avgol Industries 1953 Ltd.	-	-	113	189

B. Group's Share in Profits or Losses of Associates[a]

	For the year ended December 31		
	2018[b]	2017	2016
	In NIS millions		
Group's share in profits of associates	**39**	94	69
Provision for deferred taxes	**(3)**	(2)	(3)
Group's share in profits of associates after tax effect	**36**	92	66

(a) Allocation of the acquisition price to assets and liabilities acquired by the subsidiary ceases following the reporting date.
(b) Including balances classified as held-for-sale assets. For more information, please see Note 36F.

Note 15 - Investments in, and Information about, Investees (cont.)

C. Details Regarding Major Investees

Consolidated subsidiaries[a]

		December 31			
		2018	2017	**2018**	2017
		Share in equity conferring rights to receive profits		Share in voting rights	
Company	Information about the company	%			
In Israel					
Leumi Partners Ltd.[c]	Business and financial services	**100.0**	100.0	**100.0**	100.0
Leumi-Tech Ltd.[d]	Loans to high-tech companies	**99.6**	99.6	**99.8**	99.8
Leumi Card Ltd.[h]	Provision of credit card services	**80.0**	80.0	**80.0**	80.0
Leumi Capital Market Services Ltd.	Operating services to provident and mutual funds	**100.0**	100.0	**100.0**	100.0
Leumi Finance Holdings Ltd.	Financial holdings	**100.0**	100.0	**100.0**	100.0
Abroad					
Bank Leumi Le-Israel Corporation[g]	Holding company – registered in the USA	**84.7**	100.0	**84.7**	100.0
Bank Leumi USA[e]	General banking – registered in the USA	**84.6**	99.9	**84.6**	99.9
Bank Leumi (UK) PLC	General banking – registered in the UK	**100.0**	100.0	**100.0**	100.0
Leumi Re Limited	Insurance – registered in the Channel Islands	**100.0**	100.0	**100.0**	100.0
Bank Leumi Romania S.A.	General banking – registered in Romania	**99.9**	99.9	**99.9**	99.9

(a) Data regarding consolidated companies reflect the Bank's investment therein net of each company's investment in other Group companies and the Bank's share in their results of operations net of each company's share in the results of operations of other Group companies in respect of the said investments.
(b) Other equity investments include capital notes.
(c) The bank's share in an equity reserve in respect of a benefit arising from NIS 161 million in shareholders' loans (2017 – NIS 158 million).
(d) The bank's share in an equity reserve in respect of a benefit arising from NIS 82 million in shareholders' loans (2017 – NIS 82 million).
(e) The functional currency of Bank Leumi USA and Bank Leumi Le-Israel Corporation is other than the NIS. Please see Note 1.D.During 2018, a transaction for the sale of 15 percent of the company's share equity was completed. For more information, please see Note 36.
(f) Less than NIS 1 million.
(g) For more information, please see Note 36.
(h) For more information, please see Note 36F.

Note 15 - Investments in, and Information about, Investees (cont.)

D. Details Regarding Previously Consolidated Subsidiaries

On April 17 2018, the deal between the Bank and Hermetic for the sale of 75 percent of Hermetic Trust's shares was completed. Due to loss of control, the Bank recognized a NIS 7 million profit.

2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Investment in shares accounted for by the equity method		Other equity investments[b]		Contribution to net income attributed to Bank's shareholders		Other comprehensive income (loss)		Guarantees on behalf of the Company in favor of entities outside the Company	
In NIS millions									
1,783	1,598	**1,065**	1,057	**168**	174	**17**	(6)	**714**	515
1,014	1,002	**-**	-	**12**	2	**-**	-	**-**	3
1,513	1,514	**-**	-	**185**	117	**(19)**	-	**-**	-
49	49	**-**	-	-[f]	-[f]	**-**	-	**-**	-
764	597	**-**	-	-[f]	13	**-**	-	**-**	-
19	339	**-**	-	**(6)**	4	**6**	(36)	**-**	-
2,582	2,333	**-**	-	**203**	126	**154**	(212)	**7**	7
1,033	968	**257**	215	**86**	48	**(6)**	3	**-**	-
65	69	**-**	-	**18**	(4)	**-**	-	**-**	-
182	163	**-**	-	**21**	14	**-**	-	**-**	-

Note 16 - Buildings and Equipment

A. Composition

	Buildings and land[(a)]	Equipment, furniture and vehicles	Software costs	Total
	In NIS millions			
Cost of assets				
Balance as at December 31 2016	3,301	3,944	4,616	11,861
Additions	36	104	429	569
Derecognition	(136)	(148)	(69)	(353)
Adjustments from translation of financial statements	(11)	(3)	(24)	(38)
Balance as at December 31 2017	3,190	3,897	4,952	12,039
Additions	**56**	**154**	**524**	**734**
Derecognition	**(191)**	**(95)**	**(121)**	**(407)**
Adjustments from translation of financial statements	**8**	**2**	**18**	**28**
Less balances classified as held-for-sale assets	**(54)**	**(311)**	**(858)**	**(1,223)**
Balance as at December 31 2018	**3,009**	**3,647**	**4,515**	**11,171**
Depreciation and impairment losses				
Balance as at December 31 2016	1,900	3,001	3,813	8,714
Depreciation for the year	72	150	430	652
Impairment loss	7	2	1	10
Derecognition	(108)	(144)	(64)	(316)
Adjustments from translation of financial statements	(2)	(1)	(4)	(7)
Balance as at December 31 2017	1,869	3,008	4,176	9,053
Depreciation for the year	**69**	**140**	**363**	**572**
Impairment loss	**-**	**-**	**-**	**-**
Derecognition	**(154)**	**(88)**	**(118)**	**(360)**
Adjustments from translation of financial statements	**1**	**1**	**8**	**10**
Less balances classified as held-for-sale assets	**(44)**	**(260)**	**(653)**	**(957)**
Balance as at December 31 2018	**1,741**	**2,801**	**3,776**	**8,318**
Carrying amount as at December 31 2016	1,401	943	803	3,147
Carrying amount as at December 31 2017	1,321	889	776	2,986
Carrying amount as at December 31 2018[(b)]	**1,268**	**846**	**739**	**2,853**

(a) Including installations and leasehold improvements.

(b) Including expenses capitalized in connection with costs of development of internally-used software totaling NIS 406 million as of December 31 2018 (2017 – NIS 413 million).

Note 16 - Buildings and Equipment(cont.)

B. Average Depreciation Rate

	December 31	
	2018	2017
Buildings and land	**2.69%**	2.42%
Equipment, furniture and vehicles	**14.02%**	13.55%
Software costs	**21.58%**	23.69%

C. The Group has lease or capitalized lease rights in land and equipment for a period of 1 to 99 years as from balance sheet date at the total amount (after depreciation) of NIS 137 million (December 31 2017 – NIS 140 million). The maximum remaining capitalized lease period is about 80 years.

D. Buildings and land not used by the Group, mainly leased buildings, are stated in the balance sheet at NIS 40 million (December 31 2017 – NIS 51 million).

E. Assets amounting to NIS 127 million (December 31 2017 – NIS 160 million) have not been registered in the Bank's name with the Land Registry Office. The main reasons are that no land registry arrangements were put in place in the area ("parcellation") and a building project was not registered as a condominium building by the contractor/developer.

F. The carrying amount of held-for-sale buildings and equipment as of December 31 2018 is NIS 23 million (December 31 2017 – NIS 46 million). No loss is expected from disposal of available-for-sale buildings and equipment in excess of the provisions made in respect thereof.

G. The buildings and equipment line item includes leasehold improvements and lease rights, including payments in respect of some of the buildings for leased land.

Note 17 - Intangible Assets and Goodwill

A. Intangible Assets

	Goodwill	Customer securities portfolios	Total
	In NIS millions		
Cost			
As at December 31 2016	274	83	357
Adjustments from translation of financial statements	(1)	-	(1)
Derecognition due to voluntary liquidation of an investee	(257)	(83)	(340)
As at December 31 2017	16	-	16
Adjustments from translation of financial statements	**1**	**-**	**1**
As at December 31 2018	**17**	**-**	**17**
Amortization and impairment losses			
As at December 31 2016	257	83	340
Amortization for the year	-	-	-
Derecognition due to voluntary liquidation of an investee	(257)	(83)	(340)
As at December 31 2017	-	-	-
Amortization for the year	**-**	**-**	**-**
As at December 31 2018	**-**	**-**	**-**
Carrying amount as of December 31 2018	**17**	**-**	**17**
Carrying amount			
As at December 31 2016	17	-	17
As at December 31 2017	16	-	16
As at December 31 2018	**17**	**-**	**17**

B. Goodwill

Changes in goodwill by regulatory operating segments and management's approach

	Foreign operations
	Other
	In NIS millions
As at December 31 2016	17
Translation differences	(1)
As at December 31 2017	16
Translation differences	**1**
As at December 31 2018	**17**

Note 18 - Other Assets

	December 31	
	2018	2017
	In NIS millions	
Deferred tax receivable, net – please see Note 8(D)	**4,858**	5,450[c]
Excess of advance tax payments over current provisions	**62**	74[c]
Central severance pay fund	**377**	624
Assets received in respect of repaid loans	**3**	4 [c]
Balance of amortizable issuance expenses of bonds, promissory notes and subordinated bonds	**34**	30
Assets in respect of activity in the MAOF Clearing House[a]	**477**	1,152
Value of insurance policy for foreign office	**430**	397
Prepaid expenses	**248**	222
Receivables	**175**	192
Other receivables	**198**	117[c]
Less balances classified as held-for-sale assets[b]	**(220)**	-
Total other assets	**6,642**	8,262

(a) Stated at fair value.
(b) For more information, please see Note 36F.
(c) Reclassified due to retrospective application of the Banking Supervision Department's directive regarding improved presentation of expenses for pension and other post-employment benefits. Please see Note 1.W.3.

Note 19 - Deposits by the Public

A. Types of Deposits by Location and Type of Depositor

	December 31	
	2018	2017
	In NIS millions	
In Israel		
Demand deposits		
Noninterest bearing deposits	**88,151**	84,686
Interest-bearing deposits	**121,269**	117,740
Total demand deposits	**209,420**	202,426
Fixed deposits	**129,334**	134,753
Less balances classified as held-for-sale liabilities[(a)]	**(71)**	-
Total deposits in Israel[1]	**338,683**	337,179
Outside Israel		
Demand deposits		
Noninterest bearing deposits	**9,646**	9,420
Interest-bearing deposits	**5,507**	4,687
Total demand deposits	**15,153**	14,107
Fixed deposits	**10,755**	11,192
Of which: Noninterest-bearing	**19**	16
Total deposits outside Israel	**25,908**	25,299
Total deposits by the public	**364,591**	362,478
[1]Of which:		
Deposits by private individuals	**134,931[(b)]**	130,110[(c)]
Deposits by institutional entities	**61,003**	70,496
Deposits by corporations and others	**142,749**	136,573[(c)]

B. Deposits by the Public by Amount

	December 31	
	2018	2017
Maximum deposit	In NIS millions	
Up to 1	**101,053[(b)]**	99,032
From 1 to 10	**95,364**	90,545
From 10 to 100	**64,272**	61,271
From 100 to 500	**37,944**	35,666
Over 500	**65,958**	75,964
Total	**364,591**	362,478

(a) For more information, please see Note 36F.
(b) Excluding balances classified as held for sale liabilities in the amount of NIS 71 million.
(c) Reclassified in respect of the improvement effort carried out in 2018.

Note 20 - Deposits by Banks

	December 31	
	2018	2017
	In NIS millions	
In Israel		
Commercial banks:		
Demand deposits	**3,818**	2,628
Fixed deposits	**1,752**	2,039
Acceptances	**701**	352
Less balances classified as held-for-sale liabilities[(a)]	**(1,150)**	-
Central banks:		
Demand deposits	**-**	41
Outside Israel		
Commercial banks:		
Demand deposits	**27**	29
Acceptances	**62**	67
Total deposits by banks	**5,210**	5,156

(a) For more information, please see Note 36F.

Note 21 - Bonds, Promissory Notes and Subordinated Bonds

	Average effective life(a)	Internal rate of return(b)	December 31 2018	2017
	Years	In %	In NIS millions	
Bonds and promissory notes(c):				
In Israeli currency linked to the CPI	**2.4**	**0.7**	**6,660**	5,338
In Israeli currency unlinked to the CPI	**3.9**	**2.8**	**2,289**	1,159
Less balances classified as held-for-sale liabilities(h)	**2.9**	**2.5**	**(1,130)**	-
Subordinated bonds(c)(f)(g)				
In Israeli currency unlinked to the CPI(e)	**3.8** (d)	**3.1**	**3,020**	2,880
In Israeli currency linked to the CPI(e)	**2.8** (d)	**2.4**	**7,098**	6,200
Less balances classified as held-for-sale liabilities(h)	**4.5**	**4.9**	**(139)**	-
Total bonds, promissory notes and subordinated bonds			**17,798**	15,577

(a) Average duration (AD) is the average of the payment periods weighted by the projected cash flows discounted at the internal rate of return.

(b) Internal Rate of Return (IRR) is an interest rate that discounts the projected cash flows to the carrying amount stated in the financial statements.

(c) The balance of discount net of the premium on bonds and subordinated bonds not yet carried to the income statement was offset against the bonds.

(d) The average duration as of interest rate change date is based on calculation of the effective average duration as calculated for purposes of the exposure to changes in interest rates. In unlinked subordinated bonds - 3.8 years, in linked subordinated bonds - 2.8 years (as of December 31 2017 - unlinked - 3.5 years. Linked and index - 2.6 years).

(e) Of which: subordinated promissory notes (non-tradable), which constitute CPI-linked Tier 2 capital totaling NIS 825 million and non-CPI-linked totaling NIS 926 million (non-linked as at December 31 2017 – NIS 926 million), which can be converted into shares under certain circumstances. Please see Note 25A.A.

(f) Of which: NIS 5,344 million are linked to the CPI and NIS 3,017 million - unlinked (2017 - NIS 4,465 million linked to the CPI and NIS 2,880 million non-linked) are listed for trade on the Tel Aviv Stock Exchange.

(g) Tier 2 capital according to Basel III's Transition Provisions.

(h) For more information, please see Note 36F.

Note 22 - Other Liabilities

	December 31	
	2018	2017
	In NIS millions	
Deferred tax receivable provision, net – please see Note 8(D)	**163**	167
Excess of current provisions for income tax over advances paid	**716**	442
Excess of liabilities in respect of employee benefits over plan assets – see Note 23(I)	**9,632**	11,287
Prepaid income	**345**	329
Payables in respect of credit card activities	**5,918**	6,139
Accrued expenses in respect of salaries and related expenses	**816**	901
Market value of securities sold short	**686**	569
Loan loss provision in respect of off-balance sheet items	**477**	484
Accrued expenses	**406**	420
Other provisions in respect of employee benefits	**365**	433
Provision for paid leave	**191**	213
Accrued jubilee vacation leave	**41**	47
Liabilities in respect of activity in the MAOF Clearing House[a]	**459**	1,152
Other payables and credit balances	**853**	741
Less balances classified as held-for-sale liabilities[b]	**(6,288)**	-
Total other liabilities	**14,780**	23,324

(a) Stated at fair value.
(b) For more information, please see Note 36F.

Note 23 - Employee Benefits

A. Pension and Severance Pay

1. Overview

Ongoing contributions for an external pension plan have been made for employees who began working with the Bank as from January 1 1999 (hereinafter - "Generation B Employees") and have not yet received permanent employee status as of the signing of the 2000 special collective pension agreement. The Bank shall have no pension obligations in respect of these employees, except for supplementary contributions towards severance pay, pursuant to the agreement.

Employees who started working for the Bank before January 1 1999 (hereinafter - "Generation A Employees") and were granted permanent employee status before the date of signing the aforementioned agreement, and who retire from the Bank at retirement age, except those mentioned above and in Section B. below, may choose between receiving severance pay and pension savings or a pension from the Bank while waiving the severance pay and savings, all subject to the provisions of the law. Entitlement to a pension is calculated at a rate of 40 percent in respect of the first 15 years of employment, i.e. 2.67 percent per annum, and 1.5 percent for each additional year, up to a maximum rate of 70 percent.

Provisions for pension are based on an actuarial calculation that factors in the retirement age pursuant to the Retirement Age Law, 2004. The actuarial calculation was made according to the accrued benefits valuation method, taking into account various parameters including the probability, based on past experience, as to the rate of utilization of pension benefits and the rate of withdrawal of severance pay and pension savings, disability benefits, etc.
The results of a study carried out in 2017, which relies on past experience, showed that approximately 3.5 percent withdraw severance pay and pension savings upon reaching retirement age; the rate of withdrawal in early retirement was approximately 10 percent. Furthermore, those who retire upon reaching retirement age will capitalize approximately 20 percent of the liability, whereas those who retired early will capitalize approximately 25 percent of the liability. The result of the study led to increasing the liability by NIS 80 million, carried to other comprehensive income.

The liability is accrued on a straight-line basis until the early retirement age (the average of actual retirement ages of Generation A Employees in recent years, both men and women). After this date, additional benefits attributed to subsequent years are accrued based on the formula of Generation A Employees' benefit plan. The calculation also factors in a realistic pay increase, which is based on past experience and varies according to the employee's age.

The actuarial calculation is based on revised directives of the Chief Actuary at the Ministry of Finance regarding mortality rates, published in March 2013, which were set for insurance companies by the Commissioner of the Capital Market, Insurance and Savings and applied to the Bank's employees.

The Bank's actuarial liability for pension was calculated based on the return on Israeli government bonds plus an average spread on corporate bonds rated AA or higher as of the reporting date. For practical reasons, it was decided that the calculation of the spread will be based on spreads of US corporate bonds.

The Bank's pension liability for retired employees who have opted for pension and the Bank's liability mentioned in Section B. below are covered by a pension provision calculated according to the present value of the liability, as calculated by an actuary.

2. Benefits to "Leumi Alumni"

In addition to their pension and/or pension savings and severance pay "Leumi Alumni" are entitled to further benefits comprising mainly holiday gifts, tuition fees of the retiree's children and medical tests.

Leumi Alumni are former employees who left their jobs at the Bank after 25 years, or whose age is at least 50 and have left the Bank after 15 years of service.

Note 23 - Employee Benefits (cont.)

According to an actuarial calculation, the amount accrued as of December 31 2018 for expected costs in respect of the above benefits payable after the employment period totals NIS 255 million (December 31 2017 – NIS 283 million).

B. Employment and Retirement Terms of Employees with Personal Employment Contracts

1. Overview

The accepted terms of employment and retirement for employees with personal contracts with the Bank include fixed compensation components, such as a monthly salary, social benefits, additional benefits, such as study fund, health insurance, insurance arrangements, exemption and indemnification of senior officeholders, as well as retirement and severance terms, such as paid early notice of up to six months, etc. Employees who have personal contracts with the Bank also enjoy variable compensation components, such as any award that is not given on a regular basis, i.e., annual performance bonus, mission bonus or retention bonus. Key employees who are not officeholders may be entitled to additional bonuses such as success bonus and excellence award. Officeholders may also be entitled to an adaptation grant of up to six monthly salaries on termination of their employment by the Bank. In addition, officeholders with the Bank may be required to sign a non-compete clause of up to six months from leaving the Bank.

Retirement and pension arrangements for employees with personal contracts

The retirement and pension benefits of Bank employees with personal contracts are determined according to their classification into the Bank’s employment period categories (Generation A, Generation B and Generation C) and according to the circumstances under which their employment ended (such as redundancy, resignation or retirement). The Bank's retirement arrangement with these employees includes entitlement to severance pay ranging between 100 percent and 250 percent, in addition to the funds accrued in their pension savings. This right is in lieu of the employees' legal severance pay benefits and usually includes the funds and benefits accrued in the employee’s severance pay funds during his/her employment period (including any gains).

In case of termination of employer-employee relations (due to redundancy, resignation or retirement, as relevant and according to the terms of the personal contract), Generation A employees may waive the benefits and funds which they have accrued in their severance pay and pension savings (in respect of Generation A benefits) in return for being eligible for an unfunded pension from the Bank (hereinafter - the "Pension Annuity"). Employees are eligible for a Pension Annuity on reaching retirement age or, alternatively - subject to meeting seniority and age criteria - to receive the pension annuity immediately (in full or in part, as relevant).

In case of termination of employer-employee relations (due to redundancy, resignation or retirement, as relevant and according to the personal contract's terms) and subject to meeting seniority and/or age conditions, Generation B employees may opt to receive an Interim Annuity from the Bank (in full or in part, as relevant) in lieu of severance pay, until they become eligible for the amount saved pursuant to the provident fund's rules and the provisions of the law.

The percentage of pension annuity or interim annuity, as relevant, is 2.67 percent per annum for the first 15 years of employment. Subsequently – 1.5 percent per annum for each year until a personal contract is signed; 2 percent per annum for each year of employment under a personal contract and 2.5 percent per annum for each year of service as member of management, up to a maximum of 70 percent. Eligibility for pension annuity from the Bank is subject to the employee having all the benefits and funds accrued in the pension savings and severance pay fund (in respect of Generation A benefits) in his/her name available as the source from which the Pension Annuity will be paid by the Bank as aforesaid.

Note 23 - Employee Benefits (cont.)

The maximum additional expense incurred by the Bank, assuming that the employees included in this section are made redundant immediately, shall total NIS 161 million (including salary tax payable on pension) (2017 – NIS 165 million). The decrease is due to changes in assumptions regarding the date and likelihood of termination.

2. President and CEO

Ms. Rakefet Russak-Aminoach has served as the President and CEO of the Bank since May 1 2012. In November 2016, the Bank's General Meeting approved a revision to the service and employment terms of the Bank's President and CEO effective October 12, 2016 (hereinafter: the "Effective Date"). The aforesaid service and employment terms of the President and CEO are in line with the Bank's Officeholders Compensation Policy, which was also approved by the General Meeting in November 2016.

As part of the revision to the President and CEO's terms of employment and service as aforesaid, the overall compensation of the President and CEO was adjusted and reduced in accordance with the Compensation Limitation Law. As part of the aforesaid revision, the President and CEO waived her entitlement to continue accumulating towards unfunded pension benefits in accordance with employment terms of Generation A employees in respect of the period after the Effective Date; any pension benefits accrued in favor of the President and CEO up until the Effective Date were retained and frozen and the accumulated amount was deposited in an external fund. During the reporting period, the Audit Committee and Board of Directors approved that accounting for the President and CEO's entitlement to past benefits for an unfunded pension, which were frozen and deposited in an external personal fund, will be made close to the approval date of the Bank's 2021 financial statements.

The President and CEO's terms of service and employment:

1. **Salary** – as from the Effective Date, the President and CEO is entitled to a monthly salary totaling NIS 195,400, linked to the increase in the known index of October 2016[1] as well as to the Bank's lowest compensation increase rate as set out in the Remuneration Limitation Law and subject to its provisions (hereinafter: the "Salary").

   The President and CEO may be eligible, subject to the approval of the Compensation Committee and the Board of Directors, to an additional fixed compensation component that will be calculated such that the total amount of the compensation components payable to the President and CEO (excluding compensation the payment of which is not expected under generally accepted accounting principles) will not exceed the ceiling set in Section 2(b) of the Compensation Limitation Law.[2] No social benefit contributions will be made in respect of this fixed component, except for contributions for severance pay and pension savings as required by law.

2. **Termination of employment by giving advance notice** – the term of the President and CEO's employment agreement is unlimited. Each of the parties may terminate the agreement by giving a 6-month advance notice.

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1 It is hereby clarified, that if the CPI decreases, the Salary will not be decreased accordingly.

2 It should be noted that the contributions for severance pay and pension savings as required by law will not be included in the calculation of the ceilings set in the Compensation Limitation Law. It should also be noted that if this will result in the total cost of the President and CEO's compensation exceeding the ceiling set in the Compensation Limitation Law, a portion of the compensation will not be deductible for tax purposes as set out in Section 32(17) of the Income Tax Ordinance.

Note 23 - Employee Benefits (cont.)

3. **Contributions and deductions for pension, severance pay and social benefits** - the Bank shall make contributions towards pension and disability insurance for the President and CEO; these contributions, amounting of 7.5 percent of the President and CEO's Salary, will be transferred, on a monthly basis, to managers' insurance policies, provident funds and/or a pension arrangement, as agreed between the parties from time to time; the Bank will also deduct an additional 6 percent of the President and CEO's Salary in respect of pension contributions (hereinafter - "Pension Contributions"). The Bank will make contributions towards severance pay, which will be transferred, on a monthly basis, to a severance pay fund; the amount of the contributions will be equal to $8^1/_3$ percent of the President and CEO's Salary[3] The Bank will also make monthly contributions to a study fund in respect of the President and CEO at an amount equal to 7.5 percent of the Salary; at the same time, the Bank shall deduct a total of 2.5 percent from the Salary and transfer the funds the study fund as the President and CEO's share in study fund contributions, up to the maximum amount entitling an assessee to tax benefits.

4. **President and CEO's benefits upon termination –** in the event of termination (due to redundancy, resignation or retirement), the President and CEO shall be entitled to all of the following benefits:

    a. In respect of her employment as from the Effective Date, the President and CEO will be entitled to severance pay amounting to 100 percent[4] of her last monthly Salary multiplied by the number of years that elapsed since the Effective Date until the date of termination, plus the pension savings and benefits accrued in the provident funds in respect of severance pay contributions made by the Bank and the President and CEO in respect of her employment term during the period from the Effective Date through the termination date.

    b. In respect of President and CEO's employment through the Effective Date, she will be entitled to the following benefits: (a) benefits according to Generation A terms: the benefits accrued in her name until the Effective Date in respect of the Bank's immediate pension annuity obligation; and (b) benefits according to Generation B terms: the President and CEO will be entitled to funds and benefits accrued in the provident fund in respect of pension provisions by the Bank and by the President and CEO in respect of her employment through the Effective Date under Generation B terms; the President and CEO will also be entitled to the benefits she accrued through the Effective Date in respect of the Bank's Interim Annuity until she has reached retirement age in respect of Generation B terms.

5. **Adaptation grant and non-compete bonus** - the President and CEO has committed to a six-month non-compete period as from the actual termination date (hereinafter - the "Non-Compete Period"). During the Non-Compete Period, the President and CEO will be entitled to receive the Salary and all other relating benefits, excluding provisions for social benefits.
Upon termination, the President and CEO will also be entitled to an adaptation grant of 6 monthly Salaries.

6. **Exemption, insurance and indemnification** - the President and CEO is eligible to officeholders' exemption, insurance and indemnification, as is customary in the Bank from time to time.

7. **Paid leave, recreation pay and sick leave** – as normally paid to the Bank's senior officeholders according to Bank's procedures.

8. **Relating benefits** - the President and CEO is eligible for the benefits normally given to the Bank's senior officeholders.

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[3] Including all components in respect of which severance pay is payable by law.

[4] Entitlement to severance pay as aforesaid is conditional on the transfer to the Bank of the contributions towards severance pay made during that period, or of an amount equal to the amount of those contributions.

Note 23 - Employee Benefits (cont.)

9. **Provisions regarding annual bonuses -** As of the Effective Date, the President and CEO will not be entitled to a variable annual bonus.

During the reporting period, the President and CEO purchased shares of the Bank from the State of Israel as part of the outline agreement with employees published by the Bank on November 20 2018.

3. The Bank's Chairman of the Board

Mr. David Brodet was first elected to serve as director in the Bank and as the Chairman of the Board of Directors in 2010. In 2013 and 2016, the Chairman of the Board was elected to serve as director in the Bank and as the Chairman of the Board of Directors for further two three-year tenures.

In November 2016, the Bank's General Meeting approved the revision of the Chairman of the Board of Directors' service and employment terms, effective July 22 2016, the date on which Mr. Brodet started his present tenure as a director in the Bank and its Chairman of the Board. The service and employment terms of the Chairman of the Board as aforesaid are in compliance with the Bank's officeholders compensation policy, which was also approved by the General Meeting held in November 2016.

The service terms of the Chairman of the Board were revised pursuant to Directive 301A, which stipulates that the Chairman of the Board will only be entitled to a fixed compensation, social benefits and related expenses, as is customary with regard to Bank's officeholders. Furthermore, and in view of the Compensation Limitation Law, the Chairman of the Board's terms of service and employment were adjusted and reduced such that they comply with the provisions of that law.

The Chairman of the Board's terms of service and employment:

1. **Salary** – as of the Effective Date, the Chairman of the Board is entitled to a monthly salary totaling NIS 168,200, linked to the increase in the known index as at the Effective Date[5] as well as to the Bank's lowest compensation increase rate as set out in the Compensation Limitation Law and subject to its provisions (hereinafter - the "Salary").

2. **Fixed compensation subject to new legal provisions** - the Chairman of the Board may be entitled, subject to the approval of the Compensation Committee and the Board of Directors, to an additional fixed compensation component. This component will be calculated such that the total amount of the compensation components payable to the Chairman of the Board (excluding compensation the payment of which is not expected under generally accepted accounting principles) will not exceed the ceiling set in Section 2(b) of the Compensation Limitation Law.[6] No provisions for social benefits will be made in respect of this fixed component, except for provisions for severance pay and pension savings as required by law.

3. **Employment period and termination** - the employment agreement of the Chairman of the Board of Directors is valid throughout his employment term as of the Effective Date (hereinafter - the "Employment Period"). During the Employment Period, each of the parties may terminate the agreement by giving a 6-month advance notice.

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5 It is hereby clarified, that if the index decreases, the Salary will not be decreased accordingly.

6 It should be noted that the contributions for severance pay and pension as required by law will not be included in the calculation of the ceilings set in the Compensation Limitation Law. It should also be noted that if this will result in the total cost of the Chairman of the Board's compensation exceeding the ceiling set in the Compensation Limitation Law, a portion of the compensation will not be deductible for tax purposes as set out in Section 32(17) of the Income Tax Ordinance.

Note 23 - Employee Benefits (cont.)

4. **Contributions and deductions for pension, severance pay and social benefits**

   4.1. The Bank shall make contributions towards pension[7] for the Chairman of the Board; the contributions, amounting to 6.5 percent of the Chairman of the Board's Salary, will be transferred, on a monthly basis, to managers insurance policies, provident funds and/or a pension arrangement, as agreed between the parties from time to time (hereinafter - the "Pension Contributions"). In addition, the Bank shall deduct another 6 percent from the Chairman of the Board's salary for compensation (hereinafter - the "compensation contributions"). Alternatively, the Chairman of the Board may opt, at his sole discretion, to receive, in lieu of some or all of the pension contributions, amounts that should have been contributed by the Bank towards his pension.

   4.2. The Bank will make contributions towards severance pay, which will be transferred, on a monthly basis, to a severance pay fund; the amount of the contributions will be equal to $8^{1/3}$ percent[8] of the Chairman of the Board's Salary.

   4.3. The Bank will also make monthly contributions to a study fund in respect of the Chairman of the Board of Director at an amount equal to 7.5 percent of the Salary; at the same time, the Bank shall deduct a total equal to 2.5 percent from the Salary and will transfer the amount to a study fund as the Chairman of the Board's share in study fund contributions, up to the maximum amount entitling an assessee to tax benefits.

5. **Termination benefits** - the Chairman of the Board's benefits upon tenure termination will be as follows:

   5.1. **Severance pay and pension savings –** upon termination of the Chairman of the Board's service for any reason whatsoever, he shall be entitled to the following benefits:

      a. In respect of his service until the Effective Date - the Chairman of the Board will be entitled to severance pay amounting to 150 percent of his last monthly Salary prior to the Effective Date multiplied by the number of years (or any portion thereof) until the Effective Date, plus the funds and benefits accrued in the provident fund in respect of severance pay contributions by the Bank and the Chairman of the Board in respect of the period through the Effective Date.

      b. In respect of his service as from the Effective Date through the termination of his service (hereinafter - the "Additional Period"), the Chairman of the Board will be entitled to severance pay amounting to 100 percent[9] of his last monthly Salary multiplied by the number of years (or any portion thereof) of service as the Chairman of the Board during the Additional Period, plus the funds and benefits accrued in the provident funds in respect of severance pay contributions by the Bank and the Chairman of the Board in respect of his service during the Additional Period.

   5.2. **Adaptation grant** - upon termination, the Chairman of the Board of Directors will be entitled to an adaptation grant of 6 monthly Salaries,[10], the payment of which may be subject to the Chairman of the Board's committing to a six-month non-compete period as of the actual termination date, as decided by the Bank's Board of Directors.

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7 Including disability insurance, provided such insurance is taken out.
8 Including all components in respect of which severance pay is payable by law.
9 Entitlement to severance pay as aforesaid is conditional on the transfer to the Bank of the contributions towards severance pay made in respect of the Additional Period, or of an amount equal to the amount of the contributions.
10 Including all other related benefits, but excluding social benefits.

Note 23 - Employee Benefits (cont.)

6. **Exemption, insurance and indemnification** - the Chairman of the Board is eligible for officeholders' exemption, insurance and indemnification, as is customary in the Bank from time to time.

7. **Paid leave, recreation pay and sick leave** – as normally paid to the Bank's senior officeholders.

8. **Related benefits** - the Chairman of the Board of Directors is eligible for the benefits normally granted to the Bank's senior officeholders.

9. **Provisions regarding annual bonuses** - as of the Effective Date, the Chairman of the Board is not entitled to a variable annual bonus.

During the reporting period, the Chairman of the Board was entitled to purchase from the State of Israel 12,364 shares of the Bank as part of the outline agreement with employees published by the Bank on November 20 2018. The offering of shares to the Bank's Chairman of the Board is subject to the approval of the general shareholders' meeting, pursuant to Section 273 to the Companies Law. The offer will be submitted for approval at the Bank's 2019 annual general meeting, which is expected to convene in mid-2019.

C. Provision for Paid Leave

The "other liabilities" line item includes a provision in respect of unutilized paid leave, calculated based on the last salary plus related benefits. The Bank also provides for sick leave that will be converted to paid leave, calculated on an actuarial basis. The provisions amount to NIS 191 million (December 31 2017 – NIS 213 million).

D. Pension and Severance Pay for the Bank's Employees

The Bank pays contributions towards severance pay and pension for Generation A employees into the Bank employees' provident fund, which is administered by a management company held by fund's members.

In March 2015, the Bank and institutional entities from the Migdal Group entered into an agreement to transfer the severance pay and pension funds which accumulated or will be accumulated as from 2008 and thereafter in the name of Generation A employees who opted or will opt to receive a (full or partial) pension annuity on retirement, to a paying fund administered by Migdal.

Furthermore, on March 25 2015, the Bank received the Tax Authority's approval to transfer the severance pay funds accrued in the Bank's main severance pay fund to the severance pay component in personal provident funds in the employees' name; terms and a mechanism for withdrawal of excess funds from the main severance pay fund were also set.

E. The Bank's Policy of Officeholder Compensation

In November 2016, the Bank's General Meeting approved a compensation policy for the Bank's employees effective as of October 12 2016 through the end of 2019 (above and hereinafter: the "Compensation Policy"). The Compensation Policy is based on the provisions of Amendment No. 20 to the Companies Law regarding Bank's officeholders' service and employment terms, on Proper Conduct of Banking Business Directive 301A regarding compensation policy of a banking corporation and on the provisions of the Compensation Limitation Law.

Note 23 - Employee Benefits (cont.)

The Compensation Policy sets out a framework for the compensation of Bank's officeholders and refers, among other things, to fixed compensation components, which is the principal compensation paid to officeholders, as well as to variable compensation components which include any compensation which is not fixed in nature, including: annual performance bonus comprised of a bonus component based on the Bank's return on capital compared to the return of the TA-Banks Index; a qualitative personal mission bonus, based on the achievement of personal targets and qualitative criteria according to the relevant officeholder's areas of responsibility; and a retention bonus. It should be noted that according to the Compensation Policy, directors, including the Chairman of the Board, are not entitled to variable annual bonuses.

The total amount payable in variable bonuses to an officeholder is limited to 6 monthly salaries per year; (under special circumstances, the Compensation Committee and the Board of Directors may approve a further special bonus of no more than one monthly salary for any officeholder).

The Board of Directors may also reduce the amount of the variable annual bonus, after obtaining the approval of the Audit Committee. Furthermore, the Compensation Policy prescribes, based on Directive 301A, a mechanism for repayment of the variable bonuses, including repayment criteria and circumstances and a repayment period.

The Compensation Policy also sets out arrangements for deferral of payment to officeholders of variable annual bonus, whose payment is subject to the Bank meeting the required capital adequacy ratios according to the directives of the Banking Supervision Department immediately before each vesting date.

The Compensation Policy also includes provisions regarding protecting the benefits of the Bank's officeholders upon retirement, including pension benefits that have accumulated and will be accumulated in respect of the period until the end of the transition period of the Compensation Limitation Law.

Noting the fact that the Compensation Policy was formed based on arrangements that were not yet final, the policy has in place mechanisms and various arrangements designed to allow the Audit Committee and the Board of Directors to revise the Compensation Policy or terms of service and employment of officeholders to whom the Compensation Policy applies, without being required to obtain the approval of the Bank's General Meeting for every such revision. Such revisions will be made if - in the opinion of the Compensation Committee and the Board of Directors - justified under the circumstances on revision date.

Thus, for example, the Compensation Policy has in place a mechanism that links the lowest compensation paid by the Bank for purposes of Section 2(B) of the Compensation Limitation Law to the maximum compensation of Bank's officeholders such that the total compensation amount to officeholders (excluding compensation the payment of which is not expected under generally accepted accounting principles) and the lowest compensation paid by the Bank at that time will increase by the same rate.

F. Compensation Policy for Key Employees

The compensation policy for key Bank employees who are not officeholders sets out a framework for compensation of key employees, including salaries, related benefits, retirement terms and annual bonus. This policy was formed bearing in mind the principles of the Bank's officeholder Compensation Policy, with the required adjustments and according to the provisions of Proper Conduct of Banking Business Directive 301A.

In December 2017, several compliance aspects of the compensation policy for key non-officeholder employees were revised in order to improve implementation of the Bank's compliance culture. In May 2018, the Audit Committee and Board of Directors approved an additional revision of the policy, adding the possibility to grant special variable mission bonuses.

Note 23 - Employee Benefits (cont.)

G. Remuneration Policy for All Employees

The compensation policy for all employees (who are not key employees) is based on the provisions of Proper Conduct of Banking Business Directive 301A.

The compensation policy for all such Bank employees is designed to serve as a tool to promote the achievement of the Bank's business targets, including facilitating the recruitment and retention of high-quality employees, motivating them to improve performance and achieve the Bank’s business objectives and targets while staying within the Bank’s risk appetite.

The compensation policy deals, inter alia, with salary and related benefits, bonuses, retirement terms and other compensation components payable to all employees.

In December 2017, several compliance aspects of the compensation policy for all employees were revised in order to improve implementation of the Bank’s compliance culture. In May 2018, the Audit Committee and Board of Directors approved an additional revision of the policy, adding the possibility to grant retention and perseverance bonuses to employees with special expertise.

H. Sale of State-Owned Leumi Shares

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. According to the announcement, the Accountant General at the Ministry of Finance stated that as part of the sale, the State would meet its obligations to the Bank's employees with regard to the option to sell 10 percent of the sold shares to Bank Leumi employees at a 25 percent discount. On September 5 2018, the Bank received a notice from the Ministry of Finance regarding the completion of the transaction for the sale of 81,037,614 ordinary shares of NIS 1.00 par value each of the Bank held by the State to Citigroup Global Markets Limited at a price of NIS 23.38 per share, for a total of NIS 1,894,659,415, after which the State would still hold 7,793,155 ordinary shares of NIS 1.00 par value each designated for sale to the Bank’s employees. Accordingly, on September 5 2018, the Government of Israel - on behalf of the State of Israel - ceased to constitute an interested party in the Bank. Under Leumi’s privatization agreements from 2006, the Bank’s employees are entitled to purchase a portion of Leumi’s shares from the State of Israel in case the State disposes of some of its holdings, at a 25 percent discount.

Subsequently, on November 20 2018, the State of Israel published an outline of the offer to the Bank’s employees - in accordance with Section 15B(1)(b) to the Securities Law, 1968 and Securities (Details of an Outline of an Offer of Securities to Employees) Regulations, 2000 - offering participants up to 7,793,155 registered ordinary shares of the Bank, at NIS 1 par value each. On December 25 2018, 7,773,055 shares were purchased by Bank employees, including officeholders (excluding the Chairman of the Board - for more information, please see below) at a price of NIS 17.3188 per share. The purchased shares are restricted for a period of two years from the record date, as prescribed in the outline (the date on which the purchased shares are deposited with the trustee), i.e., until December 25 2020.

Note 23 - Employee Benefits (cont.)

i. Composition of Benefits

1. Employee benefits

	As at December 31		
	2018	2017	2016
	In NIS millions		
Retirement benefits - pension and severance pay			
Liability amount	**15,867**	17,995	16,948
Fair value of plan assets	**6,235**	6,708	6,819
Excess liability over plan assets (included in "Other liabilities")	**9,632**	11,287	10,129
Accrued jubilee vacation leave			
Liability amount	**41**	47	82
Fair value of plan assets	**-**	-	-
Excess liability over plan assets (included in "Other liabilities")	**41**	47	82
Other benefits			
Liability amount	**533**	584	574
Fair value of plan assets	**-**	-	-
Excess liability over plan assets (included in "Other liabilities")	**533**	584	574
Total[1]			
Amount by which the liability for employee benefits exceeds the plan assets included in "Other liabilities"	**10,206**	11,918	10,785
[1]Of which: In respect of benefits to employees abroad	**64**	74	117

2. Defined benefit plan

A. Obligation and Funding Status

1. Change in the Obligation in Respect of Expected Benefit

	As at December 31		
	2018	2017	2016
	In NIS millions		
Obligation in respect of expected benefit as at the beginning of the year	**17,995**	16,948	15,764
Cost of service	**145**	146	160
Cost of interest	**653**	696	687
Contributions by plan participants	**39**	46	48
Actuarial loss (gain)	**(1,801)**	1,560	1,174
Changes in foreign exchange rates	**20**	(18)	(35)
Paid benefits[(a)]	**(1,184)**	(1,383)	(865)
Changes to plan including restructuring	**-**	-	-
Other	**-**	-	15
Obligation in respect of expected benefit as at the end of the year	**15,867**	17,995	16,948
Obligation in respect of cumulative benefit as at the end of the year	**15,063**	17,016	16,011

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

Note 23 - Employee Benefits (cont.)

I. 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

	As at December 31		
	2018	2017	2016
	In NIS millions		
Fair value of plan assets as at the beginning of the year	**6,708**	6,819	6,766
Actual return on plan assets	**(60)**	399	257
Plan contributions by the banking corporation	**110**	131	158
Contributions by plan participants	**39**	46	48
Changes in foreign exchange rates	**3**	(17)	(37)
Paid benefits[(a)]	**(572)**	(691)	(449)
Changes to plan including restructuring	**-**	-	-
Other	**7**	21	76
Fair value of plan assets as at the end of the year	**6,235**	6,708	6,819
Funding status - Net liability recognized at the end of the year	**9,632**	11,287	10,129

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

3. Amounts recognized in the consolidated balance sheet

	As at December 31		
	2018	2017	2016
	In NIS millions		
Amounts recognized in the "Other assets" line item	**-**	-	-
Amounts recognized in the "Other liabilities" line item	**9,632**	11,287	10,129
Net liability recognized at the end of the year	**9,632**	11,287	10,129

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

	As at December 31		
	2018	2017	2016
	In NIS millions		
Net actuarial loss	**2,668**	4,408	3,241
Net liability in respect of transition	**-**	-	-
Closing balance of accumulated other comprehensive income	**2,668**	4,408	3,241

Note 23 - Employee Benefits (cont.)

J. Composition of Benefits (cont.)

2. Defined benefit plan (cont.)

B. Expenditures for the period

1. Components of the benefit cost included in profit and loss

	For the year ended December 31		
	2018	2017	2016
	In NIS millions		
Cost of service	**145**	146	160
Cost of interest	**653**	696	687
Expected return on plan assets	**(356)**	(364)	(373)
Amortization of unrecognized amounts - net actuarial loss (profit)	**356**	330	310
Downsizing, discharges, special and contractual benefits and severance pay	**-**	-	-
Other incl. restructuring	**-**	-	-
Total benefit cost, net	**798**	808	784
Total expense for defined contribution pension plan	**200**	204	171
Total expenses included in the income statement	**998**	1,012	955

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

	For the year ended December 31		
	2018	2017	2016
	In NIS millions		
Net actuarial loss (gain) for the year	**(1,385)**	1,525	1,290
Amortization of unrecognized amounts - net actuarial loss	**(356)**	(330)	(310)
Other incl. restructuring	**(7)**	(21)	(64)
Changes in foreign exchange rates	**8**	(7)	(4)
Total recognized in other comprehensive income	**(1,740)**	1,167	912
Total benefit cost, net	**798**	808	784
Total recognized in net benefit cost for the period and in other comprehensive income	**(942)**	1,975	1,696

3. Estimate of the amounts included in other comprehensive income that are expected to be deducted as a loss from accumulated other comprehensive income to the income statement in 2019, before the tax effect

	In NIS millions
Net actuarial loss	**243**
Total expected to be deducted from other comprehensive income	**243**

Note 23 - Employee Benefits (cont.)

i. Composition of Benefits (cont.)

3. Discounts[a]

a. Assumptions based on a weighted average used to measure the benefit obligation and to measure the net cost of the benefit for the years ended December 31.

1. The main assumptions used to measure the benefit obligation.

	December 31		
	2018	2017	2016
	In %		
Discount rate	**2.74**	2.06	2.49
Rate of increase in the CPI	**1.59**	1.60	1.90
Departure rate	**0.1-3.7**	0.1-3.7	0.1-3.7
Rate of compensation increase	**0-6.3**	0-6.3	0-6.3

2. Principal assumptions used to measure the net cost of the benefit for the period.

	For the year ended December 31		
	2018	2017	2016
	In %		
Discount rate	**2.22**	2.51	2.48
Expected return on long-term plan assets	**5.50**	5.50	5.50
Rate of compensation 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		
	December 31			December 31		
	2018	2017	2016	**2018**	2017	2016
	In NIS millions					
Discount rate	**(1,993)**	(2,360)	(2,191)	**2,457**	2,943	2,745
Departure rate	**200**	217	222	**(179)**	(191)	(241)
Rate of compensation increase	**571**	702	663	**(499)**	(610)	(581)

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

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), causing the number of employees to opt for the pension fund track to decrease (a decision which will also decrease the Bank's pension liabilities amounts).

Note 23 - Employee Benefits (cont.)

I. Composition of Benefits (cont.)

4. Plan assets

A. Composition of fair value of plan assets

	As at December 31 2018			
	Level 1	Level 2	Level 3	Total
	In NIS millions			
Cash and deposits with banks	**160**	**-**	**-**	**160**
Shares	**2,225**	**-**	**101**	**2,326**
Government bonds	**881**	**159**	**-**	**1,040**
Corporate bonds	**1,684**	**30**	**-**	**1,714**
Other	**305**	**89**	**601**	**995**
Total	**5,255**	**278**	**702**	**6,235**

	As at December 31 2017			
	Level 1	Level 2	Level 3	Total
	In NIS millions			
Cash and deposits with banks	175	-	-	175
Shares	2,465	1	130	2,596
Government bonds	1,107	167	-	1,274
Corporate bonds	1,838	74	-	1,912
Other	234	104	413	751
Total	5,819	346	543	6,708

B. Fair value of plan assets by type of asset and allocation target for 2019

	Allocation target	Percentage of plan assets	
		December 31	
	2019	**2018**	2017
	In %		
Cash and deposits with banks	**2**	**3**	3
Shares	**38**	**37**	38
Government bonds	**16**	**17**	19
Corporate bonds	**32**	**27**	29
Other	**12**	**16**	11
Total	**100**	**100**	100

Note 23 - Employee Benefits (cont.)

I. Composition of Benefits (cont.)

4. Plan assets (cont.)

c. Changes in the fair value of plan assets whose value is measured based on significant unobservable inputs (Level 3)

	For the year ended December 31 2018					
		Actual return on plan assets				
	Opening balance	Realized gains/ (losses)	Unrealized gains/ (losses)	Purchases/ sales and discharges, net	Transfers into/from Level 3	Closing balance
	In NIS millions					
Cash and deposits with banks	**-**	**-**	**-**	**-**	**-**	**-**
Shares	**130**	**-**	**-**	**(29)**	**-**	**101**
Other	**413**	**37**	**18**	**133**	**-**	**601**
Total	**543**	**37**	**18**	**104**	**-**	**702**

	For the year ended December 31 2017					
		Actual return on plan assets				
	Opening balance	Realized gains/ (losses)	Unrealized gains/ (losses)	Purchases/ sales and discharges, net	Transfers into/ from Level 3	Closing balance
	In NIS millions					
Cash and deposits with banks	-	-	-	-	-	-
Shares	33	3	(3)	60	37	130
Other	261	8	(18)	197	(35)	413
Total	294	11	(21)	257	2	543

Note 23 - Employee Benefits (cont.)

I. Composition of Benefits (cont.)

5. Cash flows

A. Contributions

	Forecast[(a)]	Actual contributions For the year ended		
	2019	**2018**	2017	2016
	In NIS millions			
Contributions	**149**	**149**	177	206

(a) The estimated contributions the Bank expects to pay in respect of the defined benefit plan during 2019.

Year	In NIS millions
2019	756
2020	672
2021	685
2022	716
2023	728
2024-2028	4,189
From 2029	9,813
Total	17,559

(a) In discounted values.

Note 24 – Stock Compensation Transactions

A. Overview

According to the Compensation Policy approved on February 11 2014 by the Bank's General Meeting, half of the variable bonus to senior Bank officeholders will be paid in the form of Performance Share Units (PSUs).

For more information please see note 25A.C.1.

In addition, the Bank awarded Restricted Share Units (RSUs) to two officeholders. The RSUs are units of restricted shares which, upon fulfillment of the applicable vesting terms, are automatically converted into ordinary shares of the Bank, which are held by the Bank as treasury shares, without paying any exercise price. The RSUs are allotted according to the Capital Gains Track pursuant to Section 102(b)(2) of the Income Tax Ordinance, 1961.

For more information, please see note 25A.C.1.

B. Details Regarding Equity-Settled Stock Compensation Transactions

	Number of units as of December 31 2018									
	Senior managers		Members of management		President & CEO		Chairman of the Board		Retired managers	
	Restricted	Contingent	Restricted	Contingent	Restricted	Contingent	Restricted	Contingent	Restricted	Contingent
Outstanding at beginning of year	**-**	**52,834**	**-**	**373,028**	**-**	**162,935**	**-**	**112,364**	**-**	**503,575**
Granted during the year	-	-	-	-	-	-	-	-	-	-
Vested during the year	**-**	**(22,564)**	**-**	**(156,757)**	**-**	**(68,835)**	**-**	**(48,996)**	**-**	**(208,713)**
Retired managers	-	-	**-**	**(49,327)**	-	-	-	-	**-**	**49,327**
Outstanding as at year-end	**-**	**30,270**	**-**	**166,944**	**-**	**94,100**	**-**	**63,368**	**-**	**344,189**

	Number of units as of December 31 2017									
	Senior managers		Members of management		President & CEO		Chairman of the Board		Retired managers	
	Restricted	Contingent	Restricted	Contingent	Restricted	Contingent	Restricted	Contingent t	Restricted	Contingent
Outstanding at beginning of year	-	81,546	18,754	583,913	-	159,173	-	127,623	8,384	196,782
Granted during the year	-	39,426	-	287,522	-	75,791	-	43,112	-	133,118
Vested during the year	-	(32,562)	(18,754)	(226,875)	-	(72,029)	-	(58,371)	(8,384)	(133,433)
Retired managers	-	(35,576)	-	(271,532)	-	-	-	-	-	307,108
Outstanding as at year-end	-	52,834	-	373,028	-	162,935	-	112,364	-	503,575

(a) The price of each unit is NIS 16.03.

Note 25A - Shareholders' Equity

A. Share Capital

	December 31 2018		December 31 2017	
	Authorized	Issued and paid up[(a)]	Authorized	Issued and paid up[(a)]
	NIS			
Ordinary shares of NIS 1.0 each	**3,215,000,000**	**1,524,021,394**	3,215,000,000	1,523,523,613

(a) All the issued shares were registered shares which have been (or will be) issued have been (or will be) converted to ordinary shares transferrable in NIS 1.0 units. The rights attached to the Bank's shares are prescribed by the Bank's Articles of Association.

The ordinary shares are listed on the Tel Aviv Stock Exchange.

NIS 925,750,000 par value in subordinated bonds (Series 400) were issued by the Bank on January 21 2016, convertible under certain circumstances to up to 145,096,316 of ordinary shares of the Bank, as at December 31 2018.

NIS 613,800,000 par value in subordinated bonds (Series 401) and NIS 209,100,000 par value in subordinated bonds (Series 402) were issued by the Bank on July 8 2018, convertible under certain circumstances to up to 57,274,899 and 19,511,537 ordinary shares of the Bank, respectively, as at December 31 2018.

NIS 664,150,000 par value in subordinated bonds (Series 403) were issued by the Bank on January 31 2019, convertible under special circumstances to up to 57,601,908 of ordinary shares of the Bank as of the issue date.

B. The Bank's Share Buyback Plan

During 2018, the Bank implemented a share buyback program in the amount of NIS 700 million, by way of the safe harbor protection mechanism published by the Israel Securities Authority (Legal Position No. 199-8). The buyback was carried out in two stages. In the first phase, according to the said program - which began on May 27 2018 and ended on August 2 2018 -approximately 13,667,294 shares totaling approximately NIS 303 million were bought through an external member of the Tel Aviv Stock Exchange. In the second phase, which began on August 15 2018, an additional approximately NIS 397 million were remitted to the external member of the Stock Exchange to continue the share buyback program's execution. On November 22 2018, the share buyback program ended, after a total of 30,412,578 shares for approximately NIS 700 million were purchased through the external Stock Exchange member.

On February 28 2019, the Bank of Israel published a circular revising Proper Conduct of Banking Business Directive No. 332 regarding share buyback by banking corporations. The circular revokes the prohibition on buybacks and allows banking corporations to carry out share buybacks subject to certain terms and conditions. In addition, the restrictions on granting financing guaranteed by securities issued by the banking corporation were revised.

C. Stock Compensation Plan

1. On February 11 2014, the Bank's general meeting approved the compensation policy for the Bank's officeholders for 2013-2016 (hereinafter - the "Previous Compensation Policy"), following the Board of Directors' approval and the Compensation Committee's recommendation. The Compensation Policy is based on the provisions of Amendment No. 20 to the Companies Law regarding Bank's officeholders' service and employment terms, on Proper Conduct of Banking Business Directive 301A regarding compensation policy in a banking corporation. According to the Previous Compensation Policy, half of the variable bonus to the Bank's senior officeholders will be paid in the form of Performance Share Units (PSUs).

Note 25A - Shareholders' Equity (cont.)

According to the Previous Compensation Policy, the total and cumulative percentage of PSUs allotted to all senior employees (Chairman of the Board, President and CEO and members of the Bank's management) in respect of all the bonus plan years (2013 to 2016) shall not exceed 0.38 percent of the Bank's issued and paid up share capital.

As part of the approval of the annual performance bonus for the Bank's officeholders in respect of 2015 and according to the Previous Compensation Policy, on March 15 2016, the Bank issued 938,657 new PSUs (hereinafter - the "**2016 PSUs**") in the name of the trustee, Esop Management and Trust Services Ltd. (hereinafter - the "**Trustee**") for the Chairman of the Board, President and CEO and other officeholders of the Bank in the equity with trustee track in accordance with Section 102 to the Income Tax Ordinance. When the precondition for exercising the 2016 PSUs is met at each vesting date, as outlined below, the 2016 PSUs will vest and be automatically converted into 938,657 ordinary shares of NIS 1 par value each, which constituted approximately 0.064 percent of the Bank's issued and paid up share capital on the date of the 2016 PSUs' vesting date. As of December 31 2018, 625,775 2016 PSUs vested into ordinary shares, with 312,882 2016 PSUs still unvested.

According to the Private Offering Report published by the Bank on February 29 2016, including the clarifications thereto published on March 13 2016, the cumulative fair value of all 2016 PSUs totaled approximately NIS 12.3 million.

In addition, as part of the approval of the performance bonus for the Bank's officeholders in respect of 2016 and in accordance with the Previous Compensation Policy as well as the new Compensation Policy for 2017-2019, which was approved by the Bank's general meeting on November 3 2016, after the Board of Directors' approval in accordance with the approval and recommendations of the Compensation Committee (hereinafter - the "**New Compensation Policy**"), on April 6 2017, the Bank issued 578,969 new PSUs (hereinafter - the "**2017 PSUs**") in the name of the trustee for the Chairman of the Board, the President and CEO and other officeholders at the Bank on an equity track with a trustee pursuant to Section 102 of the Income Tax Ordinance. When the precondition for exercising the 2017 PSUs is met at each vesting date, as outlined below, the 2017 PSUs will vest and be automatically converted into 578,969 ordinary shares of NIS 1 par value each, which constituted approximately 0.038 percent of the Bank's issued and paid up share capital on the date of the 2017 PSUs' vesting date. According to the Private Offering Report published by the Bank on March 30 2017, the cumulative fair value of all 2017 PSUs totaled approximately NIS 9.3 million. As of December 31 2018, 192,981 2017 PSUs vested into ordinary shares, with 385,988 2017 PSUs still unvested.

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.

The aforesaid allotted 2016 PSUs and 2017 PSUs are not tradable. Under the approval of the Tel Aviv Stock Exchange Ltd. (hereinafter - the "**TASE**"), the shares arising from the vesting of the above units will be listed for trading on the TASE in the name of Bank Leumi Le-Israel B.M.

The vesting of the 2016 PSUs and 2017 PSUs is carried out in three equal tranches and is contingent upon the Bank's performance in each of the 2016, 2017, and 2018 calendar years in respect of the 2016 PSUs and for each of the 2017, 2018 and 2019 calendar years in respect of the 2017 PSUs, in accordance with and subject to the precondition set forth in the New Compensation Policy and as outlined in the 2016 Private Offering Report and the 2017 Private Offering Report, respectively. Subject to meeting the precondition for each vesting date, each PSU will automatically be converted into one ordinary share of NIS 1 par value each of the Bank on each vesting date (hereinafter - the "**PSU Vesting Preconditions**").

Note 25A - Shareholders' Equity (cont.)

D. Changes in the Bank's Capital

1. Under the Bank’s compensation policy, the PSU Vesting Preconditions for the second third of the 2016 PSUs (which were allotted to the Chairman of the Board, the President and CEO and to other officeholders of the Bank (hereinafter - the "Bank’s Officeholders") as well as for the vesting of the first third of the 2017 PSUs into shares, the second third of the 2016 PSUs and the first third of the 2017 PSUs have vested into shares. Accordingly, on March 5 2018, the Bank's officeholders were allotted shares, according to the number of 2016 PSUs and 2017 PSUs in their possession which vested as of that date.

   Under the compensation policy, the shares allotted following the vesting of the 2016 PSUs and 2017 PSUs were deposited with the trustee, as specified above.

   The shares allotted in respect of the 2016 PSUs, as detailed above, were restricted until March 14 2018 and the first of three tranches of the shares allotted in respect of the 2017 PSUs’ vesting is restricted for an additional period of two years from the allotment date of the 2017 PSUs, i.e. - until April 5 2019.

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

   The date of the vesting of the third and last tranche of the 2016 PSUs and the second tranche of the 2017 PSUs into ordinary shares of the Bank is expected to be after the approval of the financial statements, subject to meeting the PSU Vesting Preconditions, as detailed above.

2. On March 20 2016, the Bank’s Board of Directors decided to issue 48,938,037 ordinary shares of NIS 1 par value each of the Bank, which constitute approximately 3.21 percent of the Bank’s issued and paid up share capital after the allotment, in the name of the trustee, Tamir Fishman Trusts 2004 Ltd., in respect of the results of the offering to the employees and officeholders reported by the Bank on March 16 2016 and March 20 2016 according to an outline published by the Bank on February 18 2016 (conversion of employee and officeholders’ benefits), revised on February 23 2016.

   For more information, please see Note 23 to the 2016 Annual Financial Statements.

   All the allotted shares were restricted for a period of two years until March 19 2018, except in respect of key employees (excluding officeholders, for whom half of the bonus was paid in PSUs rather than in restricted shares), for whom 664,727 of the allotted shares will be restricted for a period of three years until March 19 2019, in accordance with the Previous Compensation Policy.

   It should be noted that an employee was mistakenly allotted 8,084 shares. To correct the mistake, the Bank forfeited the said shares on June 27 2016. With their forfeiture, the shares became treasury shares. The said treasury shares were transferred to the 2017 PSU holders on March 5 2018 as part of the vesting of the same 2017 PSUs, as detailed in Section 1 above. At that date, the shares became ordinary shares (rather than treasury shares).

E. Shelf Prospectus and Bond Issue

1. On May 25 2018, the Bank published a shelf prospectus in accordance with a permit granted by the Israel Securities Authority.

2. According to a shelf prospectus dated July 5 2018, the Bank issued, on July 8 2018, a total of NIS 613.8 million in subordinated bonds Series 401 and a total of NIS 209.1 million in subordinated bonds Series 402.

Note 25A - Shareholders' Equity (cont.)

The Subordinated Bonds Series 401 are repayable by a lump sum on July 31 2028 with an early repayment option for the issuer, not before July 31 2023 and no later than August 31 2023. The subordinated bonds are linked to the Consumer Price Index and carry a fixed annual interest rate of 1.64 percent until the July 31 2023. At that date, if the Bank does not exercise its early repayment option, the bond’s nominal interest rate shall be revised according to the difference between the benchmark interest rate (as defined by the shelf offering report) at the issue date and the interest rate at the interest revision date.

The Subordinated Bonds Series 402 are repayable by a lump sum on July 31 2033, with an early repayment option for the issuer, not before July 31 2024 and no later than August 31 2028. The subordinated bonds are linked to the Consumer Price Index and carry a fixed annual interest rate of 2.78 percent until the July 31 2028. At that date, if the Bank does not exercise its early repayment option, the bond’s nominal interest rate shall be revised according to the difference between the benchmark interest rate (as defined by the shelf offering report) at the issue date and the interest rate at 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 minimum rate (NIS 10.9025 per share, subject to adjustments), the highest of the two. These subordinated bonds (Series 401 and 402) are eligible for inclusion in Tier 2 as of the issue date.

For more information, please see Section A above.

3. According to a shelf prospectus dated January 30 2019, the Bank issued, on January 31 2019, a total of NIS 613.8 million in Subordinated Bonds Series 403. The Subordinated Bonds Series 403 are repayable by a lump sum on February 28 2030, with an early repayment option for the issuer, not before January 31 2025 and no later than February 28 2025. The subordinated bonds are linked to the Consumer Price Index and carry a fixed annual interest rate of 2.42 percent until the February 28 2025. At that date, if the Bank does not exercise its early repayment option, the bond’s nominal interest rate shall be revised according to the difference between the benchmark interest rate (as defined by the shelf offering report) at the issue date and the interest rate at 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 minimum rate (NIS 11.53 per share, subject to adjustments), the highest of the two.

These subordinated bonds (Series 403) are eligible for inclusion in Tier 2 as of the issue date.

For more information, please see Section A above

Note 25A - Shareholders' Equity (cont.)

F. Early Redemption of Subordinated Capital Notes

On February 10 2019, the Bank's Board of Directors decided to redeem in April-May 2019, by full early redemption, NIS 1 billion par value in (non-tradable) subordinated bonds linked to the Consumer Price Index issued in 2009. The estimated redemption amount of the subordinated bonds is approximately NIS 1.2 billion. The full early redemption shall be made in accordance with the Bank's right to exercise full early redemption under the capital notes' terms. On March 5 2019, the Banking Supervision Department's approval for the said early redemption was granted.

G. Dividend Distribution Policy

On November 20 2017, the Bank's Board of Directors approved a dividend distribution policy, under which the Bank will distribute, each quarter, a dividend of up to 40 percent of the Bank's net income in accordance with the Bank's financial statements for the previous quarter, subject to, inter alia, the Bank's meeting its capital adequacy targets, even after the dividend distribution.

On March 6 2019, 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 50 percent 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.

On March 6 2019, the Board of Directors approved, in respect of Q4 2018, a dividend consisting of 40 percent of the quarter's net income. The dividend approved amounted to approximately NIS 275 million, which is 18.401 agorot per share of NIS 1 par value. The final per-share dividend amount is subject to changes following the Bank's share issue after the vesting of the PSUs, as detailed in Section D above and subject to meeting the terms for the vesting of the PSUs, as detailed in Section C above. If the said PSUs vest, the dividend per NIS 1 share will be 18.395 agorot. The Board of Directors has set March 26 2019 as the record date for dividend payment and April 3 2019 as the payment date.

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	342
May 24 2018	June 19 2018	19.18	292
August 14 2018	September 6 2018	23.96	361
November 12 2018	December 10 2018	25.08[1]	375

[1] Further to the supplementary report dated November 25 2018.

Note 25B - Capital, Capital Adequacy, Leverage and Liquidity

Overview

In May 2013, the Banking Supervision Department amended Proper Conduct of Banking Business Directives No. 201 and 211, 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:

- Regulatory capital components
- Capital deductions and regulatory capital adjustments
- Treatment of exposures to financial corporations
- Treatment of exposures to credit risk for non-performing loans
- 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 percent 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 percent on January 1 2014 and in each subsequent year, the maximum is lowered by an additional 10 percent until January 1 2022. As of 2017, the rate of deductions from regulatory capital is 80 percent and the ceiling of the instruments that qualify as regulatory capital is 50 percent; as from January 1 2018, the transitional period will end and the rate of deduction from regulatory capital will be 100 percent and the ceiling of the instruments that qualify as regulatory capital will be 40 percent.

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.

On March 15 2018, the Banking Supervision Department published a circular which updated the weighting rates of loans fully secured by mortgages on residential properties, so that the 75 percent weighted risk was replaced by 60 percent for loans with an LTV ratio of more than 60 percent, only in respect of loans granted as of that day.

On November 13 2018, the Banking Supervision Department published a circular which updated the conversion coefficient rate for the loan in respect of guarantees securing investments by apartment buyers under the Sales Law. Pursuant to the circular, if the apartment has not yet been delivered to the buyer, the loan conversion coefficient was reduced from 50 percent to 30 percent.

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 new method 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 16,972 million and the Common Equity Tier 1 capital - to NIS 35,190 million, compared with a carrying amount of NIS 16,204 million and Common Equity Tier 1 Capital of NIS 34,205 million.

Note 25B - Capital, Capital Adequacy, Leverage and Liquidity (cont.)

	December 31	
	2018	2017[a]
	In NIS millions	
A. Data		
Capital base for capital ratio purposes		
CET1 capital, after regulatory capital deductions and adjustments	**35,190**[b]	34,653
Tier 2 capital, after deductions	**11,033**	10,811[f]
Total capital	**46,223**	45,464
Balance of risk-weighted assets		
Credit risk	**288,837** [b]	277,344
Market risks	**6,295**	4,464
Operational risk	**22,713**	21,484
Total balance of risk-weighted assets	**317,845**	303,292
Capital-to-risk weighted assets ratio (CRAR)		
Ratio of CET1 capital to risk-weighted components	**11.07%**	11.43%
Ratio of total capital to risk-weighted components	**14.54%**	14.99%[f]
Minimum CET 1 capital ratio set by the Banking Supervision Department[a]	**10.25%**	10.25%
Minimum total capital ratio set by the Banking Supervision Department[a]	**13.75%**	13.75%
B. Major subsidiaries		
Leumi Card Ltd.[e]		
Ratio of CET1 capital to risk-weighted components	**15.10%**	15.80%
Ratio of total capital to risk-weighted components	**17.30%**	16.80%
Minimum CET1 capital ratio required by the Supervisor of Banks[d]	**8.00%**	8.00%
Minimum total capital ratio set by the Banking Supervision Department[d]	**11.50%**	11.50%
Bank Leumi USA (BLUSA)		
Ratio of CET1 capital to risk-weighted components	**14.06%**	11.51%
Ratio of total capital to risk-weighted components	**14.97%**	13.82%
Minimum CET1 capital ratio set by the local authorities[c]	**6.38%**	5.75%
Minimum total capital ratio set by the local authorities[c]	**9.88%**	9.25%

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

(b) These data include adjustments for the efficiency plans prescribed in the Supervisor of Banks' letter dated January 12 2016, titled Operational Efficiency of the Banking System in Israel (hereinafter: "Adjustments for the Efficiency Plan") are deducted gradually until June 30 2021 and June 30 2022, respectively. For more information regarding the effect of the transitional provisions and adjustments for the efficiency plans, please see Section D below. Of the total balances of risk-adjusted assets, NIS 157 million was added in respect of adjustments for the efficiency plan (on December 31 2017 - NIS 94 million).

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

(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 percent and the total capital ratio shall not fall below 11.5 percent.

(e) For more information, please see Note 36F.

(f) Restated. For more information, please see Note 13.

Note 25B - Capital, Capital Adequacy, Leverage and Liquidity (cont.)

C. Capital Components for the Calculation of Capital Ratios

	December 31	
	2018	2017
	In NIS millions	
1. CET1 capital		
Equity attributable to the Bank's shareholders	**35,305**	33,167
Differences between the equity attributable to the Bank's shareholders and Common Equity Tier 1 Capital - minority interests	**399**	229
Differences between the equity attributable to the Bank's equity holders and CET1 capital - for employee benefits	**-**	590
Adjustments in respect of transition from the accounting curve to an 8-quarter moving average curve(a)	**(577)**	532
Total CET1 capital before regulatory adjustments and deductions	**35,127**	34,518
Regulatory adjustments and deductions:		
Goodwill and intangible assets	**(178)**	(203)
Deferred taxes receivable	**(251)**	(219)
Regulatory adjustments and other deductions - CET1 capital	**(17)**	(35)
Total regulatory adjustments and deductions - CET1 capital	**(446)**	(457)
Total adjustments in respect of the efficiency plan	**509**	592
Total CET1 capital, after regulatory adjustments and deductions	**35,190**	34,653
2. Tier 2 capital		
Tier 2 capital: Instruments before deductions	**7,790**	7,773
Tier 2 capital: Provisions before deductions	**3,243**	3,038(b)
Total Tier 2 capital before deductions	**11,033**	10,811
Deductions:		
Total deductions - Tier 2 capital	**-**	-
Total Tier 2 capital	**11,033**	10,811
Total capital	**46,223**	45,464

(a) Pursuant to specific approval by the Banking Supervision Department.
(b) Restated. For more information, please see Note 13.

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

Note 25B - Capital, Capital Adequacy, Leverage and Liquidity (cont.)

D. Effect of the Transitional Provisions and Adjustments for the Efficiency Plan on the CET 1 Capital Ratio

	December 31	
	2018	2017
	In %	
Capital-to-risk weighted assets ratio (CRAR)		
Ratio of CET1 capital to risk components prior to the implementation of the transitional provisions and before the effect of adjustments for the efficiency plan[(a)]	**10.92%**	11.03%
Effect of the Transition Provisions	**-**	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)]	**10.92%**	11.23%
Effect of adjustments in respect of the efficiency plan[(b)]	**0.15%**	0.20%
Ratio of CET1 capital to risk-weighted components	**11.07%**	11.43%

(a) Including the effect of adopting the US GAAP for employee benefits.

(b) On January 12 2016, the Banking Supervision Department published a letter titled Operational Efficiency of the Banking System in Israel. According to the letter, a banking corporation's Board of Directors should set out a multi-year efficiency plan. A banking corporation which meets the conditions prescribed in the letter will be granted a relief, according to which it may spread the effect of the plan, on a straight-line basis, over a period of 5 years, in respect of calculations for capital adequacy purposes. For more information, please see Note 23.

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 Directive No. 202, Tier 1 capital is used for calculating the leverage ratio, taking into account the transition 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 percent. A banking corporation whose consolidated balance-sheet assets constitute at least 20 percent of the Israeli banking system's balance-sheet assets shall have a consolidated leverage ratio of no less than 6 percent. Thus, the Bank is required to have a minimum leverage ratio of 6 percent.

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.

Note 25B - Capital, Capital Adequacy, Leverage and Liquidity (cont.)

	December 31	
	2018	2017
	In NIS millions	
A. Consolidated data[(a)]		
Tier 1 capital	**35,190**	34,653
Total exposures	**499,289**	499,026
Leverage ratio		
Leverage Ratio	**7.05%**	6.94%
Minimum total leverage ratio set by the Banking Supervision Department	**6.00%**	6.00%
B. Major subsidiaries		
Leumi Card Ltd.		
Leverage Ratio	**10.80%**	11.10%
Minimum total leverage ratio set by the Banking Supervision Department	**5.00%**	5.00%
Bank Leumi USA (BLUSA)		
Leverage Ratio	**11.72%**	9.72%
Minimum leverage ratio set by the local authorities	**5.00%**	5.00%

(a) These data include adjustments for the efficiency plans prescribed in the Banking Supervision Department' letter dated January 12 2016, Operational Efficiency of the Banking System in Israel. According to the said letter, the reliefs granted in respect of capital adequacy ratios and leverage ratio for the efficiency plans, which were approved by the Board of Directors in June 2016 and in July 2017, are being gradually withdrawn until June 30 2021 and June 30 2022, respectively. The effect on the leverage ratio of the relief for the efficiency plans was approximately 0.1 percent as at December 31 2018 (0.09 percent as at December 31 2017). For more information regarding the effect of the transitional provisions and adjustments for the efficiency plans, please see Section D above.
In addition, when calculating the leverage ratio, adjustments in respect of the implementation of the discount rate calculated over a moving average of the market yield for the eight quarters ended on the reporting date, in respect of certain actuarial liabilities, as outlined above were taken into account.

Note 25B - Capital, Capital Adequacy, Leverage and Liquidity (cont.)

D. 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).

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 percent, increasing to 80 percent on January 1 2016, and to 100 percent on January 1 2017 and thereafter. However, in a period of financial pressure, a banking corporation may fall below these minimum requirements.

	December 31	
	2018	2017
	In %	
A. Consolidated data		
Liquidity coverage ratio	**121**	122
Minimum liquidity coverage ratio required by the Banking Supervision Department	**100**	100
B. Banking corporation's data		
Liquidity coverage ratio	**122**	122
Minimum liquidity coverage ratio required by the Banking Supervision Department	**100**	100

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

Note 26 - Contingent Liabilities and Special Commitments

A. Off-Balance Sheet Commitment in Respect of Activity by Extent of Collection[(a)]

Balance of loans extended out of deposits by extent of collection[(b)]

	As at December 31	
	2018	2017
	In NIS millions	
Unlinked NIS	**288**	272
CPI-linked NIS	**1,336**	1,481
Foreign currency	**-**	5
Total	**1,624**	1,758

Cash flows arising from collection fees and interest margins in respect of loans extended out of deposits by extent of collection as of December 31:

	Up to one year	More than one year and up to three years	More than three years and up to five years	More than five years and up to ten years	More than ten years and up to twenty years	Over twenty years	Total for 2018	Total for 2017
	In NIS millions							
In the CPI-linked segment[(c)]								
Future cash flows	**9**	**15**	**9**	**10**	**3**	**1**	**47**	62
Projected future cash flows after management's estimate of early repayments	**9**	**15**	**9**	**10**	**3**	**-**	**46**	62
Discounted projected cash flows after management's estimate of early repayments[(d)]	**9**	**14**	**8**	**8**	**2**	**-**	**41**	54
Unlinked NIS segment								
Future cash flows	**1**	**1**	**1**	**-**	**-**	**-**	**3**	6
Projected future cash flows after management's estimate of early repayments	**1**	**1**	**1**	**-**	**-**	**-**	**3**	6
Discounted projected cash flows after management's estimate of early repayments[(d)]	**1**	**1**	**1**	**-**	**-**	**-**	**3**	5

(a) Loans and deposits out of loans the repayment of which is conditional upon the extent of collection of the loans (or the deposits) plus interest margins or collection fees (instead of interest margins).
(b) Non-recourse loans and government deposits extended at the total amount of NIS 99 million (2017 – NIS 91 million) were not included in this table.
(c) Including foreign currency segment.
(d) Capitalization was carried out at a rate of 3.08 percent (2017 – at a rate of 3.42 percent).

Note 26 - Contingent Liabilities and Special Commitments (cont.)

Information regarding loans extended over the year by mortgage banks:

	2018	2017
	In NIS millions	
Information regarding loans extended over the year by mortgage banks:		
Loans out of deposits according to the extent of collection	**95**	32
Non-recourse loans	**19**	9

B. Contingent Liabilities and Other Special Commitments

	As at December 31	
	2018	2017
	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	**259**	228
In second year	**199**	201
In third year	**141**	144
In fourth year	**130**	128
In fifth year	**116**	118
Over 5 years	**1,078**	1,109
Total long-term leases	**1,923** [(a)]	1,928
(2) Commitments to purchase securities	**674**	477
(3) Commitments to invest in buildings and equipment and their purchase	**38** [(a)]	37

(a) Including outstanding lease balances of NIS 441 million and commitments to invest in buildings and equipment in the amount of NIS 24 million for held-for-sale assets.

Note 26 - Contingent Liabilities and Special Commitments (cont.)

C. Guarantees by Repayment Date

	As at December 31 2018				
	Up to one year	One to three years	Three to five years	Over five years	Total
	In NIS millions				
Loan guarantees	**3,953**	**888**	**87**	**303**	**5,231**
Guarantees for apartment buyers	**2**	**18,665**	**-**	**-**	**18,667**
Guarantees and other commitments	**8,733**	**3,884**	**2,058**	**1,796**	**16,471**
Total guarantees	**12,688**	**23,437**	**2,145**	**2,099**	**40,369**

	As at December 31 2017				
	Up to one year	One to three years	Three to five years	Over five years	Total
	In NIS millions				
Loan guarantees	4,131	784	215	350	5,480
Guarantees for apartment buyers	-	19,313	-	-	19,313
Guarantees and other commitments	9,622	3,183	620	2,534	15,959
Total guarantees	13,753	23,280	835	2,884	40,752

The outstanding cash available to the Bank to cover for losses realized under these guarantees and indemnities totaled approximately NIS 816 million (as at December 31 2017 - NIS 892 million). In addition, the balance of securities and other tradable assets held as collateral, totaled approximately NIS 250 million (as of December 31 2017 - NIS 290 million).

The collaterals' figures reflect collaterals the Bank has received specifically against guarantees.

Note 26 - Contingent Liabilities and Special Commitments (cont.)

D. Legal Claims

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

In the opinion of the management of the Bank and the managements of the consolidated companies, the total additional exposure arising from legal claims filed against the Bank and the consolidated companies on various issues the amount of each of which exceeds NIS 2 million, and regarding which the chances of the claims succeeding are not remote, amounts to NIS 37 million.

1. Set forth below are details of legal claims filed against the Bank, whose amounts are material. In the opinion of the management of the Bank, which is based on legal opinions regarding the expected results of such claims, the financial statements reflect adequate provisions, if needed, to cover any damages resulting from such claims.

1.1 Legal claims filed during and after the reporting period

a. On May 6 2018, a motion for class certification was filed against the Bank. The applicant claims that the Bank does not fulfil its obligation 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 applicant, the total class damage amount is unquantifiable.

b. On September 16 2018, a motion for class certification was filed against the Bank. The applicant claims that when the Bank reimburses its customers for unlawful charges (for example, by mistake), it refunds them at face value - the same amount it has charged them - without taking into account the Bank's gains as a result of holding the funds or paying interest and linkage differences. The applicant claims he has incurred a damage of NIS 0.51, and is unable to estimate the total class damage amount.

1.2 Legal claims resolved during and after the reporting period

a. On September 7 2011, a motion for class certification 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 approximately NIS 927 million (against Leumi - approximately NIS 327 million). The applicants 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 dismissed the class certification motion 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 dismissed the appeal. The legal claim was thus concluded.

b. In February and March 2013, the joint liquidator of two real estate group companies filed two claims against the Bank, against other banks, as well as against entities and individuals, through the companies’ special administrator. According to the special administrator, among other things, the defendants allowed money to be transferred from the companies' accounts to other accounts related to the group, and the Bank assisted in carrying out "circular transactions" at the end of the quarter so as to enable the concealment of the thefts carried out - according to the special administrator - from the companies, preventing their exposure in the companies’ financial statements. The claim amounts are approximately NIS 63 million and approximately NIS 102 million (including linkage and interest rate differences). On June 27 2018, the court approved the settlement agreements between the liquidator and all the defendants following a mediation proceeding. The two

Note 26 - Contingent Liabilities and Special Commitments (cont.)

claims were thus concluded. Another procedure filed by the special administrator for another company in the group is pending.

c. On March 18 2014, a class certification motion was filed against the Bank in the amount of approximately NIS 155 million, claiming that as part of the Bank's tax withholding practices for securities transactions executed by the Bank, the latter's IT systems unlawfully overstate capital gains and understate capital losses. On August 1 2018, the court approved a settlement agreement in this procedure, and the lawsuit was concluded.

d. On April 21 2015, a motion for class certification was filed against the Bank. The applicant claims that the Bank did not fulfill its obligation to make a reasonable effort to locate holders of dormant accounts, to notify them of the accounts' existence and to pay them the funds "lying dormant", according to the applicant, in these accounts. The applicant raises further claims regarding fees and commissions charged in these accounts, and transfer of the funds to the account holders without CPI linkage and interest. The total damage to all members of the class is unquantifiable. On February 26 2018, the court approved a settlement arrangement in this procedure, and the lawsuit was concluded.

e. On June 21 2015, a motion to approve a class action was filed against the Bank. The applicant claims that the Bank allegedly charges currency conversion fees in respect of foreign currency transfers from a foreign currency account with the Bank to a foreign currency account in the name of that same customer with another bank, despite the fact that the funds were not converted into another currency. The applicant also claims that the Bank allegedly charges correspondent bank fees which are denominated in euro, at an exchange rate higher than the representative exchange rate; furthermore, the applicant claims that when a customer closes a bank account, the Bank allegedly charges fees and commissions in amounts that exceed the maximum amount collectible by law upon closing a bank account. The applicant estimates the amount of the class action at NIS 1 million. On January 7 2019, the court approved a settlement agreement in this procedure, and the lawsuit was concluded.

f. On December 8 2016, a motion for class certification was filed against the Bank and other banks. The applicant claimed that the banks charge minimum fees for foreign currency transfers by amount, rather than charging a single minimum fee, which - according to the applicant - is required under banking regulations, and that this common violation of all the respondent banks is, in fact, a cartel, in violation of the Antitrust Law. The amount of damages as estimated by the applicant in respect of all respondents is approximately NIS 500 million. On March 13 2018 a ruling was issued approving the applicant's withdrawal from the proceeding. The legal claim was thus concluded.

g. On September 11 2017, a motion to approve a class action was filed against the Bank. The amount claimed is up to approximately NIS 150 million. According to the applicant, the Bank allegedly opens accounts in the name of the tenants' committee rather than opening an account in the name of the condominium as required pursuant to the Land 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. The legal claim was thus concluded.

1.3 Pending legal claims filed in previous reporting periods

a. On August 28 2013, a motion for class certification was filed against the Bank and other banks. The Banking Supervision Department, Bank of Israel Governor and Antitrust

Note 26 - Contingent Liabilities and Special Commitments (cont.)

Commissioner were included as formal respondents. The subject of the motion is the allegedly unlawful charging of commissions for conversion and transfer of foreign currency, without providing fair disclosure thereof. The applicants claim that the damage caused to customers (according to an "abbreviated" motion filed by the applicants) is approximately NIS 2.6 billion (the applicants claim additional damages which have not been quantified). On January 20 2015, a court handling the proceedings of another motion for class certification 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 motion. On March 18 2018, the plaintiffs filed an appeal against the Tel Aviv District Court's ruling of March 1 2018, which dismissed the motion for class certification and required the applicants to pay the respondents' expenses.

b. On December 2 2013, a motion for class certification as filed against the Bank regarding early repayment fee for non-housing loans. According to the applicant, the early repayment fee, both in respect of loans subject to calculation principles set in the Proper Conduct of Banking Business Directives and in respect of loans subject to rules set by the Bank, are calculated by the Bank in an unlawful manner. According to the applicant, at this stage it is impossible to estimate the overall claim amount.

c. On March 17 2014, a special administrator of a company under liquidation filed an application to issue orders against the Bank to the effect that the court will declare that the Bank shall pay the Company (liquidation assets) a total of NIS 1,200 million, of which NIS 635 million will be used to cover all of the company's debts to its creditors for reimbursement of the full value of the company's assets and a total of NIS 565 million for full reimbursement of the company's assets. According to the special administrator, the Bank is personally liable for the company's debts. It should be noted that, as part of the motion, the special administrator reserved the right to file further legal proceedings against the Bank and/or other officeholders of the company and/or individuals on behalf of the Bank and the attorneys who advised the Bank.

d. On February 11 2015, a motion for class certification was filed against the Bank. The amount claimed is approximately NIS 2.3 billion (later reduced to NIS 1.5 billion). According to the applicant, the Bank has a "black list" of customers, which it flags in its systems for an unlimited period of time, in a manner which harms them or makes it difficult for them to obtain credit or carry out other business transactions with the Bank.

e. A motion to approve a legal claim as a class action was filed against the Bank on April 29 2015. The amount claimed is approximately NIS 150 million. According to the applicant, funds that belong to holocaust survivors and which were deposited with the Anglo Palestine Bank before the Second World War and were not withdrawn by the customers during the war are reimbursed to survivors or their next of kin without revaluing them to real value.

f. On July 22 2015, a motion for class certification was filed against the Bank. According to the applicant, the Bank's reporting to the Execution Office regarding amounts paid directly to the Bank on account of debt in respect of which a collection procedure is being conducted by the Execution Office, is delayed by the bank and, as a result, a difference allegedly arises between the actual amount of debt and the debt amount recorded in the Execution Office file. The applicant estimates the amount of the class action at NIS 1 million.

g. On February 11 2016, a motion to approve a class action lawsuit was filed against the Bank and four other banks, claiming that the banks give benefits to students, but restrict the students' age. The applicant estimates the amount of the class action at NIS 219 million.

Note 26 - Contingent Liabilities and Special Commitments (cont.)

h. On March 7 2016, a legal claim was filed to a US Court by a large number of plaintiffs, against dozens of defendants, including the Bank, Bank Leumi USA, and Bank Hapoalim. The plaintiffs claimed that by making, among other things, funds transfers, the defendants support settlements in the West Bank in a manner that harms Palestinian residents, their property and rights. The original amount claimed by all the plaintiffs was USD 34.5 billion. The amount was later reduced to USD 1 billion. On August 29 2017, the US Court approved a motion to dismiss the legal claim in limine. On September 8 2017, the plaintiffs appealed the decision and on February 19 2019, the Court accepted the plaintiffs' appeal and overturned the in limine decision.

i. On May 22 2016, a motion for class certification was filed against the Bank and other banks, claiming that when a teller conducts a cash transaction, he/she charges a fee according to a price list, without taking into account benefits which apply to certain population groups, and neither do the banks take into account such benefits when calculating the minimum fee they charge customers' accounts. According to the applicants, they are unable to estimate the exact amount allegedly collected from all the class members by the various defendants. On September 20 2018, the Tel Aviv District Court dismissed the motion for class certification and required the applicants to pay the defendants' expenses. On November 12, the applicants appealed the ruling to the Supreme Court.

j. On January 22 2017, a motion for class certification was filed against the Bank. The applicant claims that the Bank allegedly converts foreign currency credit balances deposited with customers' NIS accounts even if customers did not ask for such conversion to be made. According to the applicant, the damage allegedly caused to the customer as a result of such conversion comprises the conversion fee amount and the difference between conversion at the representative exchange rate and the conversion rate actually used by the Bank (which is lower). According to the applicant, the personal damages caused to him is approximatelyNIS 38 and the total amount of damages caused to the class of plaintiffs is estimated at NIS 1 million, but no breakdown was provided.

k. On March 29 2017, a motion to approve a class action was filed against the Bank and similar legal claims were filed against other banks. According to the applicant, the Bank may not charge a "correspondent bank fee" when transferring foreign currency from a customer's account to another bank account aboard. The applicant claims that the Bank may only charge a correspondent bank fee at the amount of the expense it actually incurred (the amount that it actually paid to the correspondent bank). According to the applicant, the personal damage he has incurred is approximately USD 30, and the damage incurred by the class of plaintiffs cannot be estimated.

l. On May 15 2017, a motion for class certification was filed 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 are inapplicable to small businesses. The petitioner estimates the damage amount for all respondents to be approximately 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 ruled that the motion to approve a class action, filed against the Bank on February 12 2017, will remain pending. The amount of damage claimed in this motion is NIS 100 million. On May 31 2018 the applicants appealed against the decision to the Supreme Court.

2. Set forth below is a breakdown of legal claims and motions for class certification filed against one of the Bank's subsidiaries and whose amounts are material. In the opinion of the Bank's management, based on the opinion of the relevant subsidiary's management, which is based on the opinion of its legal

advisors regarding the expected results of such claims, the financial statements reflect adequate provisions, if needed, to cover any damages resulting from such claims.

a. On July 8 2014, a motion for class certification was filed against several credit card companies, including Leumi Card. For more information regarding this application, please see Section 1.3A above. On March 18 2018, the plaintiffs filed an appeal against the Tel Aviv District Court's ruling of March 1 2018, which rejected the approval petition for a class action and required the petitioners to pay the respondents' expenses.

b. On April 28 2014, a motion for class certification was filed against Leumi Card Ltd. and other credit card companies totaling approximately NIS 1.7 billion. The claimed amount was revised upwards, totaling approximately NIS 7.1 billion. According to the applicant, the interchange fee charged in respect of debit and prepaid cards (unlike in the case of credit cards) was not approved by the Antitrust Tribunal and constitutes a cartel arrangement. The applicant also claims that, the practice whereby the proceeds of transaction made through such cards are transferred to merchants at a 20-day delay, constitutes an unapproved cartel arrangement or a depriving condition in a standard contract.
In October 2017, the applicant filed with the Antitrust Tribunal a legal claim against Leumi Card and other credit card companies; the Bank and other banks were named as pro forma respondents to this legal claim, in which the court was asked to rule that the interchange fee in respect of the aforesaid transactions was not approved. On October 16 2018, the court issued a ruling dismissing the legal claim in limine and on November 29 2018, the applicant appealed against the ruling to the Supreme Court.

On December 9 2018, a petition was filed by the Consumer Movement for the Promotion of a Fair Economic Society "Success" and NGO "Financial Justice" against the Bank of Israel, Antitrust Commissioner, Leumi Card and other credit card companies regarding setting interchange fees for debit cards.

c. On November 17 2014, a motion for class certification was filed against Leumi Card, totaling NIS 952 million. The amount of the legal claim was subsequently reduced to approximately NIS 267 million. According to the applicant, Leumi Card does ensure that it complies with all customer authentication requirements before providing services to customers via the Interactive Voice Response system (IVR) which discloses customers' personal details. The applicant also claims that his application to block the option to hear information concerning his credit card once authentication was completed was dismissed by Leumi Card, which claimed that it is not possible to block this option.

3. Also pending against the Bank and a subsidiary of the Bank are motions for class certification 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 motions being approved – it is impossible to estimate the odds at this stage. For this reason, no provisions were made in respect of these motions.

a. On May 1 2018, a motion for class certification 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 applicant, 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 applicant, failure to disclose this information to private customers is misleading, and as for business customers – the failure to disclose the information also prevents them from receiving tax credit for these expenses. The total claimed damage amount for all respondents is approximately NIS 180 million.

Note 26 - Contingent Liabilities and Special Commitments (cont.)

b. On July 22 2018, a motion for class certification was filed against Leumi Card and two additional credit card companies. The claim revolves around credit card transactions carried out by the Group members as remote sales transactions (mainly over the phone) by merchants engaged in direct marketing. According to the applicant, these businesses exploited the weakness of the elderly population, unlawfully charging numerous transactions to their credit cards, in addition to charging them additional amounts which had not been approved by them. According to the applicant, the credit card companies engaged in clearing agreements with the direct marketing companies, thus enabling their activity. The applicant claims that the damage amount for the entire class he purports to represent is approximately NIS 900 million.

E. 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 had said this was merely a regulatory procedure. According to the FCA publications regarding similar proceedings against banks similar to BLUK - in which violations were determined to have occurred - resulted in measures taken against those banks so that it may be assumed that BLUK's exposure to financial sanctions, if any, will be immaterial to Leumi Group.

2. Financial sanction under Section 38A to the Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Law, 1995

On June 11 2018, the Israel Securities Authority issued a payment demand regarding a monetary sanction of NIS 300 thousand. The amount was set following a 25 percent reduction pursuant to actions taken by the Bank to avoid the recurrence of the violation. The financial sanction was imposed on the Bank following cases of deficient documentation of consulting activities provided to the Bank's customers regarding additional fees charged by mutual funds charging a surcharge.

3. A financial sanction in respect of a breach of Section 5(c) of the Banking (Service to Customer) Law, 1981

On December 23 2018, Leumi Card received notice from the Banking Supervision Department regarding a monetary sanction in the amount of NIS 1.5 million imposed on Leumi Card in respect of a breach of Section 5(c) to the Banking (Customer Service) Law, 1981. The sanction was imposed following failure to add a warning required by law to two publications made by Leumi Card.

F. The Bank serves as guarantor for members of some of the provident funds previously administered by Leumi Capital Market Services Ltd. (formerly Leumi Gemel Ltd.), whose operations were sold to Prisma Provident Funds Ltd. ("Prisma"). The guarantee secures the repayment of the original principal amounts deposited, which on December 31 2018 totaled NIS 1,806 million in nominal values. As of December 31 2018, the value of the above funds’ assets amounted to NIS 4,312 million. In addition, this guarantee does not apply to deposits in accounts opened in the aforementioned funds after January 22 2007.

Against the aforesaid undertaking, Prisma undertook to pay the Bank a participation amount of no more than NIS 35 million per calendar year, linked to the CPI as from October 30 2006 until the payment date in the event that the guarantees or any portion thereof, is realized. A deductible amount not utilized in a certain year cannot be carried forward to future years.

G. Indemnification Letters

1. The Bank has undertaken in advance to indemnify its directors, other officeholders and those whom it employs under personal managerial contracts and who are not Bank officeholders (hereinafter - "Managerial Contract Holders") in respect of monetary liabilities arising from actions taken in their

Note 26 - Contingent Liabilities and Special Commitments (cont.)

capacity as directors, officeholders and managers in the Bank and its investee companies. The indemnification undertaking covers a number of indemnity events that, in the opinion of the Bank's Compensation Committee and Board of Directors, can be expected in view of the Bank's activities; those events include, among other things, the Bank's ordinary banking activities, share offerings under a prospectus, reports to the public and to regulatory authorities, activities relating to Antitrust Law, cyber incidents and any other activity associated with the Bank's activities. The cumulative maximum amount payable by the Bank per one indemnity event in respect of which the indemnification undertakings it has given and will give to all officeholders of the Bank and the subsidiaries will be exercised will not exceed 25 percent (twenty five percent) of the Bank's common equity as per its latest (annual or quarterly) financial statements published before actual indemnification date (hereinafter - the "Maximum Indemnity Amount"). The Maximum Indemnity amount is payable in addition to amounts received from the insurance company, if any, pursuant to an insurance policy taken out by the Bank, if any, and/or under an insurance policy and/or indemnification by any party other than the Bank (such that the Maximum Indemnity Amount will not be reduced due to such insurance and/or indemnification payments, if any). The Bank also undertook in advance, among other things, to indemnify directors, other Bank officeholders and managerial contract holders in respect of reasonable litigation costs, including costs incurred as a result of an investigation or procedure that was concluded without an indictment being filed and without the imposition of a monetary sanction in lieu of criminal proceeding, or an investigation or procedure that was concluded without am indictment being filed but with the imposition of a monetary liability in lieu of criminal proceedings relating to a criminal offence which does not require proof of criminal intent or in connection with a monetary sanction. The letter of indemnity also includes a further indemnification undertaking in respect of expenses and/or payment to the injured party of a breach in accordance with and subject to the provisions of the Streamlining of Enforcement Proceedings in the Securities Authority Law (Legislative Amendments), 2011 ("the Administrative Enforcement Law"), and in respect of expenses incurred in connection with proceedings under Section G-1 of the Antitrust Law, 1988.

The Bank's officeholders compensation policy includes indemnification provisions that correspond the aforementioned indemnification undertakings.

Furthermore, on February 15 2004, the Bank's General Meeting passed a resolution whereby directors will be exempted in advance for a liability in respect of damages caused due to breach of their duty of care towards the Bank. The decision to grant such an exemption also applies to other Bank officeholders, in accordance with the decision of the Audit Committee and the Board of Directors of June 2003.

2. The Bank has undertaken to indemnify Bank's employees in respect of expenses and/or any payment to the injured party of a breach in accordance with and subject to the provisions of the Administrate Enforcement Law, in accordance with terms normally set out in indemnity letters issued by the Bank.

3. The Bank has undertaken to indemnify certain external advisors including in connection with plans for awarding or offering securities to Bank or subsidiaries' officeholders or employees, as applicable, in respect of a liability or loss, and in various cases including in respect of other legal expenses in connection with services they rendered to the Bank.

4. The Bank and its subsidiaries have undertaken to indemnify the international credit companies "Visa" and "MasterCard" in respect of fulfillment of the subsidiaries' obligations in connection with Visa and MasterCard credit card activity, as the case may be.

5. The Bank and its subsidiaries provide, from time to time, in the ordinary course of business and under generally accepted circumstances, indemnity letters, which are limited or unlimited as to their amount or period, including with regard to the Bank's obligations as a member of the Tel Aviv Stock Exchange, including as part of transactions for disposal of the Group's subsidiaries.

Note 26 - Contingent Liabilities and Special Commitments (cont.)

6. The Bank provides, from time to time, indemnity letters, which are limited or unlimited as to their amount and period, to secure indemnities provided by subsidiaries to officeholders due to risks applicable to companies' officeholders, and to ensure that subsidiaries comply with regulatory directives. In addition, the Bank provided indemnity letters to Bank employees and officeholders of subsidiaries in respect of a list of events which are specified therein.

7. As part of the transaction for the sale of Bank Leumi Switzerland's activity to Julius Baer, the Bank provided Julius Baer with a guarantee of up to CHF 250 million to back the indemnity given by Bank Leumi Switzerland in respect of events defined in the agreement for a two-year period as from the transaction's closing date (March 2015) (subject to exceptions in respect of which the undertaking will be for a five-year period).

8. Under the agreement of November 2015 for the sale of Bank Leumi (Luxembourg) S.A. (hereinafter: "Leumi Luxembourg") to Banque J. Safra Sarasin (Luxembourg) S.A. (hereinafter – the "Buyer"), Leumi Luxembourg has undertaken to provide various indemnifications to the Buyer over a 2-year period from the transaction's closing date (January 2016) (subject to exceptions in respect of which the undertaking will be for a five-year period). The indemnification amount is limited to an amount derived from Leumi Luxembourg's common equity (approximately USD 37.4 million). Leumi Luxembourg's indemnification obligation is backed by a guarantee provided by the Bank in the event that Leumi Luxemburg will not be able to meet its aforesaid indemnification obligations.

9. The sale agreement of Leumi Card Ltd. dated July 28 2018, included an indemnification mechanism for the buyer in respect of misrepresentation. The reimbursement mechanism determines a 1.5 percent minimum for activating the mechanism and is restricted to a maximum total reimbursement rate of 10 percent of the transaction amount (excluding in respect of breach of material representations or in case of fraud).

H. 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 interchange fee rate 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 percent 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 had 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 percent to 0.6 percent;

From January 1 2020 – a reduction from 0.6 percent to 0.575 percent;

From January 1 2021 – a reduction from 0.575 percent to 0.55 percent;

From January 1 2022 – a reduction from 0.55 percent to 0.525 percent;

From January 1 2023 – a reduction from 0.525 percent to 0.5 percent.

In addition, the Bank of Israel also announced that the interchange fee on immediate debit transactions (which is currently 0.3 percent) will be reduced as follows:

Note 26 - Contingent Liabilities and Special Commitments (cont.)

From January 1 2021 – a reduction from 0.3 percent to 0.275 percent;

From January 1 2023 – a reduction from 0.275 percent to 0.25 percent.

On November 25 2018, a draft Banking (Customer Service) (Supervision of Cross Clearing Service of Debit Card Transactions and Immediate Debit Transactions) Order, 2018 was published, regulating the outline of the abovementioned reductions. The said order also includes an outline of an accelerated reduction in the interchange fee for debit card transactions for customers who are public institutions.

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 percent; until December 31 2018 - the maximum fee shall be 2.45 percent; until December 31 2019 - the maximum fee shall be 2.10 percent; and on June 30 2020, the maximum fee for a merchant will be 1.99 percent. 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 percent 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 a debit card issuance operation and issuance agreement with Isracard Ltd. and Europay (Eurocard) Israel Ltd. (of the Isracard Group) (hereinafter - the "Agreement in Principle"). Following the above, the parties are working towards signing a more detailed agreement. Following the Agreement in Principle, on January 7 2019, a detailed agreement was signed between the parties. Pursuant to the provisions of the detailed Agreement, as of June 2019, the parties will issue debit cards the operation of which shall be executed by the two abovementioned companies of the Isracard Group. The detailed agreement establishes the revenue sharing mechanism among the parties, as well as their rights and obligations and other arrangements relating to said operation.

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). Under the said agreements, the parties issue debit cards as of February 2019, and the above companies operate the issuance activity. The abovementioned agreement establishes the revenue sharing mechanism among the parties, as well as their rights and obligations and other arrangements relating to said activity.

On October 11 2018, an agreement was signed between the Bank and Leumi Card Ltd. (hereinafter - "Leumi Card") to issue and operate debit cards. The agreement shall replace the existing agreement between the parties and shall also apply to cards issued under the existing agreement. Under the new agreement, the parties will issue debit cards, which will be operated by Leumi Card. The abovementioned agreement establishes the revenue sharing mechanism among the parties, as well as their rights and obligations and other arrangements relating to said activity. For more information regarding the said sale agreement, please see the section entitled "Major Investees" - "Leumi Card".

During 2018, various provisions on debit cards were published, including regarding clearing dates of debit card transactions. In addition, on January 9 2019, the Payment Services Law, 2019 was published. It will become effective 12 months after its publication. For more information, please see the section entitled "Legislation and Regulation of the Banking System."

Note 27 - Liens and Restrictive Conditions

As of December 31 2018 and December 31 2017, the bonds and promissory notes issued by Israeli consolidated companies are not secured by floating liens on their assets. Consolidated companies placed liens on securities and other assets to secure deposits received from Federal Home Loan Bank (FHLB) as well as certain obligations pursuant to requirements of the governments of countries in which they operate. The pledged assets amount to NIS 1,925 million (December 31 2017 – NIS 4,178 million). Total liabilities in respect of which liens were placed on assets is NIS 351 million (December 31 2017 – NIS 3,426 million).

The Bank lends securities denominated in foreign currency out of its available-for-sale portfolio via the Euroclear clearing house; such securities are lent for short-terms to other customers of the clearing house without knowing the borrowers' identity. Lending is fully guaranteed by Euroclear - an AA+ rated financial institution. As of December 31 2018, the balance of the securities lent to Euroclear is zero (December 31 2017 - NIS 88 million).

In its capacity as a member of the Tel Aviv Stock Exchange, the Bank is a member of the Risk Fund of the Stock Exchange's Clearing House.

The amount of the Clearing House Risk Fund shall be equal to the amount of the largest periodic debit balance that a member had during the six months that ended in the calendar month before the updating date. The Fund updates the amounts 4 times a year.

In addition – the Bank signed a credit facility agreement with Euroclear at the total amount of USD 150 million as surety for the clearing of customers' securities. The credit facility is backed with securities held by the Bank with Euroclear.

Each Risk Fund member places liens on securities in favor of the Stock Exchange's Clearing House to secure payment of the member's proportionate share in the Risk Fund and also as surety for the performance of all that member's other obligations towards the Clearing House and its share in the Risk Fund. These collaterals also secure the performance of all other obligations of Risk Fund members in the event that the collaterals provided by another member do not cover all its obligations, according to the proportionate share of each member, up to the lower of the full amount of the collaterals provided or the amount of the obligations towards the Stock Exchange's clearing house. As of reporting date, the Bank's-share in the Stock Exchange's Risk Fund is NIS 124 million (December 31 2017 – NIS 180 million). The total amount of assets pledged by the Bank in favor of the Stock Exchange's Clearing House is NIS 183 million (December 31 2017 – NIS 186 million).

The Bank is also a member of the Risk Fund of the MAOF Clearing House. The Bank undertook to pay the MAOF Clearing House any financial obligation arising from the MAOF transactions it carries out for its customers, from its nostro portfolio and from MAOF transactions of other Stock Exchange members not clearing independently via the MAOF Clearing House. The amount of the Bank's liability is presented in Note 30D., Off-Balance Sheet Financial Instruments.

Note 27 - Liens and Restrictive Conditions (cont.)

The Bank provides collaterals in favor of the MAOF Clearing House to secure payment of the its proportionate share in the Risk Fund and also as surety for the performance of all its aforementioned obligations towards the MAOF Clearing House and its share in the Risk Fund. These collaterals also secure the performance of all other obligations of Risk Fund members. In the event that the collaterals provided by another member of the Risk Fund do not cover all of its obligations, the MAOF Clearing House may also realize the collaterals provided by other Risk Fund members, according to the proportionate share of each member, up to the lower of the full amount of the collaterals provided or the amount of the obligations towards the MAOF Clearing House.

As of reporting date, the Bank's-share in the Risk Fund of the MAOF Clearing House is approximately NIS 68 million (approximately 9.5 percent of the Risk Fund).

Like any other clearing house member, the Bank may secure its obligations to the Risk Fund of the MAOF Clearing House by placing liens on government bonds and deposits. The total amount of bonds and deposits pledged by the Bank in favor of the MAOF Clearing House in respect of customers' activity, the nostro portfolio and the Risk Fund as of December 31 2018 is NIS 711 million (December 31 2017 – NIS 736 million).

In its capacity as a participant in the TGS ("Zahav") system, a holder of a clearing account of that system, a member of the MASAV payment system and the check clearing system (hereinafter: the "Participant"), the Bank is a party to an arrangement whose aim is to ensure the finality of settlement of transactions in default events where funds in the clearing account of one or more of the other participants do not cover the obligations. In the event of default, each non-defaulting participant ("surviving participant") is to bear the obligations of the defaulting participant according to the proportionate share of the surviving participant divided by the difference between 100 percent and the defaulting participant's proportionate share. As of December 31 2018, the Bank's proportionate share in MASAV and in the check clearing system is 19.7 percent and 22.5 percent, respectively. This percentage is updated every six months according to the proportionate share of each Participant's transactions settled via the relevant payment system during the last six months. The overall ceiling for participation of all Participants in the MASAV and the check clearing system is NIS 300 million and NIS 150 million, respectively. In the event of default, the Bank of Israel will send a multi-party payment instruction debiting the clearing account of the defaulting Participant and crediting the clearing accounts of the Surviving Participant by the amount that each Surviving Participant paid under the arrangement, with the addition of interest at the Actual Bank of Israel Rate of Interest. Such instruction will be issued immediately after the system opens on the business day following the default day. The default arrangement is not intended to deal with a situation of known or probable insolvency. In case of insolvency, the Supervision of Banking Department will deal with the matter.

The Bank and consolidated companies enter into Credit Support Annex (CSA) agreements with banks, whose purpose is to minimize the mutual credit risks arising between banks during derivative trading. According the agreements, the value of all derivative transactions carried out between the parties is measured on a periodic basis and if the net exposure of one of the parties exceeds a pre-determined threshold, that party is required to transfer to the other party deposits at the exposure amount by the next measurement date. As of December 31 2018, the Group provided deposits totaling NIS 2,571 million in favor of banks (December 31 2017 – NIS 469 million).

The Bank and its consolidated companies enter into agreements with foreign banks for the purpose of entering into tradable futures in foreign exchanges on behalf of the Bank, the consolidated companies and their customers. As of December 31 2018, the Group deposited with the above banks USD 299 million (December 31 2017 - USD 360 million). The Group also placed liens on bonds totaling USD 360 million and EUR 122 million. It should be noted that the majority of the collaterals transferred in respect of customers' activity in connection with these transactions were customers' funds in accordance with the CSA agreements they signed with the Bank throughout the year.

The Bank signed a bond whereunder it placed a fixed first lien and assignment by way of lien, unlimited in amount, in favor of the Bank of Israel on all assets and rights in specific accounts in the name of the Bank Israel with the Tel Aviv Stock Exchange's Clearing House, with Euroclear Bank or with any other clearing house agreed about by the Bank and the Bank of Israel. Assets subject to a lien in the Euroclear Bank or in another account with a clearing house abroad are also subject to a first floating lien in favor of the Bank of Israel.

Note 27 - Liens and Restrictive Conditions (cont.)

The purpose of this lien is to secure all Bank's obligations in connection with loans extended to the Bank by the Bank of Israel and to function as surety to secure those loans, as set out in the loan documents, except for loans extended pursuant to a loan agreement between the Bank of Israel and the Bank and a secured bond of May 21 2008.

On May 21 2008, the Bank signed a bond whereunder it placed a first floating lien, in favor of the Bank of Israel, on its rights to receive NIS-denominated funds and charges that are payable and will be payable to the Bank, from time to time, from its corporate customers (incorporated under the laws of the State of Israel), the loans extended to which by the Bank are not in arrears, in respect of NIS loans whose average duration does not exceed three years which were extended and will be extended by the Bank to the aforementioned customers.

The purpose of this lien is to secure loans to be extended to the Bank by the Bank of Israel for the Bank's activity as the provider of NIS liquidity services to the Continuous Linked Settlement Bank (CLS) Bank, plus interest, costs and expenses arising from realizing the lien, up to a total of NIS 1.1 billion, in accordance with the provisions of the loan agreement signed between the parties in connection with this matter. During 2010-2018, Leumi did not utilize loans of this type.

Note 27 - Liens and Restrictive Conditions (cont.)

	December 31	
	2018	2017
	In NIS millions	
Sources of securities received and which the Bank may sell or pledge at fair value, before offsets		
Securities received in transactions for lending of securities against cash	**1,257**	1,161
Sources of securities received and which the Bank may sell or pledge at fair value, before offsets		
Securities lent in transactions for lending securities against cash	**541**	558

Apart from these securities, as of balance sheet date, additional securities were provided as collateral, shown under the "Securities" item above; lenders are not allowed to sell or pledge those securities.

The Bank also deposits government bonds as collaterals for tradable futures activity, in lieu of cash. These securities are held in the available-for-sale portfolio.

From time to time, the Bank deposits with Leumi USA, monetary deposits to back the Bank's liabilities in relation to credit provided by Bank Leumi USA to secure liabilities of Bank Leumi Le-Israel, in accordance with the directives of the Federal Reserve. These deposits are deposited as part of a designated deposit agreement signed in May 2018 and replaced a deed of pledge from September 2010. As of December 31 2018, the amount of deposits was USD 323 million (2017 - USD 33 million).

Note 28A – Derivative Instruments and Hedging Activities

Overview

The aforementioned activity involves taking risks, the principal of which are:

- Credit risk which is measured according to the loss amount the Bank may incur if the counterparty to the transaction fails to meet the terms of the transaction. Customers' collaterals are required to cover the risk in accordance with the risk arising from the transactions. The required collaterals are included within the collaterals required in respect of the total amount of the customer's indebtedness.
- Market risks include risks stemming from changes in interest rates, exchange rates, the CPI, prices of securities/indexes and prices of commodities. The market risks stemming from derivative instrument transactions constitute a part of the total market risks of the derivative instruments. Derivative instrument activities are carried out within the limits set by Group companies' Board of Directors with regard to exposure to market risks.
- Liquidity risk is the risk arising due to uncertainty regarding the price which the Bank will be required to pay to cover the transaction. This risk arises mainly from instruments whose tradability or the tradability of their underlying asset is low. This risk was taken into account when calculating the required collaterals.
- The aforesaid activity does not relate to derivative which are embedded in other activities.
- Please see Note 1.J.

Note 28B - Derivative Instruments Activity - Scope, Credit Risks and Maturity Dates

A. Volume of Consolidated Activity

	December 31 2018					
	Interest rate contracts					
	NIS-CPI	Other	Foreign exchange rate contracts	Stock contracts	Commodity and other contracts	Total
	In NIS millions					
(1) Notional amount of derivatives						
a) Hedging derivatives[(a)]						
Swaps	**-**	**2,246**	**-**	**-**	**-**	**2,246**
Total	**-**	**2,246**	**-**	**-**	**-**	**2,246**
Of which: Interest rate swaps for which the banking corporation has agreed to pay a fixed interest rate	**-**	**2,246**	**-**	**-**	**-**	**2,246**
b) ALM derivatives[(a)(b)]						
Future contacts	**-**	**46,882**	**59**	**115,526**	**995**	**163,462**
Forward contracts	**18,129**	**9,575**	**200,804**	**418**	**11**	**228,937**
Listed option contracts						
Written options	**-**	**27,747**	**15,383**	**20,667**	**293**	**64,090**
Call options	**-**	**27,747**	**14,739**	**20,869**	**293**	**63,648**
Other options						
Written options	**-**	**11,935**	**26,978**	**1,821**	**374**	**41,108**
Call options	**-**	**9,350**	**27,987**	**1,962**	**374**	**39,673**
Swaps	**615**	**256,198**	**24,175**	**47,968**	**211**	**329,167**
Total	**18,744**	**389,434**	**310,125**	**209,231**	**2,551**	**930,085**
Of which: Interest rate swaps for which the banking corporation has agreed to pay a fixed interest rate	**-**	**128,095**	**-**	**-**	**-**	**128,095**
c) Other derivatives[(a)]	**-**	**-**	**-**	**-**	**-**	**-**
d) Credit derivatives and foreign exchange spots						
Credit derivatives in which the banking corporation is a beneficiary	**-**	**-**	**-**	**-**	**-**	**-**
Foreign exchange spots	**-**	**-**	**13,967**	**-**	**-**	**13,967**
Total	**-**	**-**	**13,967**	**-**	**-**	**13,967**
Grand total	**18,744**	**391,680**	**324,092**	**209,231**	**2,551**	**946,298**

(a) Excluding credit derivatives and foreign currency swaps.
(b) Derivatives which constitute part of the Bank's assets and liabilities management system, not designated for hedging purposes.

Note 28B - Derivative Instruments Activity - Scope, Credit Risks and Maturity Dates (cont.)

A. Volume of Consolidated Activity (cont.)

	December 31 2018					
	Interest rate contracts					
	NIS-CPI	Other	Foreign exchange rate contracts	Stock contracts	Com-modity and other contracts	Total
	In NIS millions					
(2) Gross fair value of derivatives						
a) Hedging derivatives[(a)]						
Gross positive fair value	-	48	-	-	-	48
Gross negative fair value	-	17	-	-	-	17
b) ALM derivatives[(a)(b)]						
Gross positive fair value	235	3,442	4,442	4,508	81	12,708
Gross negative fair value	345	3,267	3,886	4,509	81	12,088
C) Other derivatives[(a)]	-	-	-	-	-	-
D) Credit derivatives						
Credit derivatives in which the banking corporation is a beneficiary						
Gross positive fair value	-	-	-	-	-	-
Gross negative fair value	-	-	-	-	-	-
E) Total						
Gross positive fair value[(c)]	235	3,490	4,442	4,508	81	12,756
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Carrying amount of assets in respect of derivatives	235	3,490	4,442	4,508	81	12,756
Of which: carrying value of assets in respect of derivatives not under a netting or similar arrangement	39	43	78	194	-	354
Gross negative fair value[(c)]	345	3,284	3,886	4,509	81	12,105
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Carrying value of liabilities in respect of derivatives	345	3,284	3,886	4,509	81	12,105
Of which: Carrying value of liabilities in respect of derivatives not under a netting or similar arrangement	-	160	252	506	2	920

(a) Excluding credit derivatives and foreign currency swaps.
(b) Derivatives which constitute part of the Bank's assets and liabilities management system, not designated for hedging purposes.
(c) Of which: NIS 6 million in positive gross fair value of assets in respect of embedded derivatives (NIS 16 million in gross negative fair value of liabilities in respect of embedded derivatives).

Note 28B - Derivative Instruments Activity - Scope, Credit Risks and Maturity Dates (cont.)

A. Volume of Consolidated Activity (cont.)

	December 31 2017					
	Interest rate contracts					
	NIS-CPI	Other	Foreign exchange rate contracts	Stock contracts	Com-modity and other contracts	Total
	In NIS millions					
(1) Notional amount of derivatives						
a) Hedging derivatives[(a)]						
Swaps	-	1,742	-	-	-	1,742
Total	-	1,742	-	-	-	1,742
Of which: Interest rate swaps for which the banking corporation has agreed to pay a fixed interest rate	-	1,742	-	-	-	1,742
B) ALM derivatives [(a)(b)]						
Future contacts	-	33,009	106	103,734	234	137,083
Forward contracts	16,209	800	170,863	863	21	188,756
Listed option contracts						
Written options	-	-	15,950	36,351	11	52,312
Call options	-	-	15,672	36,351	11	52,034
Other options						
Written options	-	5,529	18,673	2,742	209	27,153
Call options	-	2,367	19,090	2,586	209	24,252
Swaps	794	231,919	25,648	37,523	157	296,041
Total	17,003	273,624	266,002	220,150	852	777,631
Of which: Interest rate swaps for which the banking corporation has agreed to pay a fixed interest rate	-	121,703	-	-	-	121,703
c) Other derivatives[(a)]	-	-	-	-	-	-
d) Credit derivatives and foreign exchange spots						
Credit derivatives in which the banking corporation is a beneficiary	-	-	-	-	5	5
Foreign exchange spots	-	-	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, not designated for hedging purposes.

Note 28B - Derivative Instruments Activity - Scope, Credit Risks and Maturity Dates (cont.)

A. Volume of Consolidated Activity (cont.)

	December 31 2017					
	Interest rate contracts					
	NIS-CPI	Other	Foreign exchange rate contracts	Stock contracts	Com-modity and other contracts	Total
	In NIS millions					
(2) Gross fair value of derivatives						
a) Hedging derivatives[a]						
Gross positive fair value	-	30	-	-	-	30
Gross negative fair value	-	8	-	-	-	8
b) ALM derivatives[a][b]						
Gross positive fair value	315	4,125	3,018	2,060	32	9,550
Gross negative fair value	431	3,825	3,471	2,041	25	9,793
c) Other derivatives[a]	-	-	-	-	-	-
D) Credit derivatives						
Credit derivatives in which the banking corporation is a beneficiary						
Gross positive fair value	-	-	-	-	-	-
Gross negative fair value	-	-	-	-	-[d]	-
E) Total						
Gross positive fair value[c]	315	4,155	3,018	2,060	32	9,580
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Carrying value of assets in respect of derivatives	315	4,155	3,018	2,060	32	9,580
Of which: carrying value of assets in respect of derivatives not under a netting or similar arrangement	51	52	98	289	6	496
Gross negative fair value[c]	431	3,833	3,471	2,041	25	9,801
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Carrying value of liabilities in respect of derivatives	431	3,833	3,471	2,041	25	9,801
Of which: carrying amount 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, not designated for hedging purposes.
(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 28B - Derivative Instruments Activity - Scope, Credit Risks and Maturity Dates (cont.)

B. Credit Risk and for Derivatives by Contract Counterparty

	December 31 2018					
	Stock ex-changes	Banks	Dealers/ brokers	Govern-ments and central banks	Other	Total
	In NIS millions					
Carrying amount of assets in respect of derivatives[a][b]	**204**	**4,631**	**1,162**	**19**	**6,740**	**12,756**
Gross amounts not netted on the balance sheet:						
Credit risk mitigation in respect of financial instruments	**-**	**3,716**	**1,076**	**19**	**1,214**	**6,025**
Credit risk mitigation in respect of cash collateral received	**-**	**706**	**68**	**-**	**4,125**	**4,899**
Net amount of assets in respect of derivatives	**204**	**209**	**18**	**-**	**1,401**	**1,832**
Off-balance-sheet credit risk for derivatives[d][e]	**446**	**6,415**	**2,817**	**73**	**6,998**	**16,749**
Mitigation of off balance-sheet credit risk	**-**	**2,841**	**1,663**	**44**	**1,010**	**5,558**
Off balance-sheet credit risk for derivatives	**446**	**3,574**	**1,154**	**29**	**5,988**	**11,191**
Total credit risk and for derivatives	**650**	**3,783**	**1,172**	**29**	**7,389**	**13,023**
Carrying amount of liabilities in respect of derivatives[a][c]	**254**	**7,113**	**2,279**	**101**	**2,358**	**12,105**
Gross amounts not netted on the balance sheet:						
Financial instruments	**-**	**3,716**	**1,076**	**18**	**1,214**	**6,024**
Pledged cash collateral	**-**	**2,549**	**1,197**	**83**	**93**	**3,922**
Net amount of liabilities in respect of derivatives	**254**	**848**	**6**	**-**	**1,051**	**2,159**

Note 28B - Derivative Instruments Activity - Scope, Credit Risks and Maturity Dates (cont.)

	December 31 2017					
	Stock ex-changes	Banks	Dealers/ brokers	Govern-ments and central banks	Other	Total
	In NIS millions					
Carrying amount of assets in respect of derivatives[(a)(b)]	218	5,634	1,883	87	1,758	9,580
Gross amounts not netted on the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	3,621	1,448	42	738	5,849
Credit risk mitigation in respect of cash collateral received	-	1,537	423	41	121	2,122
Net amount of assets in respect of derivatives	218	476	12	4	899	1,609
Off-balance-sheet credit risk for derivatives[(d)(e)]	743	7,349	1,571	65	6,192	15,920
Mitigation of off balance-sheet credit risk	-	2,286	731	19	2,548	5,584
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
Carrying amount of liabilities in respect of derivatives[(a)(c)]	191	4,248	1,597	42	3,723	9,801
Gross amounts not netted on the balance sheet:						
Financial instruments	-	3,621	1,448	42	738	5,849
Pledged cash collateral	-	287	131	-	1,497	1,915
Net amount of liabilities in respect of derivatives	191	340	18	-	1,488	2,037

(a) The Bank did not offset netting agreements.
(b) Of which carrying amount of standalone assets in respect of derivatives totaling NIS 12,750 million (December 31 2017 - NIS 9,573 million).
(c) Of which carrying amount standalone liabilities in respect of derivatives totaling NIS 12,089 million (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 limitations on borrower indebtedness.
(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 carrying amount of assets for the borrower’s derivatives.

Comment:
No loan losses were recognized in respect of derivative instruments in 2018 and 2017.

Note 28B - Derivative Instruments Activity - Scope, Credit Risks and Maturity Dates (cont.)

C. Breakdown of Maturity Dates - Par Value: Outstanding

	December 31 2018				
	Up to three months	Over three months to a year	More than one year and up to 5 years	Over five years	Total
	In NIS millions				
Interest rate contracts:					
NIS-CPI	**2,029**	**4,319**	**9,648**	**2,748**	**18,744**
Other	**101,363**	**59,524**	**158,082**	**72,711**	**391,680**
Foreign exchange rate contracts	**186,191**	**114,076**	**18,988**	**4,837**	**324,092**
Stock contracts	**172,096**	**35,879**	**1,256**	**-**	**209,231**
Commodity and other contracts	**1,254**	**966**	**331**	**-**	**2,551**
Total	**462,933**	**214,764**	**188,305**	**80,296**	**946,298**

	December 31 2017				
	Up to three months	Over three months to a year	More than one year and up to 5 years	Over five years	Total
	In NIS millions				
Interest rate contracts:					
NIS-CPI	1,508	3,938	9,691	1,866	17,003
Other	28,864	38,083	130,633	77,786	275,366
Foreign exchange rate contracts	154,710	91,487	26,939	5,029	278,165
Stock contracts	188,446	30,817	887	-	220,150
Commodity and other contracts	323	511	23	-	857
Total	373,851	164,836	168,173	84,681	791,541

Note 29A - Regulatory Operating Segments and Geographic Areas

A. Overview

Regulatory operating segment – a component of the banking corporation engaged in certain activities or which pools certain customer classes defined by the Banking Supervision Department. A regulatory operating segment is defined mainly based on the classification of the customers.

B. Description of the Main Operating Segments Set Pursuant to the Directives of the Bank of Israel:

1. Households segment – private persons excluding Private Banking customers.
2. Private Banking segment– individuals with a financial portfolio with the Bank whose balance (including monetary deposits, securities portfolios and other financial assets) exceeds NIS 3 million.
3. Micro businesses segment – businesses with a turnover (annual sales turnover or amount of annual revenues) of less than NIS 10 million.
4. Small businesses segment – businesses with a turnover (annual sales turnover or amount of annual revenues) of more than NIS 10 million and less than NIS 50 million.
5. Mid-sized businesses segment – businesses whose turnover is equal to or higher than NIS 50 million and lower than NIS 250 million.
6. Corporate segment – businesses whose turnover is equal to or higher than NIS 250 million.
7. Financial management segment – includes the following activities:
   - **a.** Trading activities - investment in tradable securities, market-making activity involving securities and derivative instruments, activity in derivative instruments not designated as hedges and not used by the Bank in its Asset and Liability Management (ALM) activities, repurchase and lending transactions involving securities, short selling of securities, securities' underwriting services.
   - **b.** Asset and Liability Management (ALM) activities - including investment in available-for-sale bonds and bonds held to maturity not allocated to other operating segments (when the borrower has no indebtedness to the Bank, other than securities), hedging derivatives and derivatives used in asset and liability management, deposits with and by domestic and foreign banks, foreign currency hedges in respect of investments in foreign offices, deposits with and by governments.
   - **c.** Non-financial investment activity – investment in available-for-sale shares and investments in associate companies of businesses.
   - **d.** Other – management, operating, trust and custodial services to banks, advisory services, sale and management of loan portfolios and development of financial products.
8. Other segment – including discontinued operations, profit from amounts funded for employee rights and other results related to employee rights which were not allocated to other operating segments, activities that were not allocated to the other segments and adjustments between the total amount of items allocated to segments and the total amount of items in the consolidated financial statements.

Note 29A - Regulatory Operating Segments and Geographic Areas

Customer classification

According to the Operating Segments Circular, customers should be classified by operating segments according to their turnovers or characteristics (private customers and other individuals). When a banking corporation has no information regarding the total income of a business customer which has no indebtedness towards the banking corporation (including credit lines, etc.), the banking corporation may classify them into the relevant regulatory segment according to their total financial assets multiplied by a factor of 10. In addition, when the Bank believes that the total income does not represent the customer's activity volume, the customer should be classified as follows: A customer whose indebtedness is less than NIS 100 million - according to the business's total balance-sheet assets, as stated in the FAQ file, and a customer whose indebtedness exceeds NIS 100 million - 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 and improve the data.

Note 29A - Regulatory Operating Segments and Geographic Areas (cont.)

C. Information on Regulatory Operating Segments

	For the year ended December 31 2018			
	Activity in Israel			
	House-holds	Private banking	Small- and micro-busi-nesses[(d)]	Medium-sized busi-nesses[(d)]
Interest income from external	3,826	6	2,390	808
Interest expense for external	392	181	134	164
Interest income, net:				
From external	3,434	(175)	2,256	644
Inter-segmental	(690)	292	(96)	141
Total interest income, net	2,744	117	2,160	785
Total noninterest income	1,626	155	832	332
Total income	4,370	272	2,992	1,117
Expenses (income) in respect of loan losses	273	-	279	(150)
Operating and other expenses:				
For external	3,540	113	1,560	538
Inter-segmental	3	-	-	-
Total operating and other expenses	3,543	113	1,560	538
Profit (loss) before taxes	554	159	1,153	729
Provision for income taxes (benefit)	161	59	422	271
Profit (loss) after taxes	393	100	731	458
The Bank's share in associates' profits, after tax	-	-	-	-
Net income (loss) before amount attributable to non-controlling interests	393	100	731	458
Net income (loss) attributable to non-controlling interests	46	-	3	2
Net income (loss) attributable to the Bank's shareholders	347	100	728	456
Average balance of assets[(a)]	101,780	384	59,698	25,563
Of which: Investments in investee companies[(a)]	-	-	-	-
Average outstanding balance of loans to the public[(a)(e)]	102,288	379	60,696	25,879
Outstanding balance of loans to the public as at the end of the reporting period	106,132	396	60,578	27,290
Outstanding balance of non-performing loans	382	-	771	116
Outstanding balance of debts in arrears of over 90 days	934	-	90	-
Average balance of liabilities[(a)]	105,438	24,710	57,132	35,925
Of which: Average balance of deposits by the public[(a)(f)]	105,274	24,709	54,106	34,597
Balance of deposits by the public as at the end of the reporting period	108,874	26,128	54,329	38,867
Average balance of risk-weighted assets[(a)(b)]	76,029	799	53,839	28,563
Balance of risk-weighted assets as at the end of the reporting period[(b)]	76,689	768	54,640	29,218
Average balance of assets under management[(a)(c)]	71,657	45,626	49,201	24,414
Breakdown of interest income, net:				
Spread from granting loans to the public	2,384	3	1,959	621
Margin from deposit taking activities	360	114	201	164
Other	-	-	-	-
Total interest income, net	2,744	117	2,160	785

(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 purposes.
(c) Assets under management - including customers' provident fund assets, provident funds, study funds, mutual funds and securities.
(d) Including housing loans to business customers with an outstanding balance of NIS 11,156 million as at the end of the period.
(e) Including average balance of assets classified as held for sale in the amount of NIS 8,461 million.
(f) Including average balance of liabilities classified as held for sale in the amount of NIS 77 million.

					Foreign Operations				
Corporations[d]	Institutional entities	Financial management segment	Other segment	Total activity in Israel	Private individuals	Business activity	Other	Foreign operations - total	Total
1,829	27	1,080	-	9,966	45	1,154	181	1,380	11,346
313	523	486	-	2,193	32	219	12	263	2,456
1,516	(496)	594	-	7,773	13	935	169	1,117	8,890
(186)	662	(87)	1	37	118	(199)	44	(37)	-
1,330	166	507	1	7,810	131	736	213	1,080	8,890
621	199	728	78	4,571	74	124	102	300	4,871
1,951	365	1,235	79	12,381	205	860	315	1,380	13,761
7	4	20	(6)	427	(1)	93	-	92	519
472	268	286	670	7,447	248	554	88	890	8,337
-	1	(15)	8	(3)	-	-	3	3	-
472	269	271	678	7,444	248	554	91	893	8,337
1,472	92	944	(593)	4,510	(42)	213	224	395	4,905
537	34	264	(221)	1,527	(12)	52	52	92	1,619
935	58	680	(372)	2,983	(30)	161	172	303	3,286
-	-	36	-	36	-	-	-	-	36
935	58	716	(372)	3,019	(30)	161	172	303	3,322
3	(1)	(3)	(4)	46	(3)	9	13	19	65
932	59	719	(368)	2,973	(27)	152	159	284	3,257
59,576	1,296	160,808	9,359	418,464	1,042	23,916	8,276	33,234	451,698
-	-	758	-	758	-	-	-	-	758
60,285	1,272	-	-	250,799	1,053	23,472	5	24,530	275,329
61,899	687	-	-	256,982	1,026	24,725	2	25,753	282,735
917	-	-	-	2,186	33	577	-	610	2,796
3	-	-	-	1,027	-	27	-	27	1,054
51,893	68,205	35,814	11,780	390,897	4,825	20,034	1,646	26,505	417,402
48,540	66,444	-	-	333,670	4,784	19,824	869	25,477	359,147
49,553	61,003	-	-	338,754	4,903	20,120	885	25,908	364,662
81,229	776	18,635	17,690	277,560	721	28,717	3,149	32,587	310,147
78,982	1,122	23,999	18,270	283,688	666	30,031	3,460	34,157	317,845
70,805	693,109	43,394	-	998,206	16,517	1,702	1	18,220	1,016,426
1,209	13	2,697	1	8,887	22	411	765	1,198	10,085
121	152	(2,700)	-	(1,588)	109	325	(693)	(259)	(1,847)
-	1	510	-	511	-	-	141	141	652
1,330	166	507	1	7,810	131	736	213	1,080	8,890

Note 29A - Regulatory Operating Segments and Geographic Areas (cont.)

C. Information on Regulatory Operating Segments (cont.)

	For the year ended December 31 2017[e]			
	Activity in Israel			
	Households	Private banking	Small- and micro-businesses[d]	Medium-sized businesses[d]
Interest income from external	3,416	6	2,308	746
Interest expense for external	368	140	94	102
Interest income, net:				
From external	3,048	(134)	2,214	644
Inter-segmental	(558)	218	(185)	35
Total interest income, net	2,490	84	2,029	679
Total noninterest income	1,553	145	803	327
Total income	4,043	229	2,832	1,006
Expenses (income) in respect of loan losses	178	-	260	(14)
Operating and other expenses:				
For external	3,616	109	1,559	530
Inter-segmental	1	-	-	-
Total operating and other expenses	3,617	109	1,559	530
Profit (loss) before taxes	248	120	1,013	490
Provision for income taxes (benefit)	65	47	392	193
Profit (loss) after taxes	183	73	621	297
The Bank's share in associates' profits, after tax	-	-	-	-
Net income (loss) before amount attributable to non-controlling interests	183	73	621	297
Net income (loss) attributable to non-controlling interests	27	-	2	1
Net income (loss) attributable to the Bank's shareholders	156	73	619	296
Average balance of assets[a]	101,253	369	58,490	24,040
Of which: Investments in investee companies[a]	-	-	-	-
Average outstanding balance of loans to the public[a]	102,202	364	59,080	24,360
Outstanding balance of loans to the public as at the end of the reporting period	103,733	387	60,276	25,042
Outstanding balance of non-performing loans	372	-	734	283
Outstanding balance of debts in arrears of over 90 days	807	-	62	-
Average balance of liabilities[a]	106,003	24,124	51,893	34,757
Of which: Average balance of deposits by the public[a]	105,855	24,113	49,127	33,477
Balance of deposits by the public as at the end of the reporting period	105,202	24,908	47,319	35,077
Average balance of risk-weighted assets[a][b]	75,502	758	52,281	27,625
Balance of risk-weighted assets as at the end of the reporting period[b]	75,493	828	53,525	27,573
Average balance of assets under management[a][c]	73,015	41,777	41,599	24,487
Breakdown of interest income, net:				
Spread from granting loans to the public	2,216	4	1,906	581
Margin from deposit taking activities	274	80	123	98
Other	-	-	-	-
Total interest income, net	2,490	84	2,029	679

(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 purposes.
(c) Assets under management - including customers' provident fund assets, provident funds, study funds, mutual funds and securities.
(d) Including housing loans to business customers with an outstanding balance of NIS 10,646 million as at the end of the period.
(e) Reclassified, including in respect of improvement measure carried out in 2018.

					Foreign Operations				
Corpora-tions[d]	Institu-tional entities	Financial manage-ment segment	Other segment	Total activity in Israel	Private individuals	Business activity	Other	Foreign operations - total	Total
1,726	27	705	-	8,934	37	933	165	1,135	10,069
186	426	565	-	1,881	26	112	4	142	2,023
1,540	(399)	140	-	7,053	11	821	161	993	8,046
(357)	490	381	-	24	99	(178)	55	(24)	-
1,183	91	521	-	7,077	110	643	216	969	8,046
660	179	1,010	374	5,051	91	107	93	291	5,342
1,843	270	1,531	374	12,128	201	750	309	1,260	13,388
(295)	2	(13)	-	118	(4)	60	(2)	54	172
502	257	315	695	7,583	229	511	92	832	8,415
1	2	(21)	14	(3)	-	-	3	3	-
503	259	294	709	7,580	229	511	95	835	8,415
1,635	9	1,250	(335)	4,430	(24)	179	216	371	4,801
633	4	330	(125)	1,539	(8)	45	116	153	1,692
1,002	5	920	(210)	2,891	(16)	134	100	218	3,109
-	-	92	-	92	-	-	-	-	92
1,002	5	1,012	(210)	2,983	(16)	134	100	218	3,201
2	-	(1)	(2)	29	-	-	-	-	29
1,000	5	1,013	(208)	2,954	(16)	134	100	218	3,172
54,164	2,946	153,584	9,336	404,182	1,137	22,294	10,852	34,283	438,465
-	-	890	-	890	-	-	-	-	890
54,804	2,930	-	-	243,740	995	22,274	14	23,283	267,023
56,133	2,087	-	-	247,658	999	22,505	3	23,507	271,165
1,392	-	-	-	2,781	34	640	-	674	3,455
5	-	-	-	874	-	12	-	12	886
50,244	62,820	38,032	11,601	379,474	5,638	19,181	1,713	26,532	406,006
46,940	60,787	-	-	320,299	5,581	19,001	685	25,267	345,566
54,177	70,496	-	-	337,179	4,858	19,663	778	25,299	362,478
75,337	689	19,717	17,341	269,250	577	20,347	1,991	22,915	292,165
75,866	653	22,603	15,673	272,214	756	27,540	2,782	31,078	303,292
75,300	585,099	36,190	-	877,467	17,074	1,851	5	18,930	896,397
1,109	13	2,403	-	8,232	18	347	602	967	9,199
74	76	(1,912)	-	(1,187)	92	295	(529)	(142)	(1,329)
-	2	30	-	32	-	1	143	144	176
1,183	91	521	-	7,077	110	643	216	969	8,046

Note 29A - Regulatory Operating Segments and Geographic Areas (cont.)

C. Information on Regulatory Operating Segments (cont.)

	For the year ended December 31 2016[e]			
	Activity in Israel			
	Households	Private banking	Small- and micro-businesses[d]	Medium-sized businesses[d]
Interest income from external	3,135	6	2,155	705
Interest expense for external	366	110	88	76
Interest income, net:				
From external	2,769	(104)	2,067	629
Inter-segmental	(433)	178	(231)	(38)
Total interest income, net	2,336	74	1,836	591
Total noninterest income	1,504	133	771	325
Total income	3,840	207	2,607	916
Expenses (income) in respect of loan losses	449	(1)	226	(118)
Operating and other expenses:				
For external	3,702	105	1,624	534
Inter-segmental	5	-	-	-
Total operating and other expenses	3,707	105	1,624	534
Profit (loss) before taxes	(316)	103	757	500
Provision for income taxes (benefit)	(154)	39	287	191
Profit (loss) after taxes	(162)	64	470	309
The Bank's share in associates' profits, after tax	-	-	-	-
Net income (loss) before amount attributable to non-controlling interests	(162)	64	470	309
Net income (loss) attributable to non-controlling interests	32	-	4	2
Net income (loss) attributable to the Bank's shareholders	(194)	64	466	307
Average balance of assets[a]	102,121	345	56,553	23,040
Of which: Investments in investee companies[a]	-	-	-	-
Average outstanding balance of loans to the public[a]	102,972	342	57,163	23,297
Outstanding balance of loans to the public as at the end of the reporting period	102,509	324	59,214	23,883
Outstanding balance of non-performing loans	394	-	786	295
Outstanding balance of debts in arrears of over 90 days	841	-	84	-
Average balance of liabilities[a]	106,122	24,846	46,035	32,681
Of which: Average balance of deposits by the public[a]	105,659	24,807	42,961	31,464
Balance of deposits by the public as at the end of the reporting period	105,969	26,398	45,292	33,883
Average balance of risk-weighted assets[a][b]	77,825	743	49,746	26,858
Balance of risk-weighted assets as at the end of the reporting period[b]	74,273	754	51,112	26,844
Average balance of assets under management[a][c]	71,999	39,962	35,881	21,794
Breakdown of interest income, net:				
Spread from granting loans to the public	2,090	3	1,762	542
Margin from deposit taking activities	246	71	74	49
Other	-	-	-	-
Total interest income, net	2,336	74	1,836	591

(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 purposes.
(c) Assets under management - including customers' provident fund assets, provident funds, study funds, mutual funds and securities.
(d) Including housing loans to business customers with an outstanding balance of NIS 9,170 million as at the end of the period.
(e) Reclassified, including in respect of improvement measure carried out in 2018.

					Foreign Operations				
Corpo-rations[(d)]	Institutional entities	Financial manage-ment segment	Other segment	Total activity in Israel	Private individuals	Business activity	Other	Foreign operations - total	Total
1,738	16	717	-	8,472	60	882	138	1,080	9,552
171	414	659	-	1,884	35	97	10	142	2,026
1,567	(398)	58	-	6,588	25	785	128	938	7,526
(409)	461	504	-	32	117	(84)	(65)	(32)	-
1,158	63	562	-	6,620	142	701	63	906	7,526
656	159	1,376	150	5,074	97	100	57	254	5,328
1,814	222	1,938	150	11,694	239	801	120	1,160	12,854
(643)	(33)	(40)	-	(160)	-	38	(3)	35	(125)
605	243	374	369	7,556	272	510	162	944	8,500
1	1	(22)	14	(1)	-	-	1	1	-
606	244	352	383	7,555	272	510	163	945	8,500
1,851	11	1,626	(233)	4,299	(33)	253	(40)	180	4,479
705	5	673	(97)	1,649	(19)	91	(4)	68	1,717
1,146	6	953	(136)	2,650	(14)	162	(36)	112	2,762
-	-	66	-	66	-	-	-	-	66
1,146	6	1,019	(136)	2,716	(14)	162	(36)	112	2,828
3	-	(1)	(3)	37	-	-	-	-	37
1,143	6	1,020	(133)	2,679	(14)	162	(36)	112	2,791
58,097	3,073	144,210	9,674	397,113	2,031	21,273	12,388	35,692	432,805
-	-	909	-	909	-	-	-	-	909
58,860	3,122	-	-	245,756	2,031	21,386	8	23,425	269,181
54,053	1,499	-	-	241,482	890	23,019	37	23,946	265,428
1,838	-	-	358	3,671	50	558	-	608	4,279
3	-	-	11	939	1	63	-	64	1,003
51,518	59,315	42,982	11,605	375,104	8,699	17,437	1,580	27,716	402,820
48,804	57,238	-	-	310,933	8,633	17,196	446	26,275	337,208
52,684	55,907	-	-	320,133	6,070	19,779	872	26,721	346,854
76,966	587	19,747	14,547	267,019	955	27,484	2,841	31,280	298,299
72,428	1,012	19,333	14,931	260,687	873	27,757	2,848	31,478	292,165
78,845	494,738	37,632	-	780,851	14,475	2,547	2,852	19,874	800,725
1,113	13	2,230	-	7,753	19	375	550	944	8,697
45	47	(1,630)	-	(1,098)	123	326	(575)	(126)	(1,224)
-	3	(38)	-	(35)	-	-	88	88	53
1,158	63	562	-	6,620	142	701	63	906	7,526

Note 29A - Regulatory Operating Segments and Geographic Areas (cont.)

C. Information on Regulatory Operating Segments (cont.)

Private individuals – households and private banking

	For the year ended December 31 2018								
	Households segment				Private banking segment				Private individuals - total
	Housing loans	Credit Cards	Other	Total	Housing loans	Credit Cards	Other	Total	
Interest income from external	**2,067**	**362**	**1,397**	**3,826**	**2**	**-**	**4**	**6**	**3,832**
Interest expense for external	**-**	**-**	**392**	**392**	**-**	**-**	**181**	**181**	**573**
Interest income, net:									
From external	**2,067**	**362**	**1,005**	**3,434**	**2**	**-**	**(177)**	**(175)**	**3,259**
Inter-segmental	**(1,282)**	**(2)**	**594**	**(690)**	**(1)**	**-**	**293**	**292**	**(398)**
Total interest income, net	**785**	**360**	**1,599**	**2,744**	**1**	**-**	**116**	**117**	**2,861**
Total noninterest income	**46**	**856**	**724**	**1,626**	**-**	**3**	**152**	**155**	**1,781**
Total income	**831**	**1,216**	**2,323**	**4,370**	**1**	**3**	**268**	**272**	**4,642**
Loan loss expenses	**32**	**106**	**135**	**273**	**-**	**-**	**-**	**-**	**273**
Operating and other expenses:									
For external	**255**	**755**	**2,530**	**3,540**	**-**	**3**	**110**	**113**	**3,653**
Inter-segmental	**1**	**2**	**-**	**3**	**-**	**-**	**-**	**-**	**3**
Total operating and other expenses	**256**	**757**	**2,530**	**3,543**	**-**	**3**	**110**	**113**	**3,656**
Profit (loss) before taxes	**543**	**353**	**(342)**	**554**	**1**	**-**	**158**	**159**	**713**
Provision for income taxes (benefit)	**196**	**90**	**(125)**	**161**	**-**	**-**	**59**	**59**	**220**
Profit (loss) after taxes	**347**	**263**	**(217)**	**393**	**1**	**-**	**99**	**100**	**493**
The Bank's share in associates' profits, after tax	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net income (loss) before amount attributable to non-controlling interests	**347**	**263**	**(217)**	**393**	**1**	**-**	**99**	**100**	**493**
Net income attributable to non-controlling interests	**-**	**46**	**-**	**46**	**-**	**-**	**-**	**-**	**46**
Net income (loss) attributable to the Bank's shareholders	**347**	**217**	**(217)**	**347**	**1**	**-**	**99**	**100**	**447**
Average balance of assets(a)	**66,040**	**12,161**	**23,579**	**101,780**	**96**	**90**	**198**	**384**	**102,164**
Of which: Investments in investees(a)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Average outstanding balance of loans to the public(a)	**66,656**	**12,170**	**23,462**	**102,288**	**96**	**90**	**193**	**379**	**102,667**
Outstanding balance of loans to the public as at the end of the reporting period	**70,080**	**12,051**	**24,001**	**106,132**	**94**	**96**	**206**	**396**	**106,528**
Outstanding balance of non-performing loans	**-**	**44**	**338**	**382**	**-**	**-**	**-**	**-**	**382**
Outstanding balance of debts in arrears of over 90 days	**862**	**-**	**72**	**934**	**-**	**-**	**-**	**-**	**934**
Average balance of liabilities(a)	**20**	**220**	**105,198**	**105,438**	**-**	**-**	**24,710**	**24,710**	**130,148**
Of which: Average balance of deposits by the public(a)	**-**	**77**	**105,197**	**105,274**	**-**	**-**	**24,709**	**24,709**	**129,983**
Balance of deposits by the public as at the end of the reporting period	**-**	**71**	**108,803**	**108,874**	**-**	**-**	**26,128**	**26,128**	**135,002**
Average balance of risk-weighted assets(a)(b)	**44,236**	**11,220**	**20,573**	**76,029**	**171**	**253**	**375**	**799**	**76,828**
Balance of risk-weighted assets as at the end of the reporting period(b)	**44,899**	**11,225**	**20,565**	**76,689**	**182**	**230**	**356**	**768**	**77,457**
Average balance of assets under management(a)(c)	**-**	**-**	**71,657**	**71,657**	**-**	**-**	**45,626**	**45,626**	**117,283**
Breakdown of interest income, net:									
Spread from granting loans to the public	**785**	**360**	**1,239**	**2,384**	**1**	**-**	**2**	**3**	**2,387**
Margin from deposit taking activities	**-**	**-**	**360**	**360**	**-**	**-**	**114**	**114**	**474**
Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total interest income, net	**785**	**360**	**1,599**	**2,744**	**1**	**-**	**116**	**117**	**2,861**

(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 purposes.
(c) Assets under management - including customers' provident fund assets, provident funds, study funds, mutual funds and securities.

Note 29A - Regulatory Operating Segments and Geographic Areas (cont.)

C. Information on Regulatory Operating Segments (cont.)

Individuals – households and private banking (cont.)

	For the year ended December 31 2017[d]								
	Households segment				Private banking segment				Private indivi-duals - total
	Housing loans	Credit Cards	Other	Total	Housing loans	Credit Cards	Other	Total	
Interest income from external	1,741	279	1,396	3,416	2	-	4	6	3,422
Interest expense for external	-	-	368	368	-	-	140	140	508
Interest income, net:									
From external	1,741	279	1,028	3,048	2	-	(136)	(134)	2,914
Inter-segmental	(1,036)	(4)	482	(558)	(1)	-	219	218	(340)
Total interest income, net	705	275	1,510	2,490	1	-	83	84	2,574
Total noninterest income	46	801	706	1,553	-	3	142	145	1,698
Total income	751	1,076	2,216	4,043	1	3	225	229	4,272
Expenses (income) in respect of loan	(10)	63	125	178	-	-	-	-	178
Operating and other expenses:									
For external	262	751	2,603	3,616	-	3	106	109	3,725
Inter-segmental	1	-	-	1	-	-	-	-	1
Total operating and other expenses	263	751	2,603	3,617	-	3	106	109	3,726
Profit (loss) before taxes	498	262	(512)	248	1	-	119	120	368
Provision for income taxes (benefit)	191	75	(201)	65	-	-	47	47	112
Profit (loss) after taxes	307	187	(311)	183	1	-	72	73	256
The Bank's share in associates' profits, after tax	-	-	-	-	-	-	-	-	-
Net income (loss) before amount attributable to non-controlling interests	307	187	(311)	183	1	-	72	73	256
Net income attributable to non-controlling interests	-	27	-	27	-	-	-	-	27
Net income (loss) attributable to the Bank's shareholders	307	160	(311)	156	1	-	72	73	229
Average balance of assets[a]	65,517	11,713	24,023	101,253	101	85	183	369	101,622
Of which: Investments in investees[a]	-	-	-	-	-	-	-	-	-
Average outstanding balance of loans to the public[a]	66,506	11,738	23,958	102,202	101	85	178	364	102,566
Outstanding balance of loans to the public as at the end of the reporting	67,773	12,193	23,767	103,733	95	90	202	387	104,120
Outstanding balance of non-performing	-	28	344	372	-	-	-	-	372
Outstanding balance of debts in arrears	722	-	85	807	-	-	-	-	807
Average balance of liabilities[a]	21	197	105,785	106,003	-	-	24,124	24,124	130,127
Of which: Average balance of deposits by the public[a]	-	75	105,780	105,855	-	-	24,113	24,113	129,968
Balance of deposits by the public as at the end of the reporting period	-	65	105,137	105,202	-	-	24,908	24,908	130,110
Average balance of risk-weighted	43,296	10,851	21,355	75,502	175	226	357	758	76,260
Balance of risk-weighted assets as at the	44,237	11,061	20,195	75,493	157	325	346	828	76,321
Average balance of assets under	-	-	73,015	73,015	-	-	41,777	41,777	114,792
Breakdown of interest income, net:									
Spread from granting loans to the public	705	275	1,236	2,216	1	-	3	4	2,220
Margin from deposit taking activities	-	-	274	274	-	-	80	80	354
Other	-	-	-	-	-	-	-	-	-
Total interest income, net	705	275	1,510	2,490	1	-	83	84	2,574

(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 purposes.
(c) Assets under management - including customers' provident fund assets, provident funds, study funds, mutual funds and securities.
(d) Reclassified, including in respect of improvement measure carried out in 2018.

Note 29A - Regulatory Operating Segments and Geographic Areas (cont.)

C. Information on Regulatory Operating Segments (cont.)

Individuals – households and private banking (cont.)

	For the year ended December 31 2016[d]								
	Households segment				Private banking segment				Private individuals - total
	Housing loans	Credit Cards	Other	Total	Housing loans	Credit Cards	Other	Total	
Interest income from external	1,549	242	1,344	3,135	2	-	4	6	3,141
Interest expense for external	-	-	366	366	-	-	110	110	476
Interest income, net:									
From external	1,549	242	978	2,769	2	-	(106)	(104)	2,665
Inter-segmental	(891)	(4)	462	(433)	(1)	-	179	178	(255)
Total interest income, net	658	238	1,440	2,336	1	-	73	74	2,410
Total noninterest income	45	757	702	1,504	-	2	131	133	1,637
Total income	703	995	2,142	3,840	1	2	204	207	4,047
Expenses (income) in respect of loan losses	(10)	46	413	449	-	-	(1)	(1)	448
Operating and other expenses:									
For external	253	685	2,764	3,702	-	2	103	105	3,807
Inter-segmental	1	4	-	5	-	-	-	-	5
Total operating and other expenses	254	689	2,764	3,707	-	2	103	105	3,812
Profit (loss) before taxes	459	260	(1,035)	(316)	1	-	102	103	(213)
Provision for income taxes (benefit)	173	71	(398)	(154)	-	-	39	39	(115)
Profit (loss) after taxes	286	189	(637)	(162)	1	-	63	64	(98)
The Bank's share in associates' profits, after tax	-	-	-	-	-	-	-	-	-
Net income (loss) before amount attributable to non-controlling interests	286	189	(637)	(162)	1	-	63	64	(98)
Net income attributable to non-controlling interests	-	32	-	32	-	-	-	-	32
Net income (loss) attributable to the Bank's shareholders	286	157	(637)	(194)	1	-	63	64	(130)
Average balance of assets[a]	67,854	10,341	23,926	102,121	96	79	170	345	102,466
Of which: Investments in investees[a]	-	-	-	-	-	-	-	-	-
Average outstanding balance of loans to the public[a]	68,891	10,364	23,717	102,972	96	80	166	342	103,314
Balance of loans to the public as at the end of the reporting period	68,006	10,727	23,776	102,509	88	79	157	324	102,833
Outstanding balance of non-performing loans	-	17	377	394	-	-	-	-	394
Outstanding balance of debts in arrears of over 90 days	719	-	122	841	-	-	-	-	841
Average balance of liabilities[a]	4	148	105,970	106,122	-	-	24,846	24,846	130,968
Of which: Average balance of deposits by the public[a]	-	79	105,580	105,659	-	-	24,807	24,807	130,466
Balance of deposits by the public as at the end of the reporting period	-	68	105,901	105,969	-	-	26,398	26,398	132,367
Average balance of risk-weighted assets[a][b]	47,440	9,971	20,414	77,825	90	243	410	743	78,568
Balance of risk-weighted assets as at the end of the reporting period[b]	43,595	10,116	20,562	74,273	159	226	369	754	75,027
Average balance of assets under management[a][c]	-	-	71,999	71,999	-	-	39,962	39,962	111,961
Breakdown of interest income, net:									
Spread from granting loans to the public	658	238	1,194	2,090	1	-	2	3	2,093
Margin from deposit taking activities	-	-	246	246	-	-	71	71	317
Other	-	-	-	-	-	-	-	-	-
Total interest income, net	658	238	1,440	2,336	1	-	73	74	2,410

(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 purposes.
(c) Assets under management - including customers' provident fund assets, provident funds, study funds, mutual funds and securities.
(d) Reclassified, including in respect of improvement measure carried out in 2018.

Note 29A - Regulatory Operating Segments and Geographic Areas (cont.)

C. Information on Regulatory Operating Segments (cont.)

Small, micro, mid-sized and large businesses

	For the year ended December 31 2018									
	Small- and micro-business segment			Mid-sized business segment			Large-sized business segment			
	Construction & real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Total
Interest income from external	721	1,669	2,390	284	524	808	749	1,080	1,829	5,027
Interest expense for external	20	114	134	8	156	164	15	298	313	611
Interest income, net:										
From external	701	1,555	2,256	276	368	644	734	782	1,516	4,416
Inter-segmental	(85)	(11)	(96)	(51)	192	141	(153)	(33)	(186)	(141)
Total interest income, net	616	1,544	2,160	225	560	785	581	749	1,330	4,275
Total noninterest income	136	696	832	55	277	332	304	317	621	1,785
Of which: Income from credit cards	10	132	142	1	42	43	-	71	71	256
Total income	752	2,240	2,992	280	837	1,117	885	1,066	1,951	6,060
Expenses (income) for loan losses	(6)	285	279	(100)	(50)	(150)	(17)	24	7	136
Operating and other expenses:										
For external	265	1,295	1,560	86	452	538	107	365	472	2,570
Inter-segmental	-	-	-	-	-	-	-	-	-	-
Total operating and other expenses	265	1,295	1,560	86	452	538	107	365	472	2,570
Profit before taxes	493	660	1,153	294	435	729	795	677	1,472	3,354
Provision for income tax	180	242	422	108	163	271	285	252	537	1,230
Profit after taxes	313	418	731	186	272	458	510	425	935	2,124
The Bank's share in associates' profits, after tax	-	-	-	-	-	-	-	-	-	-
Net income before attribution to non-controlling interests	313	418	731	186	272	458	510	425	935	2,124
Net income attributable to non-controlling interests	-	3	3	-	2	2	-	3	3	8
Net income attributable to the Bank's shareholders	313	415	728	186	270	456	510	422	932	2,116
Average balance of assets[(a)]	18,574	41,124	59,698	8,342	17,221	25,563	20,998	38,578	59,576	144,837
Of which: Investments in investees[(a)]	-	-	-	-	-	-	-	-	-	-
Average outstanding balance of loans to the public[(a)]	17,743	42,953	60,696	8,414	17,465	25,879	21,100	39,185	60,285	146,860
Outstanding balance of loans to the public at the end of reporting period	18,419	42,159	60,578	8,910	18,380	27,290	22,878	39,021	61,899	149,767
Outstanding balance of non-performing loans	245	526	771	6	110	116	302	615	917	1,804
Outstanding balance of debts in arrears of over 90 days	26	64	90	-	-	-	1	2	3	93
Average balance of liabilities[(a)]	10,415	46,717	57,132	4,907	31,018	35,929	8,409	43,484	51,893	144,950
Of which: Average balance of deposits by the public[(a)]	10,144	43,962	54,106	4,844	29,753	34,597	8,369	40,171	48,540	137,243
Balance of deposits by the public as at the end of the reporting period	10,575	43,754	54,329	5,172	33,695	38,867	9,147	40,406	49,553	142,749
Average balance of risk assets[(a)(b)]	19,481	34,358	53,839	9,990	18,573	28,563	42,872	38,357	78,982	163,631
Balance of risk-weighted assets as at the end of the reporting period[(b)]	18,981	35,659	54,640	10,270	18,948	29,218	39,777	39,205	78,982	162,840
Average balance of assets under management[(a)(c)]	8,192	41,009	49,201	3,215	21,199	24,414	11,340	59,465	70,805	144,420
Breakdown of interest income, net:										
Spread from loans to the public	584	1,375	1,959	214	407	621	562	647	1,209	3,789
Margin from deposit taking activities	32	169	201	11	153	164	19	102	121	486
Other	-	-	-	-	-	-	-	-	-	-
Total interest income, net	616	1,544	2,160	225	560	785	581	749	1,330	4,275

(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 purposes.
(c) Assets under management - including customers' provident fund assets, provident funds, study funds, mutual funds and securities.

Note 29A - Regulatory Operating Segments and Geographic Areas (cont.)

C. Information on Regulatory Operating Segments (cont.)

Small, micro, mid-sized and large businesses (cont.)

	For the year ended December 31 2017(d)									
	Small- and micro-business segment			Mid-sized business segment			Large-sized business segment			
	Const-ruction and real estate	Other	Total	Const-ruction and real estate	Other	Total	Const-ruction and real estate	Other	Total	Total
Interest income from external	663	1,645	2,308	247	499	746	610	1,116	1,726	4,780
Interest expense for external	16	78	94	5	97	102	13	173	186	382
Interest income, net:										
From external	647	1,567	2,214	242	402	644	597	943	1,540	4,398
Inter-segmental	(88)	(97)	(185)	(47)	82	35	(128)	(229)	(357)	(507)
Total interest income, net	559	1,470	2,029	195	484	679	469	714	1,183	3,891
Total noninterest income	118	685	803	56	271	327	294	366	660	1,790
Of which: Income from credit cards	8	133	141	1	40	41	-	83	83	265
Total income	677	2,155	2,832	251	755	1,006	763	1,080	1,843	5,681
Expenses (income) for loan losses	9	251	260	(33)	19	(14)	(198)	(97)	(295)	(49)
Operating and other expenses:										
For external	236	1,323	1,559	69	461	530	103	399	502	2,591
Inter-segmental	-	-	-	-	-	-	-	1	1	1
Total operating and other expenses	236	1,323	1,559	69	461	530	103	400	503	2,592
Profit before taxes	432	581	1,013	215	275	490	858	777	1,635	3,138
Provision for income tax	167	225	392	84	109	193	332	301	633	1,218
Profit after taxes	265	356	621	131	166	297	526	476	1,002	1,920
The Bank's share in associates' profits, after tax	-	-	-	-	-	-	-	-	-	-
Net income before attribution to non-controlling interests	265	356	621	131	166	297	526	476	1,002	1,920
Net income attributable to non-controlling interests	-	2	2	-	1	1	-	2	2	5
Net income attributable to the Bank's shareholders	265	354	619	131	165	296	526	474	1,000	1,915
Average balance of assets(a)	16,913	41,577	58,490	7,533	16,507	24,040	17,896	36,268	54,164	136,694
Of which: Investments in investees(a)	-	-	-	-	-	-	-	-	-	-
Average outstanding balance of loans to the public(a)	17,011	42,069	59,080	7,605	16,755	24,360	18,044	36,760	54,804	138,244
Outstanding balance of loans to public at the end of reporting period	17,893	42,383	60,276	8,131	16,911	25,042	19,791	36,342	56,133	141,451
Outstanding balance of non-performing loans	267	467	734	69	214	283	538	854	1,392	2,409
Outstanding balance of debts in arrears of over 90 days	23	39	62	-	-	-	-	5	5	67
Average balance of liabilities(a)	8,975	42,918	51,893	4,620	30,137	34,757	8,299	41,945	50,244	136,894
Of which: Average balance of deposits by the public(a)	8,731	40,396	49,127	4,546	28,931	33,477	7,978	38,962	46,940	129,544
Balance of deposits by the public as at the end of the reporting period	8,455	38,864	47,319	4,724	30,353	35,077	9,441	44,736	54,177	136,573
Average balance of risk-weighted assets(a)(b)	17,832	34,449	52,281	9,590	18,035	27,625	40,234	35,103	75,337	155,243
Balance of risk-weighted assets as at the end of the reporting period(b)	18,676	34,849	53,525	9,827	17,746	27,573	41,516	34,350	75,866	156,964
Average balance of assets under management(a)(c)	4,523	37,076	41,599	2,916	21,571	24,487	13,517	61,783	75,300	141,386
Breakdown of interest income, net:										
Spread om granting loans to the public	542	1,364	1,906	187	394	581	460	649	1,109	3,596
Margin from deposit taking activities	17	106	123	8	90	98	9	65	74	295
Other	-	-	-	-	-	-	-	-	-	-
Total interest income, net	559	1,470	2,029	195	484	679	469	714	1,183	3,891

(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 purposes.

(c) Assets under management - including customers' provident fund assets, provident funds, study funds, mutual funds and securities.

(d) Reclassified, including in respect of improvement measure carried out in 2018.

Note 29A - Regulatory Operating Segments and Geographic Areas (cont.)

C. Information on Regulatory Operating Segments (cont.)

Small, micro, mid-sized and large businesses (cont.)

	For the year ended December 31 2016[d]									
	Small- and micro-business segment			Mid-sized business segment			Large-sized business segment			
	Const. & real estate	Other	Total	Const. & real estate	Other	Total	Const. & real estate	Other	Total	Total
Interest income from external	632	1,523	2,155	219	486	705	616	1,122	1,738	4,598
Interest expense for external	12	76	88	5	71	76	9	162	171	335
Interest income, net:										
From external	620	1,447	2,067	214	415	629	607	960	1,567	4,263
Inter-segmental	(101)	(130)	(231)	(42)	4	(38)	(137)	(272)	(409)	(678)
Total interest income, net	519	1,317	1,836	172	419	591	470	688	1,158	3,585
Total noninterest income	119	652	771	56	269	325	298	358	656	1,752
Of which: Income from credit cards	7	129	136	1	38	39	-	84	84	259
Total income	638	1,969	2,607	228	688	916	768	1,046	1,814	5,337
Expenses (income) for loan losses	(17)	243	226	(45)	(73)	(118)	(258)	(385)	(643)	(535)
Operating and other expenses:										
For external	244	1,380	1,624	72	462	534	132	473	605	2,763
Inter-segmental	-	-	-	-	-	-	-	1	1	1
Total operating and other expenses	244	1,380	1,624	72	462	534	132	474	606	2,764
Profit before taxes	411	346	757	201	299	500	894	957	1,851	3,108
Provision for income tax	158	129	287	77	114	191	341	364	705	1,183
Profit after taxes	253	217	470	124	185	309	553	593	1,146	1,925
The Bank's share in associates' profits, after tax	-	-	-	-	-	-	-	-	-	-
Net income before attribution to non-controlling interests	253	217	470	124	185	309	553	593	1,146	1,925
Net income attributable to non-controlling interests	-	4	4	-	2	2	-	3	3	9
Net income attributable to the Bank's shareholders	253	213	466	124	183	307	553	590	1,143	1,916
Average balance of assets[a]	16,110	40,443	56,553	6,784	16,256	23,040	19,068	39,029	58,097	137,690
Of which: Investments in investees[a]	-	-	-	-	-	-	-	-	-	-
Average outstanding balance of loans to the public[a]	16,278	40,885	57,163	6,849	16,448	23,297	19,179	39,681	58,860	139,320
Outstanding balance of loans to public at the end of reporting period	17,001	42,213	59,214	7,060	16,823	23,883	17,291	36,762	54,053	137,150
Outstanding balance of non-performing loans	318	468	786	75	220	295	667	1,171	1,838	2,919
Outstanding balance of debts in arrears of over 90 days	30	54	84	-	-	-	1	2	3	87
Average balance of liabilities[a]	8,064	37,971	46,035	4,296	28,385	32,681	7,343	44,175	51,518	130,234
Of which: Average balance of deposits by the public[a]	7,858	35,103	42,961	4,225	27,239	31,464	7,045	41,759	48,804	123,229
Balance of deposits by the public as at the end of the reporting period	8,150	37,142	45,292	4,755	29,128	33,883	8,458	44,226	52,684	131,859
Average balance of risk assets[a][b]	16,776	32,970	49,746	8,646	18,212	26,858	40,614	36,352	76,966	153,570
Balance of risk-weighted assets as at the end of the reporting period[b]	17,466	33,646	51,112	8,651	18,193	26,844	38,945	33,483	72,428	150,384
Average balance of assets under management[a][c]	3,187	32,694	35,881	2,588	19,206	21,794	14,216	64,629	78,845	136,520
Breakdown of interest income, net:										
Spread from loans to the public	507	1,255	1,762	167	375	542	464	649	1,113	3,417
Margin from deposit taking activities	12	62	74	5	44	49	6	39	45	168
Other	-	-	-	-	-	-	-	-	-	-
Total interest income, net	519	1,317	1,836	172	419	591	470	688	1,158	3,585

(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 purposes.
(c) Assets under management - including customers' provident fund assets, provident funds, study funds, mutual funds and securities.
(d) Reclassified, including in respect of improvement measure carried out in 2018.

Note 29A - Regulatory Operating Segments and Geographic Areas (cont.)

C. Information on Regulatory Operating Segments (cont.)

Financial management segment

	For the Year Ended December 31 2018				
	Trading activity	Assets and liabilities manage-ment activity	Non-financial investment activity	Other	Total
Interest income from external	39	1,035	1	5	1,080
Interest expense for external	2	475	-	9	486
Interest income, net:					
From external	37	560	1	(4)	594
Inter-segmental	(24)	(92)	(3)	32	(87)
Total interest income, net	13	468	(2)	28	507
Total noninterest income	(53)	328	377	76	728
Total income	(40)	796	375	104	1,235
Loan loss expenses	-	20	-	-	20
Operating and other expenses:	-	-	-	-	-
For external	172	3	33	78	286
Inter-segmental	-	(18)	1	2	(15)
Total operating and other expenses (income)	172	(15)	34	80	271
Profit (loss) before taxes	(212)	791	341	24	944
Provision for income taxes (benefit)	(79)	287	61	(5)	264
Profit after taxes	(133)	504	280	29	680
The Bank's share in associates' profits, after tax	-	-	36	-	36
Net income (loss) before amount attributable to non-controlling interests	(133)	504	316	29	716
Net income (loss) attributable to non-controlling interests	-	-	-	(3)	(3)
Net income (loss) attributable to the Bank's shareholders	(133)	504	316	32	719
Average balance of assets[(a)]	5,857	145,102	1,937	7,912	160,808
Of which: Investments in investees[(a)]	-	-	758	-	758
Average balance of liabilities[(a)]	1,032	33,435	42	1,305	35,814
Of which: Average balance of deposits by the public[(a)]	-	-	-	-	-
Balance of deposits by the public as at the end of the reporting period	-	-	-	-	-
Average balance of risk-weighted assets[(a)(b)]	407	17,302	873	53	18,635
Balance of risk-weighted assets as at the end of the reporting period[(b)]	516	22,813	670	-	23,999
Average balance of managed assets[(c)]	-	-	-	43,394	43,394
Component of interest income and noninterest income, net:					
Exchange differences, net[(d)]	-	(199)	-	-	-
Exchange differences, CPI[(d)]	-	154	-	-	-
Net interest exposures[(d)]	18	1,049	-	-	-
Net exposures to shares[(d)]	-	-	-	-	-
Interest spreads attributed to financial management	-	(375)	-	-	-
Total net interest income and noninterest income on accrual basis	18	629	-	-	-
Gains or losses from sale or other-than temporary impairment of bonds	-	(17)	-	-	-
Change in the difference between fair value and accrual basis of derivative instruments recognized in income or loss	-	(58)	-	-	-
Other noninterest income	(58)	242	-	-	-
Total net interest income and noninterest income	(40)	796	-	-	-

(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 purposes.
(c) Assets under management - including customers' provident fund assets, provident funds, study funds, mutual funds and securities.
(d) Including in respect of securities and derivative instruments

Note 29A - Regulatory Operating Segments and Geographic Areas (cont.)

C. Information on Regulatory Operating Segments (cont.)

Financial management segment (cont.)

	For the year ended December 31 2017				
	Trading activity	Assets and liabilities manage-ment activity	Non-financial investment activity	Other	Total
Interest income from external	48	650	-	7	705
Interest expense for external	2	561	-	2	565
Interest income, net:					
From external	46	89	-	5	140
Inter-segmental	(28)	403	(7)	13	381
Total interest income, net	18	492	(7)	18	521
Total noninterest income	241	597	50	122	1,010
Total income	259	1,089	43	140	1,531
Loan loss expenses	-	(13)	-	-	(13)
Operating and other expenses:	-	-	-	-	-
For external	188	6	30	91	315
Inter-segmental	-	(24)	2	1	(21)
Total operating and other expenses	188	(18)	32	92	294
Profit (loss) before taxes	71	1,120	11	48	1,250
Provision for income tax	20	430	(128)	8	330
Profit (loss) after taxes	51	690	139	40	920
The Bank's share in associates' profits, after tax	-	-	92	-	92
Net income before attribution to non-controlling interests	51	690	231	40	1,012
Net income (loss) attributable to non-controlling interests	-	-	-	(1)	(1)
Net income attributable to the Bank's shareholders	51	690	231	41	1,013
Average balance of assets[(a)]	7,978	138,934	1,820	4,852	153,584
Of which: Investments in investees[(a)]	-	-	890	-	890
Average balance of liabilities[(a)]	1,125	35,763	55	1,089	38,032
Of which: Average balance of deposits by the public[(a)]	-	-	-	-	-
Balance of deposits by the public as at the end of the reporting period	-	-	-	-	-
Average balance of risk-weighted assets[(a)(b)]	584	18,037	980	116	19,717
Balance of risk-weighted assets as at the end of the reporting period[(b)]	350	20,846	1,195	212	22,603
Average balance of assets under management[(b)]	-	-	-	36,190	36,190
Component of interest income and noninterest income, net:					
Exchange differences, net[(c)]	-	56	-	-	56
Exchange differences, CPI[(c)]	-	51	-	-	51
Net interest exposures[(c)]	21	449	-	-	470
Net exposures to shares[(c)]	-	-	-	-	-
Interest spreads attributed to financial management	-	343	-	-	343
Total net interest income and noninterest income on accrual basis	21	899	-	-	920
Gains or losses from sale or other-than temporary impairment of bonds	-	108	-	-	108
Change in the difference between fair value and accrual basis of derivative instruments recognized in income or loss	-	1	-	-	1
Other noninterest income	238	81	-	-	319
Total net interest income and noninterest income	259	1,089	-	-	1,348

(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 purposes.
(c) Assets under management - including customers' provident fund assets, provident funds, study funds, mutual funds and securities.
(d) Reclassified.

Note 29A - Regulatory Operating Segments and Geographic Areas (cont.)

D. Information on Activity by Geographical Area[(a)]

	December 31 2018								
	Israel	USA	UK	Switzer-land	Luxembourg	Romania	Other	Total foreign activity	Consoli-dated - total
	In NIS millions								
Total income[(b)]	**12,282**	**1,075**	**331**	**-**	**-**	**74**	**(1)**	**1,479**	**13,761**
Net income (loss) attributable to the Bank's shareholders	**2,874**	**226**	**131**	**-**	**(5)**	**31**	**-**	**383**	**3,257**
Total assets	**425,877**	**26,410**	**7,263**	**23**	**11**	**1,071**	**2**	**34,780**	**460,657**

	December 31 2017								
	Israel	USA	UK	Switzer-land	Luxembourg	Romania	Other	Total foreign activity	Consoli-dated - total
	In NIS millions								
Total income (expenses)[(b)]	12,131[(c)]	961	235	5	-	54	2	1,257	13,388
Net income attributable to the Bank's shareholders	2,949	147	44	13	-	17	2	223	3,172
Total assets	418,070	24,378	7,292	44	12	1,038	4	32,768	450,838

	December 31 2016								
	Israel	USA	UK	Switzer-land	Luxembourg	Romania	Other	Total foreign activity	Consolidated - total
	In NIS millions								
Total income[(b)]	11,909[(c)]	858	18	(4)	35	39	(1)	945	12,854
Net income (loss) attributable to the Bank's shareholders	2,857	107	(147)	(58)	24	(9)	17	(66)	2,791

(a) The classification is based on the office's location.
(b) Net interest income and noninterest income.
(c) Reclassified.

Note 29B – Operating Segments according to Management's Approach

A. Overview

According to the management approach, an operating segment is a component of the banking corporation engaged in activities from which it may generate income and bear expenses. The operating results of the operating segment are reviewed on an ongoing basis by the Bank's management and Board of Directors in order to make decisions regarding the allocation of resources and the assessment of its performances. Furthermore, separate financial data is available in respect of operating segments.
Operating segments reporting according to management's approach presents the Bank's results by business line, in accordance with the Bank's organizational structure and decision of the Bank's management and Board of Directors.

The Bank's business lines specialize in providing services to customer segments with similar characteristics and needs.

The Bank's activities in Israel are organized into six business lines:

1. Banking – provision of banking services to private customers and small businesses. This business line includes the mortgage activities and the Private Banking activities. This line of business comprises four business lines: Small Businesses, Private Banking, Premium Banking and Retail Banking. The services and products are adapted to all the customer segments according to the nature of their banking activity, their characteristics and their needs.

2. Commercial - providing banking and financial services to middle-market companies and interested parties in these companies.

3. Corporate banking - providing banking and financial services to large Israeli corporations and international corporations, supporting their domestic and foreign activities.

4. Real estate – providing banking and financial services to the construction and real estate sector.

5. Capital markets – management of the Bank's nostro portfolio, management of assets and liabilities and management of investments in financial assets.

6. Other – activities not attributed to the other business lines.

Results of operations are attributed to the line of business in charge of the customer's account.

1. Net interest income – interest on loans extended by the business line is credited to the business line, net of the cost of raising the loans (transfer price). Furthermore, the business line is credited with a transfer price in respect of deposits raised net of interest paid to customers.

2. Noninterest income (financing income other than interest, commissions and fees and other income) – is allocated to the business lines according to the customer's activity.

3. Business lines' expenses include their direct expenses. Expenses of corporate units providing services to business lines are allocated to the business lines.

The results of operations of the business lines, both in terms of balance sheet items and in terms of income and loss items, are assessed on an ongoing basis by the Bank's management and Board of Directors. The results are compared to objectives set in an annual work plan and to the corresponding period in the previous year. Furthermore, the Bank measures a range of other metrics relating to the business lines' activities.

Note 29B – Operating Segments according to Management's Approach (cont.)

B. Information Regarding Operating Segments according to Management's Approach

	For the year ended December 31 2018											
	In NIS millions											
	Bank									Subsi-diaries in Israel	Fo-reign subsidiaries	
	Retail, premium and private banking(b)	Small businesses(b)	Mortgages	Banking - total	Commercial	Busi-ness	Real estate	Capital markets	Other and adjust-ments			Total
Interest income, net:												
Interest income (expenses) - from external	1,012	1,335	2,441	4,788	1,039	827	748	(37)	6	390	1,115	8,876
Interest income (expenses) - inter-segmental	1,043	9	(1,529)	(477)	122	(243)	(207)	862	(3)	(4)	(36)	14
Interest income, net	2,055	1,344	912	4,311	1,161	584	541	825	3	386	1,079	8,890
Noninterest income	1,322	487	3	1,812	408	217	315	492	147	1,180	300	4,871
Total income	3,377	1,831	915	6,123	1,569	801	856	1,317	150	1,566	1,379	13,761
Expenses (income) in respect of loan losses	213	270	30	513	28	(70)	(170)	23	(10)	113	92	519
Total operating and other expenses	2,733	1,099	274	4,106	713	276	132	363	958	896	893	8,337
Profit (loss) before tax	431	462	611	1,504	828	595	894	931	(798)	557	394	4,905
Tax expenses (income)	161	172	227	560	308	221	332	300	(351)	158	91	1,619
Net income (loss) attributable to the Bank's shareholders	270	290	384	944	520	374	562	637	(447)	383	284	3,257
Balances as at December 31 2018												
Loans to the public, net	29,594	26,478	81,524	137,596	38,490	33,533	24,462	5,251	5,860	560(a)	25,421	271,173
Deposits by the public	158,593	38,046	-	196,639	49,671	19,592	6,597	65,910	274	-(b)	25,908	364,591
Assets under management	167,486	18,354	-	185,840	22,137	19,122	1,008	421,022	21,085	285,016	17,625	972,855

(a) Excluding balances classified as held for sale assets in the amount of NIS 8,042 million.
(b) Excluding balances classified as held for sale liabilities in the amount of NIS 71 million.

Note 29B – Operating Segments according to Management's Approach (cont.)

B. Information Regarding Operating Segments according to Management's Approach (cont.)

	For the year ended December 31 2017[b]											
	In NIS millions											
	Bank									Subsi-diaries in Israel	For-reign subsidi aries	
	Retail, premium and private banking[a]	Small busines ses[a]	Mort-gages	Banking - total	Com-mercial	Busi-ness	Real estate	Capital markets	Other and adjust-ments			Total
Interest income, net:												
Interest income (expenses) - from external	1,040	1,337	2,060	4,437	1,043	854	610	(191)	5	281	992	8,031
Interest income (expenses) - inter-segmental	883	(29)	(1,217)	(363)	(29)	(273)	(149)	859	(5)	(2)	(23)	15
Interest income, net	1,923	1,308	843	4,074	1,014	581	461	668	-	279	969	8,046
Noninterest income	1,278	477	11	1,766	398	224	324	869	357	1,113	291	5,342
Total income	3,201	1,785	854	5,840	1,412	805	785	1,537	357	1,392	1,260	13,388
Expenses (income) in respect of loan losses	179	273	13	465	26	(72)	(316)	(35)	(27)	77	54	172
Total operating and other expenses	2,915	1,037	290	4,242	711	275	130	348	921	953	835	8,415
Profit (loss) before tax	107	475	551	1,133	675	602	971	1,224	(537)	362	371	4,801
Tax expenses (income)	41	186	212	439	265	236	381	353	(224)	89	153	1,692
Net income (loss) attributable to the Bank's shareholders	66	289	339	694	410	366	590	874	(313)	333	218	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) In 2017, the Banking Division underwent restructuring. Comparative figures were not adjusted.
(b) Reclassified.

Note 29B – Operating Segments according to Management's Approach (cont.)

B. Information Regarding Operating Segments according to Management's Approach (cont.)

	For the year ended December 31 2016[(a)]										
	In NIS millions										
	Bank								Subsi-diaries in Israel	Foreign subsi-diaries	
	Banking, excl. mortgages	Mort-gages	Banking - total	Com-mercial	Busi-ness	Real estate	Capital markets	Other and adjust-ments			Total
Interest income, net:											
Interest income (expenses) - from external	2,252	1,836	4,088	1,004	734	741	(231)	17	223	919	7,495
Interest income (expenses) - inter-segmental	755	(1,082)	(327)	(110)	(214)	(215)	930	(16)	(4)	(13)	31
Interest income, net	3,007	754	3,761	894	520	526	699	1	219	906	7,526
Noninterest income	1,705	7	1,712	394	205	341	849	479	1,094	254	5,328
Total income	4,712	761	5,473	1,288	725	867	1,548	480	1,313	1,160	12,854
Expenses (income) in respect of loan losses	758	(3)	755	(72)	(376)	(392)	(55)	(56)	36	35	(125)
Total operating and other expenses	4,172	275	4,447	693	352	174	428	623	838	945	8,500
Profit (loss) before tax	(218)	489	271	667	749	1,085	1,175	(87)	439	180	4,479
Tax expenses (income)	(83)	187	104	257	289	418	452	(89)	218	68	1,717
Net income (loss) attributable to the Bank's shareholders	(135)	302	167	410	460	667	729	2	244	112	2,791
Balances as at December 31 2016											
Loans to the public, net	57,762	79,394	137,156	33,705	29,898	21,020	3,676	5,528	7,407	23,567	261,957
Deposits by the public	191,156	-	191,156	41,698	19,772	7,702	59,696	41	68	26,721	346,854
Assets under management	176,638	-	176,638	26,781	18,607	1,814	365,544	25,502	189,682	19,244	823,812

(a) Reclassified.

Note 30 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision

A. Debts[(a)] and off-Balance Sheet Credit Instruments

1. Change in Loan Loss Provision

	For the year ended December 31 2018					
	Loan loss provision					
	Loans to the public					
	Com-mercial	Housing	Private individuals - other	Total - public	Banks and govern-ments	Total
	In NIS millions					
Balance of loan loss provision as at the beginning of the year	**2,510**	**450**	**737**	**3,697**	**3**	**3,700**
Changes recognized in equity[(a)]	**21**	**-**	**-**	**21**	**-**	**21**
Balance as at January 1 2018	**2,531**	**450**	**737**	**3,718**	**3**	**3,721**
Loan loss expenses	**247**	**32**	**240**	**519**	**-**	**519**
Write-offs	**(785)**	**(4)**	**(491)**	**(1,280)**	**-**	**(1,280)**
Collection of debts written off in previous years	**699**	**-**	**325**	**1,024**	**-**	**1,024**
Write-offs, net	**(86)**	**(4)**	**(166)**	**(256)**	**-**	**(256)**
Adjustments from translation of financial statements	**16**	**1**	**(1)**	**16**	**-**	**16**
Less balances classified as held-for-sale assets[(b)]	**(11)**	**-**	**(173)**	**(184)**	**-**	**(184)**
Balance of loan loss provision as at year end[1]	**2,697**	**479**	**637**	**3,813**	**3**	**3,816**
[1]Of which: For off-balance sheet credit instruments	**441**	**-**	**20**	**461**	**-**	**461**

	For the year ended December 31 2017					
	Loan loss provision					
	Loans to the public					
	Commer-cial[(c)]	Housing	Private individuals - other[(a)]	Total - public	Banks and govern-ments	Total
	In NIS millions					
Balance of loan loss provision as at the beginning of the year	2,708	473	778	3,959	1	3,960
Expenses (income) in respect of loan losses	(4)	(13)	187	170	2	172
Write-offs	(852)	(9)	(593)	(1,454)	-	(1,454)
Collection of debts written off in previous years	678	-	364	1,042	-	1,042
Write-offs, net	(174)	(9)	(229)	(412)	-	(412)
Adjustments from translation of financial statements	(20)	(1)	1	(20)	-	(20)
Balance of loan loss provision as at year end[1]	2,510	450	737	3,697	3	3,700
[1]Of which: For off-balance sheet credit instruments	448	-	36	484	-	484

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

(b) For more information, please see Note 36F.

(c) Reclassified as described in Note 13, including in respect of the improvement effort carried out in 2018.

Note 30 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

A. Debts[(a)] and Off-Balance Sheet Credit Instruments (cont.)

1. Change in balance of provision for loan losses (cont.)

	For the year ended on December 31 2016					
	Loan loss provision					
	Loans to the public					
	Commer-cial[(b)]	Housing	Private indivi-duals - other[(b)]	Total - public	Banks and governments	Total
	In NIS millions					
Balance of loan loss provision as at the beginning of the year	3,018	513	622	4,153	3	4,156
Expenses (income) in respect of loan losses	(571)	(9)	457	(123)	(2)	(125)
Write-offs	(580)	(31)	(701)	(1,312)	-	(1,312)
Collection of debts written off in previous years	843	-	400	1,243	-	1,243
Write-offs, net	263	(31)	(301)	(69)	-	(69)
Adjustments from translation of financial statements	(2)	-	-	(2)	-	(2)
Balance of loan loss provision as at year end[1]	2,708	473	778	3,959	1	3,960
[1]Of which: For off-balance sheet credit instruments	452	-	36	488	-	488

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(b) Reclassified as described in Note 13, including in respect of the improvement effort carried out in 2018.

Note 30 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

A. Debts[(a)] and Off-Balance Sheet Credit Instruments (cont.)

2. Additional information on calculating the loan loss provision for debts[(a)] and for the debts for which it was calculated[(a)]

	December 31 2018					
	Loans to the public					
	Com-mercial	Housing	Private indivi-duals - other	Total - public	Banks and govern-ments	Total
	In NIS millions					
Recorded outstanding debt balance[(a)]:						
Examined on a specific basis	**120,192**	**31**	**901**	**121,124**	**15,091**	**136,215**
Examined on a collective basis[1]	**44,746**	**80,859**	**36,006**	**161,611**	**673**	**162,284**
[1]Of which: The provision for which was calculated by extent of arrears	**913[(c)]**	**80,432**	**-**	**81,345**	**-**	**81,345**
Less balances classified as held-for-sale assets[(d)]	**(655)**	**-**	**(7,555)**	**(8,210)**	**(35)**	**(8,245)**
Total debts[(a)]	**164,283**	**80,890**	**29,352**	**274,525**	**15,729**	**290,254**
Loan loss provision in respect of debts[(a)]:						
Examined on a specific basis	**1,750**	**5**	**87**	**1,842**	**3**	**1,845**
Examined on collective basis[2]	**517**	**474**	**687**	**1,678**	**-**	**1,678**
[2]Of which: The provision for which was calculated by extent of arrears	**-**	**473[(b)]**	**-**	**473**	**-**	**473**
Less balances classified as held-for-sale assets[(d)]	**(11)**	**-**	**(157)**	**(168)**	**-**	**(168)**
Total loan loss provision	**2,256**	**479**	**617**	**3,352**	**3**	**3,355**
Of which: For non-performing loans	**459**	**4**	**150**	**613**	**-**	**613**

Note 30 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

	December 31 2017					
	Loans to the public					
	Commer-cial(e)	Housing	Private indivi-duals - other(e)	Total - public	Banks and governments	Total
	In NIS millions					
Recorded outstanding debt balance(a):						
Examined on a specific basis	113,120	29	1,018	114,167	11,457	125,624
Examined on a collective basis[1]	43,344	77,928	35,726	156,998	1,122	158,120
[1]Of which: The provision for which was calculated by extent of arrears	1,066(c)	77,465	-	78,531	-	78,531
Total debts(a)	156,464	77,957	36,744	271,165	12,579	283,744
Loan loss provision in respect of debts(a):						
Examined on a specific basis	1,604	5	75	1,684	3	1,687
Examined on collective basis[2]	458	445	626	1,529	-	1,529
[2]Of which: The provision for which was calculated by extent of arrears	-	443(b)	-	443	-	443
Total loan loss provision	2,062	450	701	3,213	3	3,216
Of which: For non-performing loans	447	5(d)	61	513	-	513

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(b) Including an outstanding collective provision that exceeds the amount required under the extent of arrears method, in the amount of NIS 295 million (2017 - NIS 283 million).
(c) Outstanding housing loans extended to certain purchasing groups currently in the process of construction.
(d) For more information, please see Note 36F.
(e) Reclassified as described in Note 13, including in respect of the improvement effort carried out in 2018.

Note 30 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

B. Debts[a]

1. Credit quality and delinquency

	December 31 2018					
		Troubled debts[b]			Unimpaired debts - additional information	
	Non-troubled	Unim-paired	Impaired[c]	Total	In arrears of 90 days or more[d]	In arrears of 30 days to 89 days[e]
	In NIS millions					
Borrower activity in Israel						
Public - commercial						
Construction & real estate - Construction[g]	**21,511**	**162**	**233**	**21,906**	**11**	**220**
Construction & real estate - Real estate activities[g]	**24,939**	**159**	**315**	**25,413**	**16**	**21**
Financial services	**10,834**	**7**	**8**	**10,849**	**2**	**4**
Commercial - Other	**70,892**	**1,718**	**1,242**	**73,852**	**64**	**169**
Commercial - Total	**128,176**	**2,046**	**1,798**	**132,020**	**93**	**414**
Individuals - housing loans	**79,555**	**862[f]**	**-**	**80,417**	**862**	**694**
Private individuals - other	**35,362**	**576**	**382**	**36,320**	**72**	**183**
Less balances classified as held-for-sale assets[i]	**(7,842)**	**(323)**	**(45)**	**(8,210)**	**-**	**(10)**
Total - public - activity in Israel	**235,251**	**3,161**	**2,135**	**240,547**	**1,027**	**1,281**
Banks in Israel	**2,703**	**-**	**-**	**2,703**	**-**	**-**
Government of Israel	**74**	**-**	**-**	**74**	**-**	**-**
Less balances classified as held-for-sale assets[i]	**(33)**	**-**	**-**	**(33)**	**-**	**-**
Total activity in Israel	**237,995**	**3,161**	**2,135**	**243,291**	**1,027**	**1,281**
Borrower activity outside Israel						
Public - commercial						
Construction and real estate[g]	**11,882**	**12**	**109**	**12,003**	**-**	**4**
Commercial - Other	**19,794**	**647**	**474**	**20,915**	**27**	**330**
Commercial - Total	**31,676**	**659**	**583**	**32,918**	**27**	**334**
Private individuals	**1,012**	**15**	**33**	**1,060**	**-**	**3**
Total - public - foreign operations	**32,688**	**674**	**616**	**33,978**	**27**	**337**
Foreign banks	**12,279**	**-**	**-**	**12,279**	**-**	**-**
Foreign governments	**708**	**-**	**-**	**708**	**-**	**-**
Less balances classified as held-for-sale assets[i]	**(2)**	**-**	**-**	**(2)**	**-**	**-**
Total foreign operations	**45,673**	**674**	**616**	**46,963**	**27**	**337**
Total - public	**267,939**	**3,835**	**2,751**	**274,525**	**1,054**	**1,618**
Total - Banks [j]	**14,947**	**-**	**-**	**14,947**	**-**	**-**
Total - governments	**782**	**-**	**-**	**782**	**-**	**-**
Total	**283,668**	**3,835**	**2,751**	**290,254**	**1,054**	**1,618**

See comments in page 278.

Note 30 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

B. Debts[a]

1. Credit quality and delinquency (cont.)

	December 31 2017					
		Troubled debts[b]			Unimpaired debts - additional information	
	Non-troubled	Un-impaired	Impaired[c]	Total	In arrears of 90 days or more[d]	In arrears of 30 days to 89 days[e]
	In NIS millions					
Borrower activity in Israel						
Public-commercial[k]						
Construction & real estate - construction	18,643	209	276	19,128	12	63
Construction & real estate - real estate activities	23,751	112	575	24,438	11	43
Financial services	11,183	5	1	11,189	2	7
Commercial - Other	69,534	1,450	1,532	72,516	42	172
Commercial - Total	123,111	1,776	2,384	127,271	67	285
Individuals - housing loans	76,726	722[f]	-	77,448	722	516
Private individuals - other[k]	35,289	561	372	36,222	85	249
Total - public - activity in Israel	235,126	3,059	2,756	240,941	874	1,050
Banks in Israel	1,650	-	-	1,650	-	-
Government of Israel	129	-	-	129	-	-
Total activity in Israel	236,905	3,059	2,756	242,720	874	1,050
Borrower activity outside Israel						
Public - commercial						
Construction & real estate	9,564	14	170	9,748	-	-
Commercial - Other	18,116	834	495	19,445	12	7
Commercial - Total	27,680	848	665	29,193	12	7
Private individuals	996	1	34	1,031	-	1
Total - public - foreign operations	28,676	849	699	30,224	12	8
Foreign banks	10,214	-	-	10,214	-	-
Foreign governments	586	-	-	586	-	-
Total foreign operations	39,476	849	699	41,024	12	8
Total - public	263,802	3,908	3,455	271,165	886	1,058
Total - banks	11,864	-	-	11,864	-	-
Total - governments	715	-	-	715	-	-
Total	276,381	3,908	3,455	283,744	886	1,058

See comments in page 278

Note 30 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

1. Credit quality and delinquency (cont.)

Comments:

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

(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) As a rule, non-performing loans do not accrue interest income. For information regarding certain impaired debts restructured as part of troubled debt restructuring, please see Note 30B.2.C. below.

(d) Classified as unimpaired troubled debt. Accrual loans.

(e) Accrual loans. Debt in arrears of 30 to 89 days totaling NIS 1,103 million (December 31 2017 - NIS 653 million) were classified as unimpaired troubled debt.

(f) Including outstanding housing loans in the amount of NIS 87 million (December 31 2017 - NIS 94 million) with a provision for the extent of arrears, for which an agreement was signed for the borrower to repay the overdue balance, which involves changes in the repayment schedule of outstanding future payments.

(g) 2.5 percent of the credit granted to rental properties through the Bank's Construction and Real Estate Department features LTV rates in excess of 85 percent.

(h) Outstanding unimpaired debts in arrears of at least 90 days as at December 31 2018, in the amount of NIS 1,026 million constitutes credit granted by the Bank, of which NIS 164 million is for non-housing loans and NIS 862 million - for housing loans, of which a total of NIS 210 million is in arrears of up to 149 days, NIS 159 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 36F.

(j) Less balances in respect of banks classified as held-for-sale assets.

(k) Reclassified as described in Note 13, including in respect of the improvement effort carried out in 2018.

Credit quality - Debt delinquency status

Regularly monitored, the extent of arrears constitutes one of the main indications for credit quality. The extent of arrears is determined according to the actual days of arrears when a debt is handled as non-performing (not accruing interest income) after 90 days of arrears; or in case of any debt restructured as troubled debt and which is once again accruing interest but is in arrears of one day under the new repayment terms. For collective 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 30 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

B. Debts[a] (cont.)

2. Additional information on non-performing loans

A. Non-Performing Debts and Specific Provision

	December 31 2018				
	Outstanding balance[b] of non-performing loans in respect of which there is a specific provision[c]	Balance of specific provision[c]	Outstanding balance[b] of non-performing loans in respect of which there is no specific provision[c]	Total outstanding balance[b] of non-performing loans	Outstanding balance of contractual principal in respect of non-performing loans
	In NIS millions				
Borrower activity in Israel					
Public - commercial					
Construction & real estate - construction	69	14	164	233	713
Construction & real estate - real estate activities	121	27	194	315	1,196
Financial services	3	1	5	8	437
Commercial - Other	873	311	369	1,242	4,271
Commercial - Total	1,066	353	732	1,798	6,617
Individuals - housing loans	-	-	-	-	-
Private individuals - other	355	152	27	382	2,593
Less balances classified as held-for-sale assets[d]	(19)	(4)	(26)	(45)	(45)
Total - public - activity in Israel	1,402	501	733	2,135	9,165
Borrower activity outside Israel					
Public - commercial					
Construction & real estate	104	50	5	109	253
Commercial - Other	197	56	277	474	844
Commercial - Total	301	106	282	583	1,097
Private individuals	14	6	19	33	85
Total - public - foreign operations	315	112	301	616	1,182
Total - public	1,717	613	1,034	2,751	10,347
Of which:					
Measured according to the present value of cash flows	1,520	550	697	2,217	
Debt restructuring of problem debt	914	165	731	1,645	

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(b) Recorded outstanding debt.
(c) Specific loan loss provision.
(d) For more information, please see Note 36F.

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Note 30 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

B. Debts[a] (cont.)

2. Additional information on impaired debt (cont.)

A. Impaired Debts and Specific Provision (cont.)

	December 31 2017				
	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 non-performing loans in respect of which there is no specific provision[c]	Total outstanding balance[b] of non-performing loans	Outstanding balance of contractual principal in respect of non-performing loans
	In NIS millions				
Borrower activity in Israel					
Public-commercial[d]					
Construction & real estate - construction	74	14	202	276	773
Construction & real estate - real estate activities	156	50	419	575	1,496
Financial services	1	1	-	1	460
Commercial - Other	925	266	607	1,532	4,533
Commercial - Total	1,156	331	1,228	2,384	7,262
Private individuals - housing loans	-	-	-	-	-
Private individuals - other[d]	319	55	53	372	2,610
Total - public - activity in Israel	1,475	386	1,281	2,756	9,872
Borrower activity outside Israel					
Public - commercial					
Construction & real estate	144	71	26	170	316
Commercial - Other	76	44	419	495	910
Commercial - Total	220	115	445	665	1,226
Private individuals	14	8	20	34	86
Total - public - foreign operations	234	123	465	699	1,312
Total - public	1,709	509	1,746	3,455	11,184
Of which:					
Measured according to the present value of cash flows[d]	1,609	444	1,065	2,674	
Restructuring of troubled debt[d]	950	181	1,142	2,092	

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(b) Recorded outstanding debt.
(c) Specific loan loss provision.
(d) Reclassified as described in Note 13, including in respect of the improvement effort carried out in 2018.

Note 30 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

B. Debts[a] (cont.)

2. Additional information on impaired debt (cont.)

B. Average balance and interest income

	For the year ended December 31					
	2018			2017[f]		
	Average balance[b] of non-performing loans	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
	In NIS millions					
Borrower activity in Israel						
Public - commercial						
Construction & real estate - construction	**265**	**1**	**1**	269	2	1
Construction & real estate - real estate activities	**379**	**4**	**2**	596	15	12
Financial services	**6**	**-**	**-**	161	8	8
Commercial - Other	**1,347**	**10**	**4**	1,568	26	12
Commercial - Total	**1,997**	**15**	**7**	2,594	51	33
Private individuals - housing loans	**-**	**-**	**-**	-	-	-
Private individuals - other	**373**	**2**	**-**	305	4	1
Less balances classified as held-for-sale assets[e]	**(38)**	**-**	**-**	-	-	-
Total - public - activity in Israel	**2,332**	**17**	**7**	2,899	55	34
Borrower activity outside Israel						
Public - commercial						
Construction & real estate	**133**	**6**	**6**	253	5	5
Commercial - Other	**520**	**6**	**4**	411	5	5
Commercial - Total	**653**	**12**	**10**	664	10	10
Private individuals	**20**	**1**	**1**	28	1	1
Total - public - foreign operations	**673**	**13**	**11**	692	11	11
Total - public	**3,005**	**30[d]**	**18**	3,591	66[d]	45

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(b) Recorded average outstanding balance of non-performing loans in the reported period.
(c) Interest income recorded for the reported period in respect of the average balance of outstanding non-performing loans 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 294 million (2017 - NIS 324 million).
(e) For more information, please see Note 36F.
(f) Reclassified as described in Note 13, including in respect of the improvement effort carried out in 2018.

Note 30 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

B. Debts[a] (cont.)

2. Additional information on impaired debt (cont.)

B. Average Balance and Interest Income (cont.)

	For the year ended on December 31 2016		
	Average balance[b] of impaired debts	Recorded interest income[c]	Of which: Recorded on a cash basis
	In NIS millions		
Borrower activity in Israel			
Public-commercial[e]			
Construction & real estate - construction	297	2	1
Construction & real estate - real estate activities	701	6	3
Financial services	226	1	-
Commercial - Other	1,697	33	25
Commercial - Total	2,921	42	29
Private individuals - housing loans	-	-	-
Private individuals - Other[e]	193	3	1
Total - public - activity in Israel	3,114	45	30
Borrower activity outside Israel			
Public - commercial			
Construction & real estate	353	7	6
Commercial - Other	299	8	7
Commercial - Total	652	15	13
Private individuals	40	4	4
Total - public - foreign operations	692	19	17
Total - public	3,806	64[d]	47

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(b) Recorded average outstanding balance of non-performing loans in the reported period.
(c) Interest income recorded for the reported period in respect of the average balance of outstanding non-performing loans 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 257 million.
(e) Reclassified as described in Note 13, including in respect of the improvement effort carried out in 2018.

Note 30 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

B. Debts[(a)] (cont.)

2. Additional information on non-performing loans (cont.)

C. Restructured Troubled Debt[(d)] (cont.)

	For the year ended December 31							
	2018				2017[(f)]			
	Non-accrual loans	Accrual loan, in arrears of 30 days to 89 days[(b)]	Accrual loan[(b)], non delin-quent	Total[(c)]	Non-accrual loans	Accrual loan, in arrears of 30 days to 89 days[(b)]	Accrual loan,[(b)] non delin-quent	Total[(c)]
	In NIS millions							
Borrower activity in Israel								
Public - commercial								
Construction & real estate - construction	**196**	**-**	**5**	**201**	202	1	13	216
Construction & real estate - real estate activities	**211**	**1**	**21**	**233**	222	-	180	402
Financial services	**1**	**-**	**-**	**1**	-	-	-	-
Commercial - Other	**564**	**2**	**47**	**613**	563	-	239	802
Commercial - Total	**972**	**3**	**73**	**1,048**	987	1	432	1,420
Private individuals - housing loans	**-**	**-**	**-**	**-**	-	-	-	-
Private individuals - other	**297**	**2**	**36**	**335**	272	2	56	330
Less balances classified as held-for-sale assets[(e)]	**(18)**	**-**	**-**	**(18)**	-	-	-	-
Total - public - activity in Israel	**1,251**	**5**	**109**	**1,365**	1,259	3	488	1,750
Borrower activity outside Israel								
Public - commercial								
Construction & real estate	**46**	**-**	**-**	**46**	61	-	56	117
Commercial - Other	**67**	**-**	**157**	**224**	26	-	190	216
Commercial - Total	**113**	**-**	**157**	**270**	87	-	246	333
Private individuals	**6**	**-**	**4**	**10**	4	-	5	9
Total - public - foreign operations	**119**	**-**	**161**	**280**	91	-	251	342
Total - public	**1,370**	**5**	**270**	**1,645**	1,350	3	739	2,092

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(b) Accrual loan.
(c) Included in non-performing loans.
(d) For more information regarding first-time application of the Banking Supervision Department's revised directives regarding troubled debt restructuring, please see Note 1.H.
(e) For more information, please see Note 36F.
(f) Reclassified as described in Note 13, including in respect of the improvement effort carried out in 2018.

Commitments for granting additional loans to borrowers for whom troubled debts were restructured and in which the credit terms were amended amounted to NIS 1 million as at December 31 2018 (December 31 2017 - NIS 15 million).

Note 30 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

B. Debts[a] (cont.)

2. Additional information on impaired debt (cont.)

C. Restructured troubled debt[b] (cont.)

1. Restructurings carried out

	For the year ended December 31					
	2018			2017[d]		
	No. of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	No. of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
		In NIS millions			In NIS millions	
Borrower activity in Israel						
Public - commercial						
Construction & real estate - construction	**389**	**44**	**43**	451	42	38
Construction & real estate - real estate activities	**148**	**38**	**38**	253	36	32
Financial services	**25**	**2**	**1**	13	7	-
Commercial - Other	**1,749**	**190**	**180**	1,547	254	239
Commercial - Total	**2,311**	**274**	**262**	2,264	339	309
Private individuals - housing loans	**-**	**-**	**-**	-	-	-
Private individuals - other	**8,828**	**199**	**195**	8,985	166	151
Less balances classified as held-for-sale assets[c]	**(2,956)**	**(37)**	**(37)**	-	-	-
Total - public - activity in Israel	**8,183**	**436**	**420**	11,249	505	460
Borrower activity outside Israel						
Public - commercial						
Construction & real estate	**2**	**2**	**2**	5	57	57
Commercial - Other	**6**	**57**	**57**	18	182	182
Commercial - Total	**8**	**59**	**59**	23	239	239
Private individuals	**-**	**-**	**-**	2	1	1
Total - public - foreign operations	**8**	**59**	**59**	25	240	240
Total - public	**8,191**	**495**	**479**	11,274	745	700

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(b) For more information regarding first-time application of the Banking Supervision Department's revised directives regarding troubled debt restructuring, please see Note 1.H.
(c) For more information, please see Note 36F.
(d) Reclassified as described in Note 13, including in respect of the improvement effort carried out in 2018.

Note 30 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

B. Debts[(a)] (cont.)

2. Additional information on impaired debt (cont.)

C. Restructured troubled debt[(b)] (cont.)

1. Restructurings carried out (cont.)

	For the year ended on December 31 2016		
	No. of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
		In NIS millions	
Borrower activity in Israel			
Public-commercial[(c)]			
Construction & real estate - construction	398	206	200
Construction & real estate - real estate activities	250	172	167
Financial services	14	410	405
Commercial - Other	1,576	167	148
Commercial - Total	2,238	955	920
Private individuals - housing loans	-	-	-
Private individuals - other[(c)]	7,504	159	135
Total - public - activity in Israel	9,742	1,114	1,055
Borrower activity outside Israel			
Public - commercial			
Construction & real estate	5	28	27
Commercial - Other	17	58	58
Commercial - Total	22	86	85
Private individuals	5	1	1
Total - public - foreign operations	27	87	86
Total - public	9,769	1,201	1,141

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

(b) For more information regarding first-time application of the Banking Supervision Department's revised directives regarding troubled debt restructuring, please see Note 1.H.

(c) Reclassified as described in Note 13, including in respect of the improvement effort carried out in 2018.

Note 30 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

B. Debts[a] (cont.)

2. Additional information on impaired debt (cont.)

C. Restructured Troubled Debt (cont.)

2. Failed restructurings[b][d]

	December 31					
	2018		2017[f]		2016[f]	
	No. of contracts	Recorded outstanding debt[c]	No. of contracts	Recorded outstanding debt[c]	No. of contracts	Recorded outstanding debt[c]
		In NIS millions		In NIS millions		In NIS millions
Borrower activity in Israel						
Public - commercial						
Construction & real estate - construction	**203**	**8**	191	13	94	9
Construction & real estate - real estate activities	**42**	**9**	48	8	35	9
Financial services	**9**	**-**	7	-	6	-
Commercial - Other	**761**	**36**	669	26	396	30
Commercial - Total	**1,015**	**53**	915	47	531	48
Private individuals - housing loans	**-**	**-**	-	-	-	-
Private individuals - other	**3,943**	**33**	3,515	21	2,381	22
Less balances classified as held-for-sale assets[e]	**(1,248)**	**(9)**	-	-	-	-
Total - public - activity in Israel	**3,710**	**77**	4,430	68	2,912	70
Borrower activity outside Israel						
Public - commercial						
Construction & real estate	**2**	**1**	-	-	4	10
Commercial - Other	**9**	**60**	1	1	12	64
Commercial - Total	**11**	**61**	1	1	16	74
Private individuals	**2**	**1**	-	-	-	-
Total loans to the public - Foreign operations	**13**	**62**	1	1	16	74
Total - public	**3,723**	**139**	4,431	69	2,928	144

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(b) Debts which were in arrears of at least 30 days during the reporting year, which were restructured as part of the restructuring of troubled debt during the 12 months preceding the date on which they became delinquent.
(c) The outstanding debt recorded as at the end of the quarter in which the failure occurred.
(d) For more information regarding first-time application of the Banking Supervision Department's revised directives regarding troubled debt restructuring, please see Note 1.H.
(e) For more information, please see Note 36F.
(f) Reclassified as described in Note 13, including in respect of the improvement effort carried out in 2018.

Note 30 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

B. Debts[a] (cont.)

3. Additional information on housing loans

Outstanding end of period balances by loan-to-value (LTV)[b], type of repayment and interest

		December 31 2018			
		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%	**52,259**	**2,002**	**34,151**	**1,720**
	More than 60%	**28,595**	**748**	**19,594**	**203**
Unpledged secondary lien		**36**	**1**	**33**	**-**
Total		**80,890**	**2,751**	**53,778**	**1,923**

		December 31 2017[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 reverse repurchase agreements.

(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 indication of the Bank's risk assessment of a customer on granting a credit line. Each quarter, as required under the Bank of Israel directives, the minimum 0.35 percent general provision is examined against the 0.75 percent provision required for loans with an LTV ratio of more than 60 percent. Note that the collective provision is higher than the one required for the LTV ratio.

(c) Reclassified.

Note 30 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

C. Loans to the Public and off-Balance Sheet Credit Risk by Borrower's Loan Amount

Loans limit		December 31 2018 No. of borrowers[c][d]	Credit[a][d]	Off balance-sheet credit risk[a][b][c]
Loans to borrower in NIS thousands			In NIS millions	
From	To			
0	10	**736,654**	**943**	**2,378**
10	20	**394,202**	**1,949**	**4,136**
20	40	**395,975**	**4,618**	**7,159**
40	80	**301,893**	**9,282**	**7,906**
80	150	**176,899**	**13,456**	**5,722**
150	300	**106,641**	**18,355**	**3,901**
300	600	**71,830**	**27,642**	**3,076**
600	1,200	**53,378**	**40,765**	**3,901**
1,200	2,000	**14,172**	**18,725**	**2,386**
2,000	4,000	**5,913**	**13,689**	**2,518**
4,000	8,000	**2,496**	**11,243**	**2,919**
8,000	20,000	**1,844**	**18,972**	**5,288**
20,000	40,000	**899**	**20,473**	**6,002**
40,000	200,000	**849**	**51,729**	**19,284**
200,000	400,000	**88**	**17,634**	**8,136**
400,000	800,000	**33**	**10,246**	**9,028**
800,000	1,200,000	**11**	**5,426**	**5,090**
1,200,000	1,600,000	**4**	**2,079**	**3,670**
1,600,000	2,000,000	**3**	**2,548**	**2,787**
2,000,000	2,392,255	**1**	**1,067**	**1,325**
Total		**2,263,785**	**290,841**	**106,612**

Loans limit		December 31 2017 Number of borrowers[c]	Credit[a][e]	Off balance-sheet credit risk[a][b]
Loans to borrower in NIS thousands			In NIS millions	
From	To			
0	10	712,757	811	2,265
10	20	405,528	1,992	4,254
20	40	411,892	4,754	7,431
40	80	311,439	9,550	8,108
80	150	179,224	13,755	5,637
150	300	105,805	18,328	3,829
300	600	72,342	27,810	3,191
600	1,200	51,711	39,254	3,840
1,200	2,000	13,496	17,771	2,367
2,000	4,000	5,902	13,541	2,507
4,000	8,000	2,579	11,332	2,844
8,000	20,000	1,890	18,272	4,903
20,000	40,000	889	17,851	5,805
40,000	200,000	843	46,231	19,525
200,000	400,000	96	14,559	12,193
400,000	800,000	38	11,188	9,719
800,000	1,200,000	11	4,266	6,264
1,200,000	1,600,000	4	2,633	2,974
1,600,000	2,000,000	-	-	-
2,000,000	2,247,509	1	1,126	1,122
Total		2,276,447	275,024	108,778

Please see comments below.

Note 30 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

(a) Note: Before the effect of loan loss provision and the effect of collateral that are deductible for the purpose of specific and general indebtedness. Balance sheet loans – with the addition of fair value of derivative instruments totaling NIS 8,106 million.
(b) Credit risk for off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations.
(c) Number of borrowers according to total off-balance sheet loans and credit risk.
(d) Including balance sheet loans of NIS 8,210 million and off-balance sheet credit risk of NIS 11,659 million in respect of assets classified as held-for-sale in respect of 867,547 borrowers.
(e) Reclassified.

Comments:
Starting with loans of up to NIS 8,000 thousand, loans are classified by the specific consolidation method; loans to other borrowers were classified by the category consolidation method.
The definition of "borrower" and the definition of "indebtedness", including off-balance sheet credit risk, are in accordance with the Banking Supervision Department's directives regarding the amendment of Proper Conduct of Banking Business Directive No. 313 – "Limitations on the indebtedness of a borrower and a group of borrowers".

D. Off Balance-Sheet Financial Instruments

	December 31			
	2018		2017	
	Outstanding loan contracts[(a)]	Balance of loan loss provision	Outstanding loan contracts[(a)]	Balance of loan loss provision
	In NIS millions			
A. Off-balance sheet instruments - contractual balances or notional amounts as of year-end. Transactions in which the balance reflects credit risk:				
Documentary credit	**1,362**	**3**	1,205	3
Loan guarantees	**5,231**	**88**	5,480	80
Guarantees for apartment buyers	**18,667**	**12**	19,313	16
Guarantees and other commitments[(b)]	**16,471**	**240**	15,959	257
Unutilized credit card credit facilities	**26,050**[(c)]	**29**[(c)]	26,731	28
Unutilized overdraft facilities and other credit facilities in demand accounts	**12,431**	**25**	12,234	25
Irrevocable loan commitments approved but not yet granted[1]	**24,291**	**63**	23,159	58
Commitments to issue guarantees	**16,372**	**17**	16,065	17
Unutilized credit facilities for derivatives activity	**2,748**	**-**	1,955	-
Approval in principle to maintain interest rate	**4,045**	**-**	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 225 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 year, 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 124 million (as at December 31 2017, NIS 86 million).
Including a contract balance of NIS 11,659 million and a NIS 16 million loan loss provision balance in respect of held-for-sale assets.

Note 30 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

E. Sale and Purchase of Loans to the Public

	For the year ended December 31									
	2018					2017				
	Credit risk from sold loans to the public									
	In NIS millions									
	Sold loans to the public	Sold off-balance sheet credit risk[(a)]	Of which: troubled credit risk	Total gains (losses) in respect of sold loans to the public	Year-end balance of sold loans serviced by the Bank	Sold loans to the public	Sold off-balance sheet credit risk	Of which: troubled credit risk	Total gains (losses) in respect of sold loans to the public	Year-end balance of sold loans serviced by the Bank
Commercial - Total	**503**	**190**	**149**	**-**	**1,089**	87	-	-	9	612
Individuals - housing loans	**-**	**-**	**-**	**-**	**1,208**	-	-	-	-	1,384
Private individuals - other	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
Total credit risk from loans to the public	**503**	**190**	**149**	**-**	**2,297**	87	-	-	9	1,996

	For the year ended December 31					
	2018			2017		
	Purchased credit risk from loans to the public					
	In NIS millions					
	Loans to the public purchased in the reporting period	Purchased off-balance sheet credit risk	Of which: problem credit risk	Loans to the public purchased in the reporting period	Purchased off-balance sheet credit risk	Of which: problem credit risk
Commercial - Total	**3,670**	**-**	**-**	4,648	-	-
Private individuals - housing loans	**-**	**-**	**-**	-	-	-
Private individuals - other	**305**	**-**	**-**	40	-	-
Total credit risk arising from loans to the public	**3,975**	**-**	**-**	4,688	-	-

(a) Credit risk arising from off-balance sheet financial instruments as calculated for the purpose of measuring a borrower's indebtedness limitation, excluding in respect of derivative instruments.

Note 30 - Additional Information on Credit Risk, Credit to the Public and Loan Loss Provision (cont.)

f. Syndications and Participation in Loan Syndications

	December 31 2018					
	In NIS millions					
	Syndication transactions organized by the Bank[(a)]				Syndication transactions organized by others	
	The Bank's share		Others' share		The Bank's share	
	Loans to the public	Off balance-sheet credit risk[(b)]	Loans to the public	Off balance-sheet credit risk[(b)]	Loans to the public	Off balance-sheet credit risk[(b)]
Commercial - Total	**4,288**	**3,034**	**9,099**	**4,265**	**740**	**1,733**
Private individuals - housing loans	**3,297**	**68**	**3,312**	**68**	**-**	**-**
Private individuals - other	**1**	**-**	**1**	**-**	**-**	**-**
Total credit risk arising from loans to the public	**7,586**	**3,102**	**12,412**	**4,333**	**740**	**1,733**

	December 31 2017					
	In NIS millions					
	Syndication transactions organized by the Bank[(a)]				Syndication transactions organized by others	
	The Bank's share		Others' share		The Bank's share	
	Loans to the public	Off balance-sheet credit risk[(b)]	Loans to the public	Off balance-sheet credit risk[(b)]	Loans to the public	Off balance-sheet credit risk[(b)]
Commercial - Total	3,100	2,617	8,617	3,433	872	1,827
Private individuals - housing loans	3,566	250	3,584	250	-	-
Private individuals - other	1	-	1	-	-	-
Total credit risk arising from loans to the public	6,667	2,867	12,202	3,683	872	1,827

(a) Including where the banking corporation provides a material service in the syndication transaction.
(b) Credit risk arising from off-balance sheet financial instruments as calculated for the purpose of measuring a borrower's indebtedness limitation, excluding in respect of derivative instruments.

Note 31 - Assets and Liabilities by Linkage Basis

	December 31 2018						
	NIS		Foreign currency[a]			Non-monetary items[b]	
	Unlinked	CPI-linked	In US dollars	In Euro	In other currencies		Total
	In NIS millions						
Assets							
Cash and deposits with banks	67,759	-	9,300	2,032	2,263	65	81,419
Securities	32,887	2,832	30,894	2,523	1,877	3,558	74,571
Securities borrowed or purchased under agreements to resell	999	-	189	47	22	-	1,257
Loans to the public, net[c]	186,829	42,113	31,395	4,522	6,007	307	271,173
Loans to governments	21	53	675	33	-	-	782
Investments in investee companies	-	-	-	-	-	623	623
Buildings and equipment	-	-	-	-	-	2,853	2,853
Assets in respect of derivatives	2,524	95	5,390	262	229	4,250	12,750
Intangible assets and goodwill	-	-	-	-	-	17	17
Other assets	5,154	4	758	3	32	691	6,642
Held-for-sale assets[e]	8,149	(15)	89	2	1	344	8,570
Total assets	304,322	45,082	78,690	9,424	10,431	12,708	460,657
Liabilities							
Deposits by the public	229,043	16,696	101,874	10,690	5,885	403	364,591
Deposits from banks	1,820	-	2,334	452	604	-	5,210
Deposits from the Israeli government	115	-	585	9	-	-	709
Securities loaned or sold under agreements to repurchase	310	-	154	43	23	11	541
Bonds, promissory notes and subordinated bonds	4,040	13,758	-	-	-	-	17,798
Liabilities in respect of derivative instruments	2,991	222	4,316	133	204	4,223	12,089
Other liabilities	3,339	9,970	551	19	144	757	14,780
Held-for-sale liabilities[e]	8,652	11	101	-	1	13	8,778
Total liabilities	250,310	40,657	109,915	11,346	6,861	5,407	424,496
Difference[d]	54,012	4,425	(31,225)	(1,922)	3,570	7,301	36,161
Effect of non-hedging derivative instruments:							
Derivative instruments (excl. options)	(19,318)	(4,233)	26,209	820	(4,351)	873	-
In the money options, net (according to underlying asset)	(2,204)	-	1,809	388	7	-	-
Out of the money options, net (according to underlying asset)	(1,549)	-	1,196	307	42	4	-
Grand total	30,941	192	(2,011)	(407)	(732)	8,178	36,161
In the money options, net (discounted nominal value)	(3,410)	-	2,886	517	7	-	-
Out of the money options, net (discounted nominal value)	(7,018)	-	5,901	871	44	202	-

(a) Including those linked to foreign currency.
(b) Including derivatives whose underlying asset relates to a non-monetary item.
(c) After deducting loan loss provisions attributed to a linkage basis, according to the linkage of the underlying credit, in the amount of NIS 3,352 million.
(d) Shareholders' equity includes non-controlling interests.
(e) For more information, please see Note 36F.

Note 31 - Assets and Liabilities by Linkage Basis (cont.)

	December 31 2017						
	NIS		Foreign currency[a]			Non-monetary items[b]	Total
	Unlinked	CPI-linked	In US dollars	In Euro	In other currencies		
	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 investees	-	-	-	-	-	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 by 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 the Israeli government	61	-	383	8	-	-	452
Securities loaned or sold under agreements to repurchase	509	-	2	3	-	44	558
Bonds, promissory notes and subordinated bonds	4,039	11,538	-	-	-	-	15,577
Liabilities in respect of derivatives	6,024	211	822	521	276	1,886	9,740
Other liabilities	9,141	12,003	572	20	130	1,458	23,324
Total liabilities	255,603	42,717	95,035	13,350	6,689	3,891	417,285
Difference[d]	51,001	2,562	(27,268)	(2,564)	1,920	7,902	33,553
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding options)	(19,443)	(5,014)	26,775	1,094	(2,558)	(854)	-
In the money options, net (according to underlying asset)	1,426	-	(2,174)	598	(31)	181	-
Out of the money options, net (according to underlying asset)	(1,264)	-	721	520	11	12	-
Grand total	31,720	(2,452)	(1,946)	(352)	(658)	7,241	33,553
In the money options, net (discounted nominal value)	1,587	-	(2,676)	845	(64)	308	-
Out of the money options, net (discounted nominal value)	(41)	-	(468)	392	62	55	-

(a) Including those linked to foreign currency.
(b) Including derivatives whose underlying asset relates to a non-monetary item.
(c) After deducting loan loss provisions attributed to a linkage basis, according to the linkage of the underlying credit, in the amount of NIS 3,213 million.
(d) Shareholders' equity includes non-controlling interests.

Note 32 - Assets and Liabilities by Currency and Repayment Period[a]

	December 31 2018			
	Projected contractual cash flows			
	On demand and up to one month(f)	One to three months(f)	Three months to one year(f)	One to two years
	In NIS millions			
Israeli currency (including foreign currency-linked)				
Assets[1]	**115,131**	**22,457**	**51,743**	**34,161**
Liabilities[2]	**199,202**	**14,033**	**32,661**	**16,841**
Difference	**(84,071)**	**8,424**	**19,082**	**17,320**
[1]Of which: Credit to the public	**44,429**	**17,703**	**34,658**	**31,424**
[2]Of which: Deposits from the Public	**188,039**	**13,286**	**29,341**	**5,612**
Derivative instruments (excluding options)	**(18,540)**	**(709)**	**(5,800)**	**1,137**
Options (by underlying asset)	**-**	**(1,452)**	**(2,651)**	**675**
Difference after effect of derivatives	**(102,611)**	**6,263**	**10,631**	**19,132**
Foreign currency(c)				
Assets[1]	**23,606**	**10,673**	**14,887**	**13,603**
Liabilities[2]	**89,947**	**18,619**	**21,064**	**1,760**
Difference	**(66,341)**	**(7,946)**	**(6,177)**	**11,843**
[1]Of which: Credit to the public	**8,209**	**4,952**	**8,653**	**6,663**
[2]Of which: Deposits from the Public	**85,159**	**13,836**	**17,559**	**1,291**
Of which: Difference in dollars	**(59,382)**	**(10,094)**	**(6,497)**	**10,161**
Of which: Difference in respect of foreign activity	**(13,146)**	**341**	**1,505**	**5,260**
Derivative instruments (excluding options)	**18,540**	**709**	**5,800**	**(1,137)**
Options (by underlying asset)	**-**	**1,452**	**2,651**	**(675)**
Difference after effect of derivatives	**(47,801)**	**(5,785)**	**2,274**	**10,031**
Total				
Assets[1]	**138,737**	**33,130**	**66,630**	**47,764**
Liabilities[2]	**289,149**	**32,652**	**53,725**	**18,601**
Difference(g)	**(150,412)**	**478**	**12,905**	**29,163**
[1]Of which: Credit to the public	**52,638**	**22,655**	**43,311**	**38,087**
[2]Of which: Deposits from the Public	**273,198**	**27,122**	**46,900**	**6,903**

(a) In this note, the contractual future cash flows of balance sheet asset and liability items are presented by currencies according to the remaining periods until the contractual maturity date of each bash flow. Data are presented net of accounting write offs and loan loss provision.
(b) Assets without a fixed maturity date include overdue assets totaling NIS 947 million.
(c) Excluding foreign-currency linked NIS.
(d) As included in Note 31, including off-balance sheet amounts in respect of derivatives that are not settled on a net basis.
(e) The contractual rate of return is the interest rate used to discount the projected contractual cash flows reported in this Note in respect of a monetary item to its carrying amount.
(f) Loans extended under current loan account terms and classified in accordance with the facility's period total NIS 7.7 billion. NIS 1.0 billion, representing amounts in excess of the credit facility's ceiling are classified as loans with no fixed repayment date.
(g) This difference does not necessarily reflect exposure to interest and/or linkage basis.
(h) Including future cash flows in respect of balances that were classified as held-for-sale assets totaling NIS 8,765 million, of which loans to the public totaling NIS 8,637 million.
(i) Including future cash flows in respect of balances that were classified as held-for-sale liabilities totaling NIS 8,765 million, of which deposits by the public totaling NIS 71 million.

Comment: Total memorandum liabilities against which short-term loans were extended by the Bank amount to NIS 4.9 billion.

More than two years and up to three years	More than three years and up to four years	More than four years and up to five years	More than five years and up to ten years	More than ten years and up to twenty years	Over twenty years	Total cash flows	Carrying amount[d] Without repayment period[b]	Total	Contractual rate of return[e] in %
28,330	**20,486**	**15,264**	**47,268**	**42,928**	**15,857**	**393,625**	**2,704**	**353,496**	**3.64**
8,320	**4,521**	**2,917**	**7,548**	**5,529**	**5,761**	**297,333**	**1,119**	**293,754**	**2.37**
20,010	**15,965**	**12,347**	**39,720**	**37,399**	**10,096**	**96,292**	**1,585**	**59,742**	
23,604	**18,993**	**14,229**	**41,848**	**41,172**	**12,720**	**280,780**	**1,316**	**236,962**	**4.07**
3,673	**3,340**	**909**	**2,061**	**463**	**-**	**246,724**	**-**	**245,892**	**1.17**
(769)	**269**	**171**	**627**	**(20)**	**-**	**(23,634)**	**-**	**(23,235)**	
-	**-**	**-**	**-**	**-**	**-**	**(3,428)**	**-**	**(3,424)**	
19,241	**16,234**	**12,518**	**40,347**	**37,379**	**10,096**	**69,230**	**1,585**	**33,083**	
10,207	**7,883**	**6,786**	**15,031**	**6,064**	**2,859**	**111,599**	**2,782**	**98,703**	**3.57**
830	**404**	**535**	**284**	**18**	**8**	**133,469**	**28**	**129,558**	**2.12**
9,377	**7,479**	**6,251**	**14,747**	**6,046**	**2,851**	**(21,870)**	**2,754**	**(30,855)**	
4,888	**2,587**	**2,818**	**2,485**	**683**	**740**	**42,678**	**2,772**	**41,946**	**4.38**
507	**172**	**346**	**2**	**6**	**1**	**118,879**	**-**	**118,367**	**2.50**
8,864	**6,470**	**5,029**	**13,478**	**5,744**	**2,251**	**(23,976)**	**2,734**	**(30,594)**	
4,229	**3,366**	**3,240**	**3,377**	**1,679**	**680**	**10,531**	**144**	**6,927**	
769	**(269)**	**(171)**	**(627)**	**20**	**-**	**23,634**	**-**	**23,235**	
-	**-**	**-**	**-**	**-**	**-**	**3,428**	**-**	**3,424**	
10,146	**7,210**	**6,080**	**14,120**	**6,066**	**2,851**	**5,192**	**2,754**	**(4,196)**	
38,537	**28,369**	**22,050**	**62,299**	**48,992**	**18,716**	**505,224[h]**	**5,486**	**452,199**	**3.63**
9,150	**4,925**	**3,452**	**7,832**	**5,547**	**5,769**	**430,802[i]**	**1,147**	**423,312**	**2.30**
29,387	**23,444**	**18,598**	**54,467**	**43,445**	**12,947**	**74,422**	**4,339**	**28,887**	
28,492	**21,580**	**17,047**	**44,333**	**41,855**	**13,460**	**323,458[h]**	**4,088**	**278,908**	**4.11**
4,180	**3,512**	**1,255**	**2,063**	**469**	**1**	**365,603[i]**	**-**	**364,259**	**1.60**

Note 32 - Assets and Liabilities by Currency and Repayment Period[a] (cont.)

	December 31 2017[h]			
	Projected contractual cash flows			
	On demand and up to one month[f]	One to three months[f]	Three months to one year[f]	One to two years
	In NIS millions			
Israeli currency (including foreign currency-linked)				
Assets[1]	111,761	20,073	58,154	32,340
Liabilities[2]	196,990	19,123	37,035	8,723
Difference	(85,229)	950	21,119	23,617
[1]Of which: Credit to the public	35,713	17,172	37,794	29,163
[2]Of which: Deposits from the Public	186,385	18,016	34,390	5,630
Derivative instruments (excluding options)	(11,382)	(7,594)	(7,754)	3,051
Options (by underlying asset)	184	(526)	(962)	942
Difference after effect of derivatives	(96,427)	(7,170)	12,403	27,610
Foreign currency[c]				
Assets[1]	20,267	7,046	20,933	8,095
Liabilities[2]	84,313	12,096	16,680	2,733
Difference	(64,046)	(5,050)	4,253	5,362
[1]Of which: Credit to the public	7,531	5,405	8,102	5,154
[2]Of which: Deposits from the Public	79,824	10,938	15,178	2,323
Of which: Difference in dollars	(58,718)	5,003	12,548	(1,014)
Of which: Difference in respect of foreign activity	(10,958)	(78)	1,290	2,979
Derivative instruments (excluding options)	11,382	7,594	7,754	(3,051)
Options (by underlying asset)	(184)	526	962	(942)
Difference after effect of derivatives	(52,848)	3,070	12,969	1,369
Total				
Assets[1]	132,028	27,119	79,087	40,435
Liabilities[2]	281,303	31,219	53,715	11,456
Difference[g]	(149,275)	(4,100)	25,372	28,979
[1]Of which: Credit to the public	43,244	22,577	45,896	34,317
[2]Of which: Deposits from the Public	266,209	28,954	49,568	7,953

(a) In this note, the contractual future cash flows of balance sheet asset and liability items are presented by currencies according to the remaining periods until the contractual maturity date of each bash flow. Data are presented net of accounting write offs and loan loss provision.
(b) Assets without a fixed maturity date include overdue assets totaling NIS 776 million.
(c) Excluding foreign-currency linked NIS.
(d) As included in Note 31, including off-balance sheet amounts in respect of derivatives that are not settled on a net basis.
(e) The contractual rate of return is the interest rate used to discount the projected contractual cash flows reported in this Note in respect of a monetary item to its carrying amount.
(f) Loans extended under current loan account terms and classified in accordance with the facility's period total NIS 7.2 billion. NIS 1.2 billion, representing amounts in excess of the credit facility's ceiling are classified as loans with no fixed repayment date.
(g) This difference does not necessarily reflect exposure to interest and/or linkage basis.
(h) Restated.

Comment: Total memorandum liabilities against which short-term loans were extended by the Bank amount to NIS 4.5 billion.

More than two years and up to three years	More than three years and up to four years	More than four years and up to five years	More than five years and up to ten years	More than ten years and up to twenty years	Over twenty years	Total cash flows	Carrying amount[d] Without repayment period[b]	Total	Contractual rate of return[e] in %
25,608	22,118	16,797	46,231	39,914	13,871	386,867	3,785	352,939	3.12
14,196	5,938	3,569	7,342	5,608	6,216	304,740	903	299,440	1.83
11,412	16,180	13,228	38,889	34,306	7,655	82,127	2,882	53,499	
24,438	17,801	14,277	39,110	37,798	11,076	264,342	2,205	229,252	3.64
2,826	2,220	2,600	2,206	491	-	254,764	-	253,443	1.38
526	(830)	270	(279)	(33)	-	(24,025)	-	(24,350)	
662	-	-	-	-	-	300	-	291	
12,600	15,350	13,498	38,610	34,273	7,655	58,402	2,882	29,440	
7,836	6,396	4,820	13,718	4,044	1,308	94,463	1,883	88,071	2.48
358	321	502	440	2	6	117,451	47	115,840	2.12
7,478	6,075	4,318	13,278	4,042	1,302	(22,988)	1,836	(27,769)	
4,103	2,938	1,800	2,716	566	113	38,428	1,871	38,410	3.58
253	156	438	210	2	1	109,323	-	108,532	1.75
(3,303)	4,970	3,571	12,450	3,509	1,276	(19,708)	366	(24,672)	
3,621	3,478	1,274	4,629	994	58	7,287	116	5,798	
(526)	830	(270)	279	33	-	24,025	-	24,350	
(662)	-	-	-	-	-	(300)	-	(291)	
6,290	6,905	4,048	13,557	4,075	1,302	737	1,836	(3,710)	
33,444	28,514	21,617	59,949	43,958	15,179	481,330	5,668	441,010	2.99
14,554	6,259	4,071	7,782	5,610	6,222	422,191	950	415,280	1.91
18,890	22,255	17,546	52,167	38,348	8,957	59,139	4,718	25,730	
28,541	20,739	16,077	41,826	38,364	11,189	302,770	4,076	267,662	3.63
3,079	2,376	3,038	2,416	493	1	364,087	-	361,975	1.49

Note 33A – Financial Instruments - Balances and Fair Value Measurement

A. Overview

This note includes information regarding the measurement of financial instruments' fair value according to Banking Supervision Department's directives. Most of the Bank's financial instruments do not have a quoted "market price" since they are not traded in an active market. Therefore, the fair value of such instruments is measured based on the present value of the future cash flows discounted by an interest rate reflecting the interest rate of a similar transaction entered into on reporting date. The estimated fair value is calculated by estimating the future cash flows and determining a subjective discount rate. Therefore, for most financial instruments, the reported fair value estimate is not necessarily indicative of the financial instrument's realizable value on reporting date. Fair value was estimated on the basis of interest rates in effect as of reporting date and does not take into account interest rate fluctuations. If different interest rates are used, the fair value calculated may be significantly different. This mainly applies to financial instruments bearing fixed interest or financial instruments that do not bear interest. Furthermore, commissions and fees receivable or payable as a result of the business activities were not taken into account in the calculation of fair values. Moreover, the difference between the carrying amount and the fair value balances may not be realized since in most cases the Bank may hold the financial instrument to maturity. In view of the above, it should be emphasized that the data included in this note does not reflect the Group's value as a going concern. Furthermore, because of the wide range of valuation techniques and estimates that can potentially be applied in the measurement of fair value, one must exercise caution when comparing the fair value of different banks.

B. Principal Methods and Assumptions Used in Estimating the Fair Value of Financial Instruments

Financial assets:

Loans to the public - the fair value of loans to the public is measured according to the present value of the future cash flows discounted at an adequate discount rate. The balance of loans was classified into several categories according to the operating segment and the borrowers' credit rating. Future cash flows (principal and interest) were calculated for each category according to the different linkage bases. These cash flows were discounted at interest rates that reflect the risk level and average spread inherent in that loan category and the term of the loan.

This interest rate is normally determined according to the interest rate used in similar transactions as of reporting date.

The fair value of debit current account balances was estimated according to their carrying amounts.

The fair value of impaired loans was calculated using interest rates that reflect the high level of their inherent credit risk. In any case, these interest rates reflect the highest interest rates used by the Group in transactions carried out in that same segment as of reporting date.

The fair value of current account balances classified as impaired loans was calculated according to their estimated average duration based on maximum interest rates used by the Bank.

The future cash flows in respect of impaired loans were calculated after deducting the effect of accounting write-offs and loan loss provisions.

Deposits with banks and loans to governments - by discounting the future cash flows at interest rates used in similar transactions entered into on reporting date.

Securities – tradable securities were measured at market value. Non-tradable securities – shares were measured at cost and bonds were measured using a model that takes into account the present value of the future cash flows discounted at an adequate discount rate, which also takes into account the probability of default and the market value.

Note 33A – Financial Instruments - Balances and Fair Value Measurement (cont.)

Financial liabilities:

Deposits by the public - the balance of the deposits was classified into a number of categories according to operating segments, linkage basis and deposits' periods to maturity. Future cash flows (principal and interest) were calculated in respect of each category. These payments were discounted at an interest rate reflecting the average interest rate the Group pays on similar deposits of the same category for the period remaining until maturity. The carrying amount of current accounts and deposits without a fixed repayment date is considered to be an estimate of their fair value.

Deposits by banks and deposits by Governments - the fair value is estimated by discounting the future cash flows at the estimated interest rates at which the Group may raise similar deposits on reporting date.

Bonds, promissory notes and subordinated bond – at market value or by discounting the future cash flows at the interest rates at which the Group raises similar deposits, or can issued similar promissory notes on reporting date.

Other financial assets and liabilities:

Derivative financial instruments:

Derivative financial instruments with an active market were estimated at market value determined in the principal market. If the instrument is traded in several markets, fair value is estimated according to the most active market.

Fair value of derivative financial instruments not traded on an active market was measured using models used by the Bank in the ordinary course of business, and which take into account the risks inherent in the financial instrument (market risk, credit risk, etc.).

Note 33A - Financial Instruments - Balances and Fair Value Measurement (cont.)

	December 31 2018				
	Carrying	Fair value			
	value	Level 1[(a)]	Level 2[(a)]	Level 3[(a)]	Total
	In NIS millions				
Financial assets					
Cash and deposits with banks	**81,419**	**67,943**	**11,615**	**1,776**	**81,334**
Securities[(b)]	**74,571**	**40,720**	**29,934**	**3,900**	**74,554**
Securities borrowed or purchased under reverse repurchase agreements	**1,257**	**1,257**	**-**	**-**	**1,257**
Loans to the public, net	**271,173**	**2,663**	**84,608**	**182,432**	**269,703**
Loans to governments	**782**	**-**	**15**	**793**	**808**
Assets in respect of derivatives	**12,750**	**3,142**	**7,390**	**2,218**	**12,750**
Other financial assets, including balances classified as held-for-sale assets[(e)]	**9,355**	**478**	**35**	**8,835**	**9,348**
Total financial assets	**451,307**[(c)]	**116,203**	**133,597**	**199,954**	**449,754**
Financial liabilities					
Deposits by the public	**364,591**	**2,608**	**258,623**	**103,676**	**364,907**
Deposits from banks	**5,210**	**-**	**4,729**	**472**	**5,201**
Deposits from governments	**709**	**-**	**629**	**90**	**719**
Securities loaned or sold under repurchase agreements	**541**	**541**	**-**	**-**	**541**
Bonds, promissory notes and subordinated bonds	**17,798**	**13,136**	**-**	**5,515**	**18,651**
Liabilities in respect of derivative instruments	**12,089**	**3,146**	**8,706**	**237**	**12,089**
Other financial liabilities, including balances classified as held for sale liabilities[(e)]	**10,445**	**3,561**	**5,666**	**1,213**	**10,440**
Total financial liabilities	**411,383**[(c)]	**22,992**	**278,353**	**111,203**	**412,548**
Off balance-sheet financial instruments					
Transactions in which the outstanding balance embodies credit risk	**363**	**-**	**-**	**363**	**363**
In addition, liabilities in respect of employee benefits, gross - Pension and severance pay[(d)]	**15,867**	**-**	**173**	**15,694**	**15,867**

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

(b) For more information regarding balance of outstanding balance sheet securities and fair value of securities, please see Note 12.

(c) Of which: Assets and liabilities in the amount of NIS 116,216 million and NIS 220,199 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 33B and 33D.

(d) The liability is presented on a gross basis and does not take into account plan assets managed against it, including balances classified as held-for-sale liabilities.

(e) For more information, please see Note 36F.

Note 33A - Financial Instruments - Balances and Fair Value Measurement (cont.)

	December 31 2017				
	Carrying	Fair value			
	value	Level 1[(a)]	Level 2[(a)]	Level 3[(a)]	Total
	In NIS millions				
Financial assets					
Cash and deposits with banks	82,067	72,384	8,456	1,294	82,134
Securities[(b)]	77,299	48,697	26,244	2,360	77,301
Securities borrowed or purchased under reverse repurchase 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 by the public	362,478	2,139	252,313[(e)]	107,457	361,909
Deposits from banks	5,156	-	5,164	96	5,260
Deposits from governments	452	-	395	72	467
Securities loaned or sold under repurchase agreements	558	555	-	3	558
Bonds, promissory notes and subordinated notes	15,577	11,802	-	4,982	16,784
Liabilities in respect of derivative instruments	9,740	1,090	8,211	439	9,740
Other financial liabilities	8,761	1,721	5,523	1,517	8,761
Total financial liabilities	402,722[(c)]	17,307	271,606	114,566	403,479
Off balance-sheet financial instruments					
Transactions in which the outstanding balance embodies credit risk	364	-	-	364	364
In addition, liabilities in respect of employee benefits, gross - Pension and severance pay[(d)]	17,995	-	181	17,814	17,995

(a) Level 1 - Fair value measurements using prices quoted in an active market.
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 12.

(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 33B to 33D.

(d) The liability is presented on a gross basis and does not take into account plan assets managed against it.

(e) With the addition of the current account rescheduling model.

Note 33B - Items Measured at Fair Value

A. Items Measured at Fair Value on a Recurring Basis

	December 31 2018			
	Fair value measurements using -			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	In NIS millions			
Assets				
Available-for-sale securities:				
Government of Israel bonds	27,952	2,621	-	30,573
Foreign governments' bonds	2,417	3,487	-	5,904
Bonds of foreign financial institutions	43	9,664	-	9,707
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	6,612	2,821	9,433
Other Israeli bonds	81	161	-	242
Other foreign bonds	-	3,517	-	3,517
Available-for-sale shares and mutual funds	2,477	-	-	2,477
Total available-for-sale securities:	32,970	26,062	2,821	61,853
Held-for-trading securities:				
Government of Israel bonds	5,677	-	-	5,677
Foreign governments' bonds	52	-	-	52
Bonds of Israeli financial institutions	119	-	-	119
Bonds of foreign financial institutions	-	132	-	132
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	271	-	271
Other Israeli bonds	290	-	-	290
Other foreign bonds	-	220	-	220
Held-for-trading shares and mutual funds	2	-	-	2
Total held-for-trading securities	6,140	623	-	6,763
Assets in respect of derivative instruments:				
NIS-CPI contacts	-	86	149	235
Interest rate contracts	509	2,833	142	3,484
Foreign exchange rate contracts	-	3,264	971	4,235
Stock contracts	2,132	1,195	937	4,264
Commodity and other contracts	50	12	19	81
MAOF (Israeli financial instruments and futures) market activity	451	-	-	451
Total assets in respect of derivatives	3,142	7,390	2,218	12,750
Other:				
Credit and deposits in respect of loaned securities	2,728	6	-	2,734
Securities borrowed or purchased under agreements to resell	1,257	-	-	1,257
Other	478	-	-	478
Total - Other	4,463	6	-	4,469
Total assets	46,715	34,081	5,039	85,835

Note 33B - Items Measured at Fair Value (cont.)

A. Items Measured at Fair Value on a Recurring Basis (cont.)

	December 31 2018			
	Fair value measurements using -			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	In NIS millions			
Liabilities				
Liabilities in respect of derivative instruments:				
NIS-CPI contacts	**-**	**236**	**109**	**345**
Interest rate contracts	**508**	**2,776**	**-**	**3,284**
Foreign exchange rate contracts	**-**	**3,499**	**128**	**3,627**
Stock contracts	**2,132**	**2,165**	**-**	**4,297**
Commodity and other contracts	**51**	**30**	**-**	**81**
MAOF (Israeli financial instruments and futures) market activity	**455**	**-**	**-**	**455**
Total liabilities in respect of derivative instruments	**3,146**	**8,706**	**237**	**12,089**
Other:				
Deposits in respect of loaned securities	**2,608**	**13**	**3**	**2,624**
Securities loaned or sold under agreements to repurchase	**541**	**-**	**-**	**541**
Other	**1,145**	**-**	**-**	**1,145**
Total - Other	**4,294**	**13**	**3**	**4,310**
Total liabilities	**7,440**	**8,719**	**240**	**16,399**

Note 33B - Items Measured at Fair Value (cont.)

A. Items Measured at Fair Value on a Recurring Basis (cont.)

	December 31 2017			
	Fair value measurements using -			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	In NIS millions			
Assets				
Available-for-sale securities:				
Government of Israel bonds	34,246	2,387	-	36,633
Foreign governments' bonds	7,700	3,055	-	10,755
Bonds of Israeli financial institutions	-	11	-	11
Bonds of foreign financial institutions	44	9,609	-	9,653
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	7,160	1,369	8,529
Other Israeli bonds	3	67	-	70
Other foreign bonds	-	2,352	-	2,352
Available-for-sale shares and mutual funds	1,936	-	-	1,936
Total available-for-sale securities:	43,929	24,641	1,369	69,939
Held-for-trading securities:				
Government of Israel bonds	3,178	26	-	3,204
Foreign governments' bonds	82	-	-	82
Bonds of Israeli financial institutions	90	-	-	90
Bonds of foreign financial institutions	-	142	-	142
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	268	-	268
Other Israeli bonds	111	-	-	111
Other foreign bonds	-	299	-	299
Held-for-trading shares and mutual funds	1,307	-	-	1,307
Total held-for-trading securities	4,768	735	-	5,503
Assets in respect of derivative instruments:				
NIS-CPI contacts	-	149	166	315
Interest rate contracts	30	3,852	266	4,148
Foreign exchange rate contracts	-	2,206	616	2,822
Stock contracts	669	1,113	63	1,845
Commodity and other contracts	3	26	3	32
MAOF (Israeli financial instruments and futures) market activity	411	-	-	411
Total assets in respect of derivatives	1,113	7,346	1,114	9,573
Other:				
Credit and deposits in respect of 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 33B - Items Measured at Fair Value (cont.)

A. Items Measured at Fair Value on a Recurring Basis (cont.)

	December 31 2017			
	Fair value measurements using -			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	In NIS millions			
Liabilities				
Liabilities in respect of derivative instruments:				
NIS-CPI contacts	-	176	255	431
Interest rate contracts	29	3,804	-	3,833
Foreign exchange rate contracts	-	3,030	184	3,214
Stock contracts	663	1,179	-	1,842
Commodity and other contracts	3	22	-	25
MAOF (Israeli financial instruments and futures) market activity	395	-	-	395
Total liabilities in respect of derivative instruments	1,090	8,211	439	9,740
Other:				
Deposits in respect of loaned securities	2,219	14	44	2,277
Securities loaned or sold under agreements to repurchase	555	-	3	558
Other	1,721	-	-	1,721
Total - Other	4,495	14	47	4,556
Total liabilities	5,585	8,225	486	14,296

Note 33B - Items Measured at Fair Value (cont.)

B. Items Measured at Fair Value on a Non-Recurring Basis

	December 31 2018				
	Fair value measurements using -				
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value	Total profit (loss) from changes in value during the period
	In NIS millions				
Impaired credit whose collection is subject to collateral	**-**	**-**	**464**	**464**	**228**
Held-to-maturity bonds	**1,610**	**3,249**	**-**	**4,859**	**(17)**
Total	**1,610**	**3,249**	**464**	**5,323**	**211**

	December 31 2017				
	Fair value measurements using -				
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value	Total 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 33C - Items Measured at Fair Value on a Recurring Basis Included in Level 3

	For the year ended December 31 2018										
	Fair value as at the begi-nning of the year	Net realized/unrealized gains (losses) including: In the income state-ment[(a)]	In other comprehensive income[(b)]	Pur-chases and issues	Sales	Dis-charges	Adjust-ments from trans-lation of financial state-ments	Transfers to Level 3[(c)]	Trans-fers from level 3[(c)]	Fair value as at Dec-ember 31 2018	Unrealized gain (losses) in respect of instruments held as at December 31 2018
	In NIS millions										
Assets											
Available-for-sale securities:											
MBS/ABS	**1,369**	**377**	**(27)**	**286**	**-**	**(458)**	**-**	**1,274**	**-**	**2,821**	**(27)**
Assets in respect of derivative instruments:											
NIS-CPI contacts	**166**	**(44)**	**-**	**-**	**-**	**-**	**-**	**29**	**(2)**	**149**	**(22)**
Interest rate contracts	**266**	**34**	**-**	**-**	**-**	**(158)**	**-**	**-**	**-**	**142**	**(109)**
Foreign exchange rate contracts	**616**	**(78)**	**-**	**433**	**-**	**-**	**-**	**-**	**-**	**971**	**290**
Stock contracts	**63**	**874**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**937**	**935**
Commodity and other contracts	**3**	**16**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**19**	**19**
Total assets in respect of derivative instruments	**1,114**	**802**	**-**	**433**	**-**	**(158)**	**-**	**29**	**(2)**	**2,218**	**1,113**
Total assets	**2,483**	**1,179**	**(27)**	**719**	**-**	**(616)**	**-**	**1,303**	**(2)**	**5,039**	**1,086**
Liabilities											
Liabilities in respect of derivative instruments:											
NIS-CPI contacts	**255**	**(125)**	**-**	**-**	**-**	**-**	**-**	**57**	**(78)**	**109**	**41**
Foreign exchange rate contracts	**184**	**(56)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**128**	**(16)**
Total liabilities in respect of derivative instruments	**439**	**(181)**	**-**	**-**	**-**	**-**	**-**	**57**	**(78)**	**237**	**25**
Total - Other	**47**	**(44)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3**	**1**
Total liabilities	**486**	**(225)**	**-**	**-**	**-**	**-**	**-**	**57**	**(78)**	**240**	**26**

(a) Net realized gains (losses) reported in the income statement under the noninterest finance income item.
(b) Unrealized gains (losses) included in "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 five years.

Note 33C - Items Measured at Fair Value on a Recurring Basis Included in Level 3 (cont.)

	For the year ended December 31 2017										
	Fair value at beginning of year	Net realized/unrealized gains (losses) including: In the income statement[a]	In other comprehensive income[b]	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 December 31 2017	Unrealized gain (losses) in respect of instruments held as at March 31 2017
	In NIS millions										
Assets											
Available-for-sale securities:											
MBS/ABS	1,426	(61)	(10)	887	-	(873)	-	-	-	1,369	(1)
Assets in respect of derivative instruments:											
NIS-CPI contacts	202	(25)	-	-	-	-	-	20	(31)	166	10
Interest rate contracts	130	329	-	-	-	(193)	-	-	-	266	154
Foreign exchange rate contracts	575	(532)	-	573	-	-	-	-	-	616	505
Stock contracts	57	6	-	-	-	-	-	-	-	63	43
Commodity and other contracts	3	-	-	-	-	-	-	-	-	3	3
Total assets in respect of derivative instruments	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) Net realized gains (losses) reported in the income statement under the noninterest finance income item.
(b) Unrealized gains (losses) included in "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 five years.

Note 33D - Quantitative Information on Items Measured at Fair Value which were Included in Level 3

Quantitative Information on Fair Value Measurement in Level 3

	December 31 2018				
	Fair value	Evaluation technique	Unobservable inputs	Range	Average[3]
a. Items measured at fair value on a recurring basis					
Assets					
Available-for-sale securities[1]					
Asset-backed (ABS) or mortgage-backed (MBS) bonds	2,821	Discounted cash flows	Spread	110-215 bp	163 bp
			Probability of failure	2%-3.8%	2.90%
			Early repayment rate	20%	20%
			Percentage of loss	30%	30%
Assets in respect of derivative instruments[2]					
NIS-CPI interest contracts	130	Discounted cash flows	Expected inflation	0%-1.38%	0.46%
	19	Discounted cash flows	Counterparty risk	1.14%-100%(*)	2.54%
Interest rate contracts	142	Discounted cash flows	Counterparty risk	1.14%-100%(*)	2.54%
Foreign exchange rate contracts	57	Discounted cash flows	Expected inflation	(0.17)%-1.09%	0.46%
	914	Discounted cash flows	Counterparty risk	1.14%-100%(*)	2.54%
Stock contracts	937	Discounted cash flows	Counterparty risk	1.14%-100%(*)	2.54%
Commodity contracts	19	Discounted cash flows	Counterparty risk	1.14%-100%(*)	2.54%
Liabilities					
Liabilities in respect of derivative instruments[2]					
NIS-CPI interest contracts	109	Discounted cash flows	Expected inflation	(0.17)%-1.09%	0.46%
Foreign exchange rate contracts	128	Discounted cash flows	Expected inflation	(0.17)%-1.09%	0.46%
B. Items measured at fair value on a non-recurring basis					
Impaired credit whose collection is subject to collateral	464	Collateral's fair value			

* In respect of a defaulted counterparty.

Note 33D - Quantitative Information on Items Measured at Fair Value which were Included in Level 3 (cont.)

Qualitative Information on Fair Value Measurement in Level 3

1. The following unobservable inputs were used to measure the fair value of asset-backed or mortgage-backed securities: Spread, probability of default, early repayment rate, and severity of loss in the event of a default.
   A significant increase/decrease in the unobservable inputs will be reflected in a significantly lower/higher fair value, respectively.

2. The following unobservable inputs were used to measure the derivatives' fair value: Counterparty credit risk and expected inflation rate. The higher/lower a counterparty's credit risk, the lower/higher the contract's fair value, respectively.
   A change in the expected inflation rate will affect contracts' fair value in accordance with the Bank's CPI-linked position on these contracts. The higher (lower) the expected inflation rate with the Bank committed to paying the index-linked amount, the lower (higher) the contracts' fair value, respectively. The higher (lower) the expected inflation rate with the counterparty committed to paying the Bank the CPI-linked amount, the higher (lower) the contracts' fair value, respectively.

3. The average figure for unobserved input "Contract's counterparty risk" reflects a weighted average.

Note 33D - Quantitative Information on Items Measured at Fair Value which were Included in Level 3 (cont.)

Quantitative Information on Fair Value Measurement in Level 3 (cont.)

	December 31 2017				
	Fair value	Evaluation technique	Unobservable inputs	Range	Average[3]
a. Items measured at fair value on a recurring basis					
Assets					
Available-for-sale securities[1]					
Asset-backed (ABS) or mortgage-backed (MBS) bonds	1,369	Discounted cash flows	Spread	110-215 bp	163 bp
			Probability of failure	2%-3.8%	2.90%
			Early repayment rate	20%	20%
			Percent of loss	30%	30%
Assets in respect of 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%
Stock 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 in respect of 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.

Note 33D - Quantitative Information on Items Measured at Fair Value which were Included in Level 3

Qualitative Information on Fair Value Measurement in Level 3

1. The following unobservable inputs were used to measure the fair value of asset-backed or mortgage-backed securities: Spread, probability of default, early repayment rate, and severity of loss in the event of a default.
   A significant increase/decrease in the unobservable inputs will be reflected in a significantly lower/higher fair value, respectively.

2. The following unobservable inputs were used to measure the derivatives' fair value: Counterparty credit risk and expected inflation rate. The higher/lower a counterparty's credit risk, the lower/higher the contract's fair value, respectively.
   A change in the expected inflation rate will affect contracts' fair value in accordance with the Bank's CPI-linked position on these contracts. The higher (lower) the expected inflation rate with the Bank committed to paying the index-linked amount, the lower (higher) the contracts' fair value, respectively. The higher (lower) the expected inflation rate with the counterparty committed to paying the Bank the CPI-linked amount, the higher (lower) the contracts' fair value, respectively.

3. The average figure for unobserved input "Contract's counterparty risk" reflects a weighted average.

Note 34 - Interested and Related Parties of the Bank and its Consolidated Subsidiaries

Control of the Bank

Bank without a controlling core

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.

A. Balances

	December 31 2018			
	Interested parties[f][h]			
	Other shareholders[j]		Officeholders[a]	
	Balance as at December 31	Highest balance[d]	Balance as at December 31	Highest balance[d]
	In NIS millions			
Assets:				
Deposits with banks	-	-	-	-
Securities[e]	-	-	-	-
Loans to the public	**64**	**102**	**9**	**10**
Loan loss provision	-	-	-	-
Loans to the public, net	**64**	**102**	**9**	**10**
Investments in investee companies[e]	-	-	-	-
Other assets	-	-	**1**	**1**
Liabilities:				
Deposits by the public	**25**	**54**	**33**	**33**
Deposits from banks	-	-	-	-
Bonds, promissory notes and subordinated bonds	-	-	-	-
Other liabilities	**1**	**1**	-	-
Credit risk in off-balance sheet items[g]	**32**	**32**	**7**	**9**

(a) Including their immediate family members, as defined in Section 80.D.(3) to the Reporting to the Public Directives.
(b) Pursuant to Section 80.D.(4) to the Reporting to the Public Directives, corporations controlled by a person or corporation included in any of the interested party groups in accordance with the Securities Law and who/which holds at least 25 percent of their issued share capital or voting rights may appoint 25 percent or more of their board members.
(c) In accordance with Section 80.D.(8) of the Reporting to the Public Directives.
(d) Based on end-of-month balances.
(e) For details, please see Notes 12 and 15.
(f) As of December 31 2018, interested parties' holdings in the Bank's share capital amounted to NIS 80,347,017 par value of Bank's shares (of which officeholders: NIS 1,673,644 par value).
(g) Credit risk for off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations.
(h) Interested party, related party, related person, as defined in Section 80.D of the Reporting to the Public Directives.
(i) Associates or jointly held investees, in accordance with Section 80.D(7) to the Public Reporting Directives.
(j) Including any person/entity holding 5 percent or more of the Bank's means of control according to Section 80.D(2) of the Reporting to the Public Directives (as of December 19 2017, Altshuler Shaham Ltd. constitutes an interested party in the Bank and to the best of the Bank's knowledge, as of December 31 2018 it holds through entities under its ownership 5.16 percent of the Bank's issued share capital and voting rights).

				Related parties[h]					
				Held by the Bank				Other[c]	
Other[b]		Interested parties at time of transaction		Unconsolidated subsidiaries		Associates[h]			
Balance as at December 31	Highest balance[d]	Balance as at December 31	Highest balance[d]	Balance as at December 31	Highest balance[d]	Balance as at December 31	Highest balance[d]	Balance as at December 31	Highest balance[d]
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	364	405
33	53	-	2	-	-	815	999	290	290
-	-	-	-	-	-	-	-	-	-
33	53	-	2	-	-	815	999	290	290
-	-	-	-	-	-	623	869	-	-
-	-	-	-	-	-	1	1	-	-
11	72	-	5	3	3	34	192	66	684
-	-	-	-	-	-	11	11	-	-
-	-	-	-	-	-	-	-	-	-
-	1	-	-	-	-	14	14	2	2
-	1	-	1	-	-	34	163	130	186

Note 34 - Interested and Related Parties of the Bank and its Consolidated Subsidiaries (cont.)

A. Balances (cont.)

	December 31 2017			
	Interested parties[(f)(h)]			
	Other shareholders[(j)]		Officeholders[(a)]	
	Balance as at December 31	Highest balance[(d)]	Balance as at December 31	Highest balance[(d)]
	In NIS millions			
Assets:				
Deposits with banks	-	-	-	-
Securities[(e)]	-	-	-	-
Loans to the public	95	95	11	12
Loan loss provision	-	-	-	-
Loans to the public, net	95	95	11	12
Investments in investee companies[(e)]	-	-	-	-
Other assets	-	-	-	-
Liabilities:				
Deposits by the public	29	29	25	26
Deposits from banks	-	-	-	-
Bonds, promissory notes and subordinated bonds	-	-	-	1
Other liabilities	-	-	-	-
Credit risk in off-balance sheet items[(g)]	6	6	8	9

(a) Including their immediate family members, as defined in Section 80.D.(3) to the Reporting to the Public Directives.
(b) Pursuant to Section 80.D.(4) to the Reporting to the Public Directives, corporations controlled by a person or corporation included in any of the interested party groups in accordance with the Securities Law and who/which holds at least 25 percent of their issued share capital or voting rights may appoint 25 percent or more of their board members.
(c) In accordance with Section 80.D.(8) of the Reporting to the Public Directives.
(d) Based on end-of-month balances.
(e) For details, please see Notes 12 and 15.
(f) As of December 31 2017, interested parties' holdings in the Bank's share capital amounted to NIS 78,896,629 par value of Bank's shares (of which officeholders: NIS 1,935,807 par value).
(g) Credit risk for off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations.
(h) Interested party, related party, related person, as defined in Section 80.D of the Reporting to the Public Directives.
(i) Associates or jointly held investees, in accordance with Section 80.D(7) to the Public Reporting Directives.
(j) Including any person/entity holding 5 percent or more of the Bank's means of control according to Section 80.D(2) of the Reporting to the Public Directives (on December 19 2017, Altshuler Shaham Ltd. became an interested party in the Bank and to the best of the Bank's knowledge, as of December 31, 2017 it holds through entities under its ownership 5.05 percent of the Bank's issued share capital and voting rights).

				Related parties(h)					
				Held by the Bank				Other(c)	
Other(b)		Interested parties at time of transaction		Unconsolidated subsidiaries		Associates(h)			
Balance as at December 31	Highest balance(d)	Balance as at December 31	Highest balance(d)	Balance as at December 31	Highest balance(d)	Balance as at December 31	Highest balance(d)	Balance as at December 31	Highest balance(d)
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	391	391
3	3	-	9	-	-	824	911	160	212
-	-	-	-	-	-	-	-	-	-
3	3	-	9	-	-	824	911	160	212
-	-	-	-	-	-	807	923	-	-
9	9	-	-	-	-	-	1	-	-
149	149	-	25	3	3	152	247	262	551
-	-	-	-	-	-	3	4	-	-
-	-	-	1	-	-	-	-	-	-
1	1	-	-	-	-	12	13	2	2
7	7	-	5	-	-	21	57	190	190

Note 34 - Interested and Related Parties of the Bank and its Consolidated Subsidiaries (cont.)

B. Condensed Business Results with Interested Parties and Related Parties

	For the year ended December 31 2018					
	Interested parties[f]			Related parties[f]		
				Held by the Bank		Other[c]
	Other share-holders[h]	Office-holders[a]	Other[b]	Unconsolidated sub-sidiaries	Associates or jointly held investees[g]	
	In NIS millions					
Interest income, net[d]	**3**	**-**	**1**	**-**	**20**	**9**
Noninterest income (expenses)	**-**	**-**	**(1)**	**-**	**3**	**2**
Of which: Management and service fees	**-**	**-**	**1**	**-**	**3**	**1**
Operating and other expenses[e]	**-**	**(57)**	**(3)**	**-**	**(45)**	**(48)**
Total	**3**	**(57)**	**(3)**	**-**	**(22)**	**(37)**

	For the year ended December 31 2017					
	Interested parties[f]			Related parties[f]		
				Held by the Bank		Other[c]
	Other share-holders[h]	Office-holders[a]	Other[b]	Uncon-solidated subsi-diaries	Associates or jointly held investees[g]	
	In NIS millions					
Interest income, net[d]	-	-	-	-	20	7
Noninterest income	-	-	-	-	3	1
Of which: Management and service fees	-	-	-	-	3	1
Operating and other expenses[e]	-	(66)	(1)	-	(43)	(44)
Total	-	(66)	(1)	-	(20)	(36)

(a) Including their immediate family members, as defined in Section 80.D.(3) to the Reporting to the Public Directives.
(b) Pursuant to Section 80.d. (4) of the Reporting to the Public Directives, corporations controlled or jointly held by a person or corporation included in any of the interested party groups and who/which has significant influence on it or holds at least 25 percent of their issued share capital or voting rights may appoint 25 percent or more of their board members.
(c) In accordance with Section 80.D.(8) of the Reporting to the Public Directives.
(d) More information in Section D below.
(e) More information in Section C below.
(f) Interested party, related party, related person, as defined in Section 80.D of the Reporting to the Public Directives.
(g) Associates or jointly held investees, in accordance with Section 80.D(7) to the Public Reporting Directives.
(h) Including those holding at least 5 percent of the means of control in the Bank, in accordance with Section 80D(2) of the Reporting to the Public Directives.

Note 34 - Interested and Related Parties of the Bank and its Consolidated Subsidiaries (cont.)

B. Condensed Business Results with Interested Parties and Related Parties (cont.)

	For the year ended on December 31 2016					
	Interested parties[f]			Related parties[f]		
				Held by the Bank		Other[c]
	Other share-holders[h]	Office-holders[a]	Other[b]	Uncon-solidated subsi-diaries	Associates or companies under joint control[g]	
	In NIS millions					
Interest income, net[d]	-	-	-	-	21	22
Noninterest income	-	-	-	-	3	2
Of which: Management and service fees	-	-	-	-	3	2
Operating and other expenses[e]	-	(74)	(1)	-	(38)	(44)
Total	-	(74)	(1)	-	(14)	(20)

(a) Including their immediate family members, as defined in Section 80.D.(3) to the Reporting to the Public Directives.
(b) Pursuant to Section 80.d. (4) of the Reporting to the Public Directives, corporations controlled or jointly held by a person or corporation included in any of the interested party groups and who/which has significant influence on it or holds at least 25 percent of their issued share capital or voting rights may appoint 25 percent or more of their board members.
(c) In accordance with Section 80.D.(8) of the Reporting to the Public Directives.
(d) More information in Section D below.
(e) More information in Section C below.
(f) Interested party, related party, related person, as defined in Section 80.D of the Reporting to the Public Directives.
(g) Associates or jointly held investees, in accordance with Section 80.D(7) to the Public Reporting Directives.
(h) Including those holding at least 5 percent of the means of control in the Bank, in accordance with Section 80D(2) of the Reporting to the Public Directives.

Note 34 - Interested and Related Parties of the Bank and its Consolidated Subsidiaries (cont.)

C. Compensation and Any Other Benefits Granted to Interested Parties

	For the year ended December 31					
	2018		2017		2016	
	Officeholders					
	Benefits – total	No. of benefit recipients	Benefits – total	No. of benefit recipients	Benefits – total	No. of benefit recipients
	In NIS millions		In NIS millions		In NIS millions	
Interested party employed in the corporation or on its behalf[(a)(b)(c)]	**44**	**20**	52	23	67	21
Director employed in the corporation or on its behalf[(a)]	**8**	**13**	8	17	9	15

(a) Excluding payroll tax expenses.
(b) Of which: short-term employee benefits of NIS 44 million.
(2017 – short term employee benefits NIS 45 million, post-employment benefits NIS 7 million. 2016 – short term employee benefits NIS 27 million, post-employment benefits NIS 30 million).
(c) In 2018, expenses for stock-based payments were lower than NIS 1 million (in 2017, no expenses were recognized in respect of stock-based payments, 2016 – NIS 10 million).

Bank's directors and officeholders are covered under a directors and officeholder's liability insurance policy (D&O) taken out by the Bank. The overall insurance premium totals NIS 4,657 thousand (2017 – NIS 5,157 thousand, 2016 – NIS 4,844 thousand).

D. Net Interest Income from Transactions of the Bank and its Consolidated Companies with Interested and Related Parties

	For the year ended December 31					
	2018		2017		2016	
	Consolidated	Of which: Associates	Consolidated	Of which: Associates	Consolidated	Of which: Associates
	In NIS millions					
(a) For assets						
From loans to the public	**34**	**20**	28	20	43	21
(b) For liabilities						
For deposits by the public	**(1)**	**-**	(1)	-	-	-
Total interest income, net	**33**	**20**	27	20	43	21

E. Information Related to the Terms of Transactions and Balances with Related Parties and Interested Parties

All transactions and balances with interested parties and related parties were carried out in the ordinary course of business and under terms similar to those of transactions with entities not related to the Bank and its subsidiaries.

Interest receivable and payable in respect of transactions with interested parties and related parties is calculated at the normal interest rates applied to transactions in the ordinary course of business with non-related parties of the Bank.

Note 35 - The Bank's Condensed Financial Statements

A. Condensed Income Statement

	For the year ended December 31		
	2018	2017	2016
	In NIS millions		
Interest income	**9,626**	8,695	8,299
Interest expenses	**2,199**	1,892	1,898
Interest income, net	**7,427**	6,803	6,401
Expenses (income) in respect of loan losses	**310**	44	(160)
Interest income, net of expenses for loan losses	**7,117**	6,759	6,561
Noninterest income			
Noninterest finance income	**399**	817	1,314
Fees and commissions	**2,950**	2,861[(a)]	2,772[(a)]
Other income	**46**	341	121
Total noninterest income	**3,395**	4,019	4,207
Operating and other expenses			
Salaries and related costs	**3,612**	3,677[(a)]	3,918[(a)]
Buildings and equipment - maintenance and depreciation	**1,309**	1,330	1,367
Other expenses	**1,673**	1,673[(a)]	1,445[(a)]
Total operating and other expenses	**6,594**	6,680	6,730
Profit before taxes	**3,918**	4,098	4,038
Provision for income tax	**1,371**	1,454	1,430
Profit after taxes	**2,547**	2,644	2,608
Bank's share in net profits of investees after tax	**710**	528	183
Net income	**3,257**	3,172	2,791

(a) Reclassified. Please see Notes 1.C.5. and 1.W.3. regarding the retrospective application of the Banking Supervision Department's directive regarding improved presentation of expenses for pension and other post-employment benefits.

Note 35 - The Bank's Condensed Financial Statements (cont.)

B. The Bank's Balance Sheet

	December 31	
	2018	2017
	In NIS millions	
Assets		
Cash and deposits with banks	**82,398**	81,222
Securities	**67,265**	70,916
Securities borrowed or purchased under reverse repurchase agreements	**1,257**	1,161
Loans to the public	**251,834**	244,501[a]
Loan loss provision	**(3,006)**	(2,759)[a]
Loans to the public, net	**248,828**	241,742
Loans to governments	**782**	715
Investments in investees	**10,238**	11,452
Buildings and equipment	**2,558**	2,495
Assets in respect of derivatives	**12,667**	9,533
Other assets	**5,837**	7,428
Held-for-sale assets[b]	**1,470**	-
Total assets	**433,300**	426,664
Liabilities and capital		
Deposits by the public	**342,491**	340,623
Deposits from banks	**5,389**	5,158
Deposits from governments	**207**	147
Securities loaned or sold under repurchase agreements	**541**	558
Bonds, promissory notes and subordinated bonds	**17,798**	15,577
Liabilities in respect of derivative instruments	**12,009**	9,678
Other liabilities	**19,560**	21,756
Total liabilities	**397,995**	393,497
Equity attributable to the Bank's shareholders	**35,305**	33,167
Total liabilities and capital	**433,300**	426,664

(a) Reclassified.
(b) For more information, please see Note 36F.

Note 35 - The Bank's Condensed Financial Statements (cont.)

C. Statement of Cash Flows

	For the year ended December 31		
	2018	2017	2016
	In NIS millions		
Cash flows from operating activities			
Net income for the year	**3,257**	3,172	2,791
Adjustments:			
Bank's share in undistributed losses of investees, net of dividend received	**(581)**	(526)	(176)
Other, net (including provisions for loan losses and impairment of securities)	**(1,337)**	3,382[(a)]	4,244[(a)]
Net cash provided for operating activities	**1,339**	6,028	6,859
Cash flow from investing activities			
Purchase of associates' shares	**(20)**	(39)	(4)
Central severance pay fund	**246**	383[(a)]	173[(a)]
Other	**(8,602)**	(11,046)[(a)]	(8,930)[(a)]
Net cash for investing activities	**(8,376)**	(10,702)	(8,761)
Cash flow from financing activities			
Issue of bonds and subordinated bonds	**2,114**	-	4,443
Redemption of bonds, promissory notes and subordinated bonds	**(32)**	(6,597)[(a)]	(2,553)
Dividends paid to shareholders	**(1,369)**	(627)	-
Proceeds from disposal of investments in investees	**512**	-	-
Share buyback	**(700)**	-	-
Other	**1,960**	18,738[(a)]	14,874[(a)]
Net cash from financing activities	**2,485**	11,514	16,764
Increase (decrease) in cash and cash equivalents	**(4,552)**	6,840	14,862
Cash balance as at the beginning of the year	**76,691**	70,454	55,943
Effect of exchange rate fluctuations on cash and cash equivalent balances	**400**	(603)	(351)
Cash and cash equivalents balance at the end of the year	**72,539**	76,691	70,454

Interest and taxes paid and/or received and dividends received

	For the year ended		
	2018	2017	2016
	In NIS millions		
Interest received	**9,005**	8,753	8,624
Interest paid	**(2,438)**	(2,284)	(2,875)
Dividends received	**134**	5	13
Income tax paid	**(845)**	(1,651)	(1,473)

(a) Reclassified, including in respect of the application of US GAAP ASC 230, "Statement of Cash Flows". Please see Note 1.W.2.

Note 36 - Events after the Reporting Period and Miscellaneous 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. According to the law, no person shall hold a means of control in the Stock Exchange of 5 percent 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, as aforesaid. As a result, the Bank is required to sell its stake in the Stock Exchange in excess of 5 percent, according to the outline and schedule prescribed by the law

To sell the said shares, on January 18 2018, the Bank filed with the Stock Exchange an offer to sell and transfer its entire stake in the Stock Exchange (hereinafter - the "Offered Shares"), following the Exchange's offer to its shareholders, made on December 28 2017, to purchase their shares.

On April 16 2018, the Exchange informed the Bank it had accepted the Bank's offer (hereinafter - 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 proceeds for the Offered Shares will exceed the price in the Bank's offer, but the difference between the actual proceeds 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 August 27 2018, the Stock Exchange notified the Bank that the transaction had been completed. For the abovementioned transaction, the Bank recorded a pretax gain of approximately NIS 47 million in its Q3 2018 financial statements.

B. Bank Leumi USA

On January 22 2018, the Bank entered into two agreements to bring in strategic partners to Bank Leumi USA (BLUSA). Under the terms and conditions of the agreement, each of the partners acquired 7.5 percent 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 completed, 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 approximately USD 141 million. The transaction was accounted for as a capital transaction and the difference between the consideration and the minority's share in the capital was stated directly in capital.

C. Bank Leumi Le-Israel Trust Company Ltd.

On April 17 2018, the transaction between the Bank and Hermetic for the sale of 75 percent of Hermetic Trust's shares was completed. The completed transaction did not have a material effect on the financial results.

D. Leumi Partners Ltd.

1. In July 2018, Leumi Partners completed the sale of a wholly owned subsidiary, Avgol Industries. The Bank has recorded a pretax gain of approximately NIS 121 million from the sale in its third quarter financial statements.
2. On December 17 2018, Leumi Partners Ltd. completed its agreement with Direct Insurance - Financial Investments Ltd. (hereinafter - "Financial Investments"), whereby Leumi Partners received - by way of a private placement - ordinary shares of Financial Investments of NIS 1 par value each, which constitute 7.31 percent of its issued and paid up share capital in exchange for Leumi Partners' entire stake in Financial Investments Ltd. of the Direct Insurance Group (2006) Ltd., constituting 19.23 percent of the issued and paid up share capital of Direct Financing. The Bank recorded a pretax gain of approximately NIS 96 million in respect of the sale of Direct Insurance's shares.

Note 36 - Events after the Reporting Period and Miscellaneous Topics (cont.)

E. Bank Leumi Romania (BLROM)

On June 14 2018, Leumi signed an agreement with British investment fund Argo Capital Management Limited to sell its entire holdings in Bank Leumi Romania. One of the conditions precedent for the completion of the deal, pursuant to the agreement, is the acquirer obtaining a control permit from the National Bank of Romania. After the final date for obtaining the said control permit had passed, and since there was no forecast regarding the chances of obtaining such a permit by the acquirer and regarding the date on which it would be granted, the Bank notified the acquirer on February 19 2019 that the agreement has expired. At the same time, the Bank contemplated additional alternatives for the sale of Leumi Romania. On February 19 2019, the Bank gave an 8-week exclusivity period to an entity which submitted a non-binding offer for the acquisition of Leumi Romania. The exclusivity period was intended to allow that entity to conduct due diligence and enter into a binding agreement with the Bank. The revocation of the agreement in June 2018 is not expected to have a material effect on the Bank’s financial results; neither is entering a new sale agreement, if signed and completed, expected to have a material effect on the Bank’s financial results.

F. Held-for-sale assets and liabilities

On July 28 2018 - in accordance with the provisions of the said Law and after reviewing the various alternatives, and following a procedure for the disposal of the Bank’s interests 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 "Buyer"), for the sale of the Bank’s entire interests in Leumi Card. After the reporting period, on February 25 2019, the sales transaction was completed, after the conditions precedent were fulfilled (hereinafter - the "Completion Date" or "Transaction Completion Date").

Following are the main points of the agreement:

1. The consideration which was paid and payable to the Sellers for all of Leumi Card’s shares is NIS 2.5 billion (with the Bank's share being NIS 2 billion).
2. The said consideration was adjusted, inter alia, in respect of a dividend distributed by Leumi Card to its shareholders until the transaction completion date. The total adjustment amount (in respect of the dividends) was NIS 558 million.
3. The consideration amount was and shall be paid by three installments. Two deferred payments, which shall be completed after the completion date, are guaranteed by an autonomous guarantee by an insurance company, which was delivered to the sellers at the completion date to guarantee the abovementioned payments.

   Following are details of the payments after the adjustments detailed in Section 2 above:

   - A total of approximately NIS 517 million was paid on the transaction completion date.
   - A total of NIS 342 million shall be paid 12 months after the transaction completion date.
   - A total of NIS 1,111 million shall be paid 24 months after the transaction completion date.
4. The agreement includes representations typical of company sale transactions, as well as an indemnification mechanism in respect of breach of representations. The reimbursement mechanism determines a 1.5 percent minimum for activating the mechanism and is restricted to a maximum total reimbursement rate of 10 percent of the transaction amount (excluding in respect of breach of material representations or in case of fraud).
5. According to the agreement, Leumi Card entered into a financing agreement with the Bank in respect for part of its liquidity needs.

Note 36 - Events after the Reporting Period and Miscellaneous Topics (cont.)

As part of the negotiations with the Acquirer, the Bank has agreed to include several terms and conditions which were added to the operating agreement between the Bank and Leumi Card on October 11 2018 (hereinafter: the "Operating Agreement"). In exchange to the Bank's agreement to include these terms and conditions, and subject to meeting the terms and conditions of the agreement, 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 an additional 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.

Leumi Card is presented as a held-for-sale disposal group. The carrying value of Leumi Card is presented as a single figure under assets and liabilities, with no retrospective presentation of comparative results. There has been no change in the presentation format in the income statement.

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

	December 31	
	2018	2017
	In NIS millions	
Assets		
Cash and deposits with banks	**35**	28
Loans to the public	**8,210**	8,286
Loan loss provision	**(168)**	(121)
Loans to the public, net	**8,042**	8,165
Investments in investee companies	**7**	6
Buildings and equipment	**266**	172
Other assets	**220**	129
Total assets	**8,570**	8,500
Liabilities		
Deposits by the public	**71**	65
Deposits from banks	**1,150**	-
Bonds, promissory notes and capital notes	**1,269**	-
Other liabilities	**6,288**	6,404
Total liabilities	**8,778**	6,469

Recognized income and expenses

The company has incurred expenses totaling NIS 28 million, directly recognized in other comprehensive income which relate to held for sale assets and disposal groups.

Note 36 - Events after the Reporting Period and Miscellaneous Topics (cont.)

G. The Bank Sells ABS Shares

Pursuant to the provisions of the Law for Increasing Competition and Reducing Concentration in the Israeli Banking Industry (Legislative Amendments), 2017 (hereinafter - the "Law"), the Bank is required to reduce its holdings in Automated Banking Services Ltd. ("ABS" or the "Company"), such that by January 30 2021, the Bank's holdings in ABS will not exceed 10 percent of the Company's issued capital.

Thus, on November 20 2018, the Bank contracted a corporation from the Visa International Group (hereinafter - "Visa") for the sale of 10 percent of the Company's shares for NIS 37 million. The deal was completed on December 13 2018. The Bank recorded an approximately NIS 24.6 million profit (before tax) on the said sale of the shares.

Under the said agreement and subject to its terms and conditions, Visa will also be granted a right of first offer if the Bank wishes to sell additional shares in the Company (other than by an offer to sell under a prospectus), and subject to the applicable holding restrictions under law. Such right of first offer shall apply to the shares which the Bank is obligated to sell under law until June 30 2019; regarding the shares the Bank is not obligated to sell, the right of first offer will be valid until three years from the date of completion of the agreement. Visa was also granted certain rights of first offer or refusal in connection with the sale (if any) of the Bank's holdings in Bank Clearing Center Ltd.

Following the said sale to Visa, the Bank's remaining stake in the company is approximately 30 percent.

The Bank is examining additional ways to sell its holdings in accordance with the provisions of the law, including by means of an offer to sell shares that will be offered to the public through a prospectus published by the Company.

H. Organizational Changes and Appointments at the Bank

On March 6 2019, the Bank's Board of Directors approved organizational changes and appointments at the Bank:

1. Banking Division - Mr. Danny Cohen, First Executive Vice President, Head of the Banking Division and Head of the Operations Division, announced his desire to leave the Bank after 27 years of service in a variety of positions. Mr. Cohen is expected to end his tenure on March 31 2019 and retire from the Bank at a date to be announced later on.

   Mr. Eilon Dachbash will be appointed Head of the Banking Division as First Executive Vice President and member of the Bank's management. The appointment of Eilon Dachbash as Head of the Banking Division is subject to the approval (or non-objection) of the Bank of Israel.

2. Eyal Ben Haim will be appointed Head of the Operations Division, which was launched by Leumi in early 2019, as First Executive Vice President and member of the Bank's management.

3. Digital Banking Division - Ms. Tamar Yassur, First Executive Vice President and Head of the Digital Banking Division, announced her desire to leave the Bank after 12 years of service in a variety of roles. Ms. Yassur is expected to end her tenure on March 31 2019 and retire from the Bank at a date to be announced later on.

4. The Digital Banking Division will be split into a new division currently being formed - the Data Division, and the Strategy and Transformation Division. The above organizational change is designed to allow the Bank to implement its strategy on the back of the material changes taking place in the banking industry worldwide.

5. The Data Division - Mr. Ilan Buganim, who is currently serving as head of the CTO/CDO Department as First Executive Vice President and member of management, will be appointed head of the new Data Division. In addition to its overall responsibility for leveraging the Bank's data assets, the Data Division will also manage PEPPER, Leumi's digital Bank. It will also manage the Bank's Marketing Department.

Note 36 - Events after the Reporting Period and Miscellaneous Topics (cont.)

6. The strategy and Regulation Division, headed by Mr. Hanan Friedman, First Executive Vice President and member of the Bank’s management, will be responsible, in addition to its current purviews, for accelerating and implementing digital innovation and joining together the four components of strategic projects at the Bank: Business, Technology, Regulation and Strategy. The division’s name will change to the "Strategy and Transformation Division".

BANK LEUMI OF ISRAEL LTD. AND ITS INVESTEE COMPANIES
Corporate Governance, Additional Details and Appendices
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The Bank's Board of Directors(*)(**)

Mr. David Brodet, Chairman

Mr. Yitzhak Edelman(a)

Dr. Shmuel (Muli) Ben Zvi(b)(c)

Mr. Yoram Gabbay(a)(d)

Ms. Tamar Gottlieb(a)(e)

Ms. E. Dominissini

Dr. Samer Haj Yehia

Ms. Esther Levanon

Mr. Ohad Marani(b)(f)

Mr. Y. Nardi

Ms. Zipporah Samet(a)(b)(g)

Dr. Yitzhak Sharir

(a) ED pursuant to the Companies Law, 1999 (hereinafter – "ED")

(b) External director pursuant to the provisions of Proper Conduct of Banking Business Directive No. 301 (hereinafter - "External Director").

(c) Dr. Shmuel Ben Zvi was re-elected External Director at the Bank's annual general meeting held on October 4 2018, retroactively commencing a second term of office on July 29 2018 (the date on which his first term ended) after having received the Supervisor of Banks' notice of non-objection to the said appointment.

(d) Mr. Yoram Gabbay was elected ED at the Bank's annual general meeting held on October 4 2018, commencing a first term of office on November 13 2018 after having received the Supervisor of Banks' notice of non-objection to the said appointment.

(e) Ms. Tamar Gottlieb was re-elected ED at the Bank's annual general meeting held on October 4 2018, commencing a second term of office on October 15 2018 after having received the Supervisor of Banks' notice of non-objection to the said appointment. Ms. Gottlieb serves as Chairperson of the Audit Committee as of October 7 2018.

(f) Mr. Yoram Gabbay was elected External Director at the Bank's annual general meeting held on October 4 2018, commencing a second term of office on November 1 2018 after having received the Supervisor of Banks' notice of non-objection to the said appointment.

(g) Ms. Z. Samet, who served as an ED at the Bank until August 17 2017, was re-elected External Director who and also meets the terms of qualifications for ED, by the general meeting held on October 3 2017 under an individual arrangement (for more information, please see Section 1.4.2 to the Report on Convening a General Meeting published by the Bank on September 28 2017 (Ref. No. 2017-01-086014)) and commenced her third term with the Bank on November 22 2017.

* On October 9 2018, Adv. Haim Samet ended his term of office as a director in the Bank at the status of ED.

On October 29 2018, Prof. Yedidia Stern ended his term of office as a director in the Bank at the status of External Director.

** For more information regarding members of the Bank's Board of Directors, please see "Changes in the Board of Directors" and Directive 26 in the Bank's 2017 Annual Report and on the MAGNA website of the Israel Securities Authority: http://www.magna.isa.gov.il.

As of the date of this report and its publication date, the Board of Directors has 12 directors. Under the amendment to Proper Conduct of Banking Business Directive No. 301, published on July 5 2017 (hereinafter - "Directive 301"), the maximum number of members on the Board of Directors of banking corporations is to be reduced to 10 by July 1 2020.

In 2018, pursuant to guidance issued by the Banking Supervision Department, the number of members on the Board of Directors was reduced to 12.

On November 6 2018, the Bank received guidance from the Banking Supervision Department, whereby in order to comply with the provisions of Directive 301 as well as with guidance issued in previous years to reduce the number of directors, in 2019 the number of directors will be reduced to 10 through the directors ending their third and last term. Accordingly, it should be noted that Mr. David Brodet (Chairman of the Board) and Yoav Nardi (member of the Board under the status of "other director") are expected to end their third and last term with the Bank on July 21 2019.

Pursuant to Directive 301, at least one third of the directors should meet the eligibility requirements for an external director as defined by Directive 301 ("External Directors"). Accordingly, as of the report date and its publication date, the Bank's Board of Directors includes 6 directors who are classified as external directors, including 4 External Directors and 4 EDs in accordance with the Companies Law, 1999 (hereinafter - the "Companies Law").

In addition, due to the "independent director" definition in the Companies Law, the Audit Committee of the Board of Directors confirmed that the External Directors constitute "independent directors".

Pursuant to the directives of the Banking Supervision Department and the provisions of the Companies Law and the regulations thereunder, the Bank's Board of Directors decided that at least three directors with "accounting and financial expertise" serving on the Board of Directors at any given time shall participate in the Board plenum's discussions of the draft financial statements and their approval, so as to enable the Board of Directors to meet its obligations in accordance with the law and the Bank's articles of association, and especially its responsibility for examining the Bank's financial position and preparing the financial statements.

In determining the said minimum number, the Board of Directors took into account the Bank's size, the complexity of its activity and the diverse risks involved, as well as its existing systems and procedures, such as: control, risk management, compliance, internal auditing and audit by the independent auditors. In addition, all Board members comply with the legal eligibility requirements for serving as directors.

As of the report publication date - and as approved by the Board of Directors based on their education, experience, abilities and knowledge - all members of the board meet the definition of directors with accounting and financial expertise and professional qualifications in accordance with the Companies (Conditions and Tests for a Director with Accounting and Financial Expertise and Director with Professional Qualifications) Regulations, 2005. For more information regarding the education and experience of the members of the Bank's Board of Directors, please see Directive 26 in the periodic report.

As of January 1 2013 and pursuant to Directive 301, discussions regarding the financial statements take place in the Board of directors' Audit Committee. Pursuant to Directive 301, at least two members of the Audit Committee should have accounting and financial expertise. The Bank's Board of Directors determined that, at any given time, at least three directors with accounting and financial expertise will serve on the Board of Directors' Audit Committee. In effect, all directors serving on the Audit Committee have accounting and financial expertise. The legal quorum for discussion and decision-making by the Audit Committee is a majority of its members, provided that the majority of those present are independent External Directors and at least one is an ED. As of the report date and its publication date, the Bank has 6 board members who are classified as external directors, of which 4 are EDs.

Under Directive 301 - prior to its amendment published in July 2017 - at least one fifth of the Board members were to have "banking experience". Thus, as of the reporting date and publication date, the Bank's Board of Directors includes 4 directors classified as having "banking experience", who are: David Brodet, Zipporah Samet, Yoav Nardi and Yitzhak Sharir.

Pursuant to the revised Directive 301, published on July 5 2017, the following changes were made to the eligibility requirements of the Board members, to become effective on July 1 2020: 1) The mandatory portion of directors with "banking experience" shall increase from one fifth to one third; 2) At least half of the directors are required to have "professional qualifications" as defined in the Companies Regulations (Conditions and Tests for a Director with Accounting and Financial Expertise), 2005; 3) At least one director shall have proven knowledge and experience in information technology.

As of the reporting date and publication date, the Bank's Board of Directors includes 3 directors classified by the Board as having proven knowledge and experience in information technology, who are: E. Levanon, S. Haj Yehia and Yitzhak Sharir.

On December 31 2017, the Board Of Directors decided to merge the Audit Committee and Remuneration Committee so that the Audit Committee will also serve as the Remuneration Committee.

Changes in the Board of Directors

On July 23 2018, following the Bank's inquiry in the matter, the Supervisor of Banks agreed, pursuant to her authority under Section 11E(a)(6) to the Banking Ordinance, 1941 - inter alia, in light of the expected decrease in the number of directors at the Bank following the end of their tenure - to extend the term of office of Dr. Shmuel Ben Zvi, an external director of the Bank, in accordance with Directive 301 (hereinafter: "External Director") until the earliest of six months from the end of his first term, July 28 2018, or until the number of directors meets the requirements of the Banking Supervision Department.[1] As detailed below, Dr. Ben Zvi was elected to an additional term as External Director by the annual general meeting of the Bank held on October 4 2018. Dr. Ben Zvi's second term of office commenced retroactively on July 29 2018 (the date on which his first term ended), after having received the Supervisor of Banks' notice of non-objection to the said appointment.

On October 4 2018, the Bank's annual general meeting was held, in which the following Board members were elected for a term of 3 years: Mr. Yoram Gabbay was appointed external director (hereinafter - "ED") pursuant to the provisions of the Companies Law, 1999, Ms. Tamar Gottlieb was elected ED, Dr. Shmuel Ben Zvi was elected External Director and Mr. Ohad Marani was elected External Director.

For more information, please see the Section entitled "Control of the Bank" as well as the Bank's immediate report dated August 28 2018 regarding the convening of the annual general meeting (Ref. No.: 2018-01-081873) and the Bank's amended immediate report dated October 7 2018 regarding the results of the general meeting (Ref. No.: 2018-01-092817).

On October 9 2018, Adv. Haim Samet ended his term as an ED with the Bank.

For more information, please see the immediate report dated October 10 2018 (Ref. No.: 2018-01-094719).

On October 15 2018, Ms. Tamar Gottlieb began her second term as an ED with the Bank, after the Bank received the Supervisor's non-objection letter for Ms. Gottlieb's additional term, subject to the following conditions: (1) That Ms. Gottlieb and/or Harvest Capital Markets Inc. (in which Ms. Gottlieb holds 50 percent of the share capital) shall not provide consulting and management services to the Leumi Group, its officers or any of the Bank's material shareholders; and (2) That Ms. Gottlieb and/or Harvest Capital Markets Inc. shall not represent clients vis a vis Bank Leumi, officeholders in the Leumi Group or any of the Bank's principal shareholders.

For more information, please see the immediate report dated October 15 2018 (Ref. No.: 2018-01-096549).

On October 29 2018, Prof. Yedidia Stern ended his term as External Director at the Bank.

For more information, please see the immediate report dated October 31 2018 (Ref. No.: 2018-01-102024).

On November 1 2018, Mr. Ohad Marani began his second term as an External Director with the Bank, after the Bank received the Supervisor's non-objection letter for Mr. Marani's additional term.

For more information, please see the immediate report dated October 31 2018 (Ref. No.: 2018-01-102087).

On November 13 2018, Mr. Yoram Gabbay began his second term as an ED with the Bank, after the Bank received the Supervisor's non-objection letter for Mr. Gabbay's additional term.

For more information, please see the immediate report dated November 13 2018 (Ref. No. 2018-01-107886).

For more information, please see the Sections entitled "Annual General Meeting" and "Election of Directors".

For more information about updates to Directive 301 regarding the Board of Directors, please see under "Members of the Board of Directors".

[1] It should be noted, in this context, as specified in the Section "The Bank's Board of Directors", that the Bank had received guidance from the Banking Supervision Department whereby the number of directors at the Bank should be, as of the 2017 annual meeting, 13 directors, and as of the 2018 annual meeting - 12 directors. As of this report's publication date, the Board of Directors includes 12 directors.

Members of the Bank's Management and their Roles[1]

Ms. Rakefet Russak Aminoach, CPA
President and CEO

Mr. Ronen Agassi, CPA
First Executive Vice President, Head of Capital Markets Division

Mr. Shmulik Arbel[1]
First Executive Vice President, Head of Corporate Division

Mr. Ilan Buganim
First Executive Vice President, Head of CDO, CTO and Infrastructure

Ms. Bosmat Ben Zvi, CPA
First Executive Vice President, Chief Risk Officer, Head of the Risk Management Division

Mr. Shai Basson
First Executive Vice President, Head of Leumi Technologies Division

Mr. Shlomo Goldfarb, CPA
First Executive Vice President, Chief Accounting Officer and Head of the Accounting Division

Mr. Omer Ziv, CPA
First Executive Vice President, Head of Financial Division

Ms. Tamar Yasur
First Executive Vice President, Head of Digital Banking Division

Mr. Dan Cohen[1][2]
First Executive Vice President, Head of Banking Division and Operations Division

Ms. Hilla Eran-Zik
First Executive Vice President, Head of Human Resources Division

Mr. Hanan Friedman, Adv.
First Executive Vice President, Head of Strategy and Regulation Division

Ms. Irit Roth, Adv.
First Executive Vice President, Chief Legal Counsel, Head of Legal Counsel Department and Head of Legal Risk

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Ms. Sharon Gur
First Executive Vice President, Chief Internal Auditor and Head of the Internal Audit Division

Ms. Livnat Ein-Shay Wilder, Adv.
Secretary of the Bank and Group

Somekh Chaikin
Kost Forer Gabbay & Kasierer
The Bank's Joint Independent Auditors

(1) For information regarding changes in the Bank's management and senior officeholders during 2018, please see the Section entitled "Appointments and Retirements". For more information regarding members of the Bank's management, please see the Bank's 2018 Annual Report and on the MAGNA website of the Israel Securities Authority: http://www.magna.isa.gov.il.

(2) Mr. Dan Cohen serves as both Head of Banking Division and Operations Division since its founding on January 1 2019 until a permanent Head of Operations Division is appointed and approved by the Bank's Board of Directors.

Internal Auditor

On May 1 2017, Ms. Sharon Gur was appointed Chief Internal Auditor of the Group in accordance with the recommendation of the Bank's Audit Committee and the decision of the Board of Directors on December 27 2016. Ms. Gur's appointment was approved by the Bank of Israel on February 22 2017.

The Chief Internal Auditor meets the criteria of Section 146(b) to the Companies Law, 1999 and the provisions of Section 8 to the Internal Audit Law, 1992 (hereinafter: the "Internal Audit Law") and the employees of the Internal Audit Division meet the provisions of Sections 11 and 12 to Proper Conduct of Banking Business Directive No. 307 regarding the internal audit function.

The Chief Internal Auditor is a full-time employee of the Bank, is a member of management and this is her sole occupation. She reports to the Bank's Chairman of the Board.

The Internal Audit Division has an annual work plan and a multi-year work plan for a period of up to three years. The annual work plan and the multi-year work plan are derived from a mapping of audit topics - which are based, inter alia, on the documents outlined in Directive No. 307. The work plans are derived from a systematic methodology for assessing risks and controls, according to which the frequency and scope of the audit for each topic are determined. Thus, audits of higher risk topics are carried out annually, while lower risk topics are audited every two to three years. Drafts of annual work plans and multi-year work plans are submitted by the Internal Audit Division and approved by the Chairman of the Board of Directors, Audit Committee and the Board of Directors' plenum.

The Internal Audit Division's annual work plan and the multi-year work plan allow the Chief Internal Auditor to exercise discretion in deciding to deviate from the plan, as necessary.

In addition, several audit days are allocated each year to unplanned audits and review of special incidents, enabling the Internal Auditor to examine ad hoc topics, either at the request of the Bank's management or Audit Committee, or as a result of new activities or topics undertaken by the Group.

As part of the audit work, a sample of material transactions carried out by the Bank – including their approval procedures – is examined. In this context, material transactions include a material acquisition or sale of an operation, "transactions" - in accordance with Section 270 to the Companies Law and "extraordinary transaction" – as defined by the Companies Law.

The Internal Audit Division's annual work plan and multi-year work plan each include all audit topics for the Bank, the material consolidated subsidiaries in Israel as well as the material foreign subsidiaries (as set forth in Note 15C).

Employees of the Internal Audit Division serve as internal auditors of the Bank's consolidated subsidiaries in Israel.

In the material foreign subsidiaries, local internal auditors (sometimes representatives of the parent company) are appointed.

The internal auditors of each of the material subsidiaries in Israel and abroad report to their respective boards of directors or audit committees.

Leumi's Internal Audit Division supervises the audit activity in the foreign offices in accordance with the Bank of Israel's directives and subject to the local laws.

The Chief Internal Auditor and team of auditors in the Leumi Group in Israel comprise, on average, 84.8 positions for 2018, as outlined below:

	Average number of auditor positions in the Leumi Group in Israel:
The Bank	78.3
Subsidiaries in Israel	2.5
Supervision and control of foreign subsidiaries	4
Total	84.8*

* Of which 0.7 positions, on average, are on maternity leave or unpaid leave.

In addition, 5 positions by way of outsourcing.
Furthermore, foreign subsidiaries employ local auditors in 20 positions (including contract positions).
The number of positions was approved by the Audit Committee in Israel, based on the annual and multi-year work plans.
The Chief Internal Auditor may, within the framework of the budget, use contract specialists to carry out work that requires special knowledge or in the event of insufficient staff.

Set forth below is a breakdown of the benefits and amounts which were paid or provided for in 2018 to the Chief Internal Auditor in NIS thousands:

2018					
% of the Bank's capital	Compensation for services			Other compensation	
	Salaries	Bonuses**	Social benefit contributions	Benefit value	Total*
	(in NIS thousands)				
-	1,072	491	453	111	2,127

* Excluding salary tax.
** Please see Note 23E to the Financial Statements.

The amounts and components of payments to the Chief Internal Auditor are submitted to and approved by the Audit Committee.

The Board of Directors believes that the fact that the Chief Internal Auditor holds securities and her compensation do not affect the exercise of her professional judgement.

The Chief Internal Auditor operates in accordance with the professional standards of the Institute of Internal Auditors in Israel and the Institute of Internal Auditors (IIA).

Furthermore, the Chief Internal Auditor operates in accordance with the directives and instructions of the Banking Supervision Department, including Proper Conduct of Banking Business Directive No. 307 regarding the Internal Audit function.

The Audit Committee and Board of Directors have noted the Chief Internal Auditor's written statement, according to which she complies with all of the requirements set forth in the abovementioned generally accepted professional standards, and also operates in accordance with the directives of the Banking Supervision Department. Based on this statement and on her performance, as reflected in meetings of the Board of Directors' Audit Committee, the Audit Committee and the Board of Directors are satisfied that the Chief Internal Auditor meets the aforesaid requirements.

Audit reports and records are submitted to the audited entities in writing, after the findings are discussed with them. Furthermore, towards the date of issuance of the reports and records, material findings are discussed with the heads of divisions and with the President & CEO.

Audit reports and records are discussed by the Audit Committee each month, and occasionally, several times a month. In addition to the Chief Internal Auditor, members of the Audit Committee also include representatives of the Internal Audit Division and the heads of the audited divisions and their representatives.

Ahead of Audit Committee meetings, the Chairman of the Audit Committee determines, after consulting the Chief Internal Auditor, which audit reports and records will be presented in their entirety for discussion by the Audit Committee. Furthermore, summaries of all audit reports and records issued by the Internal Audit Division throughout the relevant period are submitted on an ongoing basis for review by all Audit Committee members. Audit Committee members may review any audit report and record they deem fit and request that the Chairman present these reports and records in their entirety for discussion by the Audit Committee.

At the end of the first and second halves of the year, the Internal Auditor submits reports summarizing the audit activities to the Chairman of the Board of Directors, the President and CEO and the Chairman of the Audit Committee, the Audit Committee and the Board of Directors; the reports include a summary of the material findings, the auditor's recommendations and the audited entity's responses.

In addition, the Chief Internal Auditor submits to the Chairman of the Board of Directors, the President and CEO and the Chairman of the Audit Committee, the Audit Committee and the Board of Directors an annual report summarizing the audit activities during the course of the entire year; the report also monitors the implementation of the annual work plan and assesses the effectiveness of the Group's internal control framework.

The Internal Audit Division's work plan for 2018 was submitted to the Audit Committee on January 25 2018 and approved by the Committee on January 30 2018; the plan was submitted to the Board of Directors on January 31 2018 and was approved by the Board on February 4 2018.

The Internal Auditor's report for the first half of 2018 was submitted to the Audit Committee on August 15 2018 and was discussed by the Committee on August 19 2018; the report was submitted to the Board of Directors on August 28 2018.

The Internal Audit Division's report for the second half of 2018 was submitted to the Audit Committee on February 19 2019 and was discussed by the Committee on February 24 2019; the report shall be submitted to the Board of Directors on March 6 2019.

The Internal Auditor's annual report for 2018 will be discussed by the Audit Committee on March 17 2019 and will be discussed by the Board of Directors on March 26 2019.

The Internal Audit Division's work plan for 2019 was submitted to the Audit Committee on January 7 2019 and approved by the Committee on January 10 2019; the plan was submitted to the Board of Directors on January 24 2019 and was approved by the Board on January 29 2019.

The Chief Internal Auditor received documents and information as specified in Section 9 to the Internal Audit Law and was given access to information as specified in that section, including continuous and indirect access to the Bank's information systems and to financial data.

Internal auditors auditing Leumi's Israeli and foreign subsidiaries were provided with documents and information as specified in Section 9 of the Internal Audit Law and given access to information as specified in that Section. These auditors have continuous and direct access to the information systems of the Israeli and foreign subsidiaries, including financial data.

The Board of Directors and Audit Committee believe that the scope, nature and continuity of the Chief Internal Auditor's activities and the work plan are reasonable under the circumstances, and are sufficient to implement the Internal Audit objectives of the Group.

Independent Auditors' Fees [a][b][c]

	Consolidated		Bank	
	2018	2017	2018	2017
	In NIS thousands			
For audit work:[d]				
Joint independent auditors	19,340	20,635	10,372	11,669
Other independent auditors	192	306	-	-
Total	19,532	20,941	10,372	11,669
Audit related fees[f]				
Joint independent auditors	3,635	3,602	3,098	3,326
Other independent auditors	-	-	-	-
For tax services:[e]				
Joint independent auditors	3,389	2,279	441	486
Other independent auditors	315	295	-	-
For other services:				
Joint independent auditors	7,468	3,925	6,471	2,866
Other independent auditors	1,001	1,269	-	-
Total	15,808	11,370	10,010	6,678
Independent auditors' fees - Total	35,340	32,311	20,382	18,347

(a) The Board of Director's Report to the Annual General Meeting on the Independent Auditors' fees in respect of audit and audit-related services, under Sections 165 and 167 to the Companies Law, 1999.

(b) The Independent Auditors' fees include payments to partnerships and corporations under their control and payments required pursuant to the VAT Law.

(c) Including fees paid and accumulated fees.

(d) Audit of annual financial statements and review of interim financial statements.

(e) Includes the audit of adjusted reports for income tax purposes, assessment discussions and tax advisory services.

(f) Audit-related fees mainly include: prospectuses, special certificates, comfort letters, and forms or reports to authorities which require the Independent Auditor's signature.

Officeholders Compensation Policy

The Bank's policy regarding compensation of officeholders in respect of part of 2016 and in respect of 2017, 2018 and 2019.

On November 3 2016, the Bank's General Meeting approved a compensation policy for the Bank's employees effective as of October 12 2016 through the end of 2019 (hereinafter: the "Compensation Policy"). The Compensation Policy is based on the provisions of Amendment No. 20 to the Companies Law regarding the Bank's officeholders' service and employment terms, on Proper Conduct of Banking Business Directive 301A regarding compensation policy of a banking corporation and on the provisions of the Law for Compensation of Officeholders in Financial Corporations (Special Approval and Disallowing the Deduction of Exceptional Bonus for Tax Purposes), 2016 (hereinafter - the "Compensation Limitation Law").

The Compensation Policy establishes a framework for the compensation of Bank's officeholders and refers, among other things, to fixed compensation components, which is the principal compensation paid to officeholders and includes a fixed salary, social benefits, related benefits and retirement and severance terms, as well as to variable compensation components which include any compensation which is not fixed in nature, including: annual measurable performance bonus, qualitative personal mission bonus, and a special retention bonus. The Chairman of the Board and the Bank's President and CEO shall not be eligible for a variable annual bonus, but may be eligible for additional pay - a fixed component for which no social contributions will be made (except contributions as required by law) in an amount equal to the difference between the maximum compensation amount that may be paid to them by law and their current employment cost.

The total variable bonus per officeholder is restricted to a maximum of 6 monthly salaries per year (in addition to one salary as a special bonus); the Board of Directors is authorized to reduce the measurable annual performance-based bonus, at its discretion. Furthermore, the Compensation Policy prescribes, based on Directive 301A, a mechanism for repayment of variable bonuses, including repayment criteria and circumstances and a repayment period.

The Compensation Policy also includes arrangements for deferring officeholders' variable bonuses and the conditions for paying deferred bonuses.

In addition, the Compensation Policy includes provisions regarding retention of benefits accrued in respect of an employment period prior to October 12 2016 (the date on which the transitional period of the Compensation Limitation Law ended), including retirement benefits (such as: increased severance pay, early retirement and unfunded retirement pension) as well as provisions regarding the option of freezing benefits as aforesaid and depositing them in an external fund, which would pay the benefits accrued on a predetermined date.

For more information regarding the compensation policy, please see the Report on Summons of the Extraordinary General Meeting of the Bank published on October 21 2016 (Ref. No. 2016-01-066408) as well as Note 23.E.

For information regarding the updated employment terms of the Chairman of the Board of Directors and the President and CEO, please see Note 23B to the Financial Statements.

Salaries of Senior Officeholders

For the year ended December 31 2018

Set forth below is a breakdown of the benefits and amounts paid or provided for in 2018 and 2017 to the Chairman of the Board of Directors and to highest paid senior officeholders of the Group. The benefits described below do not include benefits in respect of banking services that are provided to the Bank's employees, such as preferred interest rates on financial deposits with the Bank, preferred interest rates on mortgages, discounts or exemptions from fees payable on banking services provided by the Bank, etc. The amounts of the benefits awarded to each of the compensation recipients in respect of such banking services are insignificant. Certain private customers of the bank, including customers who are included in arrangements between the Bank and employee groups, are occasionally awarded benefits that are similar to those granted to Bank employees and in some cases, even exceed them.

2018							
Details of recipient of compensation(1)		Compensation for services				Other compensation	
Name	Job title	% of the Bank's equity	Salaries	Bonuses(5)	Social benefit contributions(3)	Benefit value(4)	Total(2)
		%	(in NIS thousands)				
Mr. D. Brodet(7)	Chairman of the Board	0.014	2,625	-	400	87	3,112
Ms. Rakefet Russak Aminoach(6)	President & CEO	0.030	2,627	-	462	34	3,123
Avner Mendelson(14)	CEO of Bank Leumi USA	-	1,874	3,388	638	2,303	8,203
Mr. Shawn McGowen(15)	Head of Commercial Banking at Leumi USA	-	1,687	2,435	244	758	5,124
Mr. Raja Dakkuri(17)	Chief Financial Officer at BLUSA	-	1,687	2,341	261	-	4,289
Mr. Yaron Bloch(16)	(Former) CEO of Leumi Partners and Leumi Card's Chairman of the Board	0.012	1,552	2,233	631	132	4,548
Mr. Ronen Agassi(8)(9)	First Executive Vice President, Head of Capital Markets Division and Leumi Partners' Chairman of the Board	0.001	1,539	986	293	144	2,962
Mr. Shai Basson(8)(10)	First Executive Vice President, Head of LeumiTech	0.001	1,533	1,018	286	118	2,955
Mr. Hanan Friedman, Adv.(11)	First Executive Vice President, Head of Strategy and Regulation	0.004	1,599	797	300	93	2,789
Mr. Omer Ziv(8)(12)	First Executive Vice President, Head of Finance Division	0.001	1,508	691	392	153	2,744

1. The compensation recipients work full time.
2. Excluding payroll tax. Including provisions for compensation and severance pay according to law for Mr. David Brodet in the amount of NIS 377 thousand; for Ms. Rakefet Russak Aminoach - NIS 388 thousand; for Mr. Ronen Agassi - NIS 227 thousand; for Mr. Shai Basson - NIS 220 thousand; for Mr. Hanan Friedman - NIS 234 thousand and for Mr. Omer Ziv - NIS 227 thousand.

3. Social benefit contributions include contributions for severance pay, bonuses, pension (including the "unfunded pension" arrangement applicable to veteran employees and officeholders - for more information, please see Note 23.A1.), study fund, and social security, as well as supplementary provision in respect of the above due to salary changes during the reporting period. The Bank's senior employees have special personal employment contracts with the Bank. For more information regarding the retirement benefits of senior employees and their eligibility for advance notice on retirement, please see Note 23.B.1.

   It is clarified that as of January 1 2018, the employment cost for the officeholders no longer includes the current interest cost carried to the Bank's income statement yearly due to discounting the Bank's liabilities towards the officeholders as well as the interest for shortening the liability period (the interest rate component which was transferred from salary costs to operational costs according to the accounting statements).

4. The value of the benefit includes, inter alia, car and telephone expenses.

5. For more information regarding senior employees' eligibility for bonuses in accordance with the new compensation policy for senior office holders, please see Note 23.E.

6. Ms. Rakefet Russak-Aminoach has served as the President and CEO of the Bank since May 1 2012.

   On November 3 2016, the Bank's General Meeting approved the service and employment terms of the Bank's President and CEO under the new compensation policy. The President and CEO's tenure and employment terms are in accordance with the Law for Compensation of Officeholders in Financial Corporations (Special Approval and Disallowing the Deduction of Exceptional Bonus for Tax Purposes), 2016 (hereinafter - the "**Compensation Limitation Law**") and include a fixed supplementary compensation component which is allowed under the Compensation Limitation Law.

   Under the President and CEO's terms of service and employment, she is not eligible for a variable annual bonus.

   During the reporting period, the President and CEO purchased shares of the Bank from the State of Israel as part of the outline agreement with employees published by the Bank on November 20 2018 (Ref. No. 2018-01-111390). For more information, please see the Section entitled "Control of the Bank."

   During the reporting period, an expense for the President and CEO's past benefits, in the amount of NIS 81 thousand, was recorded (for purchasing Leumi's State shares and in relation to PSUs previously allocated according to the Bank's compensation policy).

   For more information regarding the President and CEO's terms of employment, please see Note 23.B.2.and the Bank's immediate report regarding convening of a general shareholders' meeting, dated October 21 2016 (Ref. No.: 2016-01-066408).

7. On November 3 2016, the Bank's General Meeting approved the service and employment terms of the Bank's Chairman of the Board under the Bank's compensation policy. The Chairman of the Board's tenure and employment terms are in accordance with the Compensation Limitation Law and include a fixed supplementary compensation component which is allowed under the Compensation Limitation Law.

   Under his tenure terms, the Chairman of the Board is entitled to fixed compensation only and to social benefits and related expenses, as is customary with regard to Bank's officeholders.

   During the reporting period, the Chairman of the Board was entitled to purchase from the State of Israel shares of the Bank as part of the outline agreement with employees published by the Bank on November 20 2018 (Ref. No. 2018-01-111390). For more information, please see the Section entitled "Control of the Bank." The said offering of shares to the Bank's Chairman of the Board is subject to the approval of the general shareholders' meeting.

   During the reporting period, an expense for the Chairman of the Board's past benefits, in the amount of NIS 20 thousand, was recorded (for purchasing Leumi's State shares and in relation to PSUs previously allocated according to the Bank's compensation policy).

For more information regarding the Chairman of the Board’s employment terms, please see Note 23.B.3. and the Bank’s immediate report regarding convening of a general shareholders’ meeting, dated October 21 2016 (Ref. No.: 2016-01-066408).

8. During the reporting period, Bank employees, including members of the Bank's management purchased shares of the Bank, from the State of Israel under a plan published by the Bank on November 2018 (Ref. No. 2018-01-111390). For more information, please see the section entitled "Control of the Bank".

9. Mr. Ronen Agassi serves as member of management, and as of April 16 2017, is head of the Bank’s Capital Markets Division. Mr. Agassi is also Chairman of Leumi Partners’ Board of Directors. Mr. Ronen Agassi’s terms of tenure and employment are in line with the Bank’s compensation policy and the Compensation Limitation Law. The bonuses granted to Mr. Ronen Agassi are as detailed in the table above and include part of the sign-on bonus given to him for his first year at the Bank.

10. Mr. Shai Basson serves as member of management, and as of September 1 2017, is Head of LeumiTech (CIO) at the Bank. Mr. Basson’s terms of tenure and employment are in line with the Bank’s compensation policy and the Compensation Limitation Law. The bonuses granted to Mr. Shai Basson are as detailed in the table above and include part of the sign-on bonus given to him for his first year at the Bank.

11. Mr. Hanan Friedman serves as member of the Bank’s management. Until June 1 2017, Mr. Friedman served as Chief Legal Counsel and Head of the Bank’s Legal Counsel Division. As of that date, Mr. Friedman serves as Head of Strategy and Regulation at the Bank. Mr. Friedman’s terms of tenure and employment are in line with the Bank’s compensation policy and the Compensation Limitation Law. During the reporting period, Mr. Friedman purchase Bank shares from the State of Israel under the plan for employees published on November 20 2018 (Ref. No. 2018-01-111390). For more information, please see the section entitled "Control of the Bank".

    During the reporting period, an expense for Mr. Friedman's past benefits was recorded (for purchasing Leumi State-owned shares and in relation to PSUs previously allocated to him according to the Bank's compensation policy).

12. Mr. Omer Ziv serves as member of management, and as of August 16 2016, is head of the Bank’s Finance Division. Mr. Ziv’s terms of tenure and employment are in line with the Bank’s compensation policy and the Compensation Limitation Law. During the reporting period, a very marginal expense was recorded for past benefits to which Mr. Ziv is entitled in relation to the vesting of previously-allocated PSUs in accordance with the Bank's compensation policy. The expense is not included in the table above.

13. For more information regarding the terms of tenure and employment of the members of the Bank’s management, including the compensation policy, retirement terms and bonuses, please see Note 23.

14. Mr. Avner Mendelson serves as CEO of Bank Leumi USA (BLUSA) a wholly-owned subsidiary of the Bank as of September 1 2013. The current salary and bonuses awarded to Mr. Mendelson, as outlined in the above table, were determined according to Leumi USA’s compensation policy and according to the accepted norms regarding salaries of CEOs of similar size banks in the United States. Mr. Mendelson’s salary includes additional related expenses such as rent and are grossed up.

15. Mr. Shawn McGowen serves as head of Leumi USA’s Commercial Banking, a wholly owned subsidiary of the Bank. The current salary and bonuses awarded to Mr. McGowen, as outlined in the above table, were determined according to Leumi USA’s compensation policy.

16. In 2018, Mr. Yaron Bloch served as CEO of Leumi Partners, a wholly-owned subsidiary of the Bank, and as Chairman of Leumi Card. In December 31 2018, Mr. Bloch ended his tenure as Leumi Partners’ CEO. Mr. Bloch’s annual bonus, as outlined in the table above, was approved by the Compensation Committee and Board of Directors of Leumi Partners, in accordance with his employment agreement and Leumi Partners’ officeholder compensation policy.

17. Mr. Raja Dakkuri serves as VP Finance and Operations of Leumi USA, a wholly owned subsidiary of the Bank. The current salary and bonuses awarded to Mr. Raja, as outlined in the above table, were determined according to Leumi USA’s compensation policy.

18. Loans under beneficial terms, if any, were granted pursuant to the accepted terms and conditions for all of the Bank's employees and their amounts were set according to uniform criteria. The said loans were marginal in terms of amount (a few thousands of shekels) and were therefore omitted from the table.

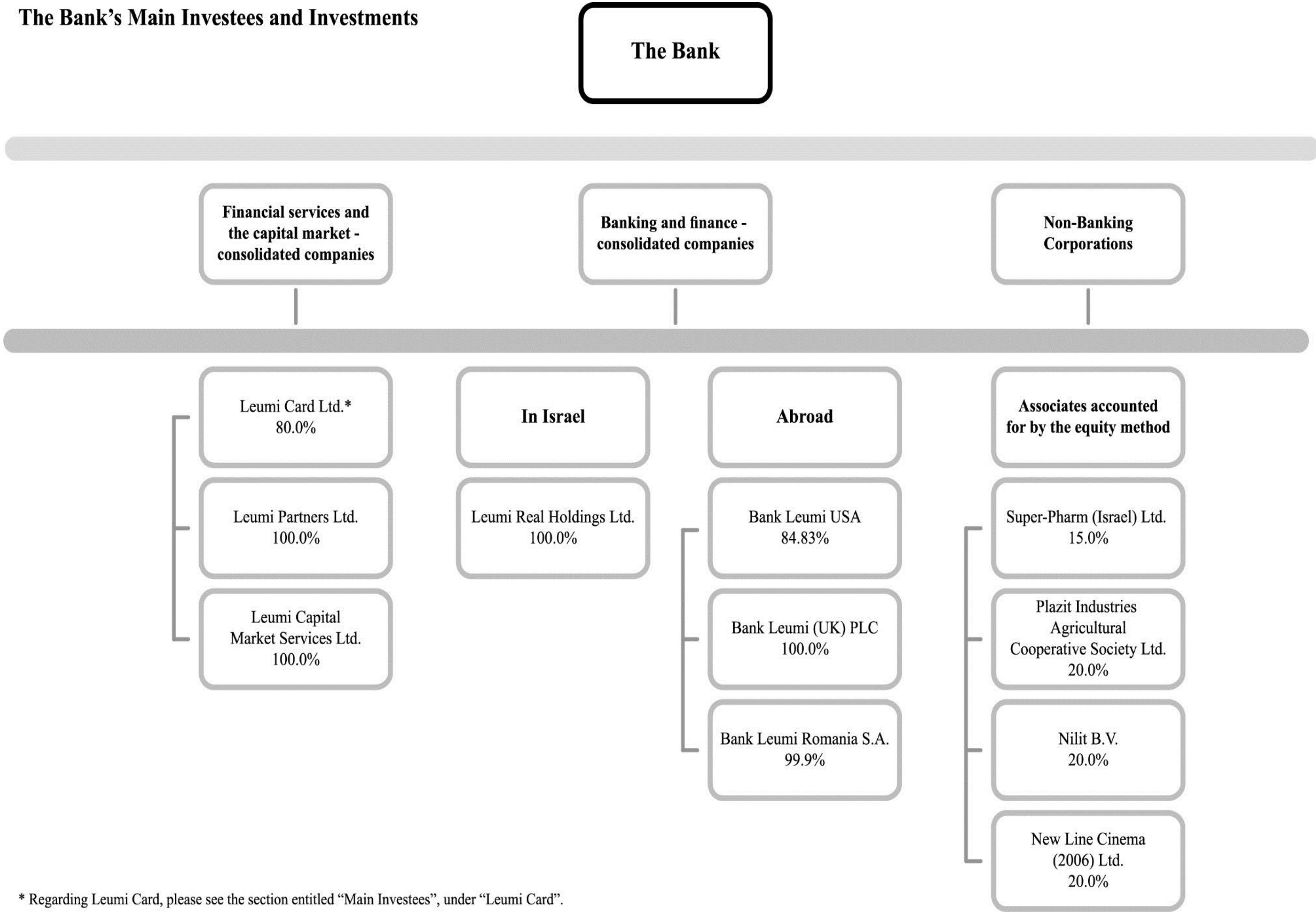
19. Directors and other officeholders are covered by directors and officeholders liability insurance policy (D&O) taken out by the Bank and its investees. The relative insurance premium is marginal and therefore not included in the above tables. The premium totaled NIS 6,237 thousand for all of the Group's insured officeholders.

20. The Board of Directors believes - after conducting discussions, receiving explanations and proper, relevant background material and reviewing the compensation while taking into account the Bank and Group's activity and performance in 2018 and taking into account the Group's compensation policy and its subsidiaries' compensation policy, as well as the work and performance of each senior officeholder of the Bank or Group - that the compensation paid to the aforementioned senior officeholders, as set out in the table and explanations above, in no way exceeds fair and reasonable compensation under the circumstances, taking into consideration each of the aforesaid officeholders' contribution to the Bank's operating results and thus believes that the compensation, as aforesaid, is for the benefit of the Bank.

2017							
Details of recipient of remuneration		Compensation for services					
Name	Job title	% of the Bank's equity	Salaries	Bonuses	Social benefit contri-butions	Benefit value	Total
		%	(in NIS thousands)				
Mr. David Brodet	Chairman of the Board	0.011	2,413	-	368	87	2,868
Ms. Rakefet Russak Aminoach	President & CEO	0.025	2,411	-	430	38	2,879
Mr. Avner Mendelson	CEO of Bank Leumi USA	-	1,734	3,857	436	1,953	7,980
Mr. Shawn McGowen	Head of Commercial Banking at Leumi USA	-	1,560	2,774	204	871	5,409
Mr. Yaron Bloch	CEO of Leumi Partners and Leumi Card's Chairman of the Board	-	1,549	2,231	406	124	4,310
Mr. Gil Karni	CEO of Bank Leumi UK	-	897	1,389	1,085	836	4,207
Ms. Hilla Eran-Zik	Head of Human Resources Division	0.006	1,237	414	951	103	2,705
Mr. Shmulik Arbel	Head of the Commercial Department in the Corporate Division	0.006	1,008	465	605	108	2,186
Ms. Sharon Gur	Chief Internal Auditor and Head of the Internal Audit Division	0.008	948	435	634	101	2,118
Ms. Bosmat Ben Zvi	Chief Risk Officer and Head of the Risk Management Division	0.004	1,153	525	296	86	2,060

For information and explanations regarding salaries and tenure terms of the officeholders outlined in the above table in respect of 2017, please see the Section entitled "Officeholder Salaries" in the Bank's 2017 Annual Report.

The Bank's Main Investees and Investments



* Regarding Leumi Card, please see the section entitled "Main Investees", under "Leumi Card".

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 State-owned Leumi shares

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. According to the announcement, the Accountant General at the Ministry of Finance stated that as part of the sale, the State would meet its obligations to the Bank's employees with regard to the option to sell 10 percent of the sold shares to Bank Leumi employees at a 25 percent discount. On September 5 2018, the Bank received a notice from the Ministry of Finance regarding the completion of the transaction for the sale of 81,037,614 ordinary shares of NIS 1.00 par value each of the Bank held by the State to Citigroup Global Markets Limited at a price of NIS 23.38 per share, for a total of NIS 1,894,659,415, after which the State would still hold 1,557,793 ordinary shares of NIS 1.00 par value each designated for sale to the Bank's employees. Accordingly, on September 5 2018, the Government of Israel - on behalf of the State of Israel - ceased to constitute an interested party in the Bank. Under Leumi's privatization agreements from 2006, the Bank's employees are entitled to purchase a portion of Leumi's shares from the State of Israel in case the State disposes of some of its holdings, at a 25 percent discount.

Subsequently, on November 20 2018, the State of Israel published an outline of the offer to the Bank's employees - in accordance with Section 15B(1)(b) to the Securities Law, 1968 and Securities (Details of an Outline of an Offer of Securities to Employees) Regulations, 2000 - offering participants up to 7,793,155 registered ordinary shares of the Bank, at NIS 1 par value each. On December 25 2018, 7,773,055 shares were purchased by Bank employees, including officeholders (excluding the Chairman of the Board - for more information, please see below) at a price of NIS 17.3188. The purchased shares are restricted for a period of two years from the record date, as prescribed in the outline (the date on which the purchased shares are deposited with the trustee), i.e., until December 25 2020. Under the State of Israel's offer to the Bank's employees, as detailed in the outline, 12,364 Bank shares were offered to the Chairman of the Board, subject to the approval of the general shareholders' meeting, pursuant to Section 273 to the Companies Law. The offer of shares to the Chairman of the Board will be submitted for approval at the Bank's 2019 annual general meeting, which is expected to convene in mid-2019.

For more information, please see the immediate reports dated September 5 2018 (Ref. Nos. 2018-01-085491, 2018-01-085455 and 2018-01-084993); November 20 2018 (Ref. No. 2018-01-111390) and December 25 2018 (Ref. No. 2018-01-126747).

For up-to-date information on interested parties' holdings in the Bank as of December 31 2018, please see the immediate report dated January 7 2019 (Ref. No. 2019-01-003360), "Status of Holdings of Interested Persons and Senior Officers." In addition, please see also the immediate report entitled "Status of Holdings of Interested Persons and Senior Officers" as at March 31 2018, dated April 10 18 (Ref. No. 2018-01-036136) and the immediate report dated February 18 2019 regarding a shareholder which ceased to serve as a controlling shareholder in the Bank (Ref. No. 2019-01-014296).

Annual general meeting and election of directors

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. No.: 2018-01-029917). 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).

Consequently, the annual general meeting, which convened on October 4 2018, voted on 6 candidates proposed by the Committee for the Appointment of Directors in Banking Corporations, which was appointed pursuant to Section 36A to the Banking Law (Licensing), 1981 and pursuant to Sections 11D(a)(1) and (2) to the Banking Ordinance, 1941, as follows:

- 3 candidates to serve as EDs: 1. Mr. Yoram Gabbay; 2. Ms. Tamar Gottlieb - an ED who completed her first term of office on August 25 2018 and was re-elected; and 3. Mr. Rafael Danieli. Of the above, Mr. Yoram Gabbay and Ms. Tamar Gottlieb were elected as EDs of the Bank for a period of 3 years, subject to the Supervisor of Banks' approval or non-objection to the appointment.
- 3 candidates to serve as EDs: 1. Dr. Shmuel Ben Zvi – serving External Director and candidate for reappointment; 2. Mr. Yoram Turbowicz, PhD; and 3. Mr. Ohad Marani - External Director who completed his first term on October 31 2018 and was a candidate for re-election. Out of the above list, Dr. Shmuel Ben Zvi and Mr. Ohad Marani were elected to serve as External Directors for a period of three years, subject to the approval or non-objection of the Supervisor of Banks.

In addition, the Financial Statements and Report of the Board of Directors and Management as at December 31 2017 were presented in the annual general meeting. It was also decided to reappoint auditing firms Somekh Chaikin (KPMG) and Kost Forrer Gabbay & Kasierer (EY) as joint independent auditors of the Bank for a period that will commence on the date of approval by the current annual general meeting until the end of the next annual general meeting of the Bank and to authorize the Bank's Board of Directors to set the fees paid thereto.

Dr. Shmuel Ben Zvi began his second term of office retroactively, on July 29 2018, following approval by Supervisor of Banks.

For more information, please see the Section entitled "Changes in the Board of Directors".

Ms. Tamar Gottlieb began her second term of office on October 15 2018, following approval by the Supervisor of Banks, as outlined in the immediate report dated October 15 2018 (Ref. No.: 2018-01-096549).

Mr. Yoram Gabbay began his first term of office on November 13 2018, after receiving approval from the Supervisor of Banks, as detailed in the immediate report dated November 13 2018 (Ref. No.: 2018-01-107886).

Mr. Ohad Marani began his second term of office on November 1 2018, following approval by the Supervisor of Banks, as outlined in the immediate report dated October 31 2018 (Ref. No.: 2018-01-102087).

For more information, please see the Section entitled "Changes in the Board of Directors" as well as the Bank's immediate report dated August 28 2018 regarding the convening of the annual general meeting (Ref. No.: 2018-01-081873) and the Bank's amended immediate report dated October 7 2018 regarding the results of the general meeting (Ref. No.: 2018-01-092817), which include detailed information regarding this subject referred hereto.

Corporate Governance Risk Assessment Report

At the Bank's request, Entropy Corporate Governance Consulting Ltd. (hereinafter - "Entropy") conducted a risk assessment survey from January to May 2018, for the Bank (hereinafter - the "Survey"). The objectives of the survey were 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. The survey rated the Bank's corporate governance level "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 to the local banking industry. Under Entropy's methodology, the Advanced score places the Bank at a low risk for corporate governance failures to occur.

Property, Plant and Equipment

Buildings and equipment - the amortized cost of buildings and equipment as at December 31 2018 amounted to NIS 2.9 billion, similar to last year.

Investments in buildings and equipment as of December 31 2018 are as follows:

	Cost	Accumulated depreciation	Carrying value	
	December 31			
	2018			2017
	In NIS millions			
Buildings and land	3,009	1,741	1,268	1,321
Equipment, furniture and vehicles	3,647	2,801	846	889
Software	4,515	3,776	739	776
Total	11,171	8,318	2,853	2,986

The above buildings and equipment are used mainly for the Group's activities. Buildings that are not used by the Group and are leased to non-Group parties and included in the consolidated balance sheet as of December 31 2018, amounted to NIS 40 million.

Real estate

The majority of the buildings in which the Group conducts its business in Israel are owned by the Bank or by its subsidiaries. Most of the properties in which the Group conducts its business abroad are leased.

Set forth below are data regarding the breakdown of the areas of the Bank, Binyanei Bank Ltd. and Lin City Center Ltd.:

	As at December 31	
	2018	2017
	In m^2 thousands	
Owned	223	235
Leased	99	104
Total	322	339

IT Department

Bank Leumi has two principal computing centers: a primary center, in Lod, and a secondary center, in Tel Aviv. In addition, there is a third copy of the data kept in the Jerusalem area.

The Bank's computing center in Lod is based in an underground facility protected at an accepted level against rocket attacks, biological and chemical warfare and earthquakes. The facility was constructed using advanced technologies to enable the Bank to operate at a high level and function independently in times of emergency. To the Bank's understanding, the survivability and redundancy levels of the computer center's infrastructures are equivalent to Tier-3 levels and the infrastructures comply with various standards.

Bank Leumi has two mainframe computers, for use by the production, development, and emergency recovery systems. The Mortgage Department's main computer center is also located in Lod and its backup site is in Tel Aviv.

Leumi's information and cyber security practices are based on the banking secrecy principle and various laws and directives, such as the provisions of the Protection of Privacy Law and regulations promulgated thereunder, the provisions of the Computers Law, Bank of Israel's directives, and generally accepted international standards relating to information security and cybersecurity.

Pursuant to these provisions and in light of Leumi's cyber risk management strategy and policy, significant work is being carried out. Emphasis is made on implementing controls and forward-looking information security mechanisms.

In an era of increasing threats posed both from within the organization and by external parties, Leumi takes measures to protect itself from cyberattacks and works to hedge the risks arising from various types of cyberattacks. In addition, the Bank works in coordination with the Banking Supervision Department of the Bank of Israel, the banking sector, the National Cyber and CERT array to enhance its ability to tackle cyber threats.

The operations and computer-related activities of the Israeli and foreign subsidiaries is independent, with the managements and boards of directors of these subsidiaries bearing the managerial and professional responsibility and in line with Leumi's IT strategy.

For information regarding the agreement for the provision of computer services to Union Bank, please see the section entitled "Material Agreements".

In 2018, the Group invested in equipment (including software) approximately NIS 678 million, compared with approximately NIS 533 million in 2017. The budget was adjusted to support the strategic targets set by the Bank’s management.

The following products and services were added in 2018:

- Customer marketing campaigns based on a multi-channel marketing system, which allows personal messages to be sent to customers via email, text, and through the app. The messages contain a unique, customized message that meets the customer at the right time and on the right channel. Multi-channel customer campaigns currently target Leumi's retail customers and PEPPER customers. They will subsequently target all of the Bank’s customers.
- Improvement of user experience on digital channels: Among other things, the Bank upgraded the Leumi app, as well as hardware and software for automated devices, creating a uniform advanced user interface and improving the devices’ accessibility and speed.
- Digital mortgage - the Bank launched an innovative, first of its kind service in the local banking industry, allowing customers to apply for mortgage through digital channels. The service allows customers to submit an application and receive approval in principle without physically arriving at the branch or contacting the call center.
- The Leumi app now enables customers to make deposits to several savings accounts at the same time using the "Touch to Save" feature; customers can also make transfers in several installments.
- Leumi ME - the Bank launched an advanced application for smart family budget management. The app allows parents to monitor their children's expenses by giving them rechargeable debit cards, thus contributing to the entire family’s smart money management.
- Leumi Trade has extended the information available to customers about foreign securities, offering information such as interested party transactions and a direct interface to the Tel Aviv Stock Exchange’s issues platform. In addition, for the first time in Israel, customers can now perform a "concentrated deposit", which allows them to purchase shares at a touch of a button, according to their portfolio’s diversification specifications.
- Leumi launched a system for Videa - an innovative online portfolio management company, which targets customers of all banks.
- Leumi launched an innovative service for customers receiving investment advice - Leumi Digital Advice. The service sends customer investment recommendations for local and foreign securities through email or text messages. The recommendations are written by Bank Leumi’s analysts and are tailored to each customer according to his/her portfolio composition and level of risk established with the investment advisor. The recommendations can be easily acted upon using an attached link, in an easy and user-friendly manner.
- Additional online services are also available to corporate customers, who can now take out loans, manage authorized signatories and beneficiaries in a single place, including assigning several beneficiaries with one order. In addition, customers can now transfer payments to about 20 new government entities as part of Leumi PAY.

For more information, please see Note 16.

Intangible Assets

1. The Bank is the sole proprietor in Israel of the "Leumi" trademark and its accompanying logo, in the field of banking and finance services.
2. Furthermore, as part of its activities, the Group uses the names of the companies and their logos as well as products and services' names, some of which are registered as trademarks or service marks.
3. The Group has registered databases in which it stores, among other things, information pertaining to Leumi's customers, suppliers and employees. The Group implements advanced technological means designed to secure customers' activity and the Bank's business activity, while mitigating the risks arising from using information systems.
4. The Group has various intellectual property rights and licenses to use various computer software and information systems for the purpose of managing its business, including the provision of services to its customers.
5. The Group has intangible assets and goodwill arising from the acquisition of companies. For more information, please see Note 15.

Human Resources

Number of Positions

In 2018, the number of positions in the Group (excluding Leumi Card) decreased by 289, a 2.9 percent decrease compared with 2017. The annual average number of positions in the Group fell by 393, a 3.8 percent decrease compared with 2017.
The number of positions as at the end of 2018 reflects a decrease of 3,084 positions (app. 24 percent) over the course of a seven-year period (excluding Leumi Card).

	Positions[(a)] as at the end of the year		Annual average no. of positions[(a)]	
	2018	2017	**2018**	2017
The Bank in Israel	**8,637**	8,867	**8,948**	9,294
Consolidated Companies in Israel (excluding	**275**	303	**269**	296
Group in Israel - total	**8,912**	9,170	**9,217**	9,590
Foreign consolidated companies[(b)]	**828**	859	**847**	867
Group in Israel and abroad - total	**9,740**	10,029	**10,064**	10,457
Leumi Card	**1,170**	[(c)]1,198	**1,144**	[(c)]1,166

(a) Position - a full-time position including specific overtime, working hours of service bureaus and employment of contract workers.
(b) Including foreign offices.
(c) Restated following sorting of expenses in respect of external workers.

Positions by operating segments - management's approach:

	Average no. of positions in 2018		Average no. of positions in 2017	
	Managerial staff	Tellers	Managerial staff	Tellers
Banking:				
Retail, premium and private banking	**1,300**	**2,823**	1,291	3,204
Mortgages	**142**	**312**	125	364
Small businesses	**554**	**1,232**	463	1,221
Banking - total	**1,995**	**4,367**	1,880	4,789
Commercial	**494**	**698**	466	763
Business	**189**	**234**	183	258
Real estate	**103**	**127**	126	123
Capital markets	**300**	**238**	280	260
Other and adjustments	**106**	**106**	82	84
Bank total	**3,188**	**5,770**	3,017	6,277
Subsidiaries in Israel	**180**	**1,233**	1,297	203
Less average no. of positions attributed to the held-for-sale companies	**(118)**	**(1,026)**	-	-
Foreign subsidiaries	**485**	**362**	396	471
Total	**3,735**	**6,338**	4,710	6,951

The number of positions by operating segments is calculated based on the management of the workforce according to the Bank's main lines of business, with various adjustments, and based on estimates. When calculating the number of positions by operating segments, the Banks also included HQ employees, who serve all or some of the Bank's operating segments.

Education

The percentage of Bank employees who hold academic degrees is on the rise, mainly due to the retirement of Bank employees who do not hold academic degrees as part of the early retirement plans implemented in recent years.

As of the end of 2018, the percentage of Bank employees who hold an academic degree was 77.1 percent of all employees, compared with 76.5 percent in 2017 and 73.5 percent in 2016. In 2018, the percentage of staff employees with academic degrees reached 97.1 percent, compared with 96.7 percent in 2017 and 96 percent in 2016.

Age and seniority

As of the end of 2018, the average age of Bank's employees was 43.6, compared with 43.3 in 2017 and 44.0 in 2016. As of the end of 2018, the average seniority of employees was 16.0, compared with 15.8 in 2017 and 17.0 in 2016.

Remuneration mechanism and salary structure

The salary structure and compensation level of the Bank's employees is mainly affected by existing collective labor agreements. In general, the annual compensation is differential and is based, among other things, on an employee's rank, pay level, suitability for the position, contribution to the Bank and his/her line manager's assessment.

Employee benefits

Labor relations between the Bank and its Israeli employees, except for those who have personal employment contracts, are primarily based on a basic collective labor agreement known as the "Labor Code" and on collective and supplementary agreements. The employment terms of members of the Bank's management, senior employees and certain other employees are regulated by personal employment contracts. For more information, please see Note 23.

Labor and salary costs (in the Bank)

	2018	2017	2016
	In NIS thousands		
Cost per employee position - (excl. bonus)*	**357.0**	351.7	351.2
Cost per employee position - (incl. bonus)*	**393.8**	392.6	388.6
Salary per employee position - (excl. bonus)*	**242.2**	240.9	240.7
Salary per employee position - (incl. bonus)*	**272.1**	273.9	270.9

* Cost per employee does not include pension expenses, costs of voluntary retirement, retroactive severance pay, shares to employees, collective labor agreement, 2016 compliance bonus, jubilee bonus, sick leave and grossing-up of salaries of employees working abroad.

Learning and training

Employee training, knowledge management and conservation have become key catalysts to the growth of the Bank in an era of frequent organizational changes, when Bank's employees are required to change the type of job they do or to acquire new knowledge or skills, while at the same time undergoing intensive streamlining processes accompanied with intensive retirement. The Bank's Management has set itself the goal of supporting the business units in meeting their targets in a changing environment and to further invest in the professional development of the Bank's employees. To this end, in 2018, Leumi employees participated in 22,000 learning days.

In 2018, learning activities focused on enhancing the professional knowhow of employees and managers with an emphasis on core banking areas and designated learning activities that support organizational changes. These activities are carried out according to the Bank's business targets. Furthermore, the retirement processes were supported by learning activities pertaining to knowledge retention and support for retiring employees. In addition, in 2018, we began to develop and implement data-based learning activities such as target learning in banking centers.

Decentralized learning

In 2018, Leumi continued to enhance deep decentralized learning as part of the organization's learning culture. In 2018, Leumi employees practiced and certified in about 25 compliance and regulation tutorials. In total, 12,500 "decentralized" (learning that takes place in the work environment) learning days were held at Leumi, which are 57 percent out of the total number of learning days held this year.

Learning and the Future - Re-skilling

In 2018, as part of the implementation of the Human Resource Department’s strategic plan, a unit was established with the aim of ensuring employees are prepared to handle the organization’s needs in terms of required professions and skills. As part of this move, Leumi launched Shift - a school teaching the professions of the future, which allows the Bank’s employees to develop their careers and learn a new and needed profession, in line with the organization’s future needs. In the first stage, two training tracks were opened for data analysts and digital product managers. The initiative offers a new value proposition to employees and is a significant means to narrow gaps in the future preparedness of the Bank’s human resources. Other moves are being made to offer required skills in the changing banking domain, such as digital literacy, English, and data-based management.

Knowledge management

During the year, emphasis was made on performance-supportive knowledge management (providing the knowledge necessary for employees on the job), optimizing search options and transitioning to a new platform with better functionality and more attractive interface. Following are the main projects: The new enterprise portal; internal communications, performance-supportive websites for the various units; support for new regulations and knowledge conservation while improving and restructuring performance-supportive knowledge.

Social responsibility and employees’ involvement in the community

Leumi’s management regards social responsibility in general and employees’ involvement in the community in particular as a key channel in its need to invest in the community in which it operates. The social activity is manifested in a community outreach budget of more than NIS 38 million in 2018. The Board of Directors had decided to increase the budget in 2019 even further. Leumi encourages its employees to play an active role in diverse volunteer projects.
During 2018, more than 3,800 employees – from various units of the Bank - engaged in volunteer activity for a total of more than 39,000 hours.
The Bank's activities are based on a network of approximately 360 social leaders from the Bank's various divisions. All over Israel, employees sign up for various activities, with the direct impact of the employees’ volunteer activity reaching tens of thousands of people each year.

Alongside these many activities, the Bank implements Leumi’s vision of empowering the future generation through strategic collaboration with the non-profit organization "Follow Me - Youth Leading Change". This collaboration has been ongoing since 2002. This non-profit organization aims to increase the social integration of youth at risk by engaging in educational activities, and by developing their leadership skills and providing them with empowerment tools. "Follow Me" operates about 400 projects across Israel, including groups of "Follow Me In Faith", which cater to Ultra-Orthodox youth. Each year, about 9,000 youth fall over Israel, from all population segments, participate in "Follow Me" activities. The Leumi Group is the main sponsor of this non-profit organization, providing extensive support to its operations; Leumi’s volunteers support the students on an ongoing basis and in annual events, and the Bank's President and CEO serves as the Chairman of the organization’s Friends Association. In 2018, more than 1,000 Leumi employees volunteered in Follow Me projects.
The Bank also provides strategic support to other non-profit organizations such as "Atidim", "Etgarim", "LaTet", "Pa'amonim", "Shi'ur Aher", and "Cochavei Hamidbar" - which develops leadership skills among Bedouin youth, and others.

Appointments and Retirements

Appointments

Mr. **Shmulik Arbel**, Head of the Commercial Banking Division and a member of the Bank's management, was appointed Head of the Corporate Division as of June 1 2018.

Retirements

Mr. **Kobi Haber**, Head of the Commercial Banking Division and LeumiTech’s Chairman of the Board, retired from the Bank on May 31 2018, after 10 years of working at Leumi.

Mr. **Yaron Bloch**, CEO of Leumi Partners and Leumi Card’s Chairman of the Board will leave his position as CEO of Leumi Partners and continue to serve as Leumi Card’s Chairman of the Board on behalf of Warburg Pincus, the acquirer.
For more information, please see the Section entitled "Major Investees".

Corporate Structure

The Leumi Group's corporate structure is divided into business lines and headquarters units

Set forth below is a description of Leumi's lines of business, which focus on the various market segments:

The **Banking Division** manages the activity of private and small commercial customers, who receive the full range of services through the Bank's branches and through a variety of technological/direct distribution channels. The services and products are adapted to all the customer segments according to the nature of their banking activity, their characteristics, their banking and service needs. Division takes proactive measures במבנה של business lines:

- **Small Business Department -** The Department is in charge of all activities of small business customers (mid-sized and large businesses are handled by the Corporate Division - see below).
- The **Private Banking Department** is responsible for private banking activity in Israel. The Private Banking Department provides information adapted to high net-worth clients.
- The **Premium Department** is responsible for the activity and services of wealthy customers.
- The **Retail Department** is responsible for activity and services to households and private individuals during their financial growth phase.
- The Banking Department includes Leumi's Mortgage Department, which is responsible for granting mortgage loans to all of the Bank's customers, as well as to customers of other banks.

The **Corporate Division** coordinates all the activity of business customers (excluding small businesses managed by the Banking Division - see above) and provides them with a variety of services, which include, inter alia, invoice and inventory factoring, project financing and investment programs, global trade and financing, investment activity, hedging transactions, etc. The Division's customers are allocated to four business lines:

- The **Corporate Department** manages the banking activities of large Israeli corporations on the basis of sector expertise and synergies.
- The **Commercial Banking Department** manages the activity for middle-market companies, through business branches deployed nationwide.
- The **Construction and Real Estate Department** manages the banking activities of large construction companies, real estate entrepreneurs and contractors in Israel. The department's employees have specific skills and expertise in all areas of the Israeli real estate market.
- **LeumiTech** serves high-tech and venture capital funds for the Group. The Department specializes in all segments of the technology industry.

The Capital Markets Division is in charge of managing the Group's financial assets in Israeli currency and foreign currencies, the management of the nostro account, the activities of the Bank's trading room, development of innovative financial and investment products, managing the Bank's assets and liabilities, managing liquidity, setting the Bank's price policy and financial margins, and coordinating the Bank's operational capital market services.

Following are the purviews of the headquarters' divisions providing service to the business lines[1]:

The Finance Division is responsible for coordinating and preparing the Bank's work plan, managing P&L centers and financial and managerial measurement, planning and managing the Group's capital, preparing the Bank's expenditure budget and monitoring its implementation.

The Accounting Division manages, develops and sets the Bank's accounting procedures; it manages the Bank's books of account and prepares the financial statements of the Bank and the Group; it maintains the Bank's relations with the Bank of Israel regarding all accounting matters and related reports.

[1] For more information regarding changes after December 31 2018, please see Note 36.

The **Human Resources Division** is responsible for developing and implementing the Bank's human resources division, work relations, salary and bonus structure, organizational consulting and development - including managerial, banking and general learning and training, employee wellbeing and corporate responsibility.

The **Leumi Technologies Division** is responsible for the Bank and the Group's IT, and coordinates the strategy, policies and activities relating to technological development, IT, communications, cybersecurity and information security.

Operations Division - As of January 1 2019, Leumi's Operations Division was launched. The Division coordinates all of the Bank's operational matters. The new structure reinforces the level of service, synergy, professional knowledge and efficiency.

The **Legal Counsel Division** advises the Bank and its Israeli subsidiaries on all legal matters and manages the Bank and the Group's legal risks. The Division is also responsible for the Bank's ombudsman's function and compliance and enforcement function.

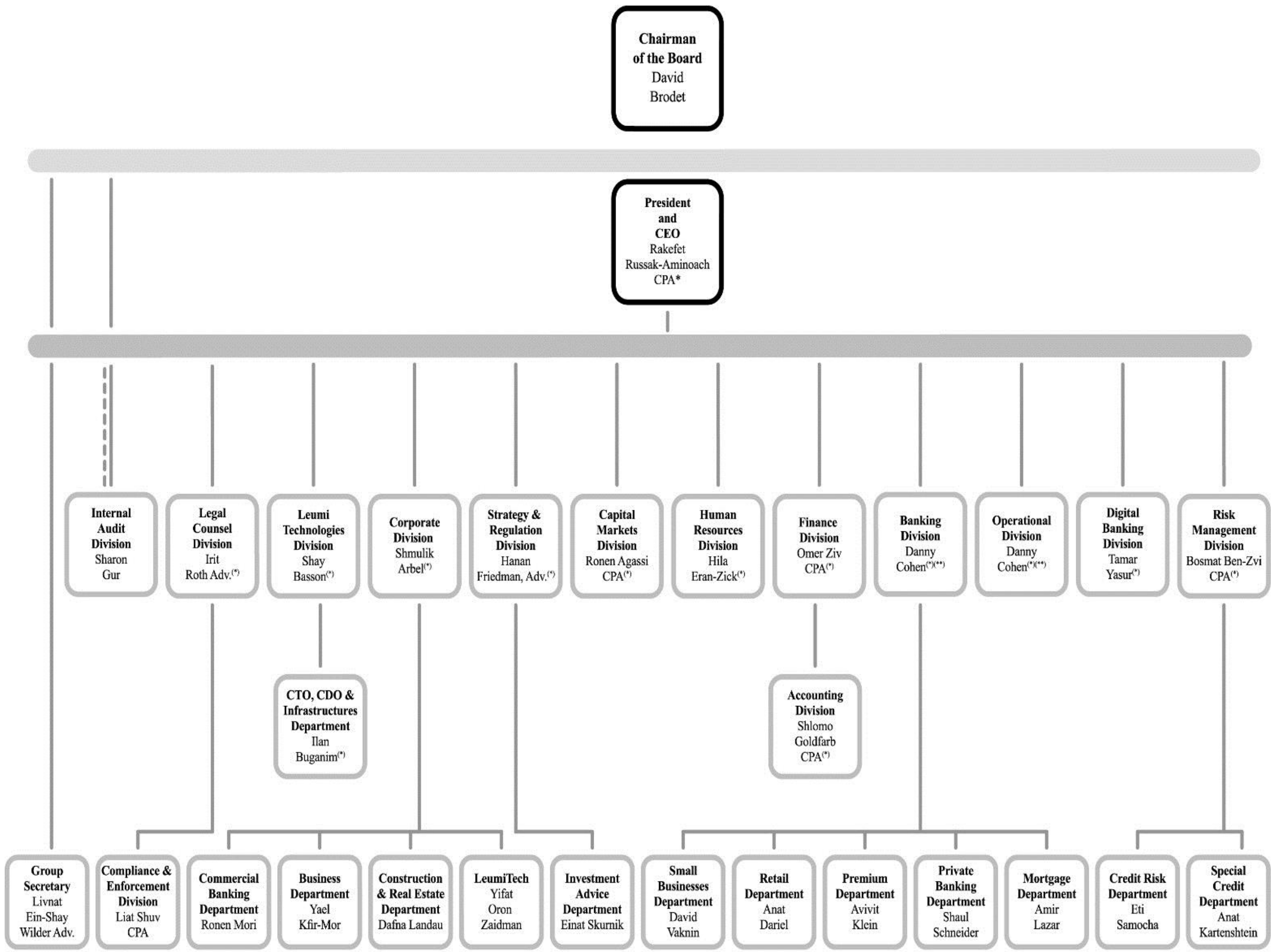
The **Internal Audit Division** is independent and responsible for Leumi Group's internal auditing.

The **Risk Management Division** is in charge of risk management in the Group and Bank as well as the Credit Risk Department and Special Credit Department.

The **Digital Banking Division** is responsible for leading, promoting and implementing digital innovation, with an emphasis on leading the digital banking strategy and implementing innovative digital products throughout all digital channels, in coordination with the Bank's business lines and targets as well as Marketing and PEPPER.

The **Strategy and Regulation Division** is charged with assisting the Group's management and Board of Directors in defining, planning, and validating the Bank's and Group's strategies, implementing business changes resulting from strategic projects and business changes required following new regulation, implementing structural changes, and leading the Bank's key projects. The Division also includes the Investment Consulting and Pension Consulting Department, which is also responsible for developing and instilling the advice method.

Bank Leumi of Israel Ltd.
Corporate Structure



* Member of management

** Mr. Danny Cohen is serving as both Head of the Banking Division and iterim Head of the Operations Division since its launch on January 1 2019, until a new Head of the Operations Division is approved by the Bank's Board of Directors

Legal Proceedings

1. The Bank is party to legal proceedings, including motions to approve derivative claims and motions to approve class actions, brought against the Bank by customers, former customers and various third parties, who allege to have been damaged or harmed as a result of the Bank's activity in the ordinary course of its business.
   In the opinion of the Bank's management, based on legal opinions, appropriate provisions have been made in the financial statements to cover potential damages in respect of all the claims.

   The claims lodged against the Bank have numerous and varied grounds, including: claims as to non-execution or late execution of orders; motions to approve attachments imposed by third parties on debtors' assets which are allegedly held by the Bank; claims that the interest rate charged does not meet the terms and conditions agreed between the Bank and customers; interest rates higher than the maximum permitted by law; claims regarding fees and commissions charged; claims related to securities, labor relations, drawing of checks with insufficient funds, as well as failure to cash checks.

   For more information regarding claims filed against the Bank in material amounts, please see Note 26.

2. As part of measures taken to recover debts in the ordinary course of its business, the Bank takes, among other things, legal action against debtors and guarantors, and also pursues collateral realization proceedings. The Bank has included in the financial statements provisions for loan losses based on an assessment of all the risks associated the extension of loans to the various sectors of the economy and taking into account the extent of information available on the relevant debtor or guarantor with regard to their financial stability and the collaterals provided to the Bank to secure the repayment of the debt.

Material Agreements

1. Subsequent to negotiations held 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., until no later than June 30 2021, provided that, if Union Bank wishes to terminate the agreement earlier, 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.
3. The Bank granted officeholders and others letters of indemnification. For more information, please see Note 26G.
4. For information regarding agreements relating to the Bank's subsidiaries, please see the Section entitled "Principal Investee Companies".
5. For information regarding issuance and operation agreements with credit card companies, please see Note 26H.
6. For more information regarding agreements with the Tax Authority, please see Note 8.

Laws and Regulations Governing the Banking System

Some of the information in this section constitutes forward-looking information. For the meaning of the term, please see the Section entitled "Forward-Looking Information."

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 or not 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 prmaovides 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 will become effective 18 months after its publication date and will apply to relevant proceedings commencing as of the effective date.

During 2018, drafts of various regulations for the implementation of the law were published.

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 came into force on January 1 2019; the provisions applicable to the checks and banks will become effective on July 1 2019.

The Bank is preparing 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. According to the law, 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, as aforesaid. As a result, the Bank is required to sell its stake in the Stock Exchange in excess of 5 percent, according to the outline and schedule prescribed by the law

To sell the said shares, on January 18 2018, the Bank filed with the Stock Exchange an offer to sell and transfer its entire stake in the Stock Exchange (hereinafter - the "Offered Shares"), following the Exchange's offer to its shareholders, made on December 28 2017, to purchase their shares.

On April 16 2018, the Exchange informed the Bank it had accepted the Bank's offer (hereinafter - 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 August 27 2018, the Stock Exchange notified the Bank that the transaction had been completed. For the abovementioned transaction, the Bank recorded a pretax gain of NIS 47 million in its Q3 2018 financial statements.

Amendment to the Banking (Customer Service) 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 services with an automatic call routing system to offer customers professional human response for several types of services, after selecting the language or geographical area in which the telephone service is to be provided.

The waiting time for the human response shall not exceed six minutes from the beginning of the call.

Following are types of services for which the requirement is applicable: troubleshooting; account information; termination of service.

Customers will not be directed to leaving voicemail messages unless they choose to do so.

The law will come into effect 12 months after its publication.

The Bank is preparing to implement the law.

Payment services

On January 9 2019, the Payment Services Law, 2019 was published.

The law replaces the Debit Card Law, 1986, with an up-to-date law which reflects the technological developments in the field, and is based on the principles of the EU’s Payment Service Directive (PSD). Among other things, the law discusses the contractual relations and consumer protections which shall apply to payment provision services regarding two types of contracts: (1) One type - between a payment service provider (issuer of means of payment or a payment account manager) and the payer; (2) A second system - between the payment service provider (clearing entity or payment account manager) and the beneficiary (payee).

The law will apply to various payment service providers, including banks, credit card companies, clearing entities, payment applications, etc., as well as to various advanced means of payment.

The law will come into effect 12 months after its publication.

On August 13 2018, a memorandum of law of the Control of Financial Services (Regulated Financial Services), (Amendment No.) (Provision of Payment Services), 2018 was promulgated. The memorandum of law deals with aspects of the licensing and supervision of entities that provide (or shall provide) payment services in Israel, and constitutes an additional and complementary layer to the said bill. The above provisions require the Bank to make necessary adjustments.

The Nonbank Loans Arrangement Law (Amendment No. 5), 2017 - The Fair Credit Law

Further to the description of the law in the 2017 Annual Report, according to which the law will become effective on November 9 2018, we wish to update that on November 8 2018, an amendment to the law was promulgated, whereby the law’s effective date was postponed to the earlier of the following: (a) Six months from the publication date of the first regulations under the law; (b) Twenty-seven months from the law’s publication date.

As outlined in the Annual Financial Statements, the law deals with disclosure obligations towards the borrower, restrictions on maximum cost of credit and rules regarding early repayment of a loan.

On February 25 2019, the Regulations for the Arrangement of Extra-Bank Loans (Exclusion of Types of Credit Transactions from the Applicability of the Law and Exclusion of Expenses from "Addition"), 2019.

The law will become effective six months after the regulations’ publication.

The Bank of Israel's directive regarding simplifying of agreements - which sets forth rules for including the above in the law, will also come into force on the same date.

Directives Issued by the Banking Supervision Department

Amendments to Proper Conduct of Banking Business Directive Provisions regarding E-Banking

On March 22 2018, amendments to the provisions of Proper Conduct of Banking Business Directives 367 and 420 were published. Under the amendments, an additional alternative to identifying a customer opening an e-account was provided - using remote visual identification and verification technology. Using the 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.

On October 7 2018, an amendment was published to Proper Conduct of Banking Business Directives Nos. 367 and 462, which includes additional easements, such as the option of granting power of appointment to a portfolio manager license holder - online, without the customer's need to physically arrive at the branch, and granting corporate clients the option to waive explanations regarding matters regulated in portfolio managers' power of appointment, provided such a corporation has signed an appropriate waiver before an attorney on its behalf.

On November 13, an additional amendment to Regulation 367 was promulgated. The amendment includes, inter alia, additional easements regarding adding or removing authorized signatories or representatives in an online account, as well as an amendment to Regulation 362 that eliminates the need to apply to the Banking Supervision Department prior in order to use of cloud computing technology.

The various easements provided in the directives 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.

Proper Conduct of Banking Business Directive No. 359A, *Outsourcing,* and Proper Conduct of Banking Business No. 363, *Supply Chain Cyber Risk Management*.

On October 8 2018, the Directive on outsourcing was published. The purpose of the directive is to enable banking corporations to use outsourcing in order to allow them to implement strategic objectives, increase accessibility and availability for customers, continue to pursue operational streamlining and boost 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, as well as requires banks to report to the Banking Supervision Department regarding outsourcing certain activities. In addition, the directive allows banking corporations to employ outsourcers for the purpose of targeting households as loan customers, allowing outsourcers (for example, car agencies) to offer customers to contact a certain bank when buying a product, subject to the terms prescribed by the directive.

The directive will come into force on March 31 2020. A banking corporation which will complete the preparations for meeting all the requirements of the directive prior to the effective date, will be able to implement the directive on the date on which the preparations have been completed. Contracts concluded prior to the directive's publication will be given a period of another three and a half years (for a total of five years) to be adjusted to the directive, as needed.

In addition, on April 24 2018, the Banking Supervision Department published a directive entitled *Supply Chain Cyber Risk Management*. The aim of the directive is to establish a banking corporation's responsibility to ensure a secure work environment with material suppliers and its duty to adequately manage cyber risks 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 cyber risks; duty to set individual requirements in respect of cyber risks in contracts with material suppliers in accordance with the risk assessment and an obligation to ensure that the supplier meets these principles; as well as to conduct various regular reviews to ensure the suppliers' compliance with the banking corporation's requirements.

At a later stage, the directive will be incorporated into a directive dealing outsourcing.

The Bank is preparing to implement the directives.

Amendment to Proper Banking Management Directive No. 332, Buybacks by Banking Corporations

For more information, please see the Section entitled "Capital and Capital Adequacy".

Operational efficiency of the banking system in Israel - extension of the validity of the Banking Supervision Department's letters

In recent years, the Banking Supervision Department published two letters regarding the operational efficiency of the banking system. The objective of the letters is to promote efficiency measures in the banking system, offering easements to banking corporations implementing efficiency programs.

On September 16 2018, the Banking Supervision Department announced the extension of the validity of the aforesaid efficiency letters by 18 additional months, until December 31 2019.

Initiative to reduce fees and commissions for small- and micro-businesses

On October 14 2018, the Banking Supervision Department informed the banking corporations of its intention to publish an amendment to the Banking (Service to Customer) (Fees and Commissions) Regulations, 2008, according to which they shall be required to identify all small businesses which can benefit from switching to one of the current account tracks (packages offering a number of transactions for a fixed fee), and inform them that they have been transferred to such a track.

On October 25 2018, a draft of the fees and commissions rules was published, which included, inter alia, guidelines for implementing the above. When the amendment will have passed and becomes effective, it may affect the Bank's income from these fees and commissions.

Draft Amendment to Directive 325 regarding Management of Credit Facilities

On October 28 2018, the Bank of Israel published a draft amendment to Proper Conduct of Banking Business Directive No. 325 regarding management of credit facilities. The main change in the draft is the application of the directive - which hitherto covered only current accounts - to credit card facilities. The Directive also prescribes revised work processes both regarding credit card facilities and current account credit facilities, including the manner in which the facilities are managed, what constitutes an overdrawn line of credit, and the various notices a banking corporation is required to send customers in this context.

If passed, the above amendment is expected to require the Bank to prepare accordingly.

Directives regarding Credit Cards

Proper Conduct of Banking Business Directives following the Law for Increasing Competition and Reducing Concentration in the Banking Industry in Israel (the "Strum Law"):

On July 4 2018, the Bank of Israel published amendments to Proper Conduct of Banking Business, with the objective of granting the credit companies easements immediately following their split from the banks.

Following are the main points of the amendments:

1. Proper Conduct of Banking Business Directive No. 203 - *C*apital Measurement and Adequacy - Credit Risk - The Standardized Approach:

   For measurement and capital adequacy purposes, the banks are to weight the credit they extend to the credit card companies similarly to the manner in which credit is extended to banks.

2. Proper Conduct of Banking Business Directive No. 221, *Liquidity Coverage Ratio*:

   A regulatory requirement provides easement 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 coverage ratio.

3. Proper Conduct of Banking Business Directive No. 470 - *D*ebit 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 identity of the clearing house. The arrangement became 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.

On August 1 2018, the Bank of Israel issued an amendment to Proper Conduct of Banking Business Directive No. 313 (Restrictions on the Indebtedness of a Borrower or Group of Borrowers): According to the amendment, a bank's exposure to a "credit card company type group of borrowers" shall not exceed 15 percent of the banking corporation's share capital, similarly to the restriction applicable to the exposure to a "banking borrower group." The Directive will become effective gradually, within 3 years of a credit company's split from the banking corporation.

On November 13 2018, the Bank of Israel published a draft amendment to Proper Conduct of Banking Business Directive No. 470 regarding debit cards. The main change in the draft relates to the manner of applying Section 7G to the Banking Law (Customer Service), which was passed into law as part of the Law for Increasing Competition (the "Strum Law"), according to which a banking corporation shall provide customers, upon demand, information regarding transactions made by way of non-banking debit cards (which are paid for by directly charging the customer's current account in a banking corporation).
On February 4 2019, the Banking (Service to Customers) (Transfer of Information from an Issuer to a Banking Corporation) Law, 2019 regulations published. The regulations establish the details an issuer of a debit card is required to provide to a banking corporation so as to allow the banking corporation to comply with its obligation under Section 7G of the Banking (Service to Customers) Law.
The said Section 7G will come into force on January 1 2020.

Decision of the Antitrust Authority regarding the Cross-Clearing Arrangement

On April 25 2018, the Antitrust Authority published its decision regarding exemption from cartel clearance approval in respect of the cross-clearing arrangement. According to the decision, as of July 1 2021, a lump-sum transfer from an issuer to a clearing house shall be made no later than one day after the transaction's transmission by the merchant.

In addition, on May 16 2018, the Antitrust Authority published its decision regarding the extension of a cartel clearance exemption in respect of cross-clearing by Isracard. Pursuant to the decision, the exemption will be extended until December 31 2023, subject to meeting the conditions set out in the decision, including the conditions stipulated 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 Law for Increasing Competition and Reducing Concentration in the Banking Industry in Israel and are expected to impact the debit card market in the coming years.

Additional Topics

Various 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 aim 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 and initiatives aimed at encouraging such competition:

- The Law for Minimizing Market Centralization and Promoting Economic Competition (Legislative Amendments), 2017 prescribes the following: It requires large banks (Leumi and Poalim) to sell their credit card companies within a certain period of time; prohibits these banks from operating, issuing or clearing credit card transactions and holding means of control in corporations engaged in such activities; requires the Bank, during a defined transition period, to issue credit cards 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 predefined period, to reduce their customers' credit facilities. Following the provisions of the above law, the Bank sold its holdings in subsidiary Leumi Card Ltd. and signed issuance and issuance operation agreements for debit cards with credit card companies;

  For more information regarding the said sale agreement, please see the Section entitled "Major Investees" - "Leumi Card" and for more information regarding issuance and issuance operation agreements, please see Note 26H.

- The Supervision of Financial Services (Regulated Financial Services) Law, 2016, which came into force on June 1 2017, provides a comprehensive framework for the regulation of the non-banking and non-institutional credit market in Israel;
- Regulating the policy of banking corporations’ conduct vis-à-vis customers providing regulated financial services and offering platforms;
- The Antitrust Authority’s decision to make the communications protocol used for executing debit card transactions available to all market players;
- The Bank of Israel's policy regarding the conditions for hosting new clearers over existing clearers’ platforms;
- 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 Peer to Business Lending (P2B) without having to issue a prospectus;
- Proposal to revise investment rules applicable to financial institutions;
- The Bank of Israel has set out a revised policy easing the conditions for the establishment of a new bank (limited to managing deposits and granting loans) and guidelines for license applicants;
- Conditions set by the Ministry of Finance for receiving government grants for setting up a banking IT services bureau;
- Draft Banking Ordinance (Licensing) (Increasing the Ceiling under Section 21(b)(8)(a) to the Law), 2018, according to which the maximum nominal value of bonds that a non-bank credit company may issue to the public (in addition to granting credit and subject to other terms and conditions prescribed by law) shall increase from NIS 2.5 billion to NIS 5 billion;
- Proposed Banking Law (Licensing) (Amendment - Encouragement of Competition in the Credit Market), which discusses, inter alia, expanding capital sources to non-bank credit companies.
- 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 percent of the Israeli banking industry’s assets) or a digital bank, or only after a period of time according to 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 of the Bank of Israel and approval of the Knesset’s Economic Affairs Committee, may postpone the said date by two additional periods of no more than six months each.

  On October 29 2018, the Bank of Israel published Draft Banking Rules (Customer Service) (Transfer of a Customer’s Financial Activity between Banks), 2018. The draft outlines the type of accounts to which the said Amendment 27 shall apply.
- A joint report of the Antitrust Authority and the Israel Securities Authority, published for public comments, features recommendations regarding competition in the retail brokerage market.

These amendments - along with initiatives led by the Bank of Israel, such as building a central credit register, which will launch in April 2019 and will enable various entities to obtain credit statements and reports for their current and potential customers - will encourage the banking system to improve efficiency and support the transition to e-banking; they are expected to affect the Israeli banking market in the coming years.

The Parliamentary Committee of Inquiry into the financial system's conduct regarding 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 holding its deliberations.

On October 28 2018, the Chairman of the Board of Directors, the President and CEO and the Head of Strategy and Regulatory Affairs Division appeared before the Committee and answered its members' questions.

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).
- Any entity connecting to the ABS systems will be bound by the same requirements. 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 percent 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.

The Bank sells ABS shares

Pursuant to the provisions of the Law for Increasing Competition and Reducing Concentration in the Israeli Banking Industry (Legislative Amendments), 2017 (hereinafter - the "Law"), the Bank is required to reduce its holdings in Automated Banking Services Ltd. ("ABS" or the "Company"), such that by January 30 2021, the Bank's holdings in ABS will not exceed 10 percent of the Company's issued capital.

Thus, on November 20 2018, the Bank contracted a corporation from the Visa International Group (hereinafter - "Visa") for the sale of 10 percent of the Company's shares for NIS 37 million. The deal was completed on December 13 2018. The Bank recorded a NIS 24.6 million profit (before tax) on the said sale of the shares.

Under the said agreement and subject to its terms and conditions, Visa will also be granted a right of first offer if the Bank wishes to sell additional shares in the Company (other than by an offer to sell under a prospectus), and subject to the applicable holding restrictions under law. Such right of first offer shall apply to the shares which the Bank is obligated to sell under law until June 30 2019; regarding the shares the Bank is not obligated to sell, the right of first offer will be valid until three years from the date of completion of the agreement. Visa was also granted certain rights of first offer or refusal in connection with the sale (if any) of the Bank's holdings in Bank Clearing Center Ltd.

Following the said sale to Visa, the Bank's remaining stake in the company is 30 percent.

The Bank is examining additional ways to sell its holdings in accordance with the provisions of the law, including by means of an offer to sell shares that will be offered to the public through a prospectus published by the Company.

Exemption from a cartel clearance approval for Bank Clearing Center Ltd. (MASAV)

On September 20 2018, the Antitrust Authority extended the validity of its exemption decision regarding the five largest banks' joint ownership of Bank Clearing Center Ltd. (MASAV) to March 20 2020.

The terms of the exemption decision define the areas of activity in which MASAV may engage.

International Regulation

FATCA and the Automatic Exchange of Information regarding Intergovernmental Financial Accounts Standard (hereinafter - the "Standard").

Standards for Automatic Exchange of Financial Account Information - OECD

On July 14 2016, the Income Tax Ordinance Amendment Law (No. 227), 2016 (hereinafter - the "Law") was published on the implementation of the FATCA agreement between the State of Israel and the United States and agreements for information exchange between Israel and other countries, pursuant to the Standard for Automatic Exchange of Financial Account Information. The law grants the Minister of Finance the authority to establish, through regulations, provisions regarding the obligation of reporting Israeli financial institutions to identify its customers' tax residency and to forward information on accounts identified as "reportable" to the Israel Tax Authority; the Tax Authority would, in turn, forward the information to the customer's country of residence according its agreements with Israel.

The Income Tax (Implementation of the FATCA Agreement) Regulations, 2016, were published on August 4 2016. According the regulations, the reporting shall commence on September 20 2016. The Bank complies with the applicable requirements under the regulations.

The Income Tax (Implementation of a Uniform Standard for Reporting and Due Diligence of Information on Financial Accounts) Regulations, 2019 were published on February 6 2019; according to the regulations, the reporting shall commence by June 23 2019. The Bank is prepared for the Regulations' implementation.

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. (g)The regulation became effective on May 25 2018.

The Bank has formulated a policy on the subject and implements it.

FX Global Code

First published by the Foreign Exchange Working Group in 2017, the Code outlines the best practices for foreign currency dealing rooms, including the required ethics and corporate governance, as well as the manner in which transactions are executed and monitored. The Banking Supervision Department announced it was conducting a gap survey according to the Code's principles, with the aim of leading the Israeli banking system to implement the principles specified in the said code, *mutatis mutandis*.

The Bank will make the necessary preparations.

LIBOR

In July 2017, Britain's Financial Conduct Authority (FCA) announced it would cease, as of the end of 2021, to require LIBOR panel banks to quote interest rates. As a result, it is assumed that LIBOR rates would no longer be published.

Following the announcement, various regulatory entities in England, Europe, Japan, and the United States have created teams dedicated to identifying and adopting an alternative benchmarks to replace the LIBOR for each of the five currencies (US dollar, euro, pound sterling, Japanese yen, Swiss franc).

As far as the Bank is aware, it is currently unclear which underlying interest rates (new benchmarks) these are, how they will be calculated and by whom, whether the underlying interest rates will include a wide variety of finance periods (such as in the case of the LIBOR), how they will be published, on which dates and by which means the interest rates will be converted in relation to the current LIBOR-based transactions, which span periods that are scheduled to end after the date on which the LIBOR may cease to be published.

The Bank has begun preparations for the resulting changes.

Taxation

Corporate tax: On January 5 2016, the Law for the Amendment of the Income Tax Ordinance (No. 216), 2016 was published, reducing the corporate tax rate from 26.5 percent to 25 percent, as of 2016. On December 29 2016, the Economic Efficiency Law (Legislative Amendments for Implementing the Economic Policy for the 2017 and 2018 Budget Year), 2016 was published, introducing, among other things, a gradual, two-stage reduction in the corporate tax rate from 25 percent to 23 percent. In the first stage, which began on January 1 2017, the tax rate was reduced to 24 percent; in the second stage, which began on January 1 2018, the tax rate was reduced to 23 percent.

The deferred tax balances were calculated in accordance with the new tax rates applicable at the date of reversal. The effect of the corporate tax rate changes described above on the financial statements as at December 31 2016 was reflected in a decrease in the net deferred tax receivables balances to NIS 380 million. Out of this amount, a total of NIS 303 million was recognized against deferred tax expenses and NIS 77 million against capital.

Current taxes for the reported periods are calculated according to the tax rates presented in the table below.

The taxes applicable to banking corporations' profits include corporate tax levied pursuant to the Income Tax Ordinance and profit tax levied pursuant to the Value Added Tax Law.

Set forth below is a table of the statutory tax rates applicable to banking corporations:

Year	Payroll and income tax rate	Corporate tax rate	Total tax rate	Comments
2016	17.00%	25.00%	35.90%	As a result of a decrease in the corporate tax rate as of January 1 2016
2017	17.00%	24.00%	35.04%	As a result of a decrease in the corporate tax rate as of January 1 2017
From 2018	17.00%	23.00%	34.19%	As a result of a decrease in the corporate tax rate as of January 1 2018

Credit Ratings

Following are the credit ratings of Israel and the Bank as at February 25 2019:

	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 Exchange	Moody's	A2	Stable	P-1
	S&P	A-	Positive	A-2
	Fitch	A	Stable	F1
Local rating (in Israel)	S&P Maalot	AAA	Stable	-
	Midroog	Aaa	Stable	P-1

On January 3 2018, credit rating agency S&P reiterated the Bank's rating and rating outlook.

On January 21 2018, credit rating agency Moody's 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 type of 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+.

On August 14 2018, credit rating agency Midroog reiterated the Bank's rating and rating outlook.

On November 7 2018, credit rating agency S&P Maalot reiterated the Bank's rating and rating outlook.

On November 7 2018, credit rating agency S&P reiterated the Bank's rating and rating outlook.

On December 18 2018, credit rating agency Moody's reiterated the Bank's rating and rating outlook.

On January 9 2019, credit rating agency Fitch reiterated the Bank's rating and rating outlook.

Main Operating Segments According to Management Approach - Additional Information

a. Management Approach - the Retail Segment

Overview

The retail segment is characterized by offering value propositions and financial services to households and private individuals, small and medium businesses and wealthy customers in Israel and worldwide (Private Banking). These propositions and services are provided to customers according to their changing needs and preferences and in accordance with other relevant characteristics.

Structure and characteristics of the segment

Branches:

Households and small businesses – extensive deployment of 177 branches nationwide. At the branches, services to customers are rendered by teams of Bank's representatives grouped according to customer segments. These teams handle all dealings related to customers and specialize in dealing with specific customer characteristics and needs.

Private Banking customers - In Israel, this segment is run through five unique Private Banking centers deployed nationwide – in Tel Aviv, Jerusalem, Haifa and Herzliya Pituach. The centers serve Israeli and foreign wealthy private customers. Bank representatives in these centers are familiar with the customers' needs, preferences and areas of interest. Furthermore, the department has four designated branches for customers who hold investment portfolios ranging from NIS 1.5 million and NIS 6 million; these branches are located in Haifa, Rehovot, Tel Aviv and Herzliya.

Direct and digital channels:

Banking services are also provided through Leumi's website, the Leumi Digital mobile app, Leumi's call center, Leumi's banking terminals and other advanced internet and mobile solutions.

Among other things, the segment works towards increasing the number of customers who use the services of Leumi's call center and the digital channels (thousands of transactions are carried out every day through the Bank's website and mobile app).

Furthermore, Leumi has the PEPPER PAY payments app and the PEPPER banking app, thereby meeting the first principal milestones on its course to set up a **purely mobile digital banking service**. The apps allow users to enjoy a personalized, innovative and advanced customer experience that meets their needs in a friendly, fair and personalized manner "anytime, anywhere".

For more information regarding the PEPPER Pay payments app and the PEPPER banking application, please see the Section entitled "Business Goals and Strategy."

Developments in the segment's markets and customer characteristics

The segment is affected by demographic and economic changes which have taken place in Israel, as well as by changes in private consumption and customers' savings habits.

The competition in the segment is intensifying. In recent years, there have been new entrants (financial and other entities) trying to muscle their way into the retail banking market; these new entrants mainly include credit card companies (operating in the field of consumer loans), insurance companies, retail chains and technology-based financial ventures. Some of the new entrants are entities which are not regulated by the Bank of Israel or by any other authority and which do not operate under the restrictions applicable to banks.

Services and products

The Bank has defined small and medium businesses as a focal point for the development of its business. Accordingly, the Bank has launched the Leumi's business platform, comprising exclusive and innovative tools and services.

Private loans: The Bank offers its customers various loan products which suit their needs at various stages of their lives. In recent years, there has been a significant increase in credit extended to households in Israel. The loans are attractive, due, among other things, to the low interest rates prevailing in the market. The leverage level of

Israeli households is low compared with other developed countries. However, the scope of loans is on the rise and so is the risk.

The Bank's policy is to take steps to mitigate the credit risk by setting exposure ceilings in the loans portfolio. The loans portfolio is managed according to risk considerations and return versus risk considerations.

The Bank offers housing loans to private customers, both from the Bank's own funds and as part of government support programs; the loans are offered by the Bank's mortgage experts, who are deployed in Leumi branches nationwide and who are affiliated to the Bank's mortgage function. The mortgage function has 59 representative offices operating in Leumi branches and one independent representative office. Lately, the Bank launched the Digital Mortgage feature. As a result, as of July 2018, customers can submit an online application for a mortgage, anytime, anywhere. The application is answered via email and text message within a short time. The entire process takes place digitally, including uploading documents and personal advice provided by telephone and email. Only at the end of the process is the customer required to arrive at a branch in order to sign the loan documents.

State-guaranteed fund

On January 17 2016, the Ministry of Finance announced that the bids submitted by the Leumi-Menorah Partnership won the State tender to finance small and medium businesses.

The fund commenced operations in April 2016. As part of the partnership's joint activities, loans are extended to small and medium businesses; the loans are guaranteed by the government.

The loans are financed jointly by Leumi – 60 percent, and Menorah – 40 percent.

In 2018 the fund extended loans to retail customers totaling NIS 408 million.

Customers

The Bank's services are adapted to meet the needs of various population groups comprising the segment.

b. Management's Approach – the Commercial Banking Segment

Overview

Commercial banking - specializes in the provision of the entire spectrum of financial services to middle-market business entities across all sectors of the economy. This segment sometimes includes interested parties of businesses in the sector, such as shareholders and senior officeholders.

Service and marketing to these companies are carried out on an individual basis, including financing transactions by means of credit instruments tailored to the customers' unique requirements, adapting investment products and financial instruments in order to hedge risks, financing international trade transactions and providing funding to start-up companies.

The commercial banking segment also includes activities outside Israel through the Bank's foreign offices. Companies that are served by the Commercial Banking Department can also opt to work with these branches as they expand their operations abroad.

Segment's structure and characteristics

The Israeli activities of the segment are managed by the Commercial Banking Department and LeumiTech, which are part of the Corporate Division. Service is mainly provided to customers through the Commercial Department's and LeumiTech's branches nationwide and through technological services, such as direct channels, etc. The Commercial Department has 20 business branches located in industrial zones and in the major cities; the branches are divided into 4 commercial districts and also includes the LeumiTech business center in Herzliya. The branches and Business Center specialize in managing business activities characteristic of the segment's customers, which gives the departments a competitive edge.

Development in the segment's markets and its customers' characteristics

The segment's customers operate mainly in different sectors of the Israeli economy, such as industry, infrastructure, high-tech, trade and services, real estate, etc., as well as in foreign markets.

It is generally expected that in 2019, the global and Israeli economies will continue to grow at a moderate pace; such growth is expected to have an impact on customers of the middle market segment. Accordingly, the segment's credit risks are managed with due care while assessing the creditworthiness of customers on an ongoing basis, with special emphasis on the creditworthiness of risk-sensitive customers; the department also assesses the impact of trends and developments on these customers.

Services and products

The Commercial Banking Department and LeumiTech has an extensive product offering designed for its different customers, including, among other things, financing of long-term investments, financing of foreign trade, financing of rental properties and construction loans, invoice discounting and factoring, financing of mergers and acquisitions, etc.

Customers

The customers of the Commercial Banking segment are medium-sized businesses from various sectors of the Israeli economy: commerce, industry, real estate, high-tech, etc. Furthermore, the segment also includes interested parties in these companies.

Generally, customers with approved credit facilities of more than NIS 10 million and up to NIS 120 million (inclusive) or with a turnover of more than NIS 20 million and up to NIS 400 million will be assigned to the Commercial Banking segment. In addition, the segment includes start-up companies regardless of the extent of their credit facilities or business turnover.

c. Management's Approach – Corporate Banking Segment

Overview

The Corporate banking segment specializes in providing banking and financial services to large corporations, some of which are multinationals. The services are based on providing an overall solution for the customer's needs, bearing in mind the whole spectrum of its businesses.

Structure and characteristics of the segment

The Corporate banking segment is managed in Israel by the Corporate Department of the Corporate Division. The Corporate Department includes three business sectors: tourism, energy, defense, chemicals, consumption, finance, industry, transportation and infrastructure. Services are rendered by customer relations managers, who coordinate the Group's services vis a vis customers and specialize in the business sector in which the customer operates. The segment provides a comprehensive offering of banking services to all types of companies in the various sectors. Customers' accounts are managed mainly by a business unit, which specializes in large customers with diverse activities, and, where relevant, by the Bank's foreign offices. Special/complex transactions, such as the acquisition of means of control, assessment of investment plans and project financing, international trade activity, financing of foreign or domestic debtors, syndicated loans, etc., are dealt with by designated units specializing in dealing with such transactions, due to the complexity and risk level involved.

Developments in the segment's markets and customer characteristics

The Corporate Banking Department manages the credit risks with due care while assessing the creditworthiness of customers on an ongoing basis, especially the creditworthiness of risk-sensitive customers; the department also assesses the impact of trends and developments on these customers.

Services and products

The services rendered include, among other things, ongoing financing according to the customers' needs, financing of investments to maintain and expand operations, provision of financing and international trade solutions (including financing credit insurance or private insurance companies of projects abroad), financing of mergers and acquisitions, granting loans for extensive transactions carried out through syndicates in collaboration with the institutional entities and foreign and Israeli banks, financial instruments hedging foreign exchange risks, interest risks and fluctuations in commodities prices. The service also includes promotion of banking services to the companies, managers and companies' employees.

Customers

This segment's customers are mostly market leaders in their fields. Some of these companies are public, operating in different sectors of the Israeli economy and have complex and multi-tiered organizational structures comprising several management and control tiers.

Generally, customers with approved credit facilities of more than NIS 120 million or with a turnover of more than NIS 400 million are assigned to the Corporate Banking segment. Furthermore, customers with approved credit facilities of more than NIS 80 will also be affiliated to this sector if their overall obligo to banks exceeds NIS 250 million.

d. Management's Approach – the Real Estate Segment

Overview

The Real Estate Department specializes in providing banking and financial services to customers operating mainly in the fields of construction and real estate. Construction loans are granted using unique, industry-specific instruments and analysis tools and implementing a well-balanced policy. The projects are funded through construction loans and are closely monitored and supervised with an emphasis on meticulous review of each project.

Structure and characteristics of the segment

The Real Estate segment in Israel is mostly managed by the Construction and Real Estate Department, which is one of the four departments of the Corporate Division. The Real Estate Department operates through two sectors: corporate real estate and real estate development. The department provides a comprehensive offering of banking services to construction companies and large real estate developers and contractors in Israel. The department's areas of expertise cover all aspects of real estate activities. Customers' accounts are managed mainly by a business unit, which specializes in large customers with diverse activities, and, where relevant, by the Bank's foreign offices. Services are rendered by customer relations managers, who coordinate the Group's services vis a vis customers and specialize in the business sector in which the customer operates.

Developments in the segment's markets and customer characteristics

The Israel real estate market is a part of the overall business activity in the Israeli economy. It is generally expected that in 2019, the Israeli economy will continue to grow, albeit at a smaller rate than in recent years. This is expected to have an impact on customers in the domestic market.

The Real Estate Department manages the credit risks with due care while assessing the creditworthiness of customers on an ongoing basis, especially the creditworthiness of risk-sensitive customers; the department also assesses the impact of trends and developments on these customers.

In 2018, the residential real estate market continued to decline in terms of transaction number, especially sales of new apartments.

The commercial real estate market is significantly affected by developments and preferences in households' consumption. The change in consumer preferences and the continued increase in the volume of online sales may impact parameters such as rent levels and occupancy rates, which remained relatively stable over the past few years. This stability is also evident in the office real estate market, which is highly correlated with the business GDP growth that includes a significant services-based growth component leading to increased demand for office space.

In 2019, as in previous years, real estate activity is expected to be affected by the following factors: the macroeconomic environment; regulatory changes - particularly those relating to the residential housing market; continued implementation of government programs, especially the "Affordable Housing" program; completion of construction projects; as well as the scope of Government investments in national infrastructures.

Services and products

Construction and real estate projects are funded through industry-specific and unique monitoring and analysis tools, which support the decision-making process and the monitoring of loans extended to the various projects and properties. Funding is extended with the aim of diversifying the loans portfolio and distinguishing between the various segments – housing, rental properties - especially commercial and office space, and construction for industry and commerce. Generally, loans granted in the construction phase are extended by way of construction loans, which allow the Bank to closely monitor and supervise the relevant project.

Furthermore, as part of its activities in the Construction and Real Estate Segment, the Bank funds real estate transactions which are carried out abroad through its foreign subsidiaries and supports the development of real estate and hospitality projects and the purchase and operation of rental properties, including care homes.

In 2018, the segment continued to implement a well-balanced credit policy which is in line with regulatory requirements, distinguishes between different risk levels, and determines the credit spreads and terms accordingly.

Customers

The segment's customers include large and mid-sized real estate development companies, executive and infrastructure contractors and selected business companies engaged in real estate development and contracting in the field of rental properties.

e. Management's Approach – Capital Markets Segment

Overview

The financial management function of the Bank and the Group manages the trading room and provides various services to banks and institutional investors, including serving as an "account manager" on their behalf. Set forth below are the segment's main areas of activity:

- Management of the nostro account by investing the Bank's own funds in tradable and non-tradable investment instruments and by management of direct investments in shares of tradable and non-tradable companies; non-financial investments are managed by Leumi Partners.
- Management of the trading room, which provides trading services to the Bank's customers, including market-making, primarily in currencies, securities and derivative instruments.
- Management of resources and liquidity sources and applications.
- Management of market risk exposures – including management of underlying exposures, interest and liquidity exposures.
- Price management – by setting transfer prices and pricing of special financial transactions.
- Management of banking activity of institutional customers and other corporations with extensive capital market activities.
- Development of financial instruments.

Segment's structure

Financial management is carried out by the Capital Markets Division, which coordinates the function at the Group level. The division manages the banking portfolio and the trading portfolio and provides services to customers with capital markets and financial markets activities, including institutional customers. The banking portfolio activity is managed by the ALM Department and includes the management of liquidity sources and applications, as well as of exposures to market and liquidity risks. The trading activity is carried out by the trading room and nostro units in NIS and in foreign currency.

The main tools for managing the banking portfolio are transfer prices, taking actions in the available-for-sale nostro portfolios and use of derivative instruments.

The ALM's main areas of responsibility include managing the Bank's financial capital and market risk exposures, managing corporate and statutory liquidity and liquidity risk, as well as allocating liquidity sources to the various applications by implementing the transfer prices policy. This policy is determined according to the Bank's needs, planning and management of the mix of liquidity sources and applications as well as developments in the business environment and forecasts. As part of this activity, the Bank also sets the methodology for netting/account settling between the profit centers and prices complex and special transactions.

The liquidity is managed on a regular basis in accordance with the Bank's policy and pursuant to the binding directives. Liquidity is also managed by a special-purpose unit, whose main function is optimal planning and management of liquidity balances, subject to the risk appetite, while ensuring a liquidity level that enables the Bank to carry out its business activity while meeting all of its financial obligations in a normal business environment as well as under stress scenarios. The measurement, analysis, planning and reporting activities are carried out through the Summix (formerly Risk Pro) risk management system, which provides extensive information on all of the Bank's financial activities and on the market and liquidity risks associated therewith. The system enables to assess and monitor the effect of various scenarios (price and quantity) on the Bank's financial profitability and capital.

For a description of the principal points of the securities investment (nostro) policy, please see the Section entitled "Structure and Development of Assets and Liabilities, Capital and Capital Adequacy", under "Securities".

Segment's profit

The segment's profit is mainly impacted by the nostro activity, the trading room activity, ALM management, management of customers' accounts and accounts of other corporations with extensive capital market activities, as well as the results of non-financial associates. Set forth below are the main components of the net income:

- Results of market risks management, including changes in transfer prices. Income and expenses resulting from changes in transfer prices are carried in full to the financial segment, to which all of the market risks from the other operating segments are also transferred.
- Realized gains/losses of securities and from provisions for impairment of securities in respect of a decline which is not temporary in nature in the value of securities and unrealized gains/losses from adjustments of tradable securities to market value.
- Adjustment of derivatives to market value.
- Effects of exchange rate differences (foreign currency/NIS) and linkage differences (to the consumer price index), including adjustments from translation of foreign investments and the impact of the applicable taxes.
- Income arising from market-making activities.
- Income/expenses arising from investment of pension, jubilee and regular leave reserves.
- Certain costs relating to pension liabilities, calculated on an actuarial basis.
- Profits of associates.

The segment's operating expenses mainly include direct operating expenses, as well as overheads associated with management of market risks, the Bank's own securities (nostro) portfolios and the trading room.

Developments in the markets

In 2018, the shares bonds markets underwent sharp fluctuations, especially in the fourth quarter. The Fed's interest rate hikes continued throughout the year, but in Israel, the Bank of Israel raised the interest rate only towards the end of the year - for the first time in years - during which it had been 0.1 percent.

Services and products

The segment's activity mainly involves custodian services, brokerage, and tradable and non-tradable derivatives. In addition, the Bank provides operating services to provident funds, mutual funds and investment funds' management companies.

Customers

The segment's customers include insurance companies, provident funds, study funds, pension funds, mutual funds, exchange-traded funds, commercial banks and investment banks, as well as other customers with extensive capital market activities.

Income and Expense Rates[(a)] and Analysis of the Changes in Interest Income and Expenses

Part A - Average Balances and Interest

	2018			2017			2016		
	Average balance[(b)]	Interest income	% of income	Average balance[(b)]	Interest income	% of income	Average balance[(b)]	Interest income	% of income
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Interest bearing assets									
Loans to the public[(c)]									
In Israel	243,675	8,887	3.65	236,619	8,222	3.47	238,767	7,757	3.25
Outside Israel	24,530	1,198	4.88	23,227	977	4.21	23,366	940	4.02
Total[(i)]	268,205	10,085	3.76	259,846	9,199	3.54	262,133	8,697	3.32
Loans to governments									
In Israel	719	33	4.59	650	25	3.85	502	18	3.59
Outside Israel	-	-	-	-	-	-	10	-	-
Total	719	33	4.59	650	25	3.85	512	18	3.52
Deposits with banks									
In Israel	9,032	130	1.44	5,092	86	1.69	7,529	84	1.12
Outside Israel	395	9	2.28	487	5	1.03	754	2	0.27
Total	9,427	139	1.47	5,579	91	1.63	8,283	86	1.04
Deposits with central banks									
In Israel	49,146	57	0.12	45,884	47	0.10	34,420	36	0.10
Outside Israel	1,958	15	0.77	4,271	22	0.52	5,451	6	0.11
Total	51,104	72	0.14	50,155	69	0.14	39,871	42	0.11
Securities borrowed or purchased under reverse repurchase agreements									
In Israel	1,042	2	0.19	1,115	2	0.18	1,455	2	0.14
Outside Israel	-	-	-	-	-	-	-	-	-
Total	1,042	2	0.19	1,115	2	0.18	1,455	2	0.14
Bonds - available-for-sale[(d)]									
In Israel	64,904	819	1.26	62,543	498	0.80	58,111	536	0.92
Outside Israel	5,269	156	2.96	5,208	130	2.50	5,360	102	1.90
Total	70,173	975	1.39	67,751	628	0.93	63,471	638	1.01
Held-for-trading bonds[(d)]									
In Israel	5,929	38	0.64	7,912	54	0.68	11,088	68	0.61
Outside Israel	56	2	3.57	159	1	0.63	69	1	1.45
Total	5,985	40	0.67	8,071	55	0.68	11,157	69	0.62
Total interest-bearing	406,655	11,346	2.79	393,167	10,069	2.56	386,882	9,552	2.47
Non-interest bearing receivables in respect of credit cards	6,695			6,784			6,508		
Other noninterest bearing assets[(e)]	38,348			38,514			39,415		
Total assets[(j)]	451,698	11,346		438,465	10,069		432,805	9,552	
Total interest-bearing assets attributed to foreign operations	32,208	1,380	4.28	33,352	1,135	3.40	35,010	1,051	3.00

Part B - Average Outstanding Balances and Interest Rates - Liabilities and Capital

	2018			2017			2016		
	Average balance(b)	Interest expense	% of expense	Average outstan-ding balance(b)	Interest expense	% of expense	Average outstan-ding balance(b)	Interest expense	% of expense
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Interest bearing liabilities									
Deposits from the public									
In Israel	**247,570**	**(1,585)**	**(0.64)**	241,181	(1,187)	(0.49)	238,902	(1,093)	(0.46)
Demand deposits	**114,355**	**(90)**	**(0.08)**	102,912	(34)	(0.03)	90,324	(15)	(0.02)
Fixed deposits	**133,215**	**(1,495)**	**(1.12)**	138,269	(1,153)	(0.83)	148,578	(1,078)	(0.73)
Outside Israel	**15,756**	**(262)**	**(1.66)**	15,581	(142)	(0.91)	16,849	(131)	(0.78)
Demand deposits	**5,453**	**(72)**	**(1.32)**	4,966	(24)	(0.48)	3,740	(10)	(0.27)
Fixed deposits	**10,303**	**(190)**	**(1.84)**	10,615	(118)	(1.11)	13,109	(121)	(0.92)
Total	**263,326**	**(1,847)**	**(0.70)**	256,762	(1,329)	(0.52)	255,751	(1,224)	(0.48)
Deposits from the Israeli government									
In Israel	**240**	**(4)**	**(1.67)**	161	(3)	(1.86)	154	(4)	(2.60)
Outside Israel	**329**	**-**	**-**	548	-	-	583	-	-
Total	**569**	**(4)**	**(0.70)**	709	(3)	(0.42)	737	(4)	(0.54)
Deposits from central banks									
In Israel	**35**	**-**	**-**	40	-	-	-	-	-
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**35**	**-**	**-**	40	-	-	-	-	-
Deposits from banks									
In Israel	**4,905**	**(28)**	**(0.57)**	4,152	(17)	(0.41)	4,416	(15)	(0.34)
Outside Israel	**56**	**(1)**	**(1.79)**	22	-	-	13	-	-
Total	**4,961**	**(29)**	**(0.58)**	4,174	(17)	(0.41)	4,429	(15)	(0.34)
Securities borrowed or sold under reverse repurchase agreements									
In Israel	**477**	**(2)**	**(0.42)**	467	(2)	(0.43)	812	(2)	(0.25)
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**477**	**(2)**	**(0.42)**	467	(2)	(0.43)	812	(2)	(0.25)
Bonds									
In Israel	**16,812**	**(574)**	**(3.41)**	20,810	(672)	(3.23)	24,204	(781)	(3.23)
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**16,812**	**(574)**	**(3.41)**	20,810	(672)	(3.23)	24,204	(781)	(3.23)
Total interest-bearing liabilities	**286,180**	**(2,456)**	**(0.86)**	282,962	(2,023)	(0.71)	285,933	(2,026)	(0.71)
Non-interest bearing deposits from the public	**95,821**			88,804			81,458		
Non-interest bearing payables in respect of credit cards	**6,297**			6,451			6,112		
Other non-interest bearing liabilities(f)	**29,104**			27,789			29,333		
Total liabilities(k)	**417,402**	**(2,456)**		406,006	(2,023)		402,836	(2,026)	
Total capital sources	**34,296**			32,459			29,969		
Total capital commitments and sources	**451,698**	**(2,456)**		438,465	(2,023)		432,805	(2,026)	
Interest rate spread		**8,890**	**1.93**		8,046	1.85		7,526	1.76
Net return(g) on interest-bearing assets									
In Israel	**374,447**	**7,773**	**2.08**	359,815	7,053	1.96	351,872	6,606	1.88
Outside Israel	**32,208**	**1,117**	**3.47**	33,352	993	2.98	35,010	920	2.63
Total	**406,655**	**8,890**	**2.19**	393,167	8,046	2.05	386,882	7,526	1.95
Total interest-bearing liabilities attributed to foreign operations	**16,141**	**(263)**	**(1.63)**	16,151	(142)	(0.88)	17,445	(131)	(0.75)

Part C - Average Balances and Interest Rates - Additional Information on Interest-Bearing Assets and Liabilities Attributed to Israeli Operations

	2018			2017			2016		
	Average balance[b]	Interest income (expenses)	% of income (expense)	Average balance[b]	Interest income (expenses)	% of income (expense)	Average balance[b]	Interest income (expenses)	% of income (expense)
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Unlinked NIS									
Total interest-bearing assets	**272,333**	**6,593**	**2.42**	263,930	6,334	2.40	250,932	6,030	2.40
Total interest-bearing liabilities	**195,011**	**(437)**	**(0.22)**	193,677	(553)	(0.29)	185,536	(624)	(0.34)
Interest rate spread			**2.20**			2.11			2.06
CPI-linked NIS									
Total interest-bearing assets	**45,767**	**1,959**	**4.28**	47,373	1,657	3.50	51,140	1,482	2.90
Total interest-bearing liabilities	**30,994**	**(1,000)**	**(3.23)**	34,595	(935)	(2.70)	41,381	(948)	(2.29)
Interest rate spread			**1.05**			0.80			0.61
Foreign currency (including foreign-currency linked NIS)									
Total interest-bearing assets	**56,347**	**1,414**	**2.51**	48,512	943	1.94	49,800	989	1.99
Total interest-bearing liabilities	**44,034**	**(756)**	**(1.72)**	38,539	(393)	(1.02)	41,571	(323)	(0.78)
Interest rate spread			**0.79**			0.92			1.21
Total activity in Israel									
Total interest-bearing assets	**374,447**	**9,966**	**2.66**	359,815	8,934	2.48	351,872	8,501	2.42
Total interest-bearing liabilities	**270,039**	**(2,193)**	**(0.81)**	266,811	(1,881)	(0.70)	268,488	(1,895)	(0.71)
Interest rate spread			**1.85**			1.78			1.71

Part D - Analysis of Changes in Interest Income and Interest Expenses

	2018 vs. 2017			2017 vs. 2016		
	Increase (decrease) due to change[h]		Net change	Increase (decrease) due to change[h]		Net change
	Quantity	Price		Quantity	Price	
	In NIS millions					
Interest bearing assets						
Loans to the public						
In Israel	257	408	665	(75)	540	465
Outside Israel	64	157	221	(6)	43	37
Total	321	565	886	(81)	583	502
Other interest-bearing assets						
In Israel	63	304	367	58	(90)	(32)
Outside Israel	(58)	82	24	(24)	71	47
Total	5	386	391	34	(19)	15
Total interest income	326	951	1,277	(47)	564	517
Interest bearing liabilities						
Deposits from the public						
In Israel	41	357	398	11	83	94
Outside Israel	3	117	120	(12)	23	11
Total	44	474	518	(1)	106	105
Other interest bearing liabilities						
In Israel	(86)	-	(86)	(107)	(1)	(108)
Outside Israel	-	1	1	-	-	-
Total	(86)	1	(85)	(107)	(1)	(108)
Total interest expenses	(42)	475	433	(108)	105	(3)
Total interest, net	368	476	844	61	459	520

Comments:

(a) The data in the above tables are stated after the effect of derivatives instruments hedging.

(b) Based on monthly opening balances, except for the unlinked Israeli currency segment where the average balance is calculated according to daily inputs, and before deducting the average book balance of loan loss provisions; foreign subsidiaries - based on quarterly opening balances.

(c) Before deducting the average balance of loan loss provisions. Including nonaccrual non-performing loans.

(d) The average balance of unrealized gains/losses from fair value adjustments of held-for-trading bonds were deducted/added from the average balance of held-for-trading bonds and available -for-sale bonds, as were gains/losses in respect of available-for-trading bonds included in shareholder's equity under other comprehensive income, in the "Adjustments in respect of presentation of available-for-sale securities at fair value" item in the amount of NIS (274) million (December 31 2017 – NIS (38) million; December 31 2016 - NIS 548 million).

(e) Including book balances of derivative instruments, other nonaccrual assets, non-monetary assets, less loan loss provision.

(f) Including book balances of derivative instruments and non-monetary liabilities.

(g) Net yield – net interest income divided by total interest-bearing assets.

(h) The change attributed to the quantity change was calculated by multiplying the new price by the change in quantity. The change attributed to the change in price was calculated by multiplying the old quantity by the price change.

(i) Fees and commissions in the amount of NIS 365 million were included in interest income from loans to the public (December 31 2017 - NIS 432 million; December 31 2016 - NIS 477 million).

(j) Of which for held-for-sale assets in the amount of NIS 8,461 million.

(k) Of which, held-for-sale liabilities in the amount of NIS 6,981 million.

Quarterly Consolidated Income Statement - Multi-Quarter Information

	For the year ended December 31							
	2018				2017			
	4	3	2	1	4	3	2	1
	In NIS millions							
Interest income	**2,926**	**2,811**	**3,188**	**2,421**	2,569	2,294	2,887	2,319
Interest expense	**652**	**615**	**774**	**415**	479	376	722	446
Interest income, net	**2,274**	**2,196**	**2,414**	**2,006**	2,090	1,918	2,165	1,873
Expenses (income) in respect of loan losses	**205**	**198**	**(14)**	**130**	26	3	42	101
Interest income, net of expenses for loan losses	**2,069**	**1,998**	**2,428**	**1,876**	2,064	1,915	2,123	1,772
Noninterest income								
Noninterest finance income	**88**	**454**	**89**	**51**	245	222	197	255
Fees and commissions[(a)]	**1,053**	**1,023**	**1,022**	**1,023**	1,049	1,021	986	996
Other income	**6**	**6**	**38**	**18**	300	41	16	14
Total noninterest income	**1,147**	**1,483**	**1,149**	**1,092**	1,594	1,284	1,199	1,265
Operating and other expenses								
Salaries and related expenses[(a)]	**1,132**	**1,119**	**1,225**	**1,068**	1,259	1,096	1,117	1,119
Buildings and equipment - maintenance and depreciation	**402**	**380**	**376**	**411**	422	406	398	435
Other expenses[(a)]	**649**	**546**	**532**	**497**	653	552	484	474
Total operating and other expenses	**2,183**	**2,045**	**2,133**	**1,976**	2,334	2,054	1,999	2,028
Profit before taxes	**1,033**	**1,436**	**1,444**	**992**	1,324	1,145	1,323	1,009
Provision for income tax	**321**	**515**	**521**	**262**	472	376	456	388
Profit after taxes	**712**	**921**	**923**	**730**	852	769	867	621
The Bank's share in associates' profits, after tax	**(11)**	**35**	**2**	**10**	7	60	15	10
Net income:								
Before attribution to non-controlling interests	**701**	**956**	**925**	**740**	859	829	882	631
Attributable to non-controlling interests	**(13)**	**(20)**	**(22)**	**(10)**	(5)	(9)	(6)	(9)
Attributable to the Bank's shareholders	**688**	**936**	**903**	**730**	854	820	876	622
Basic and diluted earnings per share (in NIS):								
Diluted earnings per share	**0.46**	**0.62**	**0.59**	**0.48**	0.56	0.54	0.57	0.41

(a) Reclassified. Please see Note 1.C.3 in respect of expenses for purchasing insurance in respect of guarantees pursuant to the Sales Law and Note 1.W.3 regarding retroactive application of the Banking Supervision Department's directive regarding improved presentation of expenses for pension and other post-employment benefits.

Loan Loss Expenses

	For the year ended December 31							
	2018				2017			
	4	3	2	1	4	3	2	1
	In NIS millions							
Income in respect of loan losses - specific	(56)	-	(71)	(64)	(129)	(139)	(33)	(63)
Expenses in respect of loan losses - collective	261	198	57	194	155	142	75	164
Total expense (income) for loan losses	205	198	(14)	130	26	3	42	101
Of which:								
Loan loss expenses (income) for credit risk in respect of commercial credit risk	117	126	(33)	37	(16)	(55)	(15)	82
Loan loss expenses (income) for risk in respect of housing loans	6	9	11	6	5	(5)	(11)	(2)
Loan loss expenses for other credit risk in respect of private individuals - other	80	63	8	89	35	63	68	21
Loan loss expenses (income) for credit risk in respect of banks and governments	2	-	-	(2)	2	-	-	-
Total expense (income) for loan losses	205	198	(14)	130	26	3	42	101
Ratios (in %):								
Percentage of specific income for loan losses out of total loans to the public, net[(a)]	(0.08)	-	(0.10)	(0.10)	(0.19)	(0.21)	(0.05)	(0.10)
Percentage of expenses (income) in respect of loan losses out of the average outstanding balance of loans to the public[(a)]	0.30	0.29	(0.02)	0.19	0.04	-	0.06	0.15
Percentage of net write-offs in respect of loans to the public out of average balance of loans to the public[(a)]	(0.08)	(0.17)	(0.09)	(0.04)	(0.06)	(0.03)	(0.30)	(0.23)
Percentage of net write-offs in respect of loans to the public out of the outstanding loan loss provision in respect of loans to the public[(a)]	(5.29)	(11.44)	(6.33)	(2.69)	(4.36)	(2.35)	(19.47)	(14.70)

(a) Including balances classified as held-for-sale assets. For more information regarding the investee's held-for-sale operations, please see the Section entitled "Main Changes in the Reporting Year" and Note 36F.

Noninterest Income

	For the year ended December 31							
	2018				2017			
	4	3	2	1	4	3	2	1
	In NIS millions							
Noninterest finance income	88	454	89	51	245	222	197	255
Fees and commissions[(a)]	1,053	1,023	1,022	1,023	1,049	1,021	986	996
Other income	6	6	38	18	300	41	16	14
Total	1,147	1,483	1,149	1,092	1,594	1,284	1,199	1,265

(a) Reclassified. Please see Note 1.C.5.

Fees and Commissions

	For the year ended December 31							
	2018				2017			
	4	3	2	1	4	3	2	1
	In NIS millions							
Account management	188	174	175	179	182	170	171	178
Activity in securities and certain derivatives	149	155	166	168	173	170	163	169
Credit cards	286	299	276	268	278	277	265	255
Credit handling	51	42	47	46	48	44	42	49
Financial product distribution fees and commissions	78	79	79	80	82	78	74	73
Exchange differences	91	89	87	94	94	83	77	84
Loan fees and commissions[(a)]	128	107	110	109	112	118	112	113
Other fees and commissions	82	78	82	79	80	81	82	75
Total fees and commissions	1,053	1,023	1,022	1,023	1,049	1,021	986	996

(a) Reclassified. Please see Note 1.C.5.

Salary Expenses

	For the year ended December 31							
	2018				2017			
	4	3	2	1	4	3	2	1
	In NIS millions							
Salaries and related expenses	1,055	1,028	1,134	979	1,140	1,008	1,033	1,044
Pension, severance and retirement expenses[(a)]	77	91	91	89	86	88	84	75
Bonuses and expenses not granted/incurred in the ordinary course of business[(b)]	-	-	-	-	33	-	-	-
Total salary expenses	1,132	1,119	1,225	1,068	1,259	1,096	1,117	1,119

(a) In 2017, NIS 76 million was presented in a different line item, as "bonuses and expenses outside the ordinary course of business". Of which, NIS 43 million in grants outside the ordinary course of business. In the first nine months of 2018, a bonus in respect of participation in the Bank's restructuring in excess of the above amount was charged to restructuring. As a result, both the NIS 43 million bonus in 2017 and the restructuring grant paid in 2018 were included in the salaries line item rather than in the line item entitled "bonuses outside the regular course of business".

(b) Reclassified due to retroactive application of the Banking Supervision Department's directive regarding improved presentation of expenses for pension and other post-employment benefits. Please see Note 1.W.3. Total effect in 2017 was NIS 681 million.

Consolidated Balance Sheet as of End of Quarter - Multi-Quarter Information

	December 31							
	2018				2017			
	4	3	2	1	4	3	2	1
	In millions of NIS							
Assets								
Cash and deposits with banks	81,419	74,789	71,315	73,376	82,067	66,953	69,352	68,275
Securities	74,571	76,861	82,113	80,061	77,299	82,098	78,470	77,959
Securities borrowed or purchased under reverse repurchase agreements	1,257	1,465	931	878	1,161	872	1,031	903
Loans to the public	274,525	270,902	267,332[(b)]	266,550[(b)]	271,165[(b)]	269,584[(b)]	267,748[(b)]	268,139[(b)]
Loan loss provision	(3,352)	(3,222)	(3,160)[(b)]	(3,220)[(b)]	(3,213)[(b)]	(3,226)[(b)]	(3,214)[(b)]	(3,385)[(b)]
Loans to the public, net	271,173	267,680	264,172	263,330	267,952	266,358	264,534	264.754
Loans to governments	782	642	757	723	715	695	619	620
Investments in investees	623	792	869	831	807	923	883	878
Buildings and equipment	2,853	2,736	2,737	2,762	2,986	2,931	2,954	3,016
Intangible assets and goodwill	17	17	17	16	16	16	16	17
Assets in respect of derivatives	12,750	9,820	12,076	11,803	9,573	10,954	11,361	11,032
Other Assets	6,642	7,066	7,132	8,274	8,262	8,251	7,747	7,844
Held-for-sale assets[(a)]	8,570	8,806	8,329	8,513	-	-	-	-
Total assets	460,657	450,674	450,448	450,567	450,838	440,051	436,967	435,298
Liabilities and capital								
Deposits from the public	364,591	358,875	361,220	362,026	362,478	350,201	342,766	341,663
Deposits from banks	5,210	5,168	3,473	3,077	5,156	5,279	4,330	4,493
Deposits by governments	709	790	552	968	452	539	625	770
Securities loaned or sold under repurchase agreements	541	655	559	495	558	637	244	481
Bonds, promissory notes and subordinated bonds	17,798	17,805	16,954	15,603	15,577	16,407	22,337	22,689
Liabilities in respect of derivative instruments	12,089	9,315	11,323	11,417	9,740	11,275	12,078	11,272
Other Liabilities	14,780	15,376	14,716	16,561	23,324	22,539	21,694	21,309
Held-for-sale liabilities[(a)]	8,778	7,095	6,137	6,470	-	-	-	-
Total liabilities	424,496	415,079	414,934	416,617	417,285	406,877	404,074	402,677
Equity attributable to the Bank's shareholders	35,305	34,759	34,679	33,564	33,167	32,793	32,521	32,255
Non-controlling interests	856	836	835	386	386	381	372	366
Total capital	36,161	35,595	35,514	33,950	33,553	33,174	32,893	32,621
Total liabilities and capital	460,657	450,674	450,448	450,567	450,838	440,051	436,967	435,298

(a) For more information, please see Note 36F.
(b) Reclassified.

Consolidated Income Statement for 2014-2018 - Multiyear Information

	2018	2017	2016	2015	2014
	In NIS millions				
Interest income	**11,346**	10,069	9,552	8,784	10,012
Interest expense	**2,456**	2,023	2,026	1,666	2,649
Interest income, net	**8,890**	8,046	7,526	7,118	7,363
Expenses (income) in respect of loan losses	**519**	172	(125)	199	472
Interest income, net of expenses for loan losses	**8,371**	7,874	7,651	6,919	6,891
Noninterest income					
Noninterest finance income	**682**	919	1,282	1,610	795
Fees and Commissions	**4,121**	4,052[(a)]	3,887[(a)]	4,092	4,167
Other income	**68**	371	159	595	179
Total noninterest income	**4,871**	5,342	5,328	6,297	5,141
Operating and other expenses					
Salaries and related expenses[(a)]	**4,544**	4,591	4,778	4,938	4,720
Buildings and equipment - maintenance and depreciation	**1,569**	1,661	1,697	1,678	1,631
Amortization of intangible assets and goodwill	**-**	-	-	5	58
Other expenses[(a)]	**2,224**	2,163	2,025	2,215	2,962
Total operating and other expenses	**8,337**	8,415	8,500	8,836	9,371
Profit before tax	**4,905**	4,801	4,479	4,380	2,661
Provision for Profit Tax	**1,619**	1,692	1,717	1,691	1,278
Profit after taxes	**3,286**	3,109	2,762	2,689	1,383
The banking corporation's share in associates' profits, after tax effect	**36**	92	66	177	42
Net income					
Before attribution to non-controlling interests	**3,322**	3,201	2,828	2,866	1,425
Attributable to non-controlling interests	**(65)**	(29)	(37)	(31)	(12)
Attributable to the Bank's shareholders	**3,257**	3,172	2,791	2,835	1,413
Basic and diluted earnings per share (in NIS):					
Basic earnings per share attributable to the Bank's shareholders	**2.15**	2.08	1.85	1.92	0.96
Diluted earnings per share	**2.15**	2.08	1.84	1.92	0.96

(a) Reclassified. Please see Note 1.C.3 in respect of expenses for purchasing insurance in respect of guarantees pursuant to the Sales Law and Note 1.W.3 regarding retroactive application of the Banking Supervision Department's directive regarding improved presentation of expenses for pension and other post-employment benefits.

Consolidated Balance Sheet as at December 31

	2018	2017	2016	2015	2014
	In NIS millions				
Assets					
Cash and deposits with banks	**81,419**	82,067	74,757	60,455	60,615
Securities	**74,571**	77,299	77,201	69,475	52,113
Securities borrowed or purchased under reverse repurchase agreements	**1,257**	1,161	1,284	1,764	2,000
Loans to the public	**274,525**	271,165[b]	265,428[b]	265,070	256,468
Loan loss provision	**(3,352)**	(3,213)[b]	(3,471)[b]	(3,671)	(3,988)
Loans to the public, net	**271,173**	267,952	261,957	261,399	252,480
Loans to governments	**782**	715	642	453	528
Investments in investees	**623**	807	901	924	2,216
Buildings and equipment	**2,853**	2,986	3,147	3,095	3,162
Intangible assets and goodwill	**17**	16	17	18	43
Assets in respect of derivatives	**12,750**	9,573	10,654	11,250	16,909
Other Assets	**6,642**	8,262	8,043	7,666	6,918
Assets held for sale[a]	**8,570**	-	-	-	-
Total assets	**460,657**	450,838	438,603	416,499	396,984
Liabilities and capital					
Deposits from the public	**364,591**	362,478	346,854	328,693	303,397
Deposits by Banks	**5,210**	5,156	3,394	3,859	4,556
Deposits by governments	**709**	452	900	750	467
Securities loaned or sold under repurchase agreements	**541**	558	539	938	1,238
Bonds, promissory notes and subordinated bonds	**17,798**	15,577	22,640	21,308	23,678
Liabilities in respect of derivative instruments	**12,089**	9,740	10,677	11,098	15,650
Other Liabilities	**14,780**	23,324	21,885	20,746	21,860
Liabilities held for sale[a]	**8,778**	-	-	-	-
Total liabilities	**424,496**	417,285	406,889	387,392	370,846
Non-controlling interests	**856**	386	367	340	340
Equity attributable to the Bank's shareholders	**35,305**	33,167	31,347	28,767	25,798
Total capital	**36,161**	33,553	31,714	29,107	26,138
Total liabilities and capital	**460,657**	450,838	438,603	416,499	396,984

(a) For more information, please see Note 36F.
(b) Reclassified.

Glossary of Terms

Term	Definition
A	
Actuarial Calculation	Any calculation that reflects uncertainties, i.e., is risk-adjusted. For example, an Actuarial Calculation reflects past experience and management's estimates as to the expected retirement dates of a bank's employees and the expected retirement benefits which are allocated on a linear basis over the expected service period.
Actuarial Gain/Loss	Mostly reflects adjustments in respect of actuarial estimates, as at the end of the year, of defined benefit pension plans and a deduction of amounts previously recorded in other comprehensive income.
Additional Tier 1 Capital	Additional Tier 1 Capital includes capital instruments complying with the criteria set forth in Proper Conduct of Banking Business Directive No. 202. As of the reporting date, the Leumi Group has no capital instruments in this tier. Any Additional Tier 1 capital instruments which may be issued in the future will be required to comply with all the criteria set forth in Proper Conduct of Banking Business Directive No. 202.
Asset and Liability Management (ALM)	Management of the Bank's assets and liabilities with the aim of avoiding a mismatch between the two and, in the long-term, increasing the Bank's capital for the benefit of its shareholders.
Asset-Backed Securities (ABSs)	A security whose interest and principal payments are collateralized or pledged by a specific financial asset.
Auxiliary Corporation	A corporation which is not in itself a banking corporation and whose activities are limited to the fields of activity permitted to the banking corporation controlling it, except activities reserved exclusively for corporations defined as banking corporations under law.
Average Duration (AD)	Average Duration is measured in years and weights the periodic interest payments of the financial instrument over its life until final redemption.
B	
Balanced Score Card (BSC)	A performance metric used for measuring the performance of the Bank and its business lines on a number of quantitative and qualitative issues defined by Bank's management in its strategic plan.
Basel II/Basel III	Banks' risk management directives set by the Basel Committee on Banking Supervision (BCBS), which is the primary supervision and global standard setter for prudential regulation and supervision of banks. The BCBS's directives serve as the benchmark for leading standards designed to ensure the stability of financial institutions.

Basic Earnings per Share	Basic earnings per share will be calculated by dividing the profit or loss attributed to holders of the parent company's ordinary shares (the numerator) by the weighted average number of ordinary shares outstanding during the period (the denominator).
Basis Point (BP)	1/100th of 1 percent; BP is used as a common unit of measure for interest rates.
Basis Risks	Basis Risk is the potential loss as a result of changes in the consumer price index and exchange rates due to the difference between the value of assets and the value of liabilities, including the impact of future transactions in each of the linkage bases.
Benchmark Interest Rate	Interest determined on an external objective basis according to a pre-set formula, i.e., the banking corporation plays no direct role in setting it.
Build Operate Transfer (BOT)	A model used to finance public projects whereby a public entity grants a concession to a private company to finance, plan, build and operate a public facility for a fixed period of time, at the end of which control of the facility is transferred to the government.
C	
Capital Adequacy Ratio	The ratio between the Bank's qualifying Regulatory Capital and its risk-weighted assets (the Bank's assets weighted to reflect credit, market and operational risks), calculated in accordance with the Bank of Israel's directives and to reflect the risk associated with exposures undertaken by the Bank during the course of its activities.
Collateralized Debt Obligation (CDO)	A bond backed by a portfolio of bonds and/or loans of various seniority levels and ratings.
Collateralized Loan Obligation (CLO)	A bond backed by a loans portfolio.
Collective Provision	A Collective Provision for Loan losses is applied to large groups of relatively small and homogeneous debts and to debts that were reviewed individually and were found to be unimpaired. The Collective Provision in respect of the off-balance sheet loans is based on provision rates that were set for balance sheet loans, while taking into account the expected materialization rate of the off-balance sheet credit risk.
Common Equity Tier 1 Capital	Going Concern Capital Common Equity Tier 1 (CET1) Capital includes the equity attributed to a banking corporation's shareholders, with the addition of some of the noncontrolling interests (minority interests) of consolidated subsidiaries less goodwill, other intangible assets and regulatory adjustments and additional deductions, pursuant to Proper Conduct of Banking Business Directive No. 202, *Measurement and Capital Adequacy – Regulatory Capital* and pursuant to the transitional provisions of Proper Conduct of Banking Business Directive No. 299, *Measurement and Capital Adequacy – Regulatory Capital – Transitional Provisions*.

Conduct Risk	Conduct Risk is the risk that any dealings with Bank's customers which are not fair, transparent and aimed to meet their needs will lead to losses due to legal damages, fines or reputational damage.
COSO - Committee Of Sponsoring Organizations of the Treadway Commission	A structured internal controls model. The model is intended to assist businesses and other entities to assess, estimate and enhance their internal control functions.
Cost of Interest	The interest component allocated to a current year and classified into payroll expenses.
Cost of Service	All components of employee benefits costs allocated to a specific period.
Credit Default Swap (CDS)	A financial instrument that transfers the credit exposure between parties to a transaction to the issuing entity.
Credit Derivative	A contract that transfers the credit risk from a buyer to a seller. There are various forms of Credit Derivatives: Credit Default Swap (CDS), a note for partial cover of credit risk, Total Return Swap (TRS), etc.
Credit Risk	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.
Cross Border Activity	A term referring to various cross-border financing arrangements, such as cross border loans, letters of credit or bankers' acceptances.
Cyber Event	An event during which the Bank's IT and/or computer-embedded systems and infrastructures are attacked by, or on behalf of, opponents (whether external or internal to the banking corporation) and such attack may result in the materialization of the cyber risk, including an attempted attack even if it did not result in actual damage.
D	
Defined Benefit Plan	Fixed and predetermined pension or insurance amounts which are paid to eligible employees, whether or not they depend on the investment results of the pension fund or insurer.
Delinquent Debt	The delinquency (arrears) status of a debt is determined according to its contractual repayment terms. The debt is in arrears if some or all of the debt amount has not been repaid within 30 days of its due date. For this purpose, a debt in a current account in excess of the authorized credit facility will be regarded as being in arrears if not repaid within 30 days, or if that account is not credited with sums sufficient to cover the debt under the credit facility within the period determined by the Bank's management.

Diluted Earnings Per Share	Dividing the profit or loss attributed to holders of the parent company by the weighted average number of ordinary shares outstanding, to assume conversion of all potentially dilutive ordinary shares.
Dodd Frank Wall Street Reform and Consumer Protection Act (DFA)	The DFA is a U.S. federal law which came into force on July 28 2019. The DFA sets in motion a comprehensive financial reform which has various implications for the Leumi Group, the principal of which is associated with transactions involving over-the-counter derivative swaps.
E	
Embedded Derivatives	Embedded Derivatives are derivative instruments which are embedded into other financial contracts and instruments or into commercial contracts for the purchase or sale of products and services (these contracts are known as host contracts). The accounting treatment is applied according to the economic substance of the items and transactions, rather than according to their legal form; therefore, embedded derivatives whose economic characteristics are not clearly and closely related to those of the host contract are bifurcated therefrom for the purpose of measurement in the Bank's books of accounts.
European Market Infrastructure Regulation (EMIR)	A regulation of the European Union which is intended to enhance the stability of over-the-counter markets in all EU countries.
Exposure at Default (EAD)	The expected amount of counterparty exposure in case of credit default.
F	
Fair Value	The amount for which an asset can be exchanged or a liability assumed in a transaction between knowledgeable, willing parties. This value is determined according to the fair value hierarchy set in accounting standards: d. Level 1 – Value based on quoted market prices; e. Level 2 – Estimated value based on observable inputs; f. Level 3 – Estimated value determined by using valuation techniques that include unobservable inputs.
Fannie Mae (FNMA)	A U.S. government-sponsored enterprise which purchases and securitizes mortgages and sells them on the free market. (The company is not backed by the U.S. government).
Federal Deposit Insurance Corporation (FDIC)	An independent federal agency insuring deposits in U.S. banks; FDIC is one of the U.S.'s banking supervisory bodies.

Foreign Accounts Tax Compliance Act (FATCA)	A U.S. tax law intended to improve tax enforcement. Pursuant to FATCA, non-U.S. financial entities must disclose to the U.S. Internal Revenue Service information about accounts held by them for anyone who is required to report under FATCA, even if he/she is not a U.S. resident.
Forwards	Forwards are contracts between two parties for the sale of a specified quantity of an asset at a particular price on a stipulated future date (the settlement date). Such contracts are binding on both parties to the agreement. Forwards are not standard contracts and are not traded on capital markets, but are drawn up specifically according to the parties' needs.
Freddie Mac (FHLMC)	FHLMC is a U.S. government-sponsored agency that purchases and securitizes mortgages and sells them to the public. (The company is not backed by the U.S. government).
Futures	Futures are contracts between two parties for the sale of a specified quantity of an asset at a particular price on a stipulated future date (the settlement date). Such contracts are binding on both parties to the agreement. Futures are standard contracts traded on capital markets.
G	
Ginnie Mae (GNMA)	A federal mortgage company. The bonds issued by GNMA are backed by the Government National Mortgage Association.

I	
Impaired Loan	Balance sheet loan that is assessed on a case by case basis and which - based on present circumstances and information - it is probable that the Bank will be unable to collect the full amounts payable (principal plus interest) under the contractual terms of the debt agreement. A debt which is assessed on a case by case basis shall be classified as Impaired Loan whenever the principal or interest has been past due for a period of 90 consecutive days or more, unless it is both well secured and in the process of collection. Off-balance sheet loans are classified as impaired loans if it is at least reasonably possible that the contingent liability in respect of the off-balance sheet item will materialize, and if the debts that may result from the materialization of the contingent liability should be classified into this category. Furthermore, a debt that which is assessed on an individual basis and whose terms were changed due to restructuring of a troubled debt will also be considered as non-performing loans.
Indebtedness	The Bank's loan exposures to a borrower or group of borrowers, including loans under the bank's responsibility, the bank's investments in the borrower's securities, commitments of the banking corporation to pay money on a customer's behalf (including guarantees and Documentary Credit) and transactions in over the counter (OTC) derivatives. Indebtedness is calculated according to the provisions of Proper Conduct of Banking Business Directive No. 313
Interest Rate Risk	The risk of loss or impairment as a result of changes in interest rates across various currencies.
Internal Capital Adequacy Assessment Process (ICAAP)	The capital adequacy assessment process is aimed at calculating the capital required to support the various risks to which the Group is exposed in order to ensure that the Group's effective capital exceeds the capital requirements at any time.
Internal Rate of Return (IRR)	A measure used to estimate the profitability of potential investments. This metric is an indicator of the efficiency and quality of a specific investment in relation to the net present value, which is an indicator of the value and size of the investment. The Internal Rate of Return is the interest rate that discounts the expected cash flow from a financial instrument to its balance in the Bank's balance sheet.
L	
Leverage Ratio	Defined as the measured capital (the numerator) divided by the measured exposure (the denominator), with the ratio expressed as a percentage.

Linkage Base and Exchange Rate Exposure	The exposure to the basis risk is the potential loss as a result of changes in the consumer price index and exchange rates due to the difference between the value of assets and the value of liabilities, including the impact of future transactions in each of the linkage bases. The exposure to basis risks is measured as a percentage of the Group's exposed capital. At the Bank level, the exposed capital includes common equity and certain provisions, net of property, plant and equipment and investments in investees.
Liquidity Coverage Ratio	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.
Liquidity Risk	Liquidity Risk is the risk arising from uncertainty regarding the possibility of raising resources and/or disposing of assets, unexpectedly and within a very short time, without incurring a substantial loss.
Loan-to-Value (LTV) Ratio	The ratio of a bank loan to the value of a purchased asset. LTV reflects one aspect of the loan risk; a higher LTV reflects a higher risk to the lending bank.
Loan under Special Supervision	Loan under Special Supervision is credit for which there are potential weaknesses which should be monitored closely by the Bank's management. Off-balance sheet loan is classified as loan under special supervision if the materialization of the contingent liability in respect of the item is defined as "reasonably possible" and if the debts that may be recognized as a result of the materialization of the contingent liability meet the criteria for classification into this category.
Loss Given Default (LGD)	This is the percentage out of a borrower's total Exposure at Default (EAD), which the Bank is expected to lose on default.
M	
Market Risks	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 and commodity prices, as well as in other economic measures).
Mortgage-Backed Securities (MBSs)	Bonds which backed by financial assets, the principal and interest payments of which are based on a cash flow from repayment of loans collateralized by financial assets. The collateral assets may be pools of loans, including housing mortgages or other financial assets.
N	
Net Interest Margin (NIM)	Ratio between net interest income and the average balance of interest-bearing assets.

O	
OECD	An international organization whose members are developed countries that accept the principles of liberal democracy and free market. The organization is a platform for discussing policy, benchmarking, identifying solutions to difficulties and drawing up codes, guiding principles and shared standards for the implementation of domestic economic and social policies. Each member state can make a significant contribution to the organization's policy and development of shared policies.
Off-Balance Sheet Exposures	These exposures arise from the Bank's undertakings to its borrowers that have not yet been realized/utilized by the borrowers as of the reporting date and therefore have not yet been recorded as a balance sheet asset or liability. Such exposures include, among other things: Unutilized undertakings to extend loans; א. Unutilized credit facilities; ב. Undertakings pursuant to guarantee agreements; ג. Undertakings pursuant to an approval in principle where the Bank is committed to maintain the interest rate over a certain period, ד. and more.
On-call Loan	Loan granted for several days and repaid on call, in accordance with the conditions of the agreement between the Bank and the customer.
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. This definition includes legal risk, but does not include strategic risk and reputational risk.
Option Contract/Option	There are two types of Option Contracts: an option to buy (call option) or an option to sell (put option). A call option is the right to buy a specified asset at an agreed price (strike price) up to (American-style option) or on (European-style option) a stipulated date. A put option is the right to sell a specified asset at an agreed price (strike price) up to (American-style option) or at (European-style option) a stipulated date.
P	
Performance Stock Units (PSUs)	Performance Stock Unit awards are restricted shares and depend on the banking corporation's future performance.

Pillar 1	The allocation of minimum capital against credit, market and operational risks, using a method that correlates the scope of exposure to the various risks and Regulatory Capital requirement. The Pillar 1 Directives set by BCBS were adopted as part of Proper Conduct of Banking Business Directives No. 201 to No. 209; these directives set a supervisory method for calculation of risk-weighted assets and calculation of the capital requirements in respect of such risk-weighted assets.
Private Individuals	Persons who are not corporations (whether registered or non-registered) and who are not engaged in business activity. According to the directives of the Bank of Israel, private persons are defined such that this category includes non-business loans to individuals who are classified into the private individuals sector according to uniform definitions of the Central Bureau of Statistics including households and private banking.
Probability of Default (PD)	A financial term describing the likelihood of borrower default within a given period of time from the date on which rating is issued. It provides an estimate of the likelihood that a borrower will be unable to meet its contractual debt obligations.
R	
Regulatory Capital	Capital used to calculate the Bank's capital adequacy ratio and other regulatory ratios (such as: leverage ratio, credit concentration and more). Accounting capital components and other qualifying Regulatory Capital instruments (such as subordinated notes that qualify as Regulatory Capital).
Repurchase Agreement or Reverse Repurchase Agreement	These repo agreements are agreements for the purchase or sale of securities in consideration for cash or securities; when entering into these agreements, the seller and the buyer agree to enter into a reverse transaction at a predetermined date and price.
Reputational Risk	The risk that the publication or public disclosure of a customer-related transaction or practice, as well as the Group's business results and events relating thereto will have an adverse effect on the public's trust in the Group or reduce its customer base or that the Group will incur high legal costs or that its revenues will decline.
Residual Risk	Residual Risk is the risk of loss remaining after all other specific risks have been factored in. For example: when a person purchases an asset, he is exposed to various risks. Many of these risks are not unique to the purchased asset, but rather reflect broader scenarios, such as increase or decrease in share prices, increase or decrease in interest rates or change in growth rate of a specific economy or industry. The exposure to this risk can be reduced by diversification.

Restricted Share Units (RSUs)	An ordinary share whose issuance terms restrict its tradability over a certain period or until the occurrence of a certain event where the period has not yet elapsed and/or the event has not yet occurred.
Restructuring of Troubled Debt	A debt, in respect of which the Bank, whether for economic or legal reasons related to financial difficulties of the borrower, grants the borrower a waiver by changing the terms of the debt, in order to enable the borrower to repay the cash payments in the short term or by accepting other assets as debt repayment.
Return on Capital	Net income less dividend for preferred shares which was not recorded as an expense in profit or loss and was declared in the reported period only, divided by the average common equity.
Return on Equity (ROE)	The ratio between a business's return (net income) and its common equity. This rate measures the Bank's ability to generate profit from its net assets and illustrates how efficiently the Bank operates to utilize further investments in order to increase its revenues. Return on Equity in banks is reflected in the following ratios: (א) Net income attributed to banking corporation's shareholders net of dividend distributed in respect of preferred shares which was not recorded as an expense in profit or loss and was declared during the reporting period, divided by the average common equity; (ב) Net income attributed to banking corporation's shareholders net of dividend distributed to preferred shares which was not recorded as an expense in the income statement and was declared during the reporting period, divided by the average common equity net of average balance of preferred shares that were included in common equity.
Return on Risk-Adjusted Capital (RORAC)	A Rate of Return measure used to compare returns on various investments taking into account the risk. Actual return is adjusted by measuring the asset's exposure to risk and curtails the return on higher-risk assets. The method's effectiveness depends on the accuracy of the risk associated with different assets and on the extent to which the "sanction" imposed on higher-risk assets does, indeed, reflect each investor's risk aversion. Risk assessment of new types of assets, such as financial derivatives, involves high levels of uncertainty due to the actual behavior of their prices.

Risk-Weighted Assets (RWA) or Risk Assets	Risk-Weighted Assets reflect balance sheet and off-balance sheet exposures arising from the Bank's activities and weighted by their level of credit, market and operational risk according to Proper Conduct of Banking Business Directives No. 203 to No. 209. Such Risk Assets are designed to reflect the weighted risk in respect of which the Bank is required to comply with the Regulatory Capital Requirement as part of the Capital Adequacy requirements.
S	
Securitization	A process whereby bank loans and credit are pooled to create a long-term loan through bonds.
Securitization Structures	Structures created in order to transfer cash flows from other instruments or assets to bondholders, for which a Special-Purpose Entity (SPE) is set up that pools the underlying cash flow-generating assets that are transferred by the originator and forwards the cash-flows to the bondholders according to a structure agreed upon with the bondholders in accordance with the seniority of the different series of bonds (tranches). Such assignment of rights creates a legal structure in which the assets of the transferring entity will not be accessible to creditors of the SPE and the creditors will not be exposed to the risks associated with other activities of the transferring entity. The sole function of the SPE is to receive the said cash flows and transfer them to the bondholders.
Small Business Administration (SBA)	A U.S. government agency that supports small businesses in the U.S.A.
Standby Letter of Credit (SBLC)	A Standby Letter of Credit is a bank guarantee in the format of a commercial letter of credit, whose main goal is to secure a payment. A Standby Letter of Credit is similar to a guarantee in the sense that it constitutes an undertaking by the Bank to pay the amount specified therein against a payment demand by the beneficiary, whereas in the case of a commercial letter of credit one is required to present various documents in order to secure the payment by the Bank in respect of the guarantee.

Specific Provision	A provision that is determined specifically for each debt being assessed (including any restructuring of troubled debt subject to specific assessment according to the Bank's policy). The provision amount is estimated according to the projected cash flows which are discounted at the debt's original interest rate or, when the debt is defined as a debt whose collection is contingent on the fair value of the collateral - according to the fair value of the collateral net of disposal costs and after appropriate cushions are utilized. In order to determine the appropriate provision, the Bank assesses the relevant borrowers on an ongoing basis and according to procedure. Furthermore, a Specific Provision is carried out in respect of each such debt that is subject to individual review and which is 90 days overdue.
Strategic Risk	A business risk that includes current and future adverse effects on capital, profits, reputation or standing as a result of erroneous business decisions, inappropriate implementation of the decisions or lack of response to industry-specific, economic, regulatory and technological changes.
Substandard Loan	A loan which is insufficiently guaranteed by the current sound worth and repayment capacity of a borrower or a pledged collateral, if any. Balance sheet credit risk that has been classified in this manner should have a well-defined weakness or weaknesses, which jeopardize the repayment of the debt. Loan, in respect of which a collective loan loss provision is recorded, shall be classified as a Substandard Loan when it has been past due for 90 days or more.
Supervisory Review Process (SREP)	The processes intended to ensure that banking corporations have adequate capital to support all the risks associated with their business and also to encourage banking corporations to develop and use better risk management techniques in monitoring and managing their risks. As part of the process, the Banking Supervision Department assesses a banking corporation's risk profile and its internal process for assessing the adequacy of the regulatory capital it maintains against the exposures. This process is designed to provide regulators with tools for independent assessment of the Bank's risk profile and risk management and to enable early intervention in order to prevent compromising the Bank's financial stability.
Swap	A series of forward contracts or a series of futures contracts for several stipulated periods in which two parties agree to exchange cash flows on a notional amount.
Synthetic Collateralized Debt Obligation (SCDO)	An agreement backed by a portfolio of (derivative) collateralized debt securities of various seniority levels.

T	
The Economic Capital Model	The Bank uses the Economic Capital Model, which is based on the borrowers' rating, in order to assess the overall credit risk of the entire loan portfolio and portions thereof.
Tier 2 Capital	A tier of capital included in the calculation of qualifying regulatory capital. Tier 2 capital (also known as "gone concern capital") is a substandard component of the Bank's capital; it mainly comprises qualifying instruments previously issued by the Bank and included in Tier 2 capital pursuant to the transitional provisions for the implementation of Basel III Directives as well as the new qualifying capital instruments that constitute the Bank's Contingent Convertible (CoCo) capital instruments issued by the Bank and which will be converted into the Bank's shares if the Bank reaches the point of non-viability. Furthermore, this Tier 2 capital also includes other items, such as: a collective loan loss provision before the relating tax effect up to a ceiling of 1.25 percent of total credit risk assets
Total Indebtedness	A customers' total debts to the bank.
V	
Value at Risk (VaR)	A model for measuring the maximum potential loss as a result of market risks materialization in a set time period and given a predetermined statistical probability. This method requires the revaluation of all of the corporation's positions based on the fair value of the assets and liabilities. The model's objectives are to estimate the risks to which financial institutions are exposed, stemming from materialization of market risks in various activities.